Annual Report 2006/2007

IKB. Committed to enterprise.

IKB

Deutsche Industriebank

Key figures – IKB Group

Balance Sheet Figures	31 March 2007 in € million	Change in %
Total assets	52 053	17.7
Loans and advances to customers	29 685	6.0
Liabilities to banks	13 913	–1.1
Securitised liabilities	28 024	29.0
Total equity	1 397	3.1

Income Statement Figures	2006/07 in € million	Change in %
Net interest income	646.4	16.0
Provision for possible loan losses	259.0	–18.7
Net interest income (after provision for possible loan losses)	387.4	62.3
Net commission income	107.9	19.2
Administrative expenses	316.8	17.8
Operating result	263.0	13.1
Net income for the year	179.7	7.0
Total dividends	74.8	0.0

Selected Ratios	31 March 2007	31 March 2006
Return on equity	20.6 %	18.8 %
Cost/income ratio	37.8 %	38.2 %
Total Capital ratio (Principle I)	12.3 %	13.3 %
Tier 1 capital ratio	7.2 %	7.7 %
Number of employees	1 838	1 703

Rating of IKB	Long-Term	Short-Term	Outlook
Moody's	Aa3	P-1	"stable"
Fitch IBCA	A+	F1	"stable"

Key indicators of the IKB Share	2006/07	2005/06
Earnings per share	2.04 €	1.91 €
Dividend per share	0.85 €	0.85 €
Dividend yield*	2.8 %	2.8 %
Highest share price in the financial year	33.55 €	31.19 €
Lowest share price in the financial year	25.38 €	20.15 €
Share price*	29.85 €	30.36 €
Number of shares*	88.0 million	88.0 million
Market capitalisation*	€ 2.63 billion	€ 2.67 billion

* as at the end of the financial year

IKB Shareholders	
KfW Bankengruppe	38 %
Stiftung Industrieforschung	12 %
Institutional and private shareholders	50 %

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

The German economy remains set for growth, with industrial production accelerating and orders received clearly exceeding the previous year's level. Investments are also experiencing another round of strong growth. All told, there are no indications of the economy slowing down.

German medium-sized enterprises – the 'Mittelstand' – are a key driver of this growth. With a broad range of high-quality products and services, German SMEs are present in those market segments worldwide which are characterised by particularly strong demand. To exploit such potential, power of innovation, the ability to solve problems and a high degree of productivity are key success factors making businesses – and hence, the economy – prosper. Building on and expanding this strategic focus will offer great opportunity to further broaden the current growth momentum.

To implement their growth plans, enterprises require a competent financing partner. As a specialist for long-term investment finance, IKB has closely supported medium-sized businesses for many decades. During the financial year under review, the bank's innovative financing concepts once again provided a significant contribution – reflected in the development of loans disbursed – enabling its corporate clients to make numerous significant investments for the future. The bank's Board of Managing Directors and staff therefore deserve thanks and acknowledgement for their strong commitment, which I would like to express on behalf of German business associations.

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

Letter from the CEO

Dear Shareholders,

2006/07 was another highly successful financial year for IKB. We succeeded in increasing the volume of new business by 13.3% to € 12.8 billion and the operating result by 13.1% to € 263 million. The return on equity before taxes rose to 20.6% (2005/06: 18.8%). The Board of Managing Directors and the Supervisory Board propose to the Annual General Meeting to pay an unchanged dividend of € 0.85 for the 2006/07 financial year, following last year's dividend increase. The volume to be distributed will thus remain unchanged at € 74.8 million.

Furthermore, we are delighted to report our success in strengthening retained earnings by € 106 million. Supplementary raising of hybrid and subordinated capital, and the placement of credit risks through synthetic securitisation, will enable us to expand the volume of business without having to increase the share capital. Our business will benefit from our strong market position, as well as from the favourable environment on both national and international markets.

Outstanding market successes

At just under € 13 billion, the volume of new business generated in the 2006/07 financial year set a new record. This outstanding success in the market can be ascribed to our clear focus on the provision of long-term financing solutions to corporate and real estate clients. We have not only further expanded market leadership in our core business – the long-term financing of German medium-sized companies – but we have also achieved this in a highly competitive environment. We also strengthened our position in real estate financing, with lending to other neighbouring European countries already accounting for a quarter of new business. Our Structured Finance division was the principal contributor to the volume of new business, which was generated largely through international acquisition and project financing.

A year of business expansion

The financial year 2006/07 constituted a year of business expansion for the bank. We supported further growth by investing in our international structured finance activities and by establishing a European platform for real estate financing. Since the autumn of last year, we have been directly represented by experienced real estate experts in London, Paris, Amsterdam, Madrid and Milan. We have integrated our investments in international credit portfolios in IKB Credit Asset Management GmbH (CAM), which we expanded at the same time by establishing the 'Rhinebridge' conduit, a structured investment vehicle. Additionally, we have launched a series of internal projects geared towards enhancing efficiency and improving productivity.

During the period under review, a net total of 135 new staff were employed in the IKB Group. General administrative expenditure rose significantly, owing to this major investment in human resources and tangible assets; nonetheless, we succeeded in maintaining the cost/income ratio virtually constant, at a favourable level of 37.8% (38.2%).

Operating result to rise further

We are projecting a consolidated operating result of € 280 million for the 2007/08 financial year. From today's perspective, all of the business divisions will contribute to this improvement.

New business generated by the *Corporate Clients* segment, which comprises our core business in domestic corporate lending, private equity and leasing, will benefit from the prevailing positive economic environment. We are forecasting, for example, a 6% increase in investment in plant and equipment in Germany this year, following growth of 7.3% in 2006.

The German credit market is expected to remain highly competitive; our planning anticipates margins will remain under pressure during the current financial year. However, the growth in new business will in turn allow us to achieve a good operating result in the business with our domestic corporate client base.

We are also forecasting positive development in new business in the *Real Estate Clients* segment. The largest percentage of growth should be generated by our European financing platform, since the economic momentum of our neighbouring European countries in the real estate sector continues to outperform Germany. Due to investments however, we are forecasting only a slight rise in the operating result of the Real Estate Clients segment.

The *Structured Finance* segment, which was characterised in recent years by double-digit growth rates in new business and in the operating result, will continue to expand. Our acquisition financing activities in the existing European network should be enhanced by increasing the share of independently arranged new business transactions, as well as by expanding our distribution activities. The geographical reach of our project financing business will be extended further in the European branches, and enhanced by additional activities in the US.

The *Securitisation* segment will also extend its operations. One of the principal activities is the synthetic placement of credit risk with third parties; as in previous years, we will securitise roughly one-third of our new business. On the other hand, we plan to increase the level of investment in international credit portfolios and also to generate additional advisory fee income.

Investment in all business divisions will continue, whether in new markets, new products, new processes or new systems. Our aim is to further enhance the bank's profitability and secure our competitive position in the long term through a favourable cost/income ratio.

We are also forecasting further positive development of our provisions for possible loan losses. The favourable domestic and international environment, in conjunction with our strict risk policy, suggests that we are once again in a position to reduce our risk provisioning. Even greater store must be set by this, as the volume of our existing exposures will continue to expand.

Accordingly, we are confident that IKB Group will achieve an operating result of € 280 million in the 2007/08 financial year and that the bank's successful development of recent years is set to continue into the future.

This year's Annual General Meeting will be held at 10.00 a.m. on 30 August 2007 at the Maritim Hotel Berlin, Stauffenbergstrasse 26, 10785 Berlin. We request the pleasure of your company and look forward to seeing you in Berlin on this date.

Stefan Ortseifen
Chairman of the Board of Managing Directors of
IKB Deutsche Industriebank AG

Performance of the IKB share price

During the period under review (1 April 2006 – 31 March 2007), the uptrend which has prevailed on international equity markets for four years continued, albeit at a somewhat slower pace: the DAX was up 15%, whilst the MDAX rose by 17%, and the CDAX Banks index increased by 5%. The overall trend, however, was interrupted by two significant corrections. The first one, in May 2006, was triggered by uncertainty regarding the economic outlook, particularly in the US, in conjunction with initial signs of higher capital market yields. Given the continued strength of the global economy and good corporate results, however, the mood in the markets improved again during the second half of 2006.

After the DAX passed the level of 7 000 index points at the end of February 2007 – for the first time since November 2000 – the markets suffered from renewed turmoil in early March 2007. The resulting second correction phase was caused by overheating Chinese equity markets and fears of a crisis in the US real estate markets. Following this correction, equity markets resumed their uptrend, driven – amongst other factors – by takeover speculation.

Key indicators (IKB share)		**2006/07**	**2005/06**	**2004/05**
Subscribed capital (31 March)	€ million	225	225	225
Number of shares (31 March)	million	88.0	88.0	88.0
Share price (31 March)	€	29.85	30.36	20.73
Highest share price in the financial year	€	33.55	31.19	22.71
Lowest share price in the financial year	€	25.38	20.15	18.49
Price/earnings ratio (P/E)		14.6	15.9	11.7
Price/book ratio		1.9	1.9	1.4
Market capitalisation (31 March)	€ billion	2.63	2.67	1.82
Share performance in the financial year (exclusive dividends)	%	–1.7	46.5	5.0
Dividend per share	€	0.85	0.85	0.80
Dividend total	€ million	74.8	74.8	70.4
Dividend per share yield (31 March)	%	2.8	2.8	3.9
Earnings per share	€	2.04	1.91	1.76
Return on equity	%	20.6	18.8	16.4

Source (share prices): Bloomberg

IKB Stock Master Data

Share class	Bearer shares without par value
Stock Exchanges	Frankfurt, Düsseldorf, Hamburg, Berlin-Bremen, Hanover, Stuttgart, Munich and the electronic trading platform Xetra
Codes	WKN: 806 330 ISIN: DE 0008063306
Reuters	IKBG.F
Bloomberg	IKB GR

The IKB share

The IKB share was also affected by market volatility: despite reaching a new all-time high of € 33.55 in February 2007, the share price showed a sideways development during the 2006/07 financial year, and did not outperform the CDAX Banks index – for the first time since many years. We see the main reason for this in IKB's very stable shareholder structure, which prevented any takeover speculation from developing.

Long-term performance

IKB shares remain an attractive investment over a longer-term horizon: for example, investors who bought € 1 000 worth of IKB shares on 1 April 2001, and reinvested the cash dividends distributed to buy additional shares, held a portfolio worth € 2 443 six years later. This is equivalent to an average annual return of 14 % – the IKB share price outperformed both the DAX and the Prime Banks Index during this reference period.

Analysts' recommendations		
Bankhaus Lampe	June 2007	Buy
Cheuvreux (Credit Agricole)	February 2007	Underperform
Commerzbank	April 2007	Hold
Deutsche Bank	May 2007	Hold
Dresdner Kleinwort	June 2007	Buy
DZ BANK	May 2007	Buy
Equinet	May 2007	Buy
HVB	May 2007	Hold
HSBC	February 2007	Neutral
Kepler Equities	May 2007	Buy
LBBW	May 2007	Buy
MainFirst Bank	May 2007	Neutral
Merck Finck & Co	May 2007	Buy
METZLER Equity Research	May 2007	Sell
Norddeutsche Landesbank	February 2007	Buy
Sal. Oppenheim	May 2007	Buy
SRC Research	May 2007	Buy
UBS Investment Research	June 2007	Buy
WestLB Equity Markets	May 2007	Buy

Share profile

IKB share are bearer shares without nominal value (notional no-par value shares, or 'unit shares'). Each share casts one vote at a General Meeting. IKB shares are listed at all major German exchanges, with an average volume of 131 000 shares or € 3.9 million traded daily. During the financial year 2006/07, IKB shares worth almost € 1 billion were traded. The liquidity of IKB shares thus doubled compared to the financial year 2005/06.

The fact that Sal. Oppenheim and IKB have covered IKB shares as Designated Sponsors has contributed to this positive development. Designated Sponsor coverage involves the ongoing quotation of bid and ask prices in Xetra, the electronic trading system. Deutsche Börse has constantly awarded the highest seal of quality – an 'AA' rating – for the Designated Sponsor performance covering the IKB share for several years now.

Analysts see further price potential

Analysts' recommendations are crucial, both for institutional and private investors. The IKB Group and the share price development are covered by close to 20 institutions on a regular and comprehensive basis. Analysts were once again predominantly positive during the year under review, with almost 90% of recommendations 'buy' or 'hold' – a clear vote of confidence in our convincing business model and the potential offered by the IKB share.

€ 2.04 earnings per share

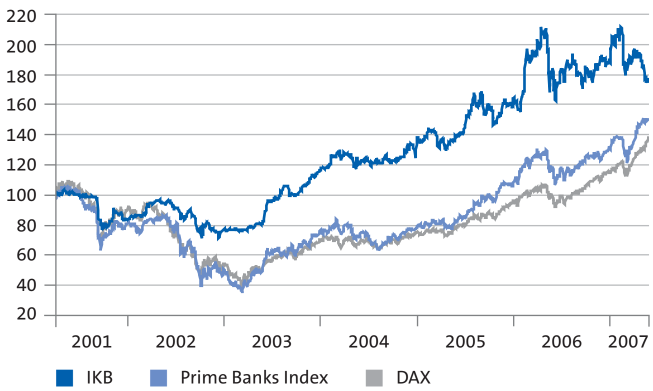
Earnings per share – calculated as the ratio of consolidated net income to shares outstanding – improved by 7.0%, to € 2.04, during the financial year 2006/07. Please refer to the Management Report and the Notes for detailed explanations on the development of results and on earnings per share.

Proposed dividend of € 0.85 per share

The Board of Managing Directors and the Supervisory Board will propose a dividend of € 0.85 per unit share for the 2006/07 financial year to the Annual General Meeting, which will be held on 30 August 2007. This represents a dividend yield of 2.8%, based on the share price of € 29.85 as at 30 March 2007. The distribution was equivalent to 42% of IKB's net income.

Performance of the IKB share price

1 April 2001 to 1 June 2007



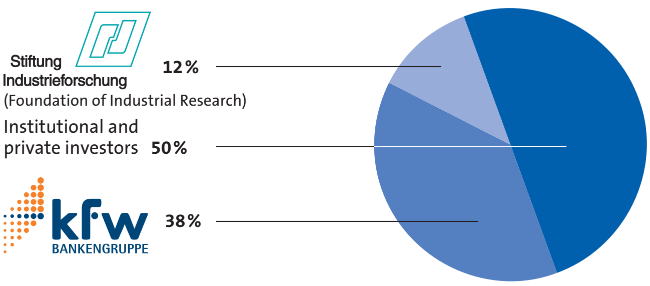
Source: Bloomberg

Stable shareholder structure

IKB has a stable shareholder structure. We benefit from a long-term strategic cooperation with KfW Bankengruppe, our major shareholder with a stake of approx. 38% in IKB's issued share capital. Established in 1948, the KfW Bankengruppe is a publicly-owned institution. The Federal Republic of Germany holds an 80% stake, with the remainder held by the Federal states. With total assets of € 360 billion, KfW ranks among the ten largest banks in Germany. One of KfW Bankengruppe key tasks is to support medium-sized businesses through long-term loans at attractive interest rates. KfW also sponsors innovative business concepts, supporting environmental and municipal infrastructure projects via long-term loans.

Stiftung Industrieforschung holds nearly 12% of IKB's share capital. The foundation was established following the merger between Deutsche Industriebank and Industriekreditbank AG in 1974. At the time of that merger, the two banks and the German government had agreed to transfer Deutsche Industriebank's assets to a foundation founded solely for the purpose of promoting commercial enterprise. The foundation uses the dividends it receives from IKB to fund its projects.

Stable shareholder structure



The remaining 50% of IKB's share capital is held by institutional and private investors from Germany and abroad. Bankhaus Sal. Oppenheim, a German private bank, holds a 3% stake, and our French partner Natixis 2.5% – IKB has a successful long-term partnership with both institutions.

We believe that the aggregate shareholding by other international investors – predominantly institutions from the UK and the Nordic region – increased to 15% during the financial year 2006/07. Outside these two core regions, institutional investors in the US, France, Italy and Austria further increased their exposure to IKB.

Annual General Meeting

Shareholders were strongly represented at the Annual General Meeting held in Düsseldorf to review the financial year 2005/06, with 68.3% of the share capital present. All ten items on the agenda were approved, with more than 98% of votes in favour.

Investor relations activities further intensified

We continued to maintain intensive communications with the capital markets, further intensifying our investor relations activities during the financial year 2006/07. This primarily included the extension of contacts to institutional investors in Europe and the United States. Following the publication of quarterly results and figures for the financial year 2005/06, 40 roadshows were held, covering a total of 20 financial centres in Europe and the US.

Furthermore, we presented IKB in more than 150 one-to-one meetings, and outlined IKB's business model and company strategy to both institutional and private investors during the course of nine conferences. The information service to the approximately 20 analysts who actively cover IKB's results and business development was further improved. In addition to the annual DVFA analysts' conference in Frankfurt, plus three international conference calls, the electronic dissemination of up-to-date information was further enhanced, as personal contacts were intensified.

Communication options and services to our private investors were also enhanced continuously, predominantly via the internet: in addition to a user-friendly, interactive online version of our annual reports, our website offers supplementary information on IKB's key financial indicators, the bank's strategy and its executive bodies. Our shareholders may follow IKB's Annual General Meeting and the conference calls through live internet broadcasts. The range of information is complemented by details regarding the Annual General Meeting, on roadshows, and IKB's Corporate Governance.

Our Investor Relations team is dedicated to keep our shareholders informed at all times. They will be pleased to answer any questions you may have regarding the IKB share, IKB's bond issues, and on the bank's development:

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Report of the Supervisory Board

During the financial year under review, the Supervisory Board advised and monitored the Board of Managing Directors, and fulfilled the obligations incumbent upon the Supervisory Board in accordance with the law and the Memorandum and Articles of Association. The Board of Managing Directors, in turn, has informed the Supervisory Board regularly, without delay and comprehensively, on the business policies contemplated by the Board of Managing Directors, on fundamental management issues as well as on the situation and development of the IKB Group. The members of the Supervisory Board voted on reports and proposals, to the extent that this was required pursuant to the law and the bank's Articles and Memorandum of Association, following extensive review and deliberations. Furthermore, outside the meetings of the Supervisory Board and its Committees, the Chairman of the Supervisory Board held regular business discussions with the Chairman of the Board of Managing Directors, during which they discussed all material topics and issues.

Focus of Supervisory Board discussions

Discussions during the four scheduled Supervisory Board meetings focused on the development of the bank's business segments and major subsidiaries; measures taken to strengthen capitalisation and profitability, the development of the risk situation and the active management of risks designed to enhance the credit quality structure were also discussed in detail. In this context, the Supervisory Board also reviewed securitisation transactions used to place credit risks with third parties, as well as investments in international loan portfolios. Furthermore, the Supervisory Board discussed the Group's medium-term planning up to the financial year 2008/09, together with the strategic position and development of the bank's business segments, taking into account the changing business environment. The further expansion of international real estate lending and material changes affecting subsidiaries were also discussed in detail. The Supervisory Board also concerned itself with IKB's business cooperations; with KfW Bankengruppe, Frankfurt/Main; Bankhaus Sal. Oppenheim jr. & Cie. KGaA, Cologne; and with NATIXIS, Paris – the successor institution having emerged from the business combination of Natexis Banques Populaires, IKB's existing cooperation partner, with IXIS Corporate & Investment Bank. Moreover, the Supervisory Board was kept informed by the Board of Managing Directors, in detail, regarding the changes in Group accounting to International Financial Reporting Standards (IFRS), and on the transfer of cover assets for the company pension scheme to a trustee, which was carried out via a contractual trust arrangement, effective 31 March 2007. Furthermore the Supervisory Board discussed the bank's credit risk strategy, as reviewed by the Board of Managing Directors on an annual basis, in line with regulatory requirements, as well as on important results of regular checks carried out by Group Audit. Finally, the Supervisory Board concerned itself with personnel matters pertaining to the Board of Managing Directors. The Board of Managing Directors also informed the Supervisory Board on human resources planning and human resources development measures in the IKB Group, as well as on the results of, and follow-up measures taken in response to a staff survey conducted during the financial year under review, which had yielded very positive results.

Corporate Governance

The Supervisory Board placed particular emphasis on implementing and developing IKB's Corporate Governance regime. In this context, we discussed the assessment of, and further enhancements to our own work in detail. For further details on these issues, please refer to the section on Corporate Governance, which also includes the Declaration of Compliance issued on 27 June 2007.

Supervisory Board Committees

The Supervisory Board constituted two committees from amongst its members. The Executive Committee, comprising the Chairman of the Supervisory Board and the two Deputy Chairmen, met on five occasions. The Finance and Audit Committee, consisting of the members of the Executive Committee and one employee representative on the Supervisory Board, met once. This was to prepare the Supervisory Board meeting to discuss the financial statements.

The Executive Committee has dealt with issues discussed in the Supervisory Board in advance; in particular, it prepared the Supervisory Board meetings, and focused on the business development and strategic direction of IKB Group. In this context, the further expansion of international real estate lending was discussed in detail. The Executive Committee also reviewed the implementation of the German Corporate Governance Code, prepared the Supervisory Board's examination of efficiency – which was carried out during the financial year under review – and discussed the results thereof in detail. The Executive Committee also approved loans subject to approval requirements by way of circulation. Moreover, it dealt with personnel matters and remuneration issues pertaining to the Board of Managing Directors, and discussed offices to be held by members of the Board of Managing Directors in executive bodies of other companies. The activities of the Finance and Audit Committee focused in particular on the financial statements and consolidated financial statements, on the proposal regarding the appropriation of profits and the subordinate status report, as well as on accounting and risk management issues, including the cooperation with the external auditors. A key topic of deliberations was the change of consolidated financial statements to International Financial Reporting Standards (IFRS), with effect from 31 March 2006, including the changes to the accounting system resulting from the first-time application of IFRS. The Chairman of the Committee also obtained the statement of independence from the external auditors (in accordance with Section 7.2.1 of the German Corporate Governance Code), and commissioned the external auditors to carry out the audit. This included agreeing on points of focus for the audit, and concluding an agreement on the audit fee. The Chairmen of Supervisory Board Committees gave a detailed account of the work in the Committees to the plenary meeting.

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

The accounts, the financial statements and consolidated financial statements, together with the management reports for IKB AG and the IKB Group, have each been examined and certified without qualification by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the external auditors. The single-entity financial statements of IKB AG have been prepared in accordance with the German Commercial Code (Handelsgesetzbuch – "HGB"), and the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and also in accordance with additional provisions pursuant to section 315a (1) of the HGB. The present consolidated financial statements in accordance with IFRS provide for exemption from preparing consolidated financial statements in accordance with the HGB. The Board of Managing Directors has prepared and submitted the mandatory report on business relationships with affiliated companies during the financial year 2006/07; this report has been examined and certified without qualification by the external auditors, as follows: "Having duly examined and assessed this report in accordance with professional standards, we confirm that the report is free from factual misrepresentation, and that the company did not pay any excessive consideration with regard to the transactions identified in the report."

The members of the Supervisory Board received the documentation for the financial statements, the subordinate status report, and the reports issued by the external auditors, in good time to discuss the financial statements before the meeting. These documents were discussed in detail by the Finance and Audit Committee, and during the Supervisory Board meeting to discuss the financial statements, on 26/27 June 2007. The auditors participated in the deliberations of the financial statements and consolidated financial statements in both meetings, where the auditors reported on the essential results of their audit, answered further questions, and provided additional information. No objections were raised following the final examination of the audit by the Finance and Audit Committee, and the Supervisory Board's own examination of the financial statements, financial statements, management reports, and the proposal of the Board of Managing Directors regarding the appropriation of consolidated profit. The Supervisory Board therefore approved the audit results, as well as the financial statements and consolidated financial statements prepared by the Board of Managing Directors. The financial statements are thus confirmed. We approve the proposal of the Board of Managing Directors regarding the appropriation of consolidated profit. There were also no objections following examination of the subordinate status report, and the concluding declaration by the Board of Managing Directors in this report. The Supervisory Board duly noted and approved the external auditors' report.

Personnel matters

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

Audit Committee. The Supervisory Board would like to thank those members who retired from the Supervisory Board for their commitment and valuable contribution.

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

There were also personnel changes in the Board of Managing Directors. Mr. Frank Schönherr, who had been a member of the Board of Managing Directors since 1 April 2004, agreed with the bank's Supervisory Board and Board of Managing Directors to retire from office, with effect from 30 November 2006, to embark on new challenges outside the IKB Group. Mr. Joachim Neupel, who had been a member of the Board of Managing Directors since 1 July 1989, retired from the Board on 31 December 2006. We would like to thank him for many years of successful contribution to the bank. Dr. Volker Doberanzke was appointed as a member of the Board of Managing Directors with effect from 1 June 2006, and Mr. Frank Braunsfeld was appointed with effect from 1 March 2007. We wish both gentlemen every success in their new office. The appointments of members of the Board of Managing Directors, Dr. Markus Guthoff and Mr. Stefan Ortseifen were extended until 31 March 2012 and 31 October 2012, respectively. In this context, the Board of Managing Directors and the Supervisory Board approved the appointment of Mr. Stefan Ortseifen as Chief Executive Officer for his remaining term of office.

The Supervisory Board would like to thank the Board of Managing Directors and all staff, for their strong personal commitment and contribution during the financial year 2006/07.

Düsseldorf, 27 June 2007

The Supervisory Board

Dr. h.c. Ulrich Hartmann

Chairman

ACO Group

ACO is recognised worldwide as the key name for drainage. Founded in 1946 by Josef-Severin Ahlmann, Rendsburg-based ACO Group evolved from a regional concrete producer into one of the global leaders in drainage technology, and for architectural components for homes and gardens. Nowadays, ACO maintains a local presence with more than 70 entities in 28 countries in its core businesses of civil engineering, structural engineering and drainage. These core areas of expertise are complemented by special solutions for sports complexes, agricultural, garden and landscape construction, special stainless steel construction and casting technology. With more than 3 700 employees, the company generated worldwide 2006 sales of approx. € 530 million.

The Group also operates its own production sites in twelve countries, including Australia and the US. In recent years, ACO Group has focused on expanding in Arab countries and in Asia, and is looking to further grow its businesses there. In parallel to its international exposure, the Group is systematically developing its domestic business, leveraging the excellent image of the ACO brand, a focusing on top quality and the Group's core expertise.

www.aco-online.de

Hans-Julius Ahlmann,
Managing Partner
of ACO Group, Rendsburg

Corporate Governance

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

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

IKB's Corporate Governance Officer. Implementation of, and compliance with the German Corporate Governance Code is monitored by a Corporate Governance Officer appointed by the Board of Managing Directors in consultation with the Chairman of the Supervisory Board. The previous officer, Mr. Joachim Neupel, gave up this role after his resignation from the Board of Managing Directors of IKB on 31 December 2006. The Board of Managing Directors and the Supervisory Board would like to thank Mr. Neupel for the commitment he showed to the application of corporate governance since his appointment in 2002. The Board of Managing Directors appointed Mr. Panagiotis Paschalis, the head of Legal Affairs and Contracts, as the new Corporate Governance Officer on 23 January 2007. The Supervisory Board duly noted and approved the Annual Report on the implementation of, and compliance with the Code, as presented by the Corporate Governance Officer during the Supervisory Board meeting on 27 June 2007.

Recommendations and suggestions of the German Corporate Governance Code. IKB has complied with the recommendations of the German Corporate Governance Code (as amended on 12 June 2006), subject to one exception, as outlined and substantiated in the Declaration of Compliance issued on 27 June 2007. The Declaration is included at the end of this chapter, and has also been published on the IKB website (www.ikb.de). Two additional recommendations of the Code are being complied with since the last Declaration of Compliance issued on 28 June 2006.

As a rule, we comply with all recommendations set out in the Code, with few exceptions: one of these is the fact that extracts of the Annual General Meeting, up to the end of the speech of the Chairman of the Board of Managing Directors, will be transmitted live on the IKB website (www.ikb.de). The representatives appointed by IKB for the purpose of exercising shareholders' rights in accordance with instructions, can only be contacted during the Annual General Meeting by shareholders present. Shareholders who do not participate in the Annual General Meeting in person still have the option, however, to authorise these representatives prior to the Annual General Meeting. Furthermore, the variable components of the compensation package for the Board of Managing Directors do not include long-term incentives such as equity options, as recommended by the Code.

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

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

The **Supervisory Board** supervises and advises the Board of Managing Directors in 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; furthermore, it also cooperates on the basis of trust with the Board of Managing Directors.

The Supervisory Board is composed of fourteen shareholders' representatives and seven staff representatives. The different professional experience and positions held by Supervisory Board members – some of whom have an international background – ensure that the advisory and monitoring duties are carried out effectively. A number of the Supervisory Board members are associated with other companies with whom IKB has forged business relationships. Transactions between IKB and these companies are always conducted in line with the same market conditions that prevail for third parties. We believe that these transactions do not impact on the independent status of those members of our Supervisory Board closely associated with these companies. No consulting agreements or other contracts for services or work, which required Supervisory Board approval, were entered into by any member of the Supervisory Board with IKB or its subsidiaries. There were no conflicts of interest affecting members of the Board of Managing Directors or the Supervisory Board in their dealings with the company.

The Supervisory Board 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). The Supervisory Board provides information on the composition of these committees, and details of its own activities, in its report to the Annual General Meeting. The German Corporate Governance Code recommends that the Chairman of the Audit Committee possesses specific knowledge of, and is experienced in applying, international accounting standards and internal control processes. Detlef Leinberger, Chairman of the Finance and Audit Committee since 31 August 2006, is in possession of these necessary qualifications, thanks to his many years of experience as a member of the Board of Managing Directors of KfW Bankengruppe.

Managing risks. Good corporate governance includes the responsible management of risks. All members of the Board of Managing Directors are jointly responsible for IKB's risk management. The Board of Managing Directors sets a risk policy in the form of a clearly defined business and risk strategy, defines the reasonable total risk within the scope of the bank's overall risk-bearing capacity and incorporates risk control as an essential component into its processes and planning. IKB's risk management system is undergoing continuous development, as it adapts to a changing environment. For details, please refer to the Risk Report, which forms part of the Group Management Report.

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

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

Transparency and information. Transparency and information is of great importance to us. In this context, we strictly observe the principle of equality – meaning that all information must be made available to all those interested at the same time. Current developments within the IKB Group are published on the IKB website (www.ikb.de). This information, fully accessible to private investors, includes key events, ad-hoc disclosures required under the German Securities Trading Act, as well as other material developments disclosed by way of press releases, which are also made available on the web. To receive information, interested parties can 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):

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

Name of person exercising management functions	Position/ relationship	Description of security	Trading day/ exchange	Trade type	Quantity	Price	Transaction value
Behrend, Dr. Jürgen	Member of the Supervisory Board of IKB Deutsche Industriebank AG	IKB ordinary bearer shares, ISIN DE 0008063306	22 Sep 2006/ Frankfurt	Sale	17 850	27.23 €	486 055.50 €

As at 31 March 2007, there were no shareholdings required to be reported in accordance with Section 6.6 of the German Corporate Governance Code. Offices held by the members of the Board of Managing Directors and the Supervisory Board are set out in the Notes to the Consolidated Financial Statements.

Remuneration Report

The remuneration report takes into account the regulations of the German Commercial Code as amended by the German Act on the Disclosure of Remuneration of Management Board Members (Vorstandsvergütungsoffenlegungsgesetz – "VorstOG"), as well as by the general principles of the German Corporate Governance Code. At the same time, it should be regarded as forming a part of the Group Management Report.

The remuneration system for the members of the Board of Managing Directors. The total remuneration of the members of the Board of Managing Directors consists of a fixed annual basic remuneration, a performance-based variable remuneration as well as additional benefits and pension commitments. There are no stock option plans or similar schemes. The structure of the remuneration system for the Board of

Managing Directors is subject to regular discussion and review by the Supervisory Board, as proposed by the Executive Committee of the Supervisory Board. The remuneration of the Board of Managing Directors is individually determined by the Executive Committee.

The criteria for the reasonableness of remuneration are, in particular, the tasks of the respective member of the Board of Managing Directors, his personal performance, the performance of the Board of Managing Directors as a whole, as well as the economic situation, the performance and outlook of the Company, taking into account its peer companies. The reasonableness of the respective total remuneration is also reviewed regularly. Any remuneration from offices held within the Group is taken into account for this purpose. The remuneration was last adjusted on 13 February 2007, with effect from 1 July 2007. The Supervisory Board last discussed the remuneration system for the Board of Managing Directors during its meeting held on 28 June 2006.

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 form of remuneration in kind which mainly consist of property value to be applied in accordance with tax laws, insurance premiums and the use of a company car. These additional benefits have to be disclosed in the tax return by each Board member as part of the remuneration. The actual amount of these benefits varies according to the individual situation of each Board member. Loans and advances were not granted to the Board members in the year under review.

Performance-based remuneration components. The amount of the variable remuneration is determined by a target agreement system: for financial year 2006/07, this included targets that depend on the success of the company (65%) and individual targets (35%). The targets depending on the company's success relate to the operating result, the cost/income ratio and the return on equity. The individual targets include divisional, functional and project-related targets. The first step in this process is to determine a target bonus. The bonuses earned are then determined according to the extent to which the targets have been achieved. In case the targets have been achieved to a degree of 100%, the bonus to be paid corresponds to the contractual target bonus. The maximum bonus amounts to 200% of the target bonus, the minimum bonus is 30% of the target bonus. As a rule, it is not possible to change the agreed performance targets retroactively. In the financial year 2006/07, the share of the variable remuneration in the total remuneration amounted to approximately 63%.

In accordance with the recommendations of the German Corporate Governance Code, the monetary components of the total remuneration thus comprise fixed and variable components. The variable remuneration component is risk-based, as it does not constitute guaranteed remuneration. As a rule it is not possible to change the agreed performance targets retroactively.

Pension provisions. Having retired from the company, the members of the Board of Managing Directors are entitled to pension payments in the following cases: upon reaching the standard retirement age limit of currently 63 years, permanent disability, early retirement or the non-renewal of the service contract. In the case of the latter, the member of the Board of Managing Directors receives a reduced pension payment, as a so-called transition payment, until the end of the 63rd year of life. This payment is made provided early retirement or non-renewal is not attributable to the member or induced by the rejection of equal or more favourable terms offered in relation to extending the contract.

The annual pension claim amounts to between 50 and 75% of the previous basis annual remuneration and is dependent on the member's term of office on the Board of Managing Directors. The transition payment, which amounts to between 5 and 75% of the last 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, continuing up to their 25th year for the term of their education, including national or civil service. If the aggregate of the widow's benefit and orphan's allowance exceeds the pension payment, the orphan's allowance is reduced by the amount exceeded.

The company has recognised pension provisions in accordance with IFRS for future pension claims of members of the Board of Managing Directors.

Change of control. In the event of a term of office as member of the Board of Managing Directors being ended prematurely due to a change of control, the members of the Board, with the exception of the new member who assumed their position on 1 March 2007, shall have a general entitlement until their contract to payment of a one-off settlement payment and severance pay. Under the standard ruling applicable to members of the Board of Managing Directors, a change of control is deemed to have occurred in the event that a third party, either alone or through the voting rights attributable to that third party in accordance with section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"), acquires a share of voting rights that, at an ordinary general meeting of the Company, would have led to that third party holding a share of voting rights in the amount of at least half of the share capital present at the meeting and entitled to vote. If a change of control leads to the early termination or non-renewal of the service contract, regardless of whether under the instruction of the company or of a member of the Board of Managing Directors, because the change of control impacts significantly on the Board member in question, the member is entitled to severance of at least three years of the variable annual remuneration as well as a transition payment until the end of their 63rd year. The member is subsequently entitled to pension payment in accordance with the aforementioned regulations on pension provisions. Additional settlement payments may result from individual termination agreements.

The remuneration for the members of the Board of Managing Directors. A number of changes took place on the Board of Managing Directors in the financial year 2006/07. Frank Schönherr and Joachim Neupel retired from the Board of Managing Directors as at 30 November 2006 and 31 December 2006, respectively. Dr. Volker Doberanzke was newly appointed to the Board of Managing Directors with effect from 1 June 2006 and Frank Braunsfeld with effect from 1 March 2007.

No member of the Board of Managing Directors received payments from or benefits committed upon by third parties, by reference to the office held as member of the Board of Managing Directors.

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

	Annual remuneration				**Pensions**	
€ thousand	Fixed remuneration	Variable remuneration components	Value of ancillary payments *)	Total	Annual remuneration at retirement as at 31 Mar 2007	Additions to pension provisions (service costs)
Stefan Ortseifen	504	1 000	93	1 597	378	171
Frank Braunsfeld (since 1 Mar 2007)	25	35	14	74	180	50
Dr. Volker Doberanzke (since 1 Jun 2006)	300	750	32	1 082	270	149
Dr. Markus Guthoff	384	750	59	1 193	288	99
Claus Momburg	384	750	53	1 187	288	118
Joachim Neupel **) (until 31 Dec 2006)	288	563	96	947		
Frank Schönherr (until 30 Nov 2006)	256	470	31	757		
Total	**2 141**	**4 318**	**378**	**6 837**	**1 404**	**587**

*) Including remuneration of € 225 thousand received for directorship functions carried out at subsidiaries
**) The pension payments of Joachim Neupel are included in the total remuneration of the former members of the Board of Managing Directors and their surviving dependants.

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

Former and retired members of the Board of Managing Directors. Total remuneration paid to former and retired members of the Board of Managing Directors and their surviving dependants in the form of disbursements and pension provisions amounted to € 5 345 thousand (previous year: € 2 871 thousand). A total of € 37 227 thousand in provisions was recognised for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

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

The remuneration system for the members of the Supervisory Board. The remuneration of the Supervisory Board is specified in Section 11 of the Memorandum and Articles of Association of IKB. In line with legal requirements and in accordance with the provisions of the German Corporate Governance Code, this remuneration takes into account the responsibility and the scope of activities of the Supervisory Board members as well as the economic situation and the performance of the IKB Group. The members of the Supervisory Board receive a fixed remuneration component as well as two variable, performance-based remuneration components. The short-term remuneration component depends on dividends, while the long-term component is based on the three-year average of net income per share for the year. The fixed remuneration component of the members of the Supervisory Board amounts to € 20 000 and additionally comprises reimbursement of outlays, including value-added tax incurred on their remuneration. In addition, the Supervisory Board members receive a variable remuneration for each financial year in the amount of € 200 for each € 0.01 by which the dividend distributed to shareholders exceeds € 0.30 per share for the past financial year. Furthermore, the Supervisory Board members receive another variable remuneration in the amount of € 90 for each € 0.01 by which the three-year average of net income per share for the year exceeds € 0.30.

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

The remuneration of the Supervisory Board depends on other key figures than the remuneration of the Board of Managing Directors, which means that an unintended harmonisation of the remuneration interests of both corporate bodies is not possible. The fixed annual remuneration of € 20 000 is intended to take account of the Supervisory Board's independency, which is necessary for the Board to perform its supervisory function. The new system is also supposed to ensure an appropriate minimum remuneration which does not depend on the economic success of the company. The aim of the dividend-based remuneration component is to result in a harmonisation of the Supervisory Board's remuneration interest with the return expectations of shareholders. By linking another part of the variable remuneration to the three-year average of the net income for the year, the Supervisory Board's remuneration also contains a component which is based on the Company's long-term success.

The remuneration for the members of the Supervisory Board. The Supervisory Board remuneration for the financial year 2006/07 was calculated on the basis of the proposed dividend of € 0.85 and average Group net income per share of € 1.86 for the financial years 2004/05 – 2006/07.

In the year under review, the Supervisory Board members did not receive any further remuneration or benefits for personally rendered services, in particular advisory and agency services.

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

€ thousand	Fixed component	Short-term variable component	Long-term variable component	Total
Dr. Ulrich Hartmann	55	30	40	125
Detlef Leinberger (since 31 Aug 2006)	30	17	21	68
Hans W. Reich (until 31 Aug 2006)	19	10	13	42
Dr. Alexander v. Tippelskirch	40	22	28	90
Dieter Ammer	20	11	14	45
Jörg Asmussen	20	11	14	45
Dr. Jens Baganz	20	11	14	45
Dr. Jürgen Behrend	20	11	14	45
Wolfgang Bouché	23	13	16	52
Hermann Franzen	20	11	14	45
Dr. Mathias Kammüller	20	11	14	45
Wilhelm Lohscheidt (until 31 Aug 2006)	8	5	6	19
Jürgen Metzger	20	11	14	45
Roland Oetker	20	11	14	45
Dr. Eberhard Reuther	20	11	14	45
Randolf Rodenstock	20	11	14	45
Rita Röbel	20	11	14	45
Dr. Michael Rogowski	20	11	14	45
Jochen Schametat (since 31 Aug 2006)	13	7	9	29
Dr. Carola Steingräber	22	12	16	50
Dr. Martin Viessmann	20	11	14	45
Ulrich Wernecke	20	11	14	45
Andreas Wittmann	20	11	14	45
Subtotal	**510**	**281**	**359**	**1 150**
Total travel expenses/VAT for the				189
Total				**1 339**

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

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

Declaration of Compliance within the meaning of section 161 of the German Public Limited Companies Act. The Board of Managing Directors and the Supervisory Board of IKB Deutsche Industriebank AG declare that the company has complied with the recommendations of the Government commission 'German Corporate Governance Code', as amended on 12 June 2006 and published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (Bundesanzeiger), since the last declaration issued on 28 June 2006, and will continue to comply in the future, subject to the following exceptions:

- *Section 3.8 of the German Corporate Governance Code recommends that a suitable deductible be agreed where the company takes out a D&O (directors and officers' liability insurance) policy for members of the Board of Managing Directors and Supervisory Board.*

  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. Our view remains unchanged: that such a deductible would not boost the motivation of the members of the company's executive bodies, nor would it enhance their sense of responsibility in carrying out their duties and functions.

- *Sections 4.2.4 and 5.4.7 of the German Corporate Governance Code recommend that the remuneration of the members of the Board of Managing Directors and the Supervisory Board be disclosed on an individual basis and broken down by component.*

  These recommendations will be adopted for the first time under the reporting of the remuneration of the members of the Board of Managing Directors and the Supervisory Board for the financial year 2006/07.

Düsseldorf, 27 June 2007

For the Supervisory Board of
IKB Deutsche Industriebank AG

Dr. h.c. Ulrich Hartmann

For the Board of Managing Directors of
IKB Deutsche Industriebank AG

Stefan Ortseifen

Supervisory Board

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

Chairman
Dr. h. c. Ulrich Hartmann, Düsseldorf
Chairman of the Supervisory Board of
E.ON AG

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

Deputy Chairman
Dr. Alexander v. Tippelskirch, Düsseldorf
Deputy Chairman of the Supervisory Board of
IKB Deutsche Industriebank AG

Dieter Ammer, Hamburg
Businessman

Jörg Asmussen, Berlin
Ministerial Director
German Federal Ministry of Finance

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

Dr. Jürgen Behrend, Lippstadt
Managing Director and General
Partner of
Hella KGaA Hueck & Co.

Wolfgang Bouché, Düsseldorf*

Hermann Franzen, Düsseldorf
General Partner of
Porzellanhaus Franzen KG

Dr.-Ing. Mathias Kammüller, Ditzingen
Chairman of the Managing Board of
TRUMPF Werkzeugmaschinen GmbH + Co. KG

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

Randolf Rodenstock, Munich
Managing Partner of
Optische Werke G. Rodenstock KG

Rita Röbel, Leipzig *

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

Jochen Schametat, Düsseldorf*

Dr. Carola Steingräber, Berlin *

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

Ulrich Wernecke, Düsseldorf*

Andreas Wittmann, Munich*

* employee representative

Supervisory Board Committees

Executive Committee

Chairman
Dr. h.c. Ulrich Hartmann

Detlef Leinberger

Dr. Alexander v. Tippelskirch

Finance and Audit Committee

Chairman
Detlef Leinberger

Wolfgang Bouché

Dr. h.c. Ulrich Hartmann

Dr. Alexander v. Tippelskirch

Advisory Board

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

Deputy Chairman
Dr. Hermut Kormann, Heidenheim
Chairman of the Board of Managing Directors of
Voith AG

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

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

Josef Beutelmann, Wuppertal
Chairman of the Board 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-Werke GmbH + Dreier Immobilien

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

Dr. Hugo Fiege, Greven
Managing Partner of
Fiege Deutschland GmbH & Co. KG

Hans-Michael Gallenkamp, Osnabrück
Chairman of the Advisory Board of
Felix Schoeller Holding GmbH & Co. KG

Dr. Jürgen Großmann, Hamburg
Chairman of the Supervisory Board of
Georgsmarienhütte Holding GmbH

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

Franz M. Haniel, Munich
Chairman of the Supervisory Board of
Franz Haniel & Cie. GmbH

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

Dr. Barbara Hendricks, Berlin
Parliamentary State Secretary
German Federal Ministry of Finance

Dr. Hannes Hesse, Frankfurt/Main
Managing Director of the
German Engineering Industry Association
(Verband Deutscher Maschinen- und Anlagenbauer – 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

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

Prof. Dr.-Ing. Eckart Kottkamp, Bad Oldesloe
Chairman of the Advisory Board of
Hako Holding GmbH & Co.

Matthias Graf von Krockow, Cologne
Chairman of the personally liable partners
Bankhaus Sal. Oppenheim jr. & Cie. KGaA

Andreas Langenscheidt, Munich
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 Managing Board of
August Storck KG

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

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

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

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

Reinhold Schulte, Dortmund
Chairman of the Board of Managing Directors of
SIGNAL IDUNA Group

Dr. Eric Schweitzer, Velten (near 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.

Dr. Alfred Tacke, Essen
Chairman of the Managing Board of
STEAG GmbH

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

Torsten Toeller, Krefeld
Chairman of the Managing 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
Federal Association of German Industries (Bundes-
verband der Deutschen Industrie e.V.)

Clemens Freiherr von Weichs, Paris
Président du Directoire
EULER

Board of Managing Directors

from left to right:

Claus Momburg
Member of the Board of Managing Directors since 1997.
Born in 1959, in Detmold.
Mr. Momburg is responsible for the Corporate Clients segment, as well as for Human Resources.

Dr. Volker Doberanzke
Member of the Board of Managing Directors since 2006.
Born in 1963, in Fröndenberg.
Mr. Doberanzke is responsible for Finance, Controlling and Taxation, and for Organisation & IT.

Stefan Ortseifen
Member of the Board of Managing Directors since 1994;
Chief Executive Officer since 2004.
Born in 1950, in Garmisch-Partenkirchen.
Mr. Ortseifen is responsible for the Real Estate Clients and Securitisation segments, as well as for Treasury, Corporate Development and Communications, and the Economics department.

Frank Braunsfeld
Member of the Board of Managing Directors since 2007.
Born 1964, in Brühl/Rhineland.
Mr. Braunsfeld is responsible for Risk Management, Group Audit and the Legal department.

Dr. Markus Guthoff
Member of the Board of Managing Directors since 2001.
Born in 1964, in Dortmund.
Dr. Guthoff is responsible for the Structured Finance segment, as well as for IKB International.

Market units and their heads

Domestic Corporate Clients

Leo von Sahr	Berlin-Leipzig
Wolf-Herbert Weiffenbach	
Maximilian Knappertsbusch	Düsseldorf
Helmut Laux	
Udo Belz	Frankfurt/Main
Burckhard W. Richers	Hamburg
Heinrich Schraermeyer	
Norbert Mathes	Munich
Dr. Reiner Dietrich	Stuttgart
Norwin Graf Leutrum von Ertingen	

Domestic Sales Controlling

Helmut Laux	Düsseldorf

Credit Operations

Maik Mittelberg	Düsseldorf

Real Estate Finance

Elmar Hammerschmidt	Düsseldorf
Klaus Neumann	
Martin Spinty	
Carsten Brinch Nilsson	

Structured Finance

Dr. Frank Schaum	Düsseldorf
Hubert Störbrock	
Heinrich Hegemann	Frankfurt/Main
Friedrich Frickenhaus	London
Oliver Weichold	Madrid
Daniele Candiani	Milan
Eric Schaefer	Paris

Treasury and Financial Markets

Michael Braun	Düsseldorf
Bernd Claußen	
Ralf Wittenbrink	

Central Divisions and their heads

Finance, Controlling and Taxation
Andreas Kandel
Christoph Müller-Masiá

Group Audit
Oliver Zakrzewski

Organisation and IT
Manfred Knols

Human Resources and Services
Martin Verstege

Legal Department and Contracts
Panagiotis Paschalis

Risk Management
Dr. Marc Kanzler
Guido Ludwig
Claus-Dieter Wagner

Corporate Development and Communications
Klaus Frick
Dr. Gert Schmidt

Economics
Dr. Kurt Demmer

Operational Risk Management
Paul-Eduard Meyer

Subsidiaries and their heads

IKB Capital Corporation, New York
David Snyder

IKB International S.A., Luxembourg
Wolfgang Güth
Robert Spliid

IKB Private Equity GmbH, Düsseldorf
Clemens Jahn

IKB Equity Finance GmbH, Düsseldorf
Rolf Brodbeck
Roland Eschmann

IKB Leasing GmbH, Hamburg
Michael Fichter
Wilhelm Lindemann
Joachim Mertzenich

Movesta Lease and Finance GmbH, Düsseldorf
Stefan Neukirchen
Dr. Christian Staab
Heribert Wicken

IKB Immobilien Management GmbH, Düsseldorf
Thomas Damrosch
Mauritz Freiherr von Strachwitz
Heribert Wicken

IKB Data GmbH, Düsseldorf
Jürgen Venhofen

IKB Credit Asset Management GmbH, Düsseldorf
Dr. Frank Lehrbass
Winfried Reinke

Dr. Alfred Tacke,
Chairman of the Managing Board
of STEAG GmbH, Essen

STEAG GmbH

STEAG GmbH, a wholly-owned subsidiary of RAG based in Essen, is Germany's fifth-largest electricity supplier. Within the RAG Group, STEAG covers all commercial electricity and heat production activities, together with services related to the operation of power stations. Just under 5 000 employees generated revenues of € 2.73 billion in 2006.

STEAG is a market and technological leader in power generation from hard coal. The company currently operates eight hard coal-fired power plants in Germany (five in the Rhine-Ruhr region and three in the Saarland), three abroad (in Turkey, Colombia and in the Philippines), and two industrial power plants (in Leuna and Cologne-Godorf). STEAG's aggregate installed generation capacity (domestic and abroad) amounts to some 9 000 megawatts.

STEAG's expertise in hard coal-fired power plants covers the entire value creation chain, from planning and financing, through construction to operating plants. Its proprietary coal trading activities ensure that fuel can be purchased at attractive prices. STEAG also commands a strong competitive position in related technologies, such as refinery by-products, biomass, biogas and geothermal energy. The company is a global leader in the thermal use of methane.

www.steag.de

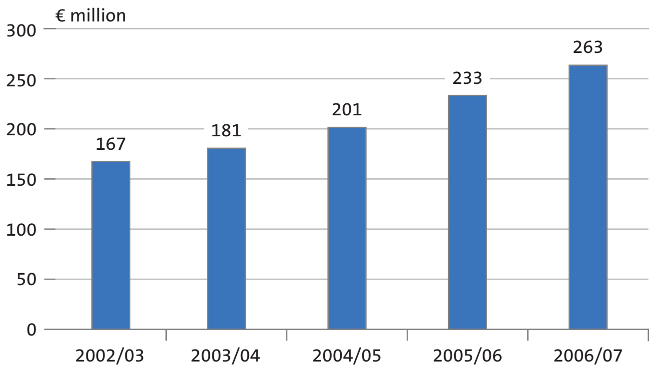
I. Group Management Report

1. Business conditions and basic parameters

A successful 2006/07 financial year

The 2006/07 financial year was another very successful year for IKB. New business rose by 13.3% to € 12.8 billion and the operating result was up by 13.1% to € 263 million. This means that we exceeded our target result for the 2006/07 financial year of € 250 million. We therefore also succeeded in continuing and building on the positive profit trend witnessed over recent years (see chart).

Operating result*



*Up to and including 2003/04 according to German GAAP, thereafter based on IFRS

The Board of Managing Directors attributes this success to two main factors:

- IKB's convincing strategy and
- the positive environment, at national and international level, for the bank's business activities.

A convincing strategy

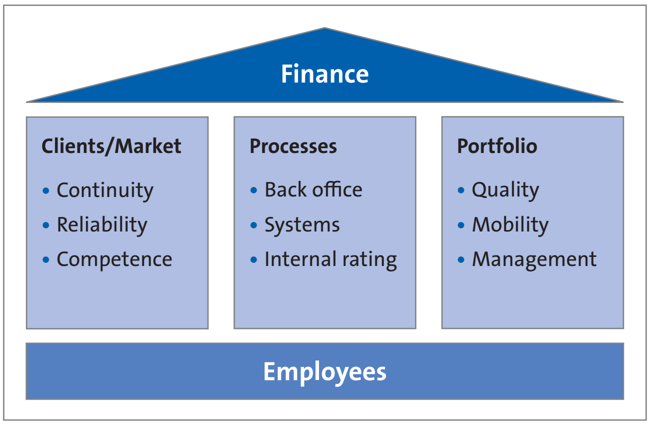
IKB is the leading German specialist bank in long-term finance for corporate clients, real estate investors, project partners and institutional investors. In terms of the granting of long-term investment loans to manufacturing companies, the bank is the market leader, with a market share of 13.5% to its name. IKB's main rivals in Germany are the major universal banks, as well as selected larger institutions from the public banking sector.

IKB's strengths are to be found in its specialisation, in its skill and expertise in this area of specialisation, and in the high level of trust placed in the bank by its clients. The positive way in which income has developed over the last few years can be attributed not least to these factors.

Target system

The chart (page 40) shows IKB's target system as stipulated by the Board of Managing Directors on the basis of the Balanced Scorecard (BSC) used throughout the Group. Using this management and communication tool, the Board formulates the bank's visions and specific targets, which are then implemented in a three-year plan through concrete measures and key performance indicators.

The bank's target system



The foundation for successful market, process and portfolio activities is provided by our excellently trained and highly dedicated team of employees. What is important is that our employees strongly identify with the bank and its strategic direction. Our employee surveys regularly show that over 90% of our staff agree that this is in fact the case. This is one of the top results in the financial sector.

The pillars and success factors on which our activities are based can be broken down into the following categories:

- Clients/Market
- Processes and
- Portfolio.

Our commercial activities are reflected in the target dimension of finance – expressed above all in the operating result and return on equity.

Clients/Market – As part of the first pillar (Clients/Market), our business activities focus on our clients, for whom we are an excellent source of advice, experienced problem-solvers and skilled financiers. This is the foundation of our business and it is based on this relationship banking that we maintain our links with medium-sized companies – Germany's Mittelstand – with many of these relationships going back decades.

In order to be able to deepen and widen our relationships with our clients in a targeted way, we have divided our market activities into the following segments:

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

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

In terms of issuing long-term investment loans to German medium-sized companies, IKB is Germany's market leader. In addition to the high quality of our advisory, our clients value the bank's clear commitment to Germany's medium-sized businesses – all the more during difficult economic periods. In turn, our clients place a very high level of trust in our services.

We engage in equipment leasing at a national and international level, and we are the market leader in machinery leasing in Germany. With regard to foreign markets, we successfully operate in selected Central Eastern European countries (Poland, Slovakia, Czech Republic and Hungary), as well as in France and Austria.

In the area of private equity, our focus is on direct shareholdings, as well as on providing medium-sized companies with mezzanine capital, particularly within the context of securitisation transactions backed by profit-participation certificates.

Our focus in our *Real Estate Clients* division lies in the following areas:

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

Our strength lies in the fact that, as well as tailored financing, we can also offer our clients the full range of real estate services.

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

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

IKB applies the same principles of success to acquisition financing as to domestic corporate clients business, namely highly skilled employees in all activities specific to the transaction and excellent industry know-how. Also of crucial importance is our local presence in all of the key Western European markets, enabling us to take due account of regional characteristics when cooperating with Private-equity (PE) investors on the ground in mid-cap transactions.

As part of our project finance activities, we arrange and structure the financing for national and international projects. These activities – for energy or infrastructure projects for example – now account for more than 40% of new business in our Structured Finance segment. We also finance the export of capital goods (ECA-covered export finance) and accompany medium-sized companies as they build up production capacity abroad as part of an internationalisation strategy.

The *Securitisation* segment is responsible for placing credit risk exposure on the market, and for the bank's investments in international loan portfolios. IKB has developed into a successful player in both of these areas.

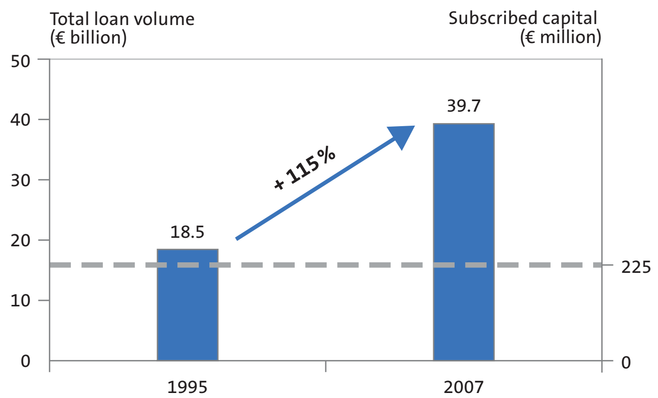
Processes – The second pillar in the bank's target system comprises its processes and systems. After all, the only way to achieve our income targets is to process the business acquired on the market in an efficient way.

The Balanced Scorecard target "Processes" is measured against the number of reviewed or revised (core) process stages as a proportion of the total number of process stages in the unit concerned. The key is that all of the process stages are standardised as far as possible, thereby minimising the extent of interfaces.

Individual processes are systematically dealt with and revised as part of a rolling schedule. This means that all processes must be revised or reviewed within a timeframe of four years. Regular assessment and documentation of the level of attainment of our BSC targets is carried out on a joint basis by the respective areas and the Organisation and IT department.

Portfolio – Since the late 1990s, IKB has been pursuing the concept of the risk-based external placement of balance-sheet assets, and of loans and advances to customers in particular. To date, the bank has securitised a cumulative volume of almost € 18 billion of such assets, synthetically placing them on the national and international capital markets. This has enabled us to free up a high level of credit risk and equity, with the result that we have been able to raise our total loan volume by 115% over the period from 1995 to 2007 without issuing new shares (see chart). Correspondingly, we have been able to raise our earnings per share by 205% to € 2.04 over this same period.

Total loan volume and subscribed capital



We have enjoyed exceptionally attractive issuing conditions thanks to the high granularity of the individual risks and the convincing performance of previous placement transactions. In other words, the capital market players set great store by our strategy of actively managing risk.

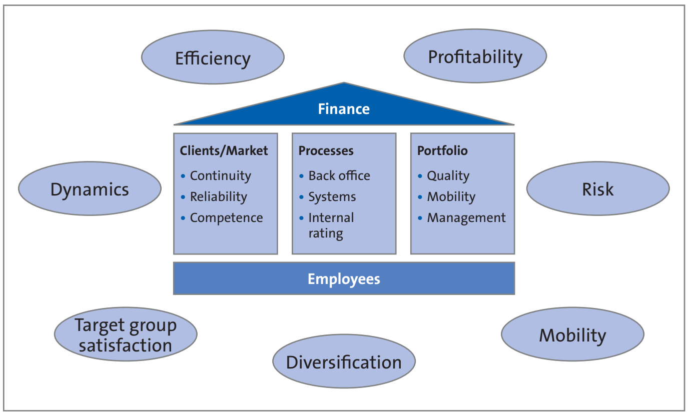
The capital released through our securitisation activities over recent years has been used to expand our national and international lending business. Additionally, the capital has also been used to invest in international loan portfolios. Two thirds of our investments are focused on US investment-grade portfolios (including, for example, credit card claims, mortgage loan claims and corporate loans), with the remaining third being invested in similarly structured European portfolios.

However, we also utilise our wealth of expertise in this area to advise external companies – against a fee – on their own investments in international loan portfolios. This applies in particular to the Rhineland Funding Capital Corporation in the US. Based on our advice, this company is investing in portfolios comparable to those in which IKB is itself investing. In this way we ensure that the same quality standards that apply to the bank are also applied to third parties.

By establishing IKB Credit Asset Management GmbH (CAM) during the last financial year, our aim is to offer securitisation services to third parties to a greater extent. Our high standing on the capital markets would indicate that this is something that we can already achieve with effect from the new financial year.

Key performance indicators – In essence, what the Balanced Scorecard does is break down into measures and key figures the targets set by the Board of Managing Directors, enabling the market units and corporate centres to gear their activities towards the bank's target system. The Board has set the following seven control categories/measurement variables (see chart) for IKB.

Key performance indicators



Dynamics: It is the Board of Managing Director's aim that the IKB Group should continue to grow dynamically over the coming years. This growth is to occur in all divisions, both in terms of new business and in terms of the existing portfolio. The driving forces for this growth are expected to come both from the domestic market and, in particular, from abroad.

Efficiency: By continuing to streamline the bank and through the resulting ongoing rise in productivity, the bank's cost/income ratio should also be maintained at a low level in future. This will enable us to generate an attractive level of income, even when faced with tough competition for margins.

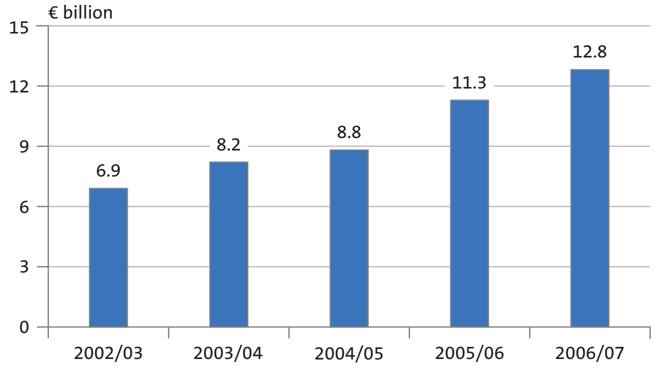
Profitability: The Board of Managing Directors aims to continue to increase the return on equity over the next few years. Having achieved a pre-tax RoE of over 20%, our target now is to make further improvements to this figure over the coming years. We aim to do this by increasing the operating result with constant share capital. This will also increase our earnings per share, which is a key prerequisite for our capital market reputation, our rating and a further rise in our share price.

Risk: IKB's risk position is described by the non-performing ratio (non-performing loans in relation to total loan volume) and by the allocation to risk provisioning. The Board's target is to cut the non-performing ratio further, from its current level of 4.9%, by the end of the 2008/09 financial year. At the same time, provisions for possible loan losses – taking the figure for the 2005/06 financial year as a basis – are also to be cut by 30 and 40% until 2008/09.

Mobility: One of the bank's core areas of expertise lies in the active management of the overall loan portfolio, with the continuity of securitisations playing a key role. The Board of Managing Directors is aiming to further increase the mobility of the credit portfolio by focusing on credit commitments that can be placed synthetically with third parties through syndication or securitisation.

Diversification: By actively managing our portfolios, we achieve a highly diversified credit exposure in terms of sectors, regions and rating categories. Additionally, investments in international loan portfolios further improve the granularity and diversification of our exposure whilst improving its rating categories.

New business volume – IKB Group*



* Up to and including 2003/04 according to German GAAP, thereafter based on IFRS

Target group satisfaction: Viewed as a whole, we achieve target group satisfaction through our reliable lending policy, which can be broken down into our comprehensive advice, our range of innovative finance products, and our support, even during difficult phases of the economic cycle. Client satisfaction is measured by IKB in a survey of companies conducted every two years.

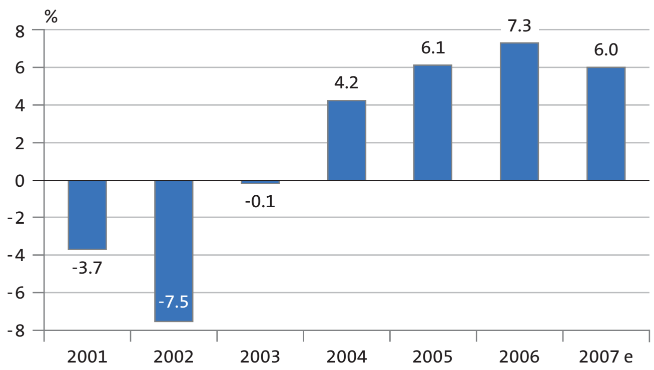
The client satisfaction analysis conducted in 2006 revealed the following results:

- 97% of clients would recommend IKB as a financier to other potential borrowers (corporate clients)
- 97% of clients particularly value our employees' confidentiality and discretion
- 93% of our clients credit IKB with a high level of advisory expertise
- 92% of our clients regard the bank as being a very reliable partner.

Our clients have therefore confirmed, once again, the great extent to which they value their working relationship with IKB.

Development of German corporate investment in machinery and equipment

Real rate of change over the previous year



e = IKB forecast

Sources: German Federal Statistics Office, IKB forecast

Basic economic conditions and development of new business

The Board of Managing Directors regards the positive basic conditions of the economy as a whole as a second key factor responsible for the sound income development recorded by the bank in the 2006/07 financial year. This applies both to economic development in our core market, namely Germany, and to economic development in those countries in which IKB is involved through structured finance and equipment leasing. Against this background, we were able to increase the volume of new business for the Group to € 12.8 billion (previous year: € 11.3 billion, see chart).

In our core market of Germany, GDP rose by 2.8% in 2006. Furthermore, investment in plant and equipment, an even more important indicator for IKB's domestic lending business, rose by a considerable 7.3% year-on-year during the reporting period (see chart left). The main factor driving this increase was exports, which grew by 12.5%.

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

The close relationship between R&D intensity and companies' export strength can be seen in the chart entitled “Global export leader thanks to state-of-the-art technology”. This clearly shows that the export ratio for R&D-intensive companies is on average twice as high as for those companies that are not R&D-intensive.

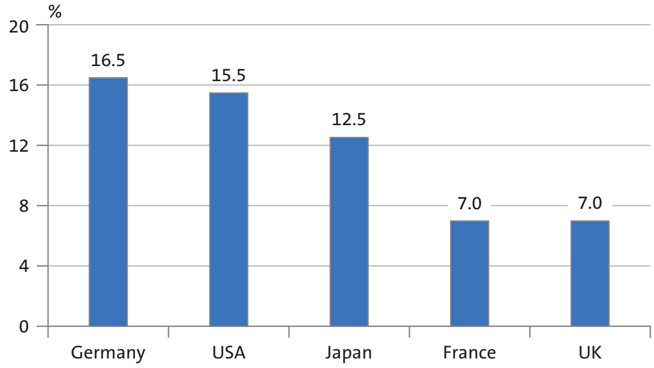
Due to the high volume of incoming orders from abroad, in addition to stepping up their investment in plant and equipment, companies were also motivated to expand capacity last year. And given that medium-sized companies continue to have the majority of their production sites in Germany, they duly borrowed to finance their investments and construction projects. Against this background, we were able to achieve a 14.1% rise in new business in the Corporate Clients segment, recording a figure of € 4.8 billion. This rise is all the more remarkable in light of the fact that the volume of loans disbursed had already been improved by 22% in the previous financial year.

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

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

Leading position in international trade

Global market share of selected developed countries in R&D-intensive goods (2005)

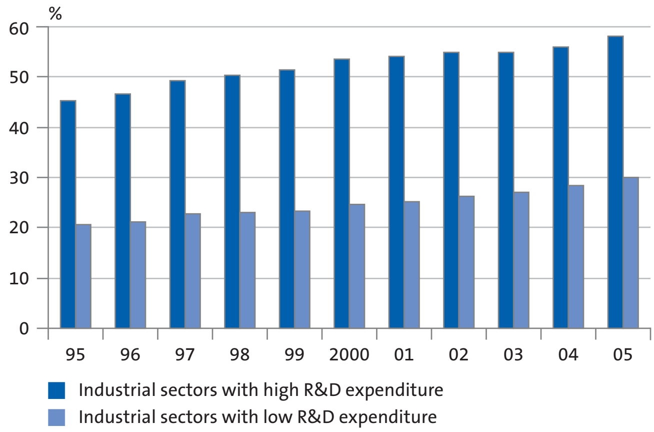


Sources: Economic Research Institute of Lower Saxony; German Federal Statistics Office

Our private equity activities focused during the year under review on the equiNotes II profit-participation programme, which we once again issued in cooperation with Deutsche Bank. The mezzanine capital made available to medium-sized companies through this programme, which is not included in our disbursement figures, amounted to € 220 million. The total amount of both profit-participation programmes was close to € 600 million.

Global export leader thanks to state-of-the-art technology

Export ratio of German companies



Sources: Economic Research Institute of Lower Saxony; German Federal Statistics Office

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

There was a positive development with regard to our European real estate finance activity. We acquired new business worth € 0.3 billion within just a few months of launching our foreign activities. This good result was made possible by the fact that we launched this business within the framework of our European financial platform with internationally experienced teams. Looking at real estate finance as a whole, this means that we were able to increase the disbursed amount by 29.0% over the period under review to € 1.3 billion.

We are also able to report on a successful performance in the area of structured finance. Our operations in this area of business are focused on acquisition and project finance both in Germany and in Western Europe and the USA. We were able to observe a high level of demand for our finance products on all of the markets due to the good state of economic development.

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

Cooperation projects

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

We were able to record a joint finance volume of € 1.4 billion with the KfW Bankengruppe, compared with € 0.9 billion during the previous year. We invited KfW to participate as a partner in our finance transactions, and, for our part, were also able to participate in a series of KfW's finance deals. Most of these transactions, as in the previous year, related to national and international project finance.

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

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

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

Our working relationship with our cooperation partner Sal. Oppenheim was successful during the reporting year. Once again, both partners were able to achieve a further increase in the reciprocal flow of deals.

Moreover, Sal. Oppenheim is Designated Sponsor for the IKB share. As in previous years, we have been able to acquire many new and renowned international investors for the IKB share over the reporting year through our cooperation partner.

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

Actual versus forecast business development

- In its press release of 18 May 2006 and during its conference call, the Board of Managing Directors forecasted the Group's operating result for the 2006/07 financial year to be € 250 million. The actual amount was € 263 million, which is 5% higher than the predicted amount and 13.1% above the operating result recorded during the 2005/06 financial year.

- In line with this operating result, which marked a new all-time high, the pre-tax return on equity rose to 20.6%. This means that the 20% threshold originally set as a target for the 2007/08 financial year was actually already achieved in the 2006/07 financial year.

- Net interest income after provisions for possible loan losses and net commission income, at an aggregate € 495 million, reached a new record high and was therefore a good 10% higher than planned. This gratifying development can be attributed to the fact that provisions for possible loan losses could be reduced to a greater extent that originally estimated and that net interest income could be increased by more than planned.

- Administrative expenses rose by 17.8% to € 317 million during the past financial year. More than half of this increase was due to the further expansion of our foreign activities.

- The non-performing ratio was reduced to 4.9% during the 2006/07 financial year, meeting the target of 5% or lower. The net allocation to provisions for possible loan losses was € 259 million during the reporting period, 18.7% lower than in the previous year. Against this background, there is good reason to expect that the Board's target of a reduction of between 30 and 40% within three financial years can be met.

- New business rose by 13.3% to € 12.8 billion and was thus higher than expected. This positive development was due to the fact that we were able to exceed our disbursement targets in all areas of lending thanks to excellent basic parameters.

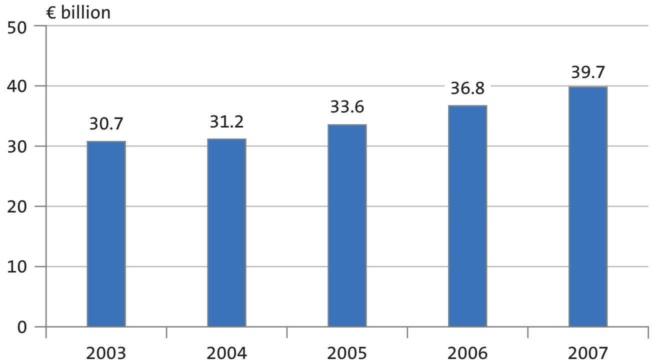
2. Financial condition and results of operations

Total loan volume as at the reporting date/ balance sheet items

IKB Group's total loan volume as at the reporting date, which is the essential basis of our interest income, was € 39.7 billion as at 31 March 2007, which represents a year-on-year increase of 8.1%. As shown in the chart, this meant that the growth trend of recent years could be maintained. The total loan volume as at the reporting date comprises loans and advances to customers, loans and advances to banks, securitised lending in the form of bonds, leased assets and guarantees.

Loans and advances to customers including operating and finance leases rose by 6.2% to € 29.4 billion, and accounted for 56.5% of total assets (62.7%). Loans and advances to customers with original maturities of less than four years, at € 4.1 billion, were unchanged on the previous balance sheet date, whilst those with longer maturities rose by 7.1% to € 25.6 billion.

Total loan volume – IKB Group
as at 31 March



Securitised lending grew by 24.2% to € 7.8 billion, whilst contingent liabilities and credit default swaps fell by 9.6% to € 2.5 billion.

The *Corporate Clients* segment saw its total loan volume as at the reporting date grow by 7.1% to € 16.8 billion. The main contributory factor was the positive way in which domestic corporate lending business and equipment leasing progressed. In the *Real Estate Clients* segment, meanwhile, total loan volume as at the reporting date grew by 1.5% to € 4.9 billion.

The strongest increase of all of the segments was recorded by *Structured Finance*, with a 36.0% increase in the total loan volume to € 7.9 billion. Increases were recorded in both domestic and international business.

Our exposure in the *Securitisation* segment, i.e. with regard to investments in international loan portfolios, underwent a very moderate rise, with a 1.7% rate of increase to € 7.0 billion.

Loans and advances to banks rose by € 2.2 billion to € 4.4 billion, primarily due to the growth in business with maturities of less than four years.

Provisions for possible loan losses were reduced by € 317 million to € 1.1 billion. This reduction is the balance of newly created and written-back value adjustments in the amount of € 191 million and drawings of € 508 million.

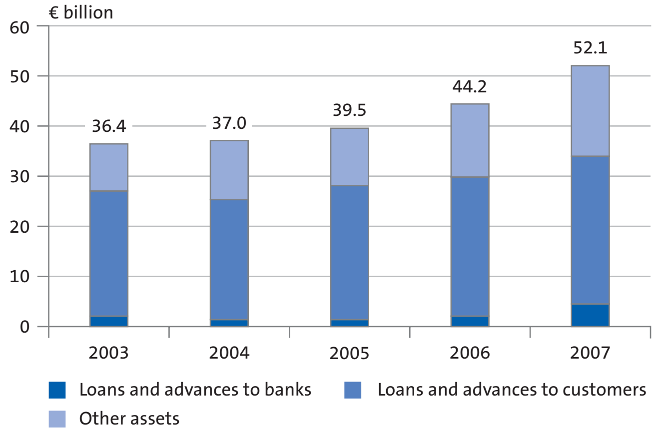
The rise of € 1.5 billion in assets held for trading to € 2.1 billion is primarily due to the building up of short-term trading assets with the aim of transferring these to an asset management company in the near future.

We increased our investment securities by € 1.8 billion to € 15.9 billion. Our main investments were made in bonds and other fixed-income securities. This position is partly used to secure repo transactions with the European Central Bank.

Property and equipment fell by € 19 million to € 212 million, mainly as a result of the transfer of assets from operating to finance leases.

Consolidated total assets grew by 17.7% or € 7.8 billion, to € 52.1 billion. The chart shows the development and structure of total assets over the past five years.

Assets
as at 31 March



*Up to and including 2004 according to German GAAP, thereafter based on IFRS

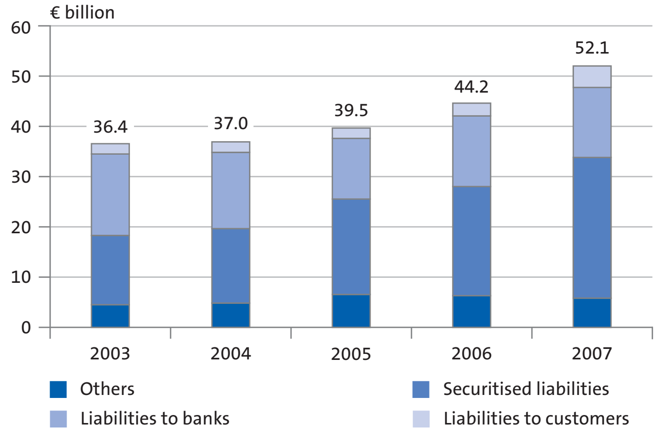
Refinancing

We mainly financed the expansion of our business activities by issuing bonds, so that securitised liabilities duly rose by € 6.3 billion to € 28.0 billion (see chart). The issue volume was € 15.9 billion, compared with redemptions of € 9.6 billion.

We reduced our liabilities to banks by € 0.1 billion to € 13.9 billion. Whilst short and medium-term liabilities fell by € 1.1 billion to € 5.8 billion, there was a rise of € 1.0 billion to € 8.1 billion in long-term borrowing, predominantly from development institutions. The latter is a reflection of the good development in our long-term lending business with our domestic corporate clients.

There was an increase of € 1.7 billion in liabilities to customers, which reached € 4.3 billion. This increase essentially related to longer-term maturities at domestic insurance companies. This is also a reflection of the strong expansion in our lending business. Liabilities held for trading, on the other hand, were almost unchanged as at the balance sheet date, at € 1.0 billion.

Shareholders' equity and liabilities*
as at 31 March



*Up to and including 2004 according to German GAAP, thereafter based on IFRS

Provisions were reduced by € 243 million to € 60 million. The main reason for this lay in the fact that we have transferred our pension provisions to a trust company within the framework of a contractual trust arrangement (CTA).

Subordinated capital was raised by € 116 million to € 3.0 billion. Subordinated liabilities were increased by € 180 million to € 1.4 billion through the issuing of subordinated loans. In contrast, there was a drop in profit-participation certificates as part of scheduled redemptions, down by € 53 million to € 0.6 billion. Silent partnership contributions, at € 1.0 billion, were almost at the same level as during the previous year.

Shareholders' equity rose by € 42 million to € 1.4 billion. Whilst subscribed capital and capital reserve remained unchanged, retained earnings rose by € 106 million to € 0.5 billion. The revaluation reserve, meanwhile, was reduced by € 59 million to € 78 million. The revaluation reserve was formed upon the preparation of the opening IFRS balance sheet in line with the IFRS regulations on first-time application.

Regulatory capital in accordance with section 10 of the German Banking Act (Kreditwesengesetz – KWG) – including subscribed capital, hybrid capital, capital reserve and retained earnings, profit-participation certificates and subordinated liabilities – was unchanged at € 4.1 billion as at the reporting date. Based on the risk-weighted assets, the capital ratio according to the German Banking Act (Principle I) was 12.3% (13.3%), and the tier 1 ratio was 7.2% (7.7%).

Contingent liabilities and other commitments rose by € 2.7 billion to € 17.7 billion. Whilst contingent liabilities increased by € 0.1 billion to € 1.0 billion, other commitments were up by € 2.6 billion to € 16.7 billion. The latter is primarily due to the fact that credit commitments with a term of up to one year increased by € 2.0 billion to € 14.1 billion.

Income Growth

Consolidated net interest income grew by 16.0% during the reporting period to € 646 million. 78.1% of this total relates to the business activities of our segments/divisions, whilst 21.9% was achieved primarily from the investment of equity capital.

Provisions for possible loan losses were reduced by 18.7% to € 259 million. Our aim – as detailed above – is to reduce risk provisioning by between 30 and 40% within three years. As things currently stand, it can be assumed that this reduction will tend towards the upper end of this target range.

The fall in risk provisioning and the rise in net interest income meant that there was a 62.3% rise in net interest income after provisions for possible loans losses, to € 387 million.

A gratifying increase in net commission income was also recorded, up by 19.2% to € 108 million. Half of this income resulted from structuring fees and commission earned in the Corporate Clients, Real Estate Clients and Structured Finance segments, with the other half being contributed by the Securitisation segment from advisory fees relating to the Rhineland Funding conduit.

Net income from financial instruments at fair value amounted to € 80 million, double the figure reported for the previous year. The reasons for this lie in a tangible increase in the net trading result and an improvement in the amortisation of discontinued hedging relationships. In contrast, however, the result from application of the fair value option fell. Net income from investment securities, at € 7 million, was down from the previous financial year (€ 13 million).

Against the background of the continuing expansion of the IKB Group, general administrative expenses increased by 17.8% to € 317 million. The fact that the high level of investment in human resources and real assets was nevertheless carried out in an income-oriented way can be recognised from the improvement in the cost/income ratio, which was 37.8% (38.2%).

The main cause of the rise in general administrative expenses was the hiring in the 2006/07 financial year of 102 new employees on balance (average FTE). We actively stepped up the international aspect of our real estate finance and equipment leasing business, whilst also setting up IKB Credit Asset Management (CAM) to reinforce our advisory and asset management activities. The aim of CAM is to achieve ongoing rises in net interest and commission income by expanding business.

We have also, by further investing in infrastructure, increased the number of employees working in the corporate centres (such as controlling and risk management). This investment involved a high level of IT input and, in some cases, was associated with high consultancy costs.

Operating result

Thanks to our good positioning on the market, we succeeded in increasing our operating result by 13.1% to € 263 million, thereby exceeding our original target of € 250 million. On this basis, the pre-tax return on equity was improved to 20.6% (18.8%).

Group appropriation of profit

Consolidated net income for the 2006/07 financial year was € 180 million. Following the allocation of € 105 million to consolidated retained earnings, this leaves a distributable profit of € 75 million, which is equivalent to the single-entity result reported for IKB AG. The Board of Managing Directors and the Supervisory Board will propose to the General Meeting that the profit be used to distribute an unchanged dividend of 85 cents per notional no-par value share.

Income development in the 4th quarter

A comparison of the fourth quarter of the financial year (1 January to 31 March 2007) with the corresponding quarter of the previous financial year identifies the key performance indicators set out below:

- Net interest income rose to € 179 million (€ 148 million)
- Provisions for possible loan losses fell to € 67 million (€ 98 million)
- Net interest income after provisions for possible loan losses rose to € 112 million (€ 50 million)
- Net commission income fell to € 21 million (€ 24 million)
- Net income from financial instruments at fair value rose to € 18 million (- € 16 million)
- Administrative expenses increased to € 95 million (€ 75 million)
- Net other operating income and expenses fell to € 2 million (€ 122 million)
- The operating result fell to € 58 million (€ 107 million)

The consolidated cost/income ratio stood at 43.2% (45.8%) and return on equity was 18.3% (34.6%).

Segment performance

The *Corporate Clients* segment improved its operating result for the 2006/07 financial year to € 135 million (€ 130 million). New business soared to a record volume of € 4.8 billion (€ 4.2 billion). A similarly marked increase was recorded with regard to the credit portfolio, up to € 16.8 billion (€ 15.7 billion). With the domestic credit market almost stagnating in the manufacturing sector, this growth should be assessed all the more positively. Correspondingly, we succeeded in increasing our market share in long-term industrial finance to 13.5% (13.0%).

The competition for the business of expanding medium-sized companies was as intense as ever, with a related fall in the average margin achieved in new business to 1.12% (1.31%). At the same time, our new commitments were based on the same high credit rating benchmarks. Ultimately, this means that a lower margin is associated with a lower default risk. Against this background, we were able to reduce our provisions for possible loan losses in the Corporate Clients segment to € 38 million (€ 44 million). The resulting cost/income ratio was 46.7% (44.4%), with a return on equity of 21.0% (21.6%).

The *Real Estate Clients* segment increased its operating result to € 35 million (€ 32 million). At 1.32%, the margin almost matched the high level of the previous year (1.33%), which is a gratifying achievement. We were able to extend the volume of new business to € 1.3 billion (€ 1 billion) particularly due to the establishment of our European finance platform. Return on equity stood at 18.2% (17.0%), whilst the cost/income ratio was 45.1% (39.6%).

This positive development, in terms of disbursements and with regard to margins in particular, is based on our practically unique range of products in the real estate sector. We can offer our clients a full range of finance and advisory products covering every aspect of commercial real estate finance. This begins with the planning of a property, through development and realisation, and extending as far as the subsequent marketing stage. We achieve all of this through close and efficient cooperation between our experts from real estate finance, real estate management and real estate leasing.

Our *Structured Finance* segment was able to continue its very successful performance during the 2006/07 financial year. The operating result was almost 42% up on the previous year, at € 111 million. Contributory factors included the strong expansion in new business, which reached € 5.3 billion (€ 3.5 billion), and in the total loan volume, which rose to € 7.9 billion (€ 5.8 billion), whilst the margin fell to 2.01% (2.55%).

This fall was essentially due to the changed product mix of our new business, which focused more strongly on project finance last year. In terms of new business, 43% related to project finance, whilst acquisition finance accounted for 57%. Overall, this means that we were able to further improve this restructuring of the risk/reward profile in the Structured Finance segment.

Return on equity lay at 33.8% (35.2%), whilst the cost/income ratio improved to 31.0% (35.5%). It is also worth noting that the recently established Madrid and Milan branches have contributed to this very good development virtually from the outset.

At € 108 million, the *Securitisation* segment result was in line with the previous financial year. An increase in net interest income and in net commission income in particular, as well as an improved figure for net income from financial instruments at fair value, contrasted with a rise in administrative expenses and a higher allocation to provisions for possible loan losses. The cost/income ratio rose to 19.2% (17.5%).

As in previous years, the main focuses of our activities were the placement of credit risks and investments in international loan portfolios. Overall, credit risks in the amount of € 4.7 billion were placed during the reporting period. Our investment in international loan portfolios totalled € 1.2 billion (€ 2.1 billion), resulting in a slight increase in the portfolio to € 7.0 billion (€ 6.8 billion).

The Rhineland Funding Capital Corporation, a conduit for which we have assumed an advisory function, increased its investment portfolio to € 12.7 billion (€ 9.7 billion).

Segment performance during the 4th quarter

Looking at the fourth quarter, our segments performed as follows compared with the same period of the previous financial year:

Corporate Clients

- Operating result: € 39 million (€ 36 million)
- Cost/income ratio: 45.4% (44.6%)
- Return on equity: 23.3% (21.7%)

Real Estate Clients

- Operating result: € 6 million (€ 4 million)
- Cost/income ratio: 46.8 % (50.0 %)
- Return on equity: 12.7 % (7.8 %)

Structured Finance

- Operating result: € 28 million (€ 16 million)
- Cost/income ratio: 31.7 % (44.5 %)
- Return on equity: 31.9 % (30.4 %)

Securitisation

- Operating result: € 21 million (€ 22 million)
- Cost/income ratio: 19.2 % (27.7 %)

3. Report on material events after the reporting date

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

4. Risk report

Risk management – objectives and strategies

The willingness to assume risk in a targeted manner is a prerequisite to being able to exploit profit opportunities. IKB's risk culture is characterised by a conservative approach to the risks inherent in banking, with the bank's ability to carry and sustain risk providing a solid foundation. This culture is reflected in IKB's business and risk strategies, as well as in the risk ceilings and limits derived on that basis, and in the organisational aspects of handling risk, in terms of responsibilities and internal processes.

The bank's risk-bearing capacity is measured on the basis of our profitability, our solid capital base and our reputation on the capital market, as expressed by IKB's current Aa3 rating from Moody's.

To ensure a balanced relationship between risk and return, risk management and risk control are important core elements of our approach to business. Besides being able to recognise all risks incurred within the scope of our business activities at an early stage, our objective is also to contain such risks in a targeted manner, using an effective risk management toolbox and in line with the bank's risk-bearing capacity. The successful monitoring and management of risk is thus a prerequisite for the profitable growth – and hence, long-term success – of IKB.

Risk management principles and organisation

Principles. Risk management within the IKB Group and the manner in which risks are controlled are based on five principles:

1. The Board of Managing Directors is responsible for all risks that are assumed on a Group-wide basis, as well as for actively managing such risks on an ongoing basis.

2. Our approach is geared around our risk-bearing capacity; in other words, the level of risk that we can assume on the basis of our profitability and financial strength.

3. An independent control process guarantees that the risks associated with our activities are reviewed and monitored objectively, not just at the level of individual exposures, but also at overall portfolio level across all risk types and across all of the divisions.

4. A timely, comprehensive and objective approach to risk disclosure – to the Board of Managing Directors, the Supervisory Board, the shareholders, the supervisory authorities and the rating agencies – is the cornerstone of our risk control strategy.

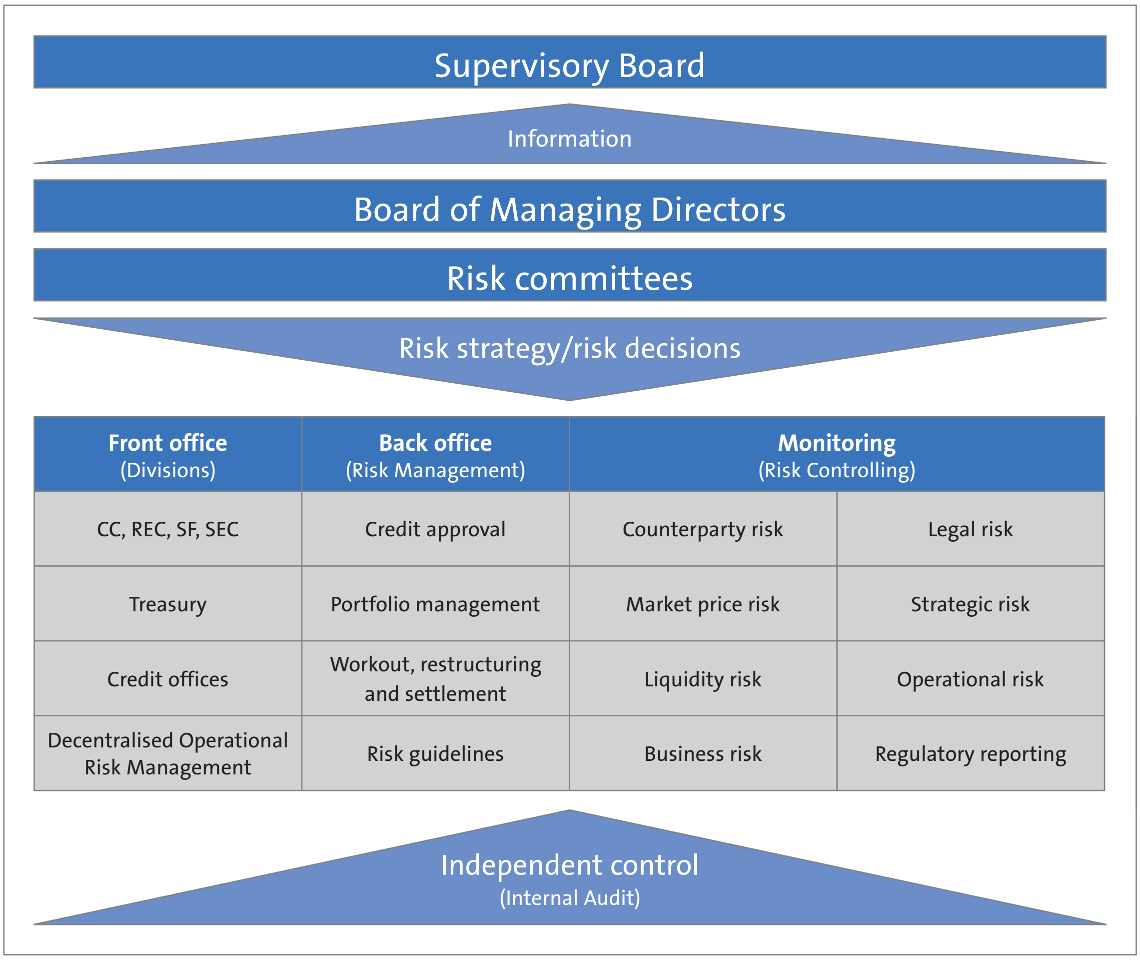
5. Through constant market observation and close contacts with clients, business partners in the capital markets, institutions and associations, we are in a good position to recognise changes in our environment at an early stage, and to swiftly take action as required.

Risk management organisation. The risk management system, which is designed in terms of function and organisation to meet IKB's legal requirements and business model, forms the basis for the proper operation and effectiveness of the overall risk management process. Individual tasks and areas of responsibility are described and documented in risk management rules and regulations, which define the principles of IKB's risk management system – taking due account of all statutory and internal requirements in conjunction with credit risk strategy – and provides specific organisational instructions.

Supervisory Board. The Supervisory Board is regularly briefed in detail on the risk situation and on risk management by the Board of Managing Directors at Supervisory Board meetings.

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

Risk organisation



Within the Board of Managing Directors, the Chief Risk Officer is responsible for the management of counterparty risk, legal risk and compliance risk. The Chief Financial Officer is responsible for monitoring market price risk, liquidity and funding risks, and operational risks.

The entire Board of Managing Directors is responsible for dealing with risks related to the bank's business strategy and with reputational risks.

Risk committees. Specific committees (Interest Rate Risk Policy Committee, Credit Committee, Limit Committee) manage and monitor decisions that are relevant to risk, supporting the Board of Managing Directors in its risk management operations and decision-making. These committees are responsible both for basic policy issues as well as for decision-making on specific individual transactions, based on the parameters stipulated by the Board of Managing Directors. The committees are composed of members of the Board of Managing Directors and representatives from the operative business divisions and the responsible corporate centres.

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

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

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

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

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

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

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

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

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

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

Risk management process

Risk-bearing capacity. IKB's risk management process is based on the bank's risk-bearing capacity; the use of our capital resources is assessed in terms of achieving an adequate risk/return ratio. In the context of this management process, we not only ensure that regulatory capital exceeds the minimum levels defined by the authorities at all times, but also ascertain a sufficient level of economic capital required for the individual types of risk, covering even extreme unexpected events.

Regulatory capital. The regulatory capital commitment of the individual business divisions is calculated on the basis of the tied-up tier 1 and tier 2 capital in accordance with current regulatory provisions. We focus our management of regulatory capital for the bank as a whole on two key indicators:

- the tier 1 capital ratio (tier 1 capital to risk-weighted assets);
- the total capital ratio (total capital to risk-weighted assets).

Regulatory capital

	31 March 2007 in € million	31 March 2006 in € million	Change in € million	in %
Risk-weighted assets	32 747	30 634	+2 113	+6.9
Market risk equivalent	750	463	+287	+67.0
Risk exposure	**33 497**	**31 097**	**+2 400**	**+7.7**
Core capital (Tier 1)	2 428	2 386	+42	+1.8
Supplement capital (Tier 2)	1 691	1 757	–66	–3.8
Total capital	**4 119**	**4 143**	**–24**	**–0.6**
Tier 1 capital ratio in %	7.2	7.7	–0.5	
Total capital ratio in %	12.3	13.3	–1.0	

The table above provides an overview of risk exposure for regulatory purposes, capitalisation and capital ratios:

With ratios of 7.2% and 12.3% respectively (including the proposed attribution to reserves), IKB continues to clearly exceed the minimum regulatory capital requirements of 4% (tier 1 capital ratio) and 8% (total capital ratio).

To ensure adequate regulatory capital resources, actual ratios are regularly checked against target ratios projected on the basis of the bank's long-term planning, with future developments being forecast. The Board of Managing Directors decides upon measures to be taken in the event of any deviations.

Economic capital. We regularly calculate economic capital for the purpose of covering extreme and unexpected risks. The relevant calculations take into account risk diversification and portfolio effects, using statistical simulations and stress scenario analyses. In keeping with the expectations of the capital market with regard to our rating, our calculations are based on a confidence level of 99.96%. This means that the level of simulated unexpected risk may only exceed our limit in 0.04% of all cases. Our risk provisioning budget, plus the annual additions to risk provisioning, already cover "anticipated risk" incurred in our business operations.

We calculate the economic capital required to cover credit risk, market price risks (which IKB is exposed to largely as a result of interest rate risks from the banking book), operational risk and general business risk. We use the bank's internal models to quantify credit risk, market price risk and general business risk, whereas operational risk is quantified using a simplified procedure stipulated by the supervisory authority. Liquidity and strategic risks are also monitored and checked continuously. They are not managed through risk capital, but by means of other management tools (as detailed below).

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; it is taken into account in the bank's management and reporting tools, applying the limits approved by the Board of Managing Directors. The limits imposed on individual risk types, portfolios and partial portfolios, clustering developments and individual exposures, form a key component of our quantitative controls and reporting system. In this way, we ensure that the risks from ongoing business remain within the limits defined by the Board of Managing Directors, even in stress situations. We are continuously working to enhance this form of monitoring by refining the measurement methodology used.

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

Compared to adjusted figures for the previous financial year, economic capital required – excluding diversification benefits – declined by € 85 million, due to lower market price risk exposure. Adjustments regarding market price risk were carried out on the basis of improved methodology applied to the concepts used to measure interest rate risk exposure in the banking book (for details, please refer to page 69: "Risk measurement in the fixed-income fund, and in the investment portfolio").

Adjustments regarding credit risks were the result of methodological enhancements related to the quantification of the risk exposure from tradable assets. The fact that credit risk increased at a lower rate – relative to the growth in business volume – reflects both the credit quality structure in the traditional credit business, which continued to improve, and the higher degree of diversification.

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

Analysing the bank's risk-bearing capacity. Our analysis of risk-bearing capacity compares the economic risk capital required with the aggregate risk cover available. The aggregate risk cover comprises mainly equity components, unrealised measurement results and the operating result before income taxes. It thus forms the basis for the limitations applied to the individual types of risk, which are designed to ensure that IKB can withstand even extreme, 'unanticipated' risk. Using extreme stress tests incorporating worst-case parameters, we ensure that the aggregate risk cover available is sufficient to cover even the most extreme levels of unexpected risk.

Types of risk. All of the risks resulting from our business activities are subject to an independent control process.

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

Economic capital

	31 March 2007		31 March 2006*		31 March 2006	
	in € million	in %	in € million	in %	in € million	in %
Credit risk	473	62	455	54	368	44
Market price risk	108	14	206	24	333	40
Business risk	98	13	95	11	95	11
Operational risk	82	11	90	11	36	4
Total	**761**	**100**	**846**	**100**	**832**	**100**

* adjusted values for the previous year

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

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

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

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

- Reputational risk is the risk of direct or indirect losses being incurred due to events that result in a loss of confidence in the bank, irrespective of whether this loss of confidence occurs on the part of the public, rating agencies, the supervisory authorities, investors, business partners or employees. Generally speaking, risk to reputation arises from one of the above sources of risk and adds to the overall effect.

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

Counterparty default risk

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

Credit risk strategy. IKB's credit risk strategy is based on the bank's corporate culture in handling credit risk, its risk-bearing capacity, risk policy and the risk management process. The credit risk strategy defines the framework for the medium-term direction of IKB's credit business. Particular attention is paid to growth in various target groups and products, with a strong focus on containing risk concentration and risk clusters, and on portfolio management. The objectives stipulated by the credit risk strategy are implemented in the bank's operative business through guidelines for managing individual credit exposures and portfolio risks. These guidelines are applied in each individual credit decision; they ensure the quality of new business – and hence, compliance with the credit risk strategy – through minimum parameters for qualitative and quantitative standards and continuous monitoring of compliance with these parameters.

Our main tools for managing and monitoring counterparty risks are the following:

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

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

Credit approval process and monitoring of individual exposures. Credit analysis by the independent Risk Management unit is vitally important to the lending process, not least because it separates loan approval from business development (in other words, front-office from back-office functions).

With the exception of minor decisions concerning existing exposures, the credit approval process is conducted either centrally, by duly authorised persons in the Risk Management unit, or by the Board of Managing Directors, within the scope of the regulation of approval powers; the required approval depends on the size of the Group’s existing credit exposure, the borrower’s credit quality, the collateral provided, the term, and not least, the existing and planned structure of the portfolio. The principle of dual control is always observed. Legally-trained staff members from the Legal department, who are not directly involved in the market, carry out contract implementation.

Every credit decision is based on a detailed credit analysis in which all of the information of relevance to the decision is collated, evaluated and documented in the form of a clear decision proposal.

In this respect, we use a further tool that we have developed ourselves – known as the Portfolio Adviser – with which to manage decision processes regarding our portfolio at the level of individual transactions and commitments. This tool calculates various different risk factors on the basis of the client’s credit quality, transaction-specific features such as term and collateral and portfolio-related indicators. This means that even at the stage of acquiring new business we can generate key momentum in terms of portfolio management. At the same time, we strongly emphasise the mobility of loans – defined as their eligibility for placement with third parties. This reflects the importance of synthetic securitisation for our portfolio management process.

Existing credit exposures are treated similarly to new credit approvals; the associated processes and approval procedures are applied every twelve months and decisions are reviewed. In additional, individual sub-portfolios (including major individual exposures) are analysed within the scope of annual reviews conducted between Risk Management and the divisions, and strategies on handling exposures derived on that basis.

Rating process and procedures. Assessing the credit quality of our clients and investments is a key element of the entire credit process. We make strict demands in terms of credit quality and require substantial collateralisation of our exposure when selecting our business partners and investments. This requirement is implemented via corresponding lending guidelines.

IKB employs a computerised rating system for assessing credit quality, designed specifically for the corresponding client segment or specific type of financing solution. The corresponding model-specific risk parameters are grouped in each procedure, and each customer is assigned a rating class within an 11-level internal scale ranging from 1 (best rating) in increments of 0.5 to 6.0. This rating scale is calibrated by the probability of default, on the basis of a statistical analysis of historical defaults. As well as providing an instrument with which to assess credit quality, our rating procedures therefore also enable us to calculate risk-based and risk-differentiated margins and provide an invaluable basis for determining economic capital for credit risk.

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

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

The real estate ratings that we use as part of our commercial *Real Estate Financing* business assess credit quality by means of a multitude of specific property data and investor information. This not only includes detailed information on each property's location and condition, but also explicit details about the tenant structure and quality, individual credit quality assessment of the investors in relation to assets and liquidity, and the property's ability to cover interest and principal payments from cash flows generated.

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

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

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

Quantifying credit risk. To quantify credit risk, we have developed a proprietary model that takes into account information on each individual borrower (loan amount, collateralisation, term, sector affiliation, group affiliation, rating), in addition to a variety of statistical variables, such as probabilities of default, collateral realisation proceeds and sector correlations. These variables are derived from the bank's own data history or based on external reference data. The distribution of losses on the loan portfolio – the focus of the observation – is subdivided into 'expected losses' and 'unexpected losses'.

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

In contrast, 'unexpected loss' (also known as 'credit value at risk') reflects the potential risk that may exceed the expected loss. This risk is covered by the economic risk capital allocated within the scope of the bank's risk-bearing capacity.

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

Portfolio monitoring and management. In terms of portfolio monitoring, the focus is on the credit portfolio as a whole. Our task is to monitor the portfolio such that the concentration of risk in individual exposures, countries, target groups and products is duly limited. Consequently, we employ a set of management tools which regularly monitor all credit risks, taking into consideration any association within corporate groups. The portfolio is oriented by country, business division, rating class and industry.

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

IKB's Economics department is responsible for the timely monitoring of sectors and market changes. Our experts' extensive sector know-how is a core element of cluster analyses carried out as part of the bank's risk management process. The purpose of such analyses – which incorporate our expectations – is to identify and contain sector risks as early as possible.

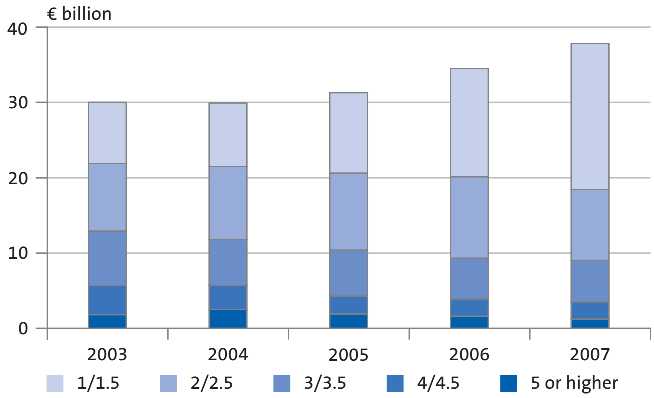
Regular portfolio monitoring by the Limit Committee (comprising representatives of Risk Management, the Economics department, Credit Risk Controlling and the business divisions) is the starting point for determining concentration limits, which are oriented on the target figures set by our business strategy, as well as by risk policy guidelines. Limits are defined in terms of volume and risk contribution, taking into account the existing structure, historical performance and risk quantification of the loan portfolio and their changes over time, as well as sector-specific risks and the impact of economic trends identified by the economists. Additional maximum thresholds for individual loans or loans to corporate groups are defined to prevent concentration risk.

In combination with risk placements carried out by IKB, this approach ascertains a high degree of diversification and granularity in the loan portfolio. Accordingly, the potential impact of recessions in individual sectors is kept to a minimum.

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

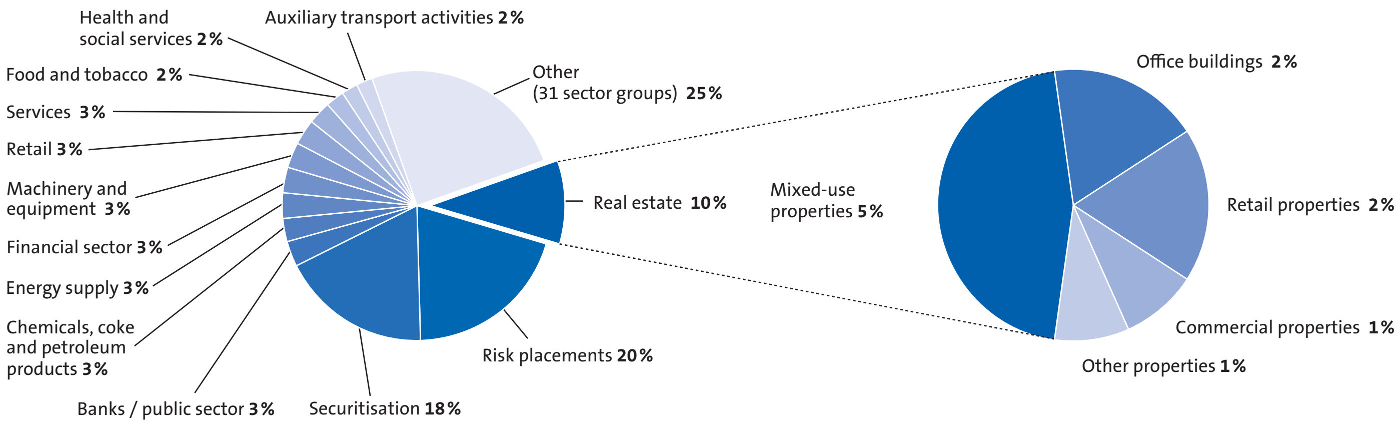
In addition to its lending business, IKB invests in securitised international loan portfolios, in order to further enhance the diversification of its loan assets and the profitability of its portfolio. These investments are made in broadly diversified portfolios and cover a wide variety of asset classes. 97% of investments have an investment-grade rating, of which approx. 75% have a triple-A or double-A rating.

Structural credit quality of the credit portfolio*
(excluding NPLs) – 31 March



* Consolidated figures including risk placements – up to and including 2004 according to German GAAP, thereafter based on IFRS

Sector breakdown of the IKB portfolio
related to total loan volume*



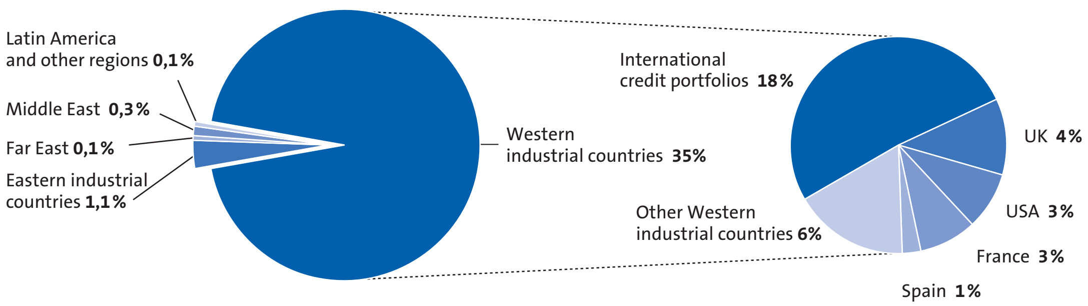
*The total loan volume comprises loans to customers, loans to credit institutions, securitised lending, operating and finance lease agreements, as well as guarantees and credit default swaps.

Leveraging our experts' extensive experience, we have built up a very strong franchise in this sector: in addition to managing our own investments, we are now also mandated by portfolio investment managers to advise them on investing in securitised credit portfolios. We also provide liquidity lines to these entities individually, in addition to funding provided by third-party banks.

In addition to investments in international credit portfolios, as at the reporting date a further 18% of total loan volume related to foreign countries, both within Europe and elsewhere. After deduction of exposures covered by credit insurance (such as Hermes) and placements with third parties, 99.4 % of this loan volume was classified in country risk classes 1 to 1.5, the two top grades.

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

IKB's international portfolio by region
related to total loan volume*



*The total loan volume comprises loans to customers, loans to credit institutions, securitised lending, operating and finance lease agreements, as well as guarantees and credit default swaps.

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

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

Such placements of domestic and foreign credit exposures in the capital market are conducted synthetically: whilst remaining in our balance sheet and continuing to be looked after by us in terms of the lending side, the counterparty risk exposure has been neutralised. We have used securitisation to place a total of just under € 18 billion with third parties over recent years. The total volume of loans and advances placed through securitisation exceeded € 7 billion at the reporting date.

Identification and specific handling of exposures in danger of default. All exposures subject to credit risk are monitored on a permanent basis, providing the bank with an up-to-date assessment of borrower credit quality and, consequently, the risk structure of the lending portfolio. We employ a computerised system to facilitate early risk recognition, in order to implement suitable measures even earlier, on the basis of risk indicators identified using sample patterns.

Specialist management units are responsible for managing exposures in danger of default. By implementing acceptable solutions at an early stage, this special management facility aims to preserve the company's ability to continue trading; or – should these efforts fail – substantially reduce the financial fallout.

Particular focus is placed on *non-performing loans*. We define a loan as being *non-performing* if insolvency proceedings have been instigated, if interest or principal payments are more than 90 consecutive days in arrears, or in the event of other clear signs that the debtor is unable to meet the contractual obligations and in the absence of any objective indications of subsequent payments or the realisation of collateral. In such cases account is taken of the liquidation value of the available collateral.

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

Non-performing loans

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

1) The loan volume comprises loans to customers, loans to credit institutions, securitised lending, operating and financing lease agreements, as well as guarantees and credit default swaps.

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

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

The corresponding value adjustments – which are determined by Risk Management – take into account both expected future cash flow and the value of collateral available. Each case is assessed individually by Risk Management, which in turn determines the workout strategy and estimates the incoming payments achievable in future.

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

The consistent reduction of problem exposures, together with the continuing economic recovery (as discussed on page 44 “Basic economic conditions”) have also brought about significant relief in terms of risk during the period under review: provisions for possible loan losses were down by just under 20%, from € 319 million in the previous financial year to € 259 million. Total provisions for possible loan losses thus amounted to € 1 142 million as at 31 March 2007.

Liquidity risk and market price risk

Liquidity risk. The bank distinguishes between two types of liquidity risk: the risk that current or future payment obligations cannot be met on time or in full; and the risk that required funding can only be obtained at unfavourable market conditions.

Regular liquidity analyses and cash flow forecasts – as part of professional liquidity management – ensure sufficient liquidity is available at all times. Furthermore, to ensure adequate liquidity over and above that required for our business operations, we hold negotiable, variable-rate securities that can be sold or used as collateral at any time, thus eliminating short-term liquidity risks. The regulatory requirements (as defined by the liquidity ratio according to the German Banking Act – Principle II) form the external framework for liquidity management. To minimise any maturity mismatch exposure, our assets are refinanced mainly with matched-maturity funds.

The long-term refinancing requirement is calculated and regularly updated in a process coordinated between the Treasury and the Finance, Controlling and Taxation department, on the basis of how we expect business to develop. The funding requirements derived from this process are met in such a way that ensures a balanced maturity structure is maintained between our assets and liabilities.

Given our broad refinancing basis and placement strength on the capital market, we can be confident of being able to procure adequate refinancing for all lending operations in terms of the required maturity structure and conditions – even in difficult market phases.

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

Limit system. Daily reporting to the Board of Managing Directors forms a cornerstone of managing market price risk, backed by a differentiated limit system that is geared primarily towards a market value-oriented limitation of interest rate, equity and exchange rate risks, and of risks from options positions. The Board of Managing Directors sets limits for the Treasury division, on the basis of the bank's risk-bearing capacity. Using this limit system (and taking into consideration the rules determined according to the regulatory framework), Treasury translates its market expectations into investment and refinancing strategies.

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

Quantifying market price risks. IKB employs various mathematical models to quantify market price risks (which IKB is exposed to largely as a result of interest rate risks from the banking book). These models use historical simulation in order to determine the risk exposure inherent in the bank's major positions. To ensure that the characteristics of each product are properly taken into account, this historical simulation also incorporates a revaluation of instruments, using observed yield curve data and incorporating correlation effects. The exposure to currency risks in the total portfolio is insignificant. Currency risks are limited by means of restrictions with regard to the volume of open currency positions.

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

Risk measurement in the fixed-income fund and in the investment portfolio. The main risks assumed by the bank in these two portfolios are interest rate and volatility risks.

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

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

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

Quality assurance. We regularly conduct backtesting in order to verify the accuracy of projections made by our models. The results are reported to the Board of Managing Directors. Our backtesting shows that the value-at-risk projections accurately forecast the daily profit fluctuations in proprietary trading, proprietary investment and lending refinancing.

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

Operational and reputational risks

Operational risks reflect the risk of a loss being incurred due to a shortcoming or failure of internal processes, individuals or systems, or due to external events outside of the bank's control, irrespective of whether such loss was caused intentionally or by chance or whether it occurred naturally.

Management of operational risks. The management of operational risk is coordinated and monitored by Operational Risk Management (ORM), which reports directly to the Board of Managing Directors. ORM is also responsible for analysing the loss potential throughout the Group and for developing Group-wide operational risk training concepts.

Each business division, corporate centre and subsidiary is responsible for managing risk on an operative level, within their respective area of control. In this context, the emphasis is not only on regular analysis and identification of deficiencies and on approaches for optimising all business procedures and processes, but also on the development of the bank's security organisation and on adapting the underlying processes. This ongoing development takes into account the increasingly complex and international nature of IKB Group's business. For this purpose, ORM arranges for annual business impact analyses, the purpose of which is not only to reflect specific risk profiles of individual divisions or departments, but also to highlight potential risk areas.

All business units must report all losses that have occurred – or almost occurred – to Operational Risk Management, which maintains a central loss database. Any incidents involving operational risks are analysed to determine their cause and their impact on our control principles.

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

The risk audits conducted to date have shown that the bank does not face any disproportionate risks from its operational risk fields. All identified risks are covered by avoidance measures, systems for the early detection of incidents and emergency planning. Where necessary, corresponding insurance cover has been arranged.

Legal risks. Also included as a form of operational risk is legal risk, in other words the risk of losses being incurred as a result of new statutory regulations and as a result of amendments to or interpretations of existing statutory provisions (such as supreme court judgements) that are detrimental to the bank. The responsibility for limiting legal risks lies with our 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 statutory provisions or to case law.

IT risks. IT risks focus on the measures required to develop our business continuity planning, as well as on the security of the bank's IT systems and of its data inventory. Measures taken in this context have included the implementation of a uniform safety standard (ISO 17799 "Code of practice for information security management" and ISO 27001 "Information technology – Security techniques – Information security management systems – Requirements"); the roll-out of new technologies to avert external threats in order to enhance the bank's network security and to comply with increasing requirements regarding the mobility and availability of IT systems; as well as the extension of backup systems which allow the further reduction of operational risk exposure concerning the bank's communications, IT and settlement systems. At the same time, our IT employees undergo continuous training, in order to be prepared for every eventuality. IKB's implementation of a suitable management system for information security was certified by TÜV Rheinland during the past financial year.

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

Compliance risks. Very strict statutory provisions apply to the financial sector in particular. In addition, we have imposed further regulations aimed at ensuring that the conduct of our employees is always appropriate and complies with the law: most importantly, conflicts of interest need to be avoided and market manipulation or insider trading prevented. This was the reason behind our developing a Code of Conduct which reflects IKB's values and beliefs. The principles laid down in the IKB Code of Conduct represent the requirements of conduct which apply to all members of staff throughout the IKB Group. These rules form a binding framework, guiding us in our day-to-day business. They are designed to ascertain that the bank remains as successful as it has been to date.

Personnel risks. Operating entities – in cooperation with Human Resources – are responsible for managing personnel risks. Besides making sure that adequate personnel cover is available to fulfil operational and strategic requirements, this also includes ascertaining that staff have the skills and experience they need to perform their duties and fulfil their responsibilities. To maintain the high level of staff qualification, IKB employs an extensive, continuous system to manage training and Continuing Professional Development (CPD) measures. The risks of staff fluctuation or absence – i.e. the risk of sustained disruption of operations caused by absence of employees, or staff leaving the company – are contained by IKB through clearly-defined substitution regulations and guidelines to preserve functional availability. These are reviewed on a regular basis, and amended if necessary.

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

Therefore, all measures and circumstances that could result in a loss of confidence in IKB or in damage to the bank's reputation, are carefully identified in Corporate Development and Communications (Investor/Public Relations), in close reconcilement with the Board of Managing Directors, and necessary measures decided upon. Notwithstanding the above, all divisions and subsidiaries are ultimately directly responsible for the risks to reputation arising from their respective activity.

Ultimately, all measures and activities relating to business policy are thus always carefully reviewed regarding their external impact.

Strategic risks

Strategic risks are defined as potential threats to the bank's long-term profitability. These can be triggered not only by changes in the legal or social environment, but by the market or competitive environment, our customers or our refinancing partners.

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

IKB uses a comprehensive approach to managing opportunities and risks, whereby the early recognition, assessment and management of risks and opportunities are integrated components of planning, management and control systems throughout the Group. To achieve its objectives, IKB consistently exploits opportunities arising in the markets, taking into account the related risks. In line with the bank's risk policy, risks are only assumed in a controlled manner, and only if a corresponding added value can be expected from taking a risk. IKB employs the Balanced Scorecard concept as an integrated planning and reporting tool. This involves defining objectives, targets and strategic measures on the basis of five Balanced Scorecard 'perspectives' (Financial – Portfolio – Clients/Market – Processes – Staff), and measuring target achievement. Within the scope of the strategic planning process conducted at overall bank level, as well as by individual front office units or corporate centres, the strategic aspects and operative measures mapped in the Balanced Scorecard are reviewed annually, taking into account sector developments and IKB's current strategy, and making changes as appropriate. The degree to which Balanced Scorecard targets have been achieved is regularly reported to the Board of Managing Directors.

IKB has successfully implemented its strategy as a long-term provider of finance to well-established medium-sized enterprises, and as an active portfolio manager. In light of the prevailing structure of competition, combined with the legal, statutory and tax environment IKB operates in, the bank does not identify any material risks in this respect.

Business risk

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

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

General business risk is quantified by way of statistical analysis, using empirical volatility data for earnings and costs. The model employed calculates the extent by which actual net commission income and net interest income, and costs, have deviated historically from the corresponding targets. In line with the procedures applied to the other types of risk, the underlying confidence interval is 99.96%. The economic capital tied up as a result is taken into account for the regular analysis of the bank's risk-bearing capacity.

Risk reporting and communication

For the purpose of early risk identification, analysis and control, we process and examine all relevant information compiled from the trading and credit businesses, from Risk Management, from Finance, Controlling and Taxation, and from Human Resources. This is then presented and explained in detail, at least once a month, to the Board of Managing Directors, and to the heads of divisions. In addition, a comprehensive risk report is submitted to the Supervisory Board and to the regulatory authorities at least on a quarterly basis.

The credit risk report contains all of the information relevant to the Group's total risk position and contains comprehensive information on the credit risk to which the bank is exposed. Besides structural developments within the portfolio (credit quality data, collateralisation, loan terms, sector and country diversification), it also outlines the development of impaired or non-performing receivables, and the loan loss provisioning, in an up-to-date and comprehensive presentation. Details on group interdependence among borrowers provide additional information on the clustering of risk within the portfolio. In addition to the presentation and explanation of special exposures and developments, the report also contains an overview (including a quantification) of all individual types of risk, to monitor the bank's risk-bearing capacity also in stress scenarios, and information regarding utilisation of all economic capital limits.

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

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

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

Overall statement on the risk situation and outlook

Overall statement on the risk situation. The methodology, measurement systems and processes implemented within IKB's framework of risk monitoring and management are suitable for early identification and adequate capture of risk. Accordingly, they provide a fundamental basis for IKB's professional risk management.

The financial year under review has been characterised by a reduction in provisioning for possible loan losses and in non-performing loans. In fact, even though volumes in the credit business increased, the economic capital required to cover all types of risk declined.

Overall, the aggregate risk cover available to IKB provides sufficient scope for continued strategic growth. The observation of the bank's risk-bearing capacity indicates that aggregate risk cover is sufficient even in cases of extreme unexpected risks materialising (worst-case scenario). No developments arising from individual types of risk which would impede the bank's development or impair its ratings have been recognisable, or are being identified.

Within the scope of the annual review, we adjusted the credit risk strategy during the 2006/07 financial year where necessary, in line with the strategic orientation of the credit business. We thus continued to adopt a forward-looking approach with regard to our loan portfolio; this is based on the credit risk strategy, and is a driving force for further developing the loan portfolio in our core business franchises. We continued to limit risk through diversification, within the scope of our securitisation activities.

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

All remaining projects for the implementation of Minimum Requirements for Risk Management (MARisk) were completed during the 2006/07 financial year. We have maintained our strong commitment to the implementation project regarding the Basel II framework. Accordingly, we do not envisage any risk of Basel II requirements not being implemented in good time.

Outlook. One of the focal points in the current financial year will be to finalise implementation of the Basel II regulatory framework. For this purpose, we will conclude the implementation of the standardised approach for credit risk, to subsequently establish the prerequisites for approval and application of the advanced approaches under Basel II, for a more differentiated, risk-adjusted capital backing. Besides the ongoing methodical development of our internal models and rating procedures in the credit business and of our early risk detection tools, this will also include building the historical loss database required to develop estimation procedures for the key parameters used in the Basel II framework.

Within a comprehensive treasury-infrastructure-project, we are currently in the process of introducing a state-of-the-art system that will continuously enhance our methods and processes for assessing and measuring market price risks. This will also involve segregating the back office valuation infrastructure from the front office systems environment, which will provide further efficiency gains in the Treasury.

We will continue to develop and enhance management framework for the entire bank and our portfolio, with a focus on risk/reward relationships and a continued strong emphasis on the securitisation of receivables. The active management of our credit portfolio, on an ongoing basis, will enhance the diversification and granularity of the portfolio, thus creating growth potential for the future.

5. Outlook

Strategic direction of the Group and future sales markets

Our aim is to continue the IKB Group's successful business strategy over the coming years. In order to further increase our income potential, we will be focusing on developing innovative finance products, capturing new markets and further improving our processes.

In terms of the *Corporate Clients* segment, Germany will remain the core market. However, our aim is to further increase the acquisition potential of this market by offering long-term investment loans to companies with annual sales of € 7.5 million upwards (previous starting point € 10 million) as of the 2007/08 financial year. In particular, we intend using our IKB Direct finance platform, which comprises a simplified standardised credit process, to acquire new clients. Moreover, we will design our range of promissory note loans, mezzanine capital and ABS finance in such a way that it is also made attractive for smaller companies. Promissory note loans, for example, are to be available as of the 2007/08 financial year in amounts from € 2 million upwards, with mezzanine capital also available from € 2 million and ABS finance from € 5 million per company.

Against this background, our plan is to further increase our market share in the manufacturing sector. This is a very ambitious goal, particularly as practically all of our competitors have rediscovered medium-sized companies with good credit ratings as one of their target groups.

We restructured our private equity business at the beginning of the 2007/08 financial year in light of the increasing level of diversification in this market. Our direct investments business will be managed in the newly established subsidiary IKB Equity Finance GmbH, whilst IKB Private Equity GmbH will deal with our market entry into mezzanine business and continue to look after our fund investments in the partner structures of Argantis and MM Mezzanine. A particular focus of IKB Private Equity GmbH during the 2007/08 financial year will lie in offering standard mezzanine capital within the context of equiNotes III, in cooperation with Deutsche Bank.

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

In terms of real estate financing, our goal is to triple the volume of new business over the next three years. Significantly more than half of this growth should come from the European real estate platform established during the last financial year, which will focus primarily on syndicated finance. In Germany, medium and long-term real estate finance will be supplemented by the project development of individual selected properties, for which we can offer the full range of our services and which will generate attractive commission income. We are currently involved in 15 such project developments.

In the Structured Finance segment, we will be continuing to pursue our successful internationalisation strategy. Building on the foreign markets in which we already have a presence, we are also looking to capture the Russian market this financial year. This will done via a representative office. Based on the current situation, we expect that we will also be able over the next two years to generate around 70% of our income from the Structured Finance division on foreign markets, with the share of project finance, currently accounting for 43%, rising further.

Of increasing importance over the coming years will be securitisation business. This applies both to the external placement of credit risks and investments in international loan portfolios. We will synthetically place around one third of our new business every year, thereby freeing up credit risks and equity capital.

We expect an investment volume of € 20 billion (currently € 12.7 billion) for the Rhineland Funding conduit, and a volume of € 10 billion for Rhinebridge.

In short, this means that the IKB Group will continue to grow over the coming years.

Further development of settlement processes

With a view to efficiently processing the variety of new commitments and being able to maintain the cost/income ratio at a low level, the Board of Managing Directors set up a working group last year, the remit of which was to reduce the complexity of credit processes, cut processing times and thus raise efficiency.

In practice, this has meant the creation of a uniform settlement platform with optimised IT systems for internal loan processing for domestic corporate clients, to be used as of the 2007/08 financial year. This new platform means that we can handle the vast majority of loans using standardised processes, so that the planned increase in the number of loan cases will not result in any extra cost.

The range of individual and customised finance solutions will not be restricted by this approach. However, the resulting additional costs will be calculated on the margin side or in the market P&L for the respective corporate client advisor.

Once the new standardised product and credit processes have been established in domestic corporate finance, the aim is for these processes also to be introduced in the other divisions, with this development currently scheduled for the start of the 2008/09 financial year.

Projects for 2007/08

Looking to the 2007/08 financial year, we are also planning a series of new projects to optimise processes led by our Organisation and IT department. In order to prioritise projects, all planned projects were analysed in terms of their net present value (NPV), with a detailed risk assessment also being carried out.

To calculate the NPV, the costs (strategic development, project and other costs, operating and adjustment costs) are compared against the (estimated) benefits for the next few years. The greater the NPV, the more advantageous the project would be for IKB. This similarly applies to projects that could not be rejected without posing a high risk to the bank (such as regulatory requirements for example). This method of prioritising gives a very sophisticated tool with which to analyse every project from the angle of its future risk/reward aspects.

Business environment

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

- GDP will grow by 2.4% in 2007. We expect a similar rate of GDP growth for 2008. The main reason for this stable economic growth, in our view, lies in the fact that German companies are continuing to profit from the positive development of the global economy thanks to their excellent range of production and their high technological standing.

- We estimate that exports will grow by 9% in 2007, followed by a rise in the region of 7.5% in 2008. For our medium-sized companies, the majority of those are strongly export-oriented, this means that their capacity utilisation will rise further and/or orders will increase.

- There will not, in our view, be any fundamental change in the interest rate situation on the national and international money and capital markets over the next two years compared with the situation at the beginning of 2007. The main reason for this is that inflation is not very likely to increase worldwide, which means that the central banks (particularly the US Federal Reserve, Fed, and the ECB) will not be moving towards a restrictive monetary policy. Oil prices remain a source of uncertainty, in our view. Should the price of oil return to USD 70/barrel (or more), we cannot exclude the possibility of the Fed – followed by the ECB – raising money market rates again. However, we put the probability of this scenario at less than 40%.

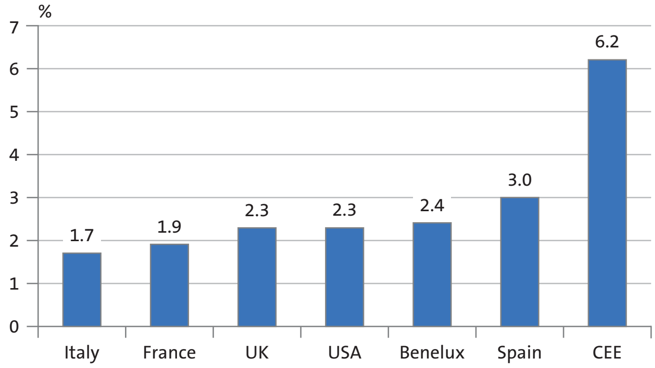
- In view of the continued upward movement in the German economy – led by exports – and with little change expected in interest rates, the Board of Managing Directors assumes that the most important economic factor for the bank's lending business, namely investment in plant and equipment by the corporate sector, will rise by about 5 to 6% per year in 2007 and 2008. Our lending business with both German companies and real estate investors will benefit from this development.

- The economic development in our major foreign markets will continue to head upwards (see chart). We expect GDP in Western Europe to grow by 2% (with a low of 1.7% in Italy and a high of 3% in Spain), with an average increase in Central Eastern Europe of 6.2%, with Hungary recording the lowest level, at 2.5%, and Slovakia the highest, at 8%. In the US, we expect to see a slight weakening in economic growth to 2.3% (on the back of a figure of 3.4% in 2006).

These remain excellent basic parameters for sustained growth in volumes and income in our business activities in international acquisition and project finance and in equipment leasing.

IKB's international markets maintain strong growth rates

GDP growth 2007



Source: IKB forecast (updated: May 2007)

The future competitive environment

There will be no let-up in the competition situation in the German banking sector in 2007, not least in the market relevant to IKB, namely long-term corporate lending. The volume of long-term loans in the manufacturing sector was € 75 billion in Germany at the end of 2006 following several years of a consistent downward trend. Despite the healthy state of the economy and strong domestic investment activity on the part of German companies, there was only a minor reversal of this trend. The reason for this lies in the fact that the larger companies in Germany's medium-sized segment are in a good enough income position to finance many investments from cash flow.

As a parallel development, medium-sized companies have recently been rediscovered as a target group by many banks. Additionally, in the current environment of low margins, calculations are being based on lower risk costs due to clients' improved income situation. Furthermore, in some cases long-term credit is being used as an ‘entry product’ so that additional products can subsequently be placed with clients. Overall, this means that we are once again competing in domestic lending business with the major banks, selected Landesbanken and the major savings banks. We therefore assume that the pressure on the interest margin will be maintained. The entry into the German market of new competitors, particularly from abroad, looking to offer long-term finance to medium-sized companies is something we only expect to see to a limited extent.

However, we do expect intensive competition to continue in the area of international finance this financial year, above all due to what remain high liquidity levels on the capital markets. Consequently, we do not expect to see any improvement in margins in international structured finance and international real estate finance.

Expected income situation

With the basic economic parameters for the economy as a whole remaining good nationally and internationally, the Board of Managing Directors expects a consolidated operating result for the 2007/08 financial year of € 280 million (€ 263 million) with a corresponding rise in return on equity.

- Net interest income after provisions for possible loans losses should exceed last year's level by around 10%. The main reasons for this lie in the increase in the loan volume and a further reduction in risk provisioning.

- Net commission income should exceed the level of the previous year by substantially more than 10% for the 2007/08 financial year. The main reason for this is that structuring income in the Corporate Clients, Real Estate Clients and Structured Finance segments will continue to increase. Also due to increase are the advisory fees that we receive for our consultancy work in relation to the structuring of the Rhineland Funding and Rhinebridge investments.

- There is expected to be a mid single figure percentage increase in general administrative expenses compared with the 2006/07 financial year. The net financial result and other operating income are only of minor significance in the income statement of the IKB Group. Based on the current situation, the operating result for the 2007/08 financial year is expected to be € 280 million.

Segment performance

In terms of the individual segments of the IKB Group, the Board of Managing Directors expects the following developments in the 2007/08 financial year:

- The *Corporate Clients* segment will be able to expand both new business and its total loan volume, even from the high level of the previous financial year. The main reason for this lies in the fact that the state of the economy remains good in Germany. Against this background, the operating result can, as things currently stand, be expected to rise slightly again.

- The *Real Estate Clients* segment will be able to achieve clear increases in the volume of new business and lending on the domestic market and on foreign markets in particular. Given that administrative expenses will also rise, primarily due to further investment in new employees and in real capital, the operating result for the 2007/08 financial year will be around the same level as that recorded during the previous year. It will take until the following financial year for the investments made to translate into a higher operating result.

- The *Structured Finance* segment will continue its successful course – as in recent years – with double-digit growth in the operating result. This will be achieved through an increase in new business and in the total loan volume. The Board of Managing Directors regards the generally healthy state of the economy in those regions in which the Structured Finance segment has a presence (in the form of branches) as the main factor behind this positive development.

- Based on the current situation, the *Securitisation* segment will also be able to achieve a double-digit percentage increase in its operating result. Based on an increasing volume of new business and lending, net interest income and net commission income should also both increase further.

- Overall, this means that the Group's new business during the 2007/08 financial year will be up to € 3 billion higher than during the previous year, with an even greater improvement expected in terms of total loan volume.

Balance sheet developments and refinancing

The Board of Managing Directors expects total loan volume and the balance sheet to continue to grow in the 2007/08 financial year. An increase of more than 10% is expected with regard to the total loan volume, with balance-sheet growth forecast to lie between 7% and 10%.

We will devote a great deal of attention to the refinancing of our lending business. We will once again be issuing more than € 10 billion on the national and international capital markets in the form of bonds. Given the healthy state of the capital markets and our outstanding rating, we continue to expect to enjoy good conditions for the placement of our bond issues. Additionally, as in the past, we will refinance a portion of our lending by taking up funds from the public development banks.

Complementing our long-term refinancing, we will be issuing money-market instruments primarily with maturities of between 60 and 180 days as a means of diversifying our funding mix in the interbank market. On this basis, the Board of Managing Directors does not expect any liquidity shortages to be experienced during the 2007/08 financial year.

We plan to increase the bank's own funds once more by making an allocation to retained earnings. It is also our intention to take up further hybrid capital.

To improve our capital ratio according to the German Banking Act (Principle I) and our solvency ratio, our plan – as indicated – is for parts of our national and international lending business to be securitised so that risks can be placed externally, thereby freeing up equity capital. There are no plans for a capital increase through the issue of shares.

Overall, this means that the Board of Managing Directors will be continuing to pursue a shareholder-friendly dividend policy during this financial year. In other words, the distribution ratio (total dividends as a proportion of consolidated net income) will again lie within a range of 40 to 50%.

Opportunities and risks

Due to IKB's convincing strategic direction, its excellent standing on the capital markets, the high level of trust placed in the bank by its clients and, not least, the positive national and international basic parameters, the Board of Managing Directors sees opportunities for the bank to continue to develop in the right direction. This applies both to our domestic long-term finance and to our international activities in project and acquisition finance.

In addition, IKB made the transition from a lender into a loan portfolio manager many years ago, and is now one of Germany's leading institutions in the area of securitisation. This presents the opportunity for the comprehensive placement of credit risks, whilst also opening up options for investing in international loan portfolios. In turn, this increases the sector-based and regional diversification of the bank’s credit exposure and generates a crucial rise in income.

On the other hand, however, there remain many uncertainties. One reason for this is that net income from financial instruments at fair value is dependent on market fluctuations and thus can only be planned to a limited extent. Based on our conservative investment policy, we do, however, assume that we will record positive net income from financial instruments at fair value.

Overall statement on expected development of the IKB Group

For some years now IKB has found itself in a consistent phase of upward development. Whilst the dynamic edge was provided up until two years ago primarily from abroad (structured finance and investments in international loan portfolios were key), a significant degree of momentum in domestic business has also been in evidence since the 2005/06 financial year. This is particularly true of long-term corporate finance, but also applies to real estate finance.

In this context, we can establish that the operating result will grow across all of the segments. On this basis, and also because provisions for possible loan losses will continue to fall, the Board of Managing Directors expects an operating result of € 280 million for the 2007/08 financial year, coupled with a rise in return on equity.

6. Other financial information

The remuneration report (part of the Group management report) is disclosed on page 21 ff.

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

The Company's share capital as at 31 March 2007 was € 225 280 000. It is divided into 88 000 000 bearer notional no-par value shares ('unit shares'). All shares entitle the holder to the same rights. Each share grants the holder one vote and determines the participation in profit.

The Federal Republic of Germany holds an 80% stake in the KfW Bankengruppe, based in Frankfurt/Main. Through its wholly-owned subsidiary KfW-Beteiligungsholding GmbH, Frankfurt/Main, the KfW Bankengruppe holds 37.8% of the voting rights in IKB. The Stiftung zur Förderung der Forschung für die gewerbliche Wirtschaft (Industrial Research Foundation), Cologne, also holds an 11.8 % interest in the Company. The remaining capital is held by institutional and private shareholders.

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

Pursuant to a resolution adopted at the General Meeting of 31 August 2006, the Company is authorised to purchase and sell its own shares (treasury shares) for the purpose of securities trading up until 31 January 2008. The volume of shares acquired for this purpose must not exceed 5% of the issued share capital at the end of any given day. Furthermore, any shares acquired under this authorisation, together with other treasury shares held by the Company, or to be attributed to the Company pursuant to sections 71a et seq. of the AktG, must not exceed 10% of the issued share capital at any given time.

The Company was also authorised to acquire up until 31 January 2008 treasury shares up to an amount of 10% of its issued share capital for purposes other than securities trading and for specific purposes as described in more detail in the resolution of 31 August 2006. Furthermore, any shares acquired under this authorisation together with other treasury shares held for trading purposes or for other reasons by the Company, or to be attributed to the Company pursuant to sections 71a et seq. of the AktG, must not exceed 10% of the issued share capital at any given time.

Pursuant to a resolution adopted by the General Meeting of 9 September 2004, the Board of Managing Directors was authorised, subject to approval by the Supervisory Board, to issue convertible bonds and/or bonds with warrants with an aggregate nominal value of up to € 300 000 000 with or without a limited term, and to grant the holders of such bonds conversion or option rights relating to shares in the Company accounting for up to € 22 528 000 of the share capital in accordance with the stipulated conditions up until 8 September 2009. No use has been made to date of this authorisation or of the related conditional capital.

Pursuant to a resolution of the General Meeting of 30 August 2002, the Board of Managing Directors was authorised, subject to approval by the Supervisory Board, to increase the issued share capital by up to € 76 800 000 by issuing new, bearer unit shares against cash contributions as part of one or several issues up to 30 August 2007. Any use of the authorised capital is subject to the shareholders being granted a subscription right. This subscription right may only be excluded for residual amounts and to preserve the rights of holders of conversion and option rights. No use has been made to date of the authorised capital.

The Board of Managing Directors was also authorised, up until 30 August 2007, to issue profit-participation certificates – including with conversion or option rights – for a total nominal value of up to € 300 000 000 with a maximum maturity of 15 years and to grant the holders of these profit-participation certificates conversion or option rights relating to treasury shares for up to € 22 528 000 of the issued share capital in accordance with the stipulated conditions. Use of this authorisation was made through the issuing of profit-participation certificates (without conversion or option rights), leaving an unused amount of € 70 000 000. The conditional capital currently exists in the full amount.

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

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

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

- IKB has a group of shareholders that is committed to medium-sized enterprises and that supports the focus on long-term corporate finance. Together with the KfW Bankengruppe, which holds approximately 38% of our share capital, we share the common goal of further improving the finance options open to medium-sized companies. The Stiftung Industrieforschung, which holds just under 12% of our capital, primarily supports research and development projects for medium-sized companies. A good 50% of our share capital is held by institutional and private investors and partners who uphold the bank's strategy and direction.

- 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 Board of Managing Directors, the Board itself elects one of its members as its Chairman. This appointment requires the approval of the Supervisory Board. Changes to the Memorandum and Articles of Association are made to the extent permitted by law.

- The powers of the Board of Managing Directors to raise the share capital from authorised and conditional capital, to issue convertible bonds and bonds with warrants or profit-participation certificates, and to buy back own shares, enable the Company to react to any change in its capital requirements in an appropriate way and in good time.

- The arrangements in place with the members of the Board of Managing Directors relating to a potential change of control are also set out in the remuneration report (also look at page 21 ff.) and do not require further clarification. The employment contracts of the employees do not contain any provisions relating to a change of control.

Disclosures in accordance with section 312 of AktG

IKB has prepared a subordinate status report in accordance with section 312 of the AktG. This report is not published. According to the final declaration of the Board of Managing Directors within the subordinate status report, "IKB received appropriate consideration for transactions identified in the report entered into with affiliated companies. This assessment was based on the conditions known to us at the time such reportable transactions were undertaken. We did neither take nor omit to take any measures within the meaning of Section 312 of the German Stock Corporation Act (AktG)."

TRUMPF Group

TRUMPF is an international leader in production technology, focusing on the construction of machine tools for processing sheet metal and other materials, as well as on electronics and medical technology. Headquartered in Ditzingen near Stuttgart, TRUMPF is a world market and technology leader for industrial lasers and laser systems. Since its foundation in 1923, TRUMPF has been driven by innovation, which forms the basis for its success. With more than 7 000 employees worldwide, the company generated sales in excess of € 1.9 billion in 2006.

Thanks to its internationalisation strategy, TRUMPF is recognised around the world. With 50 subsidiaries and branch offices, the Group is close to its customers in almost all European countries, as well as in North America, Latin America and in Asia. Its production sites are in Germany, France, Austria, Switzerland, the Czech Republic, Poland, China, Taiwan, Mexico, and in the US.

www.trumpf.com


Dr. phil. Nicola Leibinger-Kammüller,
President of the Board of Management
of TRUMPF Group, Ditzingen

II. Business Development of the IKB Group

1. Corporate Clients

Expanding new business – highly efficient market presence – broadening of acquisition activities

from left to right:
Thomas Siegers, IKB Equity Finance GmbH;
Bertin Rohr, Domestic Corporate Clients division;
Kristian Beuslein, IKB Private Equity GmbH;
Martin Wendl, Domestic Corporate Clients division

Our Corporate Clients segment (CC), encompassing domestic corporate lending, equipment leasing and our Private Equity division, was able to improve its operating result during the period under review to € 135 million (2005/06: € 130 million). In a market dominated by intense competition, new business rose by 14% on the previous year to € 4.8 billion. In reaching this new all-time high, we have further consolidated our leading position in the provision of long-term investment finance for Germany's Mittelstand.

Continuity, reliability and competence on the market

We were buoyed during the year under review by the keen level of demand for financing from our customers, with investment levels proving strong as the economy in Germany developed positively. In this context we were able to play to our particular strengths on the market, namely continuity, reliability and competence. A key role in dealing with all financing issues was played by our relationship managers, who also form the strategic cornerstone in our efforts to acquire new customers. We believe that this style of intensive relationship banking, based upon mutual trust, is one of our key competitive advantages in domestic financing business, particularly as our relationship managers can draw on a broad range of financing products and on the know-how of product experts who could not be more highly focused on the particular requirements of medium-sized companies.

The excellent quality of the advisory service provided by our relationship managers was once again impressively confirmed during last year's customer satisfaction survey. Our medium-sized customers particularly emphasised our high level of commitment with regard to the open and targeted discussion of the results of the 'IKB Mittelstandsrating' with the companies concerned. Each of our clients is provided with an individual rating report containing detailed information on strengths and weaknesses with regard to the annual financial statements, industry comparisons, management, value added and the corporate environment. On this basis, the client and the relationship manager can work together to derive a consistent and logical overall financing strategy for the company. As part of our comprehensive analysis of our clients' needs, we make use of the advisory software tool KUBA to simulate different planning scenarios, relating, for example, to income development or a company's liquidity status. Ultimately, what this means is that we are not selling our clients individual finance products but providing them with a tailored overall package to meet their business financing requirements.

A highly efficient market presence

Our market and acquisition activities are consistently geared towards the potential of the markets. We segment our target groups according to various criteria such as the potential financing amount, credit rating, sector and regional aspects. This means that, when looking to acquire new clients, our relationship managers can focus on untapped business potential in an approach that is oriented towards both the market potential and the risk involved. This is something that we achieved with great success over the past reporting year, acquiring many new clients for IKB's domestic lending business.

Extension of acquisition activities – Customised loan products

For the vast majority of our clients, medium to long-term investment loans remain the most important component of their overall financing strategy, particularly because all of the key parameters such as term, interest and redemption structure and collateral can be designed very flexibly. Over the course of the past year, our clients have also made great use of our broad range of derivatives to incorporate greater flexibility and risk hedging into their borrowing arrangements.

As we extended our acquisition activities, our focus during the reporting period was on companies with annual sales of between € 10 and 50 million. Through the IKB DIRECT sales campaign we can offer this target group various different loan products that are tailored to the purpose for which the loan is to be used. These loan products primarily relate to a financing amount of between € 0.5 million and € 2 million.

The key advantage of IKB DIRECT is the speed with which credit applications and standard contracts are handled as part of a standardised credit approval process. The risk assessment is based around our MiScore scoring model, which is used as a decision-making tool for smaller exposures. MiScore is based on a summarised rating and various additional qualitative aspects, and verifies the correlation between the application for a new loan and the bank's product-specific risk guidelines. In short, this approach enables us to standardise our approach to loan processing without having to sacrifice risk quality.

IKB DIRECT has been the subject of particularly keen demand among companies that have previously not figured among the bank's clients. Our aim is to build on and expand this acquisition success. From the beginning of the new financial year we have already been targeting companies with annual sales of € 7.5 million upwards. We will also be gearing our product range such as promissory note loans, mezzanine capital and funding towards these companies in a more targeted way.

Promissory note loans and ABS – financing scope for the medium-sized sector

We also further expanded our activities in promissory note loans in the financial year under review. This instrument has established itself in recent years as an alternative to traditional long-term loans for larger, well-rated medium-sized enterprises in particular. Issuing promissory note loans provides companies with a form of financing at prevailing capital market terms, whilst diversifying their creditor structure with favourable refinancing costs. With such arguments growing ever more important for the companies at the smaller end of our target group, we are offering specifically to these clients a standardised promissory note loan programme by means of which individual tranches of between € 2 million and € 10 million can be issued. The term of these promissory note loans is three years, with the option of extending for a further three years. Larger amounts from € 10 million to in excess of € 100 million are provided through individual transactions, generally with a maturity of between four and seven years. During the past financial year we issued promissory note loans with a total volume of at least € 300 million for companies from a broad range of sectors, and placed them on the capital market.

We also conducted ABS transactions for our clients on the same scale during the year under review. The underlying principle of such a form of securitising receivables is that a company's receivables (assets) are transformed into asset-backed transferable securities. These asset-backed securities are then placed on the capital markets and the company is able to convert its receivables into cash. This means that financial resources are no longer restricted to funding the balance sheet, but can be used to finance capital expenditure. Given the highly complex nature of such transactions, we involve our product experts from the Treasury and Financial Markets division from an early stage, as in the case of promissory note loans. This enables us to ensure that the advantages of an ABS transaction are optimally integrated into our clients' individual overall finance concept. This is all the more relevant given that this method of securitising receivables has now become very flexible in terms of maturity and its invoicing currency, for example.

Factoring is another tool that can also be used to improve a company's liquidity scope. We now offer our smaller clients in particular this type of financing through a product-based partnership with Coface Finanz, a subsidiary of Coface Kreditversicherung, the credit insurer. One particular advantage of factoring lies in the high level of selectivity with which the receivables can be assigned to the factoring company. In this way, companies – and small companies in particular – can dispose of precisely-defined portfolios of claims, such as those accounts receivable that relate to particular regions or sectors.

DRUCKHAUS HAGEN

WAZ Media Group's new print house sets environmental standards

Through targeted domestic and international investments, the WAZ Media Group, headquartered in Essen, has developed into one of Europe's most important media companies.

Today the Group generates total revenue of around € 1.9 billion and employs approximately 16 000 staff throughout Europe. WAZ Media Group publishes amongst other things, 38 daily newspapers with a daily circulation of over 2.6 million copies, 112 popular magazines and special interest journals, 133 advertising journals and approx. 250 in-house customer magazines. Since it was established, the Group has expanded further and now holds interests the German states of Thuringia, Lower Saxony and Bavaria, as well as in Austria, Hungary, Bulgaria, Croatia, Romania, Serbia, Montenegro and Macedonia. It is an innovative investor in South-Eastern Europe, where it supports the principle of free journalism and represents a secure economic basis for its publishing partners.

The media company's flagship is Westdeutsche Allgemeine Zeitung (WAZ). With average circulation of 580 000 copies daily, WAZ is ranked 1st among Germany's regional newspapers. Together with the newspapers Neue Ruhr Zeitung / Neue Rhein Zeitung (NRZ), Westfälische Rundschau (WR) and Westfalenpost (WP), which are editorially independent but cooperate economically, the WAZ Media Group achieves a daily circulation of around one million copies. Besides numerous advertising journals, the Group also publishes popular and specialist magazines. It also has interests in local radio stations in the Rhine and Ruhr regions.

WAZ Media Group has invested a total of around € 100 million in upgrading technology at one of its most important print houses, in Hagen. Environmental issues were at the forefront even at the planning stage. Supported by IKB as one of the leading arrangers of commercial development loans, WAZ Media Group received loans from the KfW Environmental Programme.

These funds allowed the company to renew a total of nine newspaper rotary presses and three distribution lines. One printing premises was completely restructured in order to facilitate four of the new rotary presses. This resulted in a significant reduction in materials consumption and wastage. Energy consumption also fell substantially, and noise emission considerably reduced.

The long-term nature of the loan and the redemption schedule tailored by IKB are optimally suited to the financing structure of the WAZ Media Group.

Equipment leasing: dynamic development at home and abroad

Our equipment leasing activities continued to grow very dynamically during the period under review. Total new business for the IKB Equipment Leasing Group rose to € 0.8 billion (previous year: € 0.7 billion). Of this total, € 0.6 billion related to domestic business, with € 0.2 billion being realised abroad. Machinery leasing accounts for the greatest share of this business, at approximately 80%. We are now not just the leading provider in Germany but also rank among the market leaders in various Central and Eastern European countries. Overall, IKB Leasing now operates successfully in Germany, France, Austria, Poland, the Czech Republic, Slovakia and Hungary.

One of our major strengths on the market is our broad product range specific to the target group. We can offer our clients high-performance leasing solutions, ranging from large-scale individual transactions worth tens of millions of euros to significantly smaller transactions.

With regard to large-scale individual transactions, our highly qualified advisors develop individual leasing concepts together with their clients. What is being required increasingly frequently is a concept that is recognised under national tax law but that also meets the international reporting rules of IFRS or US GAAP. Additionally, finance for major investments in the medium-sized sector was an important area of business for us during the reporting period.

In the context of a large-scale client satisfaction survey conducted in autumn 2006, it emerged that we are outstandingly successful in meeting our clients' needs, nowhere more so than in the advisory-intensive area of customised transactions. The high quality of our advice is the result of intensive training and the ongoing exchange of experience between our employees. On this basis, we can also develop new solutions in leasing business in proximity to our clients and establish these on the market.

A good example in this regard is the growing level of interest from our clients over recent years in also being able to lease smaller objects in the area of machinery leasing in particular. To date, the processing costs relative to the volume of the transaction have been prohibitively high. We have therefore been devoting a great deal of time and attention to this issue over the past few years, placing the focus on how to process such cases efficiently. On this basis we proceeded during the past financial year to set up an IT platform that can be used for the highly efficient and thus cost-effective processing of these leasing arrangements. This is made possible by using restructured user software, which is the only application of its kind in Europe. The IKB Equipment Leasing Group has thus reached a new milestone in this area.

Furthermore, IKB Leasing provides its partners with internet-based sales partner portals in the area of vendor leasing (distribution leasing). This means that our partners, within the framework of their sales activities, can initiate and process a specific leasing commitment directly at the point of sale. The training required for this is implemented by a specially trained team of advisors at all of the vendor partners' distribution sites throughout Germany. We have high hopes for this innovative offering far beyond the German market over the coming years. Our foreign business will also continue to develop very dynamically against this background, particularly as we will have a branch presence in future in Russia and Romania. Based on our current planning, we expect to be operational in both countries before the end of the 2007/08 financial year.

Private equity: further successes with equiNotes – new activities in direct shareholdings

Our private equity activities also enjoyed success over the past financial year, both in terms of mezzanine finance and direct shareholdings. These are areas in which we offer our clients – who are well-established companies from Germany's Mittelstand – comprehensive equity capital advice followed by individual finance solutions in the context of the respective industrial sector. The focus may be on implementing an entrepreneurial growth strategy or, equally, towards supporting management buy-outs on the equity side.

In the area of expansion financing, there was again a strong level of demand during the reporting period for the equiNotes profit-participation programme, with the second equiNotes transaction being offered, again in cooperation with Deutsche Bank. Through this programme, a total of € 220 million in mezzanine capital was disbursed to some 50 medium-sized clients representing 16 different sectors of the economy. The success of the first programme in 2005 was taken forward during the past financial year with a broadly based approach. Under the equiNotes II programme, companies with annual sales of € 25 million upwards (as opposed to € 50 million for the first programme) were targeted with a view to their taking up mezzanine capital. It is also our intention to go down this route towards smaller companies and/or minimum volumes in the context of equiNotes III, which will be issued during the course of the current financial year, again on a joint basis with Deutsche Bank.

In addition to its involvement in mezzanine finance, IKB also acquires direct minority holdings in well-established medium-sized companies. The target group constitutes those companies with relatively large and in some cases dramatic growth prospects that therefore have a greater need for equity capital. To enable the bank and its employees to focus even more strongly on the special properties of this direct shareholding business, we established the subsidiary IKB Equity Finance GmbH at the beginning of the 2007/08 financial year. Through this management company specialising in direct shareholdings, we will accompany entrepreneurial growth projects across a broad spectrum of sectors. We will also further expand this business through fundraising.

Fund structures, realised with our cooperation partners, will continue to be used to accompany buy-out financings on the equity side. The Argantis company, which we initiated together with Sal. Oppenheim, focuses on the financing of management buyouts (MBOs) and group spin-offs via majority direct shareholdings.

Moreover, together with Euromezzanine Conseil, a subsidiary of our French partner Natixis, we have successfully launched the MM Mezzanine fund designed to finance buy-outs. As part of this process we also succeeded in acquiring an additional investor for the fund.

Attractive development loans – high-level expertise from IKB

With buoyant investment activity on the part of our medium-sized clients, there was a high level of demand for low-interest funding from public development programmes during the past year. Of the total newly disbursed investment loans in the Corporate Clients division, more than 30% related to public development programmes. This is a reflection of the high value placed on these programmes and, at the same time, it is an expression of our high level of expertise in this area. Ultimately, by making targeted use of the diverse programmes available, we were able to offer our medium-sized clients an optimum finance mix at attractive terms.

This was made possible in particular by the fact that these development programmes have grown even more attractive and efficient over the last few years and – through the integration of financing components assuming a similar function to that of equity capital for example – have been brought into line with new financing terms. A further aspect is the matching of the terms of promotional loans to the level of risk involved, an approach that is now applied to almost all of KfW's and the state development banks' major programmes. Our experiences of this margin grid have been very positive. It enables the bank extending the loan to grant promotional loans at risk-adjusted margins. We regard this greater flexibility as an important advantage as we work to offer medium-sized companies broad access to attractive means of funding.

KfW – IKB's most important refinancing partner – diverse development programmes for medium-sized companies, innovation and the environment

During the reporting period KfW was once again the bank's most important refinancing partner by far. Cooperation between IKB and KfW extends to a variety of different development programmes for commercial medium-sized companies. A particular focus was on strengthening entrepreneurial innovation. This is an area in which Germany's Mittelstand holds a leading position internationally, a position that should be further consolidated in the interests of creating growth and employment in Germany.

The ERP Innovation Programme was set up in response to this, enabling companies to access attractive funding to finance in-house R&D measures and for the introduction of innovative products, processes and services. The programme combines debt and a subordinated loan comprising equity structures as a mezzanine form of finance. The exceptionally keen level of demand from our clients over the past year reflects the major investment efforts being undertaken by the medium-sized sector. However our high market share with regard to the innovation programme is due not least to the ongoing exchange of information with our clients on the basis of a very trusting two-way relationship. This exchange enables us to identify requirements at an early stage and to develop customised finance solutions for entrepreneurial innovation.

We were again able to increase our disbursements and market share within the framework of the KfW environmental programmes. The issue of environmental protection has grown significantly in terms of its importance to our industrial corporate clients, as well as to our clients in the services sector. In addition to the strong rises in raw material and energy prices over the last few years, a growing sense of awareness of the corporate sector's ecological responsibility has also contributed to this development. The KfW environmental programmes are open to all investments made to prevent soil, water and air pollution, to conserve energy and to make use of renewable sources of energy. Both modern public-private partnerships and private operator models are eligible for funding.

Over the last few years IKB has established itself increasingly strongly in the field of municipal infrastructure finance. This is also reflected in the greater integration of funding from the KfW "Municipal Investment" development programme, used for example to finance projects in the areas of municipal utilities, disposal services and energy conservation.

As in previous years, our far-reaching cooperation with KfW was characterised by friendship, efficiency, success and, not least – with a view to our common target group of commercial medium-sized companies – a particularly high level of mutual trust.

Intensive cooperation with regional development banks and the European Investment Bank

We further intensified our cooperation with various development banks in the German federal states during the reporting period. This long-standing cooperation has a proven track record, be in within the framework of global loans or also, to an increasing extent, in the area of long-term programme loans. We make this regional funding, provided at subsidised rates by the banks in addition to KfW funding, available to our corporate clients on the ground in a broad range of applications.

It is pleasing to note that we have been able to extend these regionally based activities to East Germany with major success. During the period under review, for example, IKB concluded the second issue of a global loan with the Investitionsbank Berlin (IBB) and with the Investitionsbank des Landes Brandenburg (ILB), each in the amount of € 100 million. An initial issue was also made with NRW.BANK (€ 100 million), whilst there was a fifth issue in the amount of € 200 million with LfA-Förderbank Bayern.

Our aim to is to further expand these regional-specific activities, primarily in the area of long-term programme loans. To date, we have already made use of attractive funding from L-Bank Staatsbank für Baden-Württemberg, LfA-Förderbank Bayern and NRW.BANK, with talks in this direction having been initiated with other development banks.

Our cooperation with the European Investment Bank (EIB) has also proved very valuable. During the period under review we concluded a very interesting finance case in the energy sector, working jointly with the EIB. In addition, we are currently working on further support measures for the financing of medium-sized enterprises and promotion of innovation.

Sector breakdown of new business: investment and consumer goods industry accounting for greater share – services sector also up

Our disbursements in the Domestic Corporate Clients division can be broken down by sector as follows for the period under review: the majority of our new exposures continued to relate to manufacturing, which, accounting for a share of 73.6%, was even higher than during the previous financial year (69.5%). There was also a slight increase in the significance of the services sector, accounting for a share of 16.2% (15.4%), whilst the trade sector still accounted for 10.2% (15.1%) of disbursements.

The largest segment in terms of disbursements within manufacturing was, once again, the primary and capital equipment industries, despite a fall from 29.6% in the previous year to 27.9% in the year under review. A major increase was recorded, however, with regard to the capital goods industry, with a significant increase in share to 25.4% (21.2%). A rise was also recorded in the proportion of disbursements relating to the consumer goods industry, up from 18.7% to 20.3%. This development is typical of an economic phase is which an upturn is being consolidated, as experienced in Germany during the past year. In this context, companies have begun investing more heavily again in new capacity at home, thereby creating new jobs. Against this background there was also a slight upward trend in private consumption.

One of the strongest engines of growth in the German economy was the capital goods industry – and mechanical engineering in particular. With the volume of new orders from Germany and abroad developing exceptionally well, these companies are making major investments in new capacity. There was also dynamic development in the very diverse electrical industry, a supplier to such sectors as medical technology and communications technology and also the subject of strong demand for international power station construction. As a result of the investment cycle, the proportion of disbursements relating to the production of road vehicles was down on the previous year, following two years of very brisk investment activity.

The biggest segment in terms of disbursements within the consumer goods industry was, once again, food products and beverages, a sector which continues to invest heavily in logistics and quality assurance. There was a significant rise in disbursements to companies from the glass and fine ceramics industry, which benefited not only from a revived construction sector but, above all, from strong demand from the home entertainment sector (flat screens), emanating from Germany in particular.

Domestic Corporate Clients – breakdown of disbursements

Sectors	Financial year 2006/07	Financial year 2005/06
	Disbursements in %	
Manufacturing sector	**73.6**	**69.5**
Primary and capital equipment industries	**27.9**	**29.6**
Energy, water	*5.7*	*7.4*
Construction	*0.4*	*0.1*
Mining, non metallic minerals	*1.2*	*2.9*
Iron and steel, foundries	*2.2*	*1.7*
Non-ferrous metals and semifinished metal products	*2.5*	*0.6*
Cold rolling mills, steel forming	*5.1*	*5.3*
Chemicals, petroleum products	*6.2*	*8.1*
Wood working, paper production	*4.0*	*3.3*
Other	*0.6*	*0.2*
Capital goods industry	**25.4**	**21.2**
Steel construction	*0.8*	*0.3*
Mechanical engineering	*8.8*	*6.3*
Automotive industry	*4.8*	*7.3*
Electrical engineering	*5.9*	*4.4*
Iron and metal products	*3.3*	*2.0*
Other	*1.8*	*0.9*
Consumer goods industry	**20.3**	**18.7**
Fine ceramics, glass	*4.1*	*0.9*
Wood and paper processing	*2.1*	*1.0*
Printing products	*1.2*	*0.3*
Plastic products	*4.4*	*5.5*
Textiles and clothing	*1.0*	*1.2*
Food products and beverages	*6.9*	*9.5*
Other	*0.6*	*0.3*
Non-manufacturing sector	**26.4**	**30.5**
Services	**16.2**	**15.4**
Transport and logistics	*2.0*	*1.7*
IT, media, telecommunications	*3.1*	*2.4*
Waste disposal	*1.4*	*0.9*
Other	*4.2*	*5.2*
Financial services	*5.5*	*5.2*
Trade	**10.2**	**15.1**
Wholesale trade	*5.8*	*7.9*
Retail trade	*4.4*	*7.2*
Total	**100.0**	**100.0**

Many companies in the very diverse services sector, as well as wholesale and retail companies, were buoyed by domestic demand. The main areas of investment here are in the further optimisation of sales structures, for example, to adapt to new purchasing and consumption patterns as Germany and Europe undergo major demographic change.

2. Real Estate Clients

Successful all-round provider of real estate finance – a focus on project development – new european financing platform

from left to right: Tim Klüssendorff,
Bruno Philbert, Panajota Stenos
Real Estate Clients segment,
IKB Deutsche Industriebank AG

Our Real Estate Clients segment, encompassing IKB's wide range of activities in the area of commercial real estate finance, was able to increase its operating result during the reporting period to € 35 million (previous year: € 32 million). New disbursements increased by 29 %, to € 1.3 billion. In addition to domestic business, the factors responsible for this increase included new finance activities elsewhere in Europe, with IKB operating from five selected foreign locations within the framework of a European finance platform since September 2006.

A all-round provider for commercial real estate investment

The key foundation of our gratifying performance during the period under review was, once again, our comprehensive range of services covering all aspects of commercial real estate finance. Over and above customised finance, we offer our clients a full range of real estate services extending from the development of a project through to its realisation and subsequent marketing. This pooling of know-how, on a scale that is practically unparalleled in Germany, is achieved through close cooperation between our experts from the real estate finance and real estate management units. We are also involved in real estate leasing, operated together with the KfW Bankengruppe in the form of our joint subsidiary Movesta Lease and Finance GmbH. These factors combine to make IKB an all-round provider of commercial real estate investments. Our partners include medium-sized companies as much as major companies, regional development companies, private and institutional investors and, not least, project developers.

Focusing on project development – joint ventures gaining in importance

There is a particularly high level of demand for our broad range of real estate services in the development of complex projects, which has become a particular focus of our activities in recent years as a result. We became involved in new projects in the areas of retail properties, logistics buildings and office premises over the past year, which we are implementing through joint ventures, generally with medium-sized project development companies.

A joint venture of this kind involves the establishment of a joint special-purpose entity (SPE), generally formed with an equal stake from each partner and with each partner operating as an active shareholder. The SPE is then financed further down the line, primarily through IKB loans. Additionally, using a partnership-based approach, we also incorporate those services into the project for which the development partner lacks the necessary resources in its own company. Frequent areas in this regard include overseeing the project and construction work, or commercial project management tasks.

The market environment for our project development activities was very positive during the reporting period, especially in Germany. This is also confirmed by the results of "IKB Developer Trends", our annual survey of German project developers, presented this time round in October 2006 at the Expo Real trade fair in Munich. 71% of the developers surveyed regarded the business situation in the industry as positive, with only 4% expressly describing it as negative. Furthermore, 94% of those surveyed expected the positive trend to be maintained in 2007. Against this background our development activities in the reporting period have continued to develop in a positive vein. As at the 2006/07 year-end we were involved in a total of 15 joint ventures.

Not least thanks to this positive development, we have succeeded during the reporting period in further improving our competitive position on the German finance market. Our aim is to build on this success in future.

High degree of technical know-how

We have the advantage of being able to build on the excellent technical know-how of our experts from IKB Immobilien Management GmbH (IMG). IMG is the bank's centre of expertise for the development, management and realisation of commercial real estate. As well as the completion of external valuations, this also encompasses the internal review of all of the projects and financing planned by the division.

The most important criterion is the long-term marketability and usability of a property, measured against the expected cash flow. Particularly in periods of rising energy costs, running costs are an ever more important factor in the valuation of property, all the more so given that – over the entire life cycle of a property – these expenses account for around 80% to 85% of the total costs. This is why we work to develop property-specific solutions as a means of cutting costs and optimising the economic benefits. If applied consistently, these solutions can result in savings of between 15 and 30% of the total usage costs depending on the type of building.

During the period under review IMG looked after some 40 projects with a total construction volume of in excess of € 400 million. This generated fee revenue of € 7.7 million.

Internationalisation broadens business basis

By creating a European platform for international real estate finance in September 2006, we fulfilled the requirements for the internationalisation of our successful real estate activities. Our initial focus, during the first phase of this process, is on France, UK, Italy and Spain – in other words, those countries in which IKB already has a branch presence in the field of structured finance. We are also looking to the Benelux countries, with a new branch in Amsterdam.

DOMSTRASSE

Attractive office property in the Hamburg ‚Kontorhaus' quarter

The Domstraße 18 site benefits from a top location, at the heart of City of Hamburg. Known as the ‚Kontorhausviertel', the quarter is a well-known office and business area between the ‚Rathausmarkt' and the ‚Hafencity'. Various banks and insurance companies have their premises here and with Mönckebergstrasse and Europapassage just around the corner, shopping areas are only a short walk away.

A high-rise reinforced concrete office building is being constructed on the 1 225 sqm site; the building will have a rentable area of approx. 8 000 sqm, with underground parking for 46 vehicles. Hamburg-based architects Schenk + Waiblinger have grouped twelve floors around the building's technical core comprising two elevators. The floors are offset against each other: this horizontal spacing creates ever-changing views on the building, with its high-quality exterior decor featuring metal panels.

The project is managed by Quantum Immobilien AG in Hamburg. The owner-managed, independent specialist has been developing, realising, financing and managing real estate since 1998. Quantum focuses on properties in Germany's major urban areas.

Total investment costs for the Domstrasse 18 site amount to approx. € 30 million. IKB has provided a bridge finance facility for the transaction, within the scope of a variable-rate rollover loan. Equity investment was provided at an adequate level. Given its prime location, unique architectural and attractive technical features, the building will be very attractive to end-investors.

In addition to this presence on the ground, which is crucially dependent on the strong interlinking of our employees in the respective markets, our ability to guarantee uniform finance standards is, however, a further critical success factor as we look to our international real estate activities. To achieve this uniformity for all our foreign sites, we have a centralised system of transaction management based in Frankfurt, which is in close contact with our foreign branches at all times. In this way, on what are new markets for us, we can guarantee the quality standards and efficient processes that our clients already associate with IKB's finance products on the German or UK market.

On this basis – presence on the ground and uniform quality standards – our aim is to consolidate our competitive position in the area of international real estate finance on an ongoing basis. The fact that we are on the right path can be seen from the disbursement successes achieved in just the first few months of our foreign activities. Commitments totalling some € 300 million had been entered into by the reporting date. We will continue this development little by little, thereby broadening the basis of our business and of our success and ultimately achieving a certain degree of independence from the cycle of the German real estate market.

New business

In an environment that was as dynamic as it was intensely competitive, we again focused on the financing of first-class, fungible real estate projects during the financial year under review. Led by a high level of risk-awareness, we placed great value on pre-letting ratios that would be sufficient to cover interest and principal payments and on appropriate lending limits during the project analysis stage. In this way, we were able to accompany numerous attractive projects across a variety of industries during the reporting period. Additionally, syndicate business with other banks grew increasingly important, not least within the context of our new foreign activities.

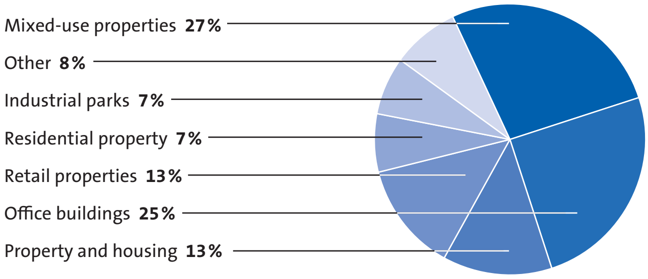
Broken down by type of use, our new exposures during the past financial year can be summarised as follows. The biggest individual segment in our disbursement portfolio, accounting for 25%, was once again office premises, followed by retail properties and property and housing, each accounting for 13%. New commitments with regard to industrial parks and relating to the financing of residential real estate portfolios both also accounted for 7%.

Mixed-use properties accounted for 27% of disbursements. These projects bring together a combination of different forms of use, with office space, retail properties and logistics buildings being the main categories.

In the area of office real estate we focused our new business – as in previous years – to a large extent on flexible properties in locations that are also attractive to international real estate investors. This selective approach with a strong focus on growth regions is one that we continue to regard as imperative. As office real estate markets in Germany and Europe continue to develop positively, there will remain a range of attractive projects available to us in future.

A high proportion of the disbursements with regard to land and housing related to our project development activities. Many of these exposures, rather than new-builds, were projects involving the reactivation of existing properties or of wasteland that could be regenerated. This is an area in which our know-how in relation to real estate management was in particularly high demand during the past financial year.

Real Estate Clients – breakdown of disbursements
Sector breakdown – financial year 2006/07



We also succeeded in concluding attractive transactions in Germany and abroad in relation to retail properties, with the focus on shopping centres, an area in which we also see growth potential for the future at selected locations, particularly in Germany. This similarly applies to logistics properties which are included in our disbursement statistics under mixed-used properties and industrial parks. During the reporting period we were involved in many highly demanding projects, primarily in the areas of freight shipment and contract logistics. This is also an area in which we see the German market in particular as offering further potential going forward, as Germany looks to further consolidate its position as a “hub” at the heart of Europe.

3. Structured Finance

Dynamic growth in new business –
strong player in acquisition finance –
growing demand for project finance

from left to right: Monika Pfeiffer
and Martina Messing
Structured Finance segment,
IKB Deutsche Industriebank AG

The Structured Finance segment encompasses IKB's acquisition finance activities alongside project and export finance. At least two thirds of these activities relate to international exposures. During the 2006/07 financial year, Structured Finance recorded a 52% rise in new business to € 5.3 billion.

The key factors driving this growth were regional expansion towards Italy (Milan Branch) and Spain (Madrid Branch) and the significantly expanded proportion of arranger mandates in both acquisition and project finance. We also profited from the setting-up of the Bacchus cash securitisation platform which has enabled us to position ourselves as an asset manager handling acquisition finance for third-party investors. Finally, the further rise in investments of private equity funds and the improvement across Europe in the infrastructure finance markets also worked in our favour.

Overall, we shifted the weighting of our product mix during the reporting period further in the direction of project and infrastructure finance, believing this to be a very stable asset class. To this extent, it is gratifying to note that project and infrastructure finance now account for 43% of new structured finance business.

The operating result rose by 40.3 % to € 111 million. This meant that Structured Finance continued its course of dynamic expansion of past years. A contributory factor was that the segment, in addition to interest income from loans, was also increasingly earning fees from structuring services. We have therefore been continuously expanding our advisory expertise, to the extent that it has become an increasingly important pillar in our income structure.

Acquisition finance

Through our branches in Frankfurt, London, Madrid, Milan and Paris, and our subsidiary IKB Capital Corporation in New York, we supported a significantly higher number of M&A transactions in the 2006/07 financial year, with more than 300 transactions in total. Our target groups are companies acting as strategic investors and, at the same time, private equity funds that combine forces with companies' management teams in the context of management buy-outs.

The market environment in acquisition finance continued to be exceptionally dynamic. Both European investors and US private equity firms were very active worldwide. According to information from Standard & Poor's, the global volume of acquisition finance in 2006 increased to € 490 billion. Greater growth is not just in evidence among the large-scale transactions but also among the smaller transactions with an EBITDA of between € 20 million and € 50 million in particular.

Local presence and specific know-how

IKB applies the same principles of success to acquisition financing as to its German corporate clients business, namely highly skilled employees in all activities specific to the transaction and excellent industry know-how. Also of crucial importance is our local presence in all of the key Western European markets, enabling us to operate in proximity to the respective private equity firms and to take due account of regional characteristics in the case of mid-cap transactions.

Our activities on the German market are coordinated from Frankfurt. We have particularly been involved in accompanying private equity funds that specialise in mid-caps, profiting from the strong rise in investment levels in Germany (+20% to € 3.6 billion). The fact that we were awarded 17 arranger mandates is an outstanding achievement, demonstrating the trust that German private equity investors have in our structuring expertise and in our knowledge of Germany's medium-sized sector.

We were also able to achieve a good position as mandated lead arranger in France, where the focus of our Paris Branch lies on mid-cap transactions in the € 50 million to € 200 million range. Measured in terms of the number of arranged mandates, IKB ranks among the five leading market participants in France. This positioning is crucially important not least because we are achieving growing fee income from the structuring of mandates and gaining access to attractive follow-up invitations from other banking institutions on the basis of our track record.

Through our London Branch we have been active for a decade now in the largest pan-European centre for the financing of M&A transactions and enjoy an excellent positioning on this market. In an M&A environment marked by dynamic growth, we were able to enjoy good commercial success as a participant in UK and continental European transactions.

We are represented on the Spanish market through our Madrid Branch. On the basis of our very successful market presence we made the decision to upgrade our representative office (set up in 2005) to a branch, doing so at the beginning of the 2006/07 financial year. Growth has subsequently accelerated to a very pleasing extent. This is evident from the fact that, for the first time, we were able to implement several mandates that we ourselves had structured during the reporting period – and this in direct competition with Spanish banks. The Spanish portfolio currently, after just a short period, accounts for 6% of the total loan volume in this segment.

Our Milan Branch, opened early on in the 2006/07 financial year, has also developed very successfully. IKB operates on this market as arranger, underwriter and participant in syndicates with transaction volumes of up to € 300 million. In just the first year we have been able to position ourselves as a successful player in the Italian acquisition finance market, a market that is experiencing strong growth. As a result, this new branch has already, after just twelve months, performed well beyond its breakeven point.

IKB Capital Corporation

Our US subsidiary IKB Capital Corporation disbursed € 1.1 billion during the 2006/07 financial year and thus once again assumed an active role as a participant in major transactions on the US market. Overall, there has been no let-up in the dynamic nature of M&A activity in the USA, with a new record high being recorded in 2006. According to the Factset Mergerstat research company, two-figure growth rates were recorded across the board, irrespective of company size, both in terms of the number of deals and with regard to transaction volumes. Accordingly, IKB CC was again able to post a rise in its operating profit.

Consistent securitisation strategy

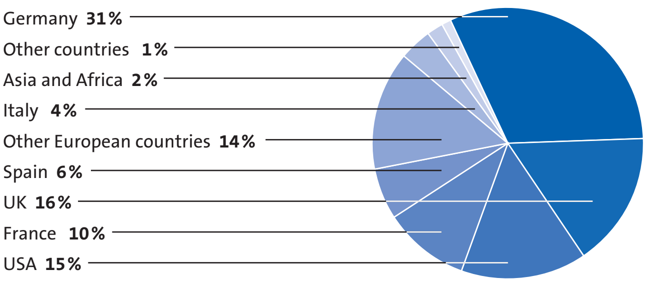
Our international acquisition finance activities are systematically backed up with active portfolio management, i.e. through the consistent application of our securitisation strategy. Three portfolios from our new business were securitised under the "Bacchus" brand name during the past financial year. Two transactions from the European portfolio were placed, as was a further transaction composed of leveraged loans from our US subsidiary IKB Capital Corporation. We also concluded a fourth transaction in April 2007.

The market for the securitisation of structured finance is another area in which IKB excels on the basis of its vast expertise in the medium-sized sector. By focusing on the mid-cap market, our positioning revolves around unique selling points, as a result of which we were again able during the reporting period to attract a high level of demand from investors. This became particularly clear during our most recent transaction, "Bacchus 2007-1", the volume of which we were able to increase from € 400 million to € 450 million in light of strong investor demand.

The Bacchus 2007-1 portfolio comprised more than 80 loans extended by IKB to support the acquisition of companies with an EBITDA of less than € 50 million. The portfolio is broadly diversified in regional terms, and also from a sectoral perspective, with close to 30 different industries sectors represented.

The reasons for the strong demand also included the high degree of portfolio granularity and diversification, together with the good performance of IKB's previous securitisation transactions and the careful selection of exposures for the portfolio. Thanks to the clear focus on mid-cap deals, the Bacchus 2007-1 portfolio has an overlap of less than 10% with comparable CLO issues, providing investors with a significant degree of risk diversification.

Structured Finance portfolio structure
Share (%)



National and international project finance

As part of our project finance activities, we arrange and structure the financing for national and international projects. These activities – for energy or infrastructure projects for example – now account for more than 40% of new business in Structured Finance. We also finance the export of capital goods (ECA-covered export finance) and accompany medium-sized companies as they build up new or supplementary production capacity abroad as part of an internationalisation strategy.

The market for international project finance is developing very fast, with growth rates reaching high double figures. According to data provided by pfi (Project Finance International), global lending for project finance has more than tripled over the last three years, and is put at USD 180 billion for the year 2006.

Our international target markets with regard to the structuring and financing of attractive large-scale projects are currently primarily located in Western Europe. We also participate in transactions in the Middle East and in Asia. In Europe, IKB maintains a presence on the ground in the attractive markets through its branches (UK, France, Spain and Italy).

The main sectors of industry involved differ according to region, with the energy, transport and raw materials sectors accounting for the most investment. In addition to financing expertise, our clients also expect a high level of industry-specific know-how, which is something that we are systematically working to expand at IKB. To fulfil these high demands as optimally as possible, we have organised our activities in Germany and on the European markets on the basis of teams devoted to individual sectors.

Particularly worthy of mention during the past year was the arrangement of the financing for the Walsum 10 coal-fired power station for STEAG, for which we provided in excess of € 620 million together with two other banks. This was the largest power station project finance transaction ever seen in Germany.

International activities fuelling growth

Our Structured Finance segment will continue to record double-digit growth in future, in terms of both new business and operating result. In relation to acquisition finance, we will increase the number of transactions in our existing European network that we ourselves arrange whilst also acquiring further market share. We are also planning to build up a presence on the Russian market by setting up a representative office. The geographical reach of our project financing business will be extended further in the European offices, and enhanced by additional activities in the US.

Digital radio for emergency services getting the green light – one of the largest PPP deals in Austria

TETRON Sicherheitsnetz Errichtungs- und BetriebsgmbH is a joint venture of Motorola and Alcatel-Lucent. In the spring of 2004, the Austrian Interior Ministry entrusted TETRON with the establishment of a digital trunked radio network for the emergency services, together with a license to operate the system for a period of 25 years after completion of the final installation stage.

The digital trunked radio network already went live in Vienna and Tyrol in 2006; the rollout in Styria and Lower Austria is currently taking place. The Austrian federal states have the opportunity to use the basic network developed by the Ministry of the Interior, provided that they make available the necessary sites for building up infrastructure. The entire communications network is compatible with the new European TETRA standard.

Following a one-year project structuring phase, IKB Deutsche Industriebank AG and Investkredit Bank AG were mandated in 2006 as lead arrangers for raising € 110 million in borrowed funds for the pan-Austrian emergency services radio network. The overall financing package comprises borrowing as well as equity components. Besides the two banks, the public-private partnership project brings together the Austrian Interior Ministry as the principal and TETRON as the executing entity.

The owners of TETRON, the operating company, benefit from a reduction in their financing risk exposure without any negative impact on the Interior Ministry's collateralisation. The sharing of risks permitted a financing package with a term of close to 20 years.

The facilities agreed upon between TETRON and the financing banks will redeem the existing financing provided by sponsors Motorola and Alcatel-Lucent.

4. Securitisation

Growth potential through securitisation – opening-up of credit expertise to the benefit of investors

from left to right: Ronny Stratmann and
Lars Wenner
Securitisation segment,
IKB Deutsche Industriebank AG

The Securitisation segment deals with IKB's own securitisation activities, and also with the bank's investments in international credit portfolios. The operating result for the activities included in the segment reporting under "Securitisation" amounted to € 108 million for the 2006/07 financial year and were thus in line with the high result of the previous year.

The bank's own securitisation activities, launched in 1999, have since grown steadily in importance. Up to date, 14 transactions has been implemented in total, in the pursuit of three main objectives: management of equity capital, growth management of client relations, and opening-up our credit expertise to enhance business with third parties.

Equity capital management

Using synthetic securitisation, we crucially support the bank's growth potential as the regulatory burden in terms of capital requirements is eased as a result. The assets locked up in large portfolios remain on the balance sheet, whilst in risk terms, they are placed on the capital market using credit default swaps. This provides a means of growing business without increasing share capital and hence, without any associated dilution of results. To date, we have placed eight synthetic transactions with a total volume in the region of € 18 billion on the market using our own Promise I, SEAS and Stability CMBS platforms. These securitisation activities – and the investments in international credit portfolios that they have made possible – have helped the IKB Group to achieve a return on equity that is now in excess of 20%.

The bank's securitisation activities now cover the entire range of balance-sheet assets from the Corporate Clients, Structured Finance and Real Estate Clients segments. With regard to Real Estate Clients, we set up the dedicated "Stability CMBS 2007-1" platform during the reporting period. On this basis we successfully placed the risks from balance-sheet assets from the Real Estate Clients segment in the amount of € 0.9 billion on the capital market. The portfolio primarily comprises loans awarded to finance German real estate investments, and stands out thanks to a level of granularity and diversification in terms of sizes and regional allocation that is seldom found in this asset class. It was particularly gratifying, once again, that risks could be placed with a variety of national and international investors. We will be continuing to pursue this placement strategy over the coming years with a view to utilising the growth prospects of this segment.

Growth management

The "Promise Mobility" platform was set up in 2005 to secure the growth of long-term lending to individual clients over the long term in a targeted way, including beyond those limits that arise due to the requirements of modern portfolio management. This platform is also based on synthetic securitisation – in other words, the transfer of potential credit risks to the capital market whilst the assets remain on the bank's balance sheet. This concept primarily supports the further development of particularly active business relationships.

The three Promise Mobility transactions implemented to date account for a total volume of € 5.9 billion. During the 2006/07 financial year we structured a total volume of € 2.5 billion in the context of Promise Mobility 2006-01, placing this on the capital market in December 2006 at excellent conditions.

Opening-up of credit expertise in the area of leveraged loans and hybrid capital to investors

We developed the Bacchus-Europe and Bacchus-US platforms for the area of leveraged loans in 2006. The underlying concept is essentially based on a co-investment strategy: IKB Fund Management, a unit of IKB's London Branch, and IKB Capital Corporation, New York, now manage a total volume of € 2.4 billion within the framework of the Structured Finance segment. Largely in parallel to lending activities in the form of European and US leveraged loans carried on the bank's balance sheet, investments are made in acquisition finance loans in Europe and the US, which are carried on the balance sheets of Bacchus special-purpose entities. This is done in compliance with narrowly defined criteria, stipulated in particular by the rating agencies. The aim is to leverage the successful active portfolio management carried out by the segment, and make these skills available to investors as a means of generating fee income that does not tie up equity capital.

We have also developed a platform for the securitisation of hybrid capital for medium-sized companies in Germany. A total of approximately € 500 million has been securitised through Force 2005-01 and Transaction Force 2006-1, which was being implemented as at the balance sheet date. We cooperate with Deutsche Bank in the area of client acquisition and securitisation, whilst IKB subsidiary IKB Private Equity has assumed responsibility for portfolio management.

Although the various different types of transaction serve a range of purposes, the bank makes use-in all of these cases-of its expertise in credit analysis and active credit management, which it has built up over many years and which have a proven track record. In terms of portfolio quality, all of IKB's transactions live up to the high expectations of our clients, which also applies to the securitisations from the period from 2002 to 2004 which have now matured. Investors value our open communication and the high degree of transparency surrounding portfolio performance in each case.

KfW has been an important partner to IKB in all of these developments, in addition to the investment banks involved with the structuring and placement phase. We have worked very successfully and efficiently with our strategic partner in this area over the past financial year; we look forward to continuing this partnership.

5. Treasury and Financial Markets

Treasury is responsible for the refinancing of all of the bank's segments on the money and capital markets. It is also where the investment of the bank's economic capital (in fixed income securities) and the bank's interest rate and currency positions are managed. IKB enjoys an excellent reputation on the money and capital markets, which is expressed in a high level of acceptance among national and international investors and in very good refinancing conditions.

In addition to these activities, Treasury accompanies domestic branch business in the capacity of product expert, providing products at capital market terms such as promissory note loans or the securitisation of receivables (ABS), all of which are tailored to our clients' specific finance needs.

Refinancing

The placement of bonds (securitised liabilities) remains a core instrument of our capital market refinancing. Since the beginning of the decade, the bank has been able to achieve a systematic and sustained broadening of its investor base. As a result, we now enjoy a high degree of visibility on the capital market and are well known. The share of international placements, particularly for large-scale issues, is in excess of 50%. This means that we have gained even greater stability in our refinancing networks over the past few years. In addition to the main currency of the euro, foreign-currency issues were also used during the past financial year, primarily in US dollars and sterling. This helped diversify the sources of funding, as well as lower funding costs. The total volume of issued bonds in the reporting period was € 15.9 billion, compared with redemptions in the amount of € 9.6 billion.

We successfully continued our concept of adapting issues to the specific market expectations of our investors through the incorporation of interest rate and other derivatives. This enables us to optimise our refinancing cost structure. During the past financial year we raised the volume of this type of transaction by approximately 30 % to € 1.3 billion. We also further developed the range of derivatives used in this context.

A good and stable rating, reliable performance over a sustained period and a high degree of transparency for our investors remain fundamental prerequisites for the bank's excellent standing on the national and international capital markets.

Capital market products for clients

Treasury und Financial Markets supports our domestic sales by providing its product expertise in the area of promissory note loans and the securitisation of trade receivables.

Promissory note loans. This finance product offers our clients, and particularly larger SMEs, an interesting alternative to traditional bank loans, and thus a welcome means of diversification. It enables companies to take the first steps towards capital market refinancing. However, unlike corporate bond issues, no external rating process is required, and there is no need for a series of further related requirements in the areas of documentation and disclosure. By incorporating the promissory note loan in combination with long-term bank loans, a company obtains a product mix that promotes its independence.

The total volume of new promissory note loans in the past financial year was some € 300 million. The bank's strategy in this regard is to retain parts of these loans on its own books whilst placing the rest externally. Recently, we have been able to further expand the syndication network required to ensure smooth placement.

Promissory note loan enhances cash flows for cash.life

About half of the approx. 94 million life assurance policies held in Germany are not held to maturity, resulting in some € 12 billion in cancelled policies every year. Since 1999, policy holders wishing to exit from their policy have had the option of selling it to a third party such as cash.life AG – at more attractive terms than those offered by the respective insurance company (which had the exclusive right to repurchase policies prior to 1999).

Selling policies creates a 'win-win' situation for everyone involved. Customers not only receive a better repurchase price compared to cancellation, but assurance cover remains in place even after the sale. Moreover, in 2006 cash.life started offering policy holders the option of borrowing money against pledging their policy as collateral. The company's partners – including banks, savings banks, brokers, or insolvency administrators – receive a commission. For insurance companies, this means that cancellation ratios remain low, and no funds need to be withdrawn from their pool of investments; in addition, large-sized portfolios have attractive cost structures.

Having accumulated policies with an aggregate volume of € 14 million in its first year of operation, cash.life AG purchased around € 636 million worth of policies in 2006. The company initially buys policies for its own account, and subsequently places them with investors, such as closed-end funds. Cash.life manages the assets across the full term.

At present, only 21% of consumers are aware of being able to sell their life policies in the secondary market. To improve this awareness, cash.life embarked upon a massive marketing campaign (including TV spots) during the last year. With a market capitalisation of around € 240 million, cash.life AG is included in the SDAX index. The company employs some 150 staff at its offices in Pullach (near Munich), Ahrensburg (near Hamburg) and Vienna.

Funds raised through a promissory note loan initiated by IKB, the leading operator in the secondary market for life assurance policies enhanced its refinancing options in 2006. With the liquidity generated, the company secured the availability of long-term debt for the purpose of acquiring life policies. The four-year, € 40 million promissory note loan was successfully placed with institutional investors.

ABS securitisation. In addition to promissory note loans, the bank uses its extensive securitisation know-how gained over many years to support its clients in monetising corporate receivables for refinancing purposes. As part of such a securitisation transaction, the client's claims are structured and grouped in a claims pool. The receivables are then sold to a special purpose vehicle which issues asset-backed commercial paper to finance the purchase price. These securities are placed on the capital market with international investors. Ultimately, through this form of securitisation, companies can optimise their balance sheet structures and increase their liquidity.

Fixed Income

Fixed Income encompasses the bank's interest rate and currency risk management, as well as the investment of its economic capital and liquidity reserves. The latter is used to secure liquidity by means of assets that can be pledged with the ECB or within the framework of other securities repurchase transactions. Strategically, we are pursuing two aims in this context: generating stable interest income from the investments and securing sufficient liquidity. The investments are made in securities that have excellent ratings and that are therefore very low-risk and very liquid. We also make use of derivatives to optimise return and to manage interest rate and currency risk. In this way we have been outperforming the return on standard government bonds for several years. In line with internal and external requirements and regulations, the positions are managed within strictly-defined limits, measured on a daily basis and compared against predefined benchmarks.

IKB as a Designated Sponsor

Assuming the role of Designated Sponsor – licensed by the Deutsche Börse – for our own share is particularly important to us as a bank every financial year. Continuously quoting bid and ask prices on the Xetra electronic trading platform safeguards the marketability and liquidity of the share throughout the entire trading day. Once again we were awarded the Exchange's highest seal of quality – an 'AA' rating – for our performance as a Designated Sponsor. The bank did not hold any treasury shares as at the reporting date.

6. Our employees

We would like to extend our thanks and acknowledgement for the great commitment shown by our employees in the financial year under review. They dealt with and implemented a large number of projects in a targeted manner, over and above the challenges of their day-to-day operations. We would also like to thank all employee representatives for their trusting and business-like cooperation.

The dynamic development of the business divisions in the financial year under review once again involved a substantial increase in the number of staff employed by the bank. Our Human Resources division was faced with the challenge of attracting, integrating and supporting qualified staff, while at the same time adjusting the bank's organisational structure in line with growth levels. Against a background of demographic changes, changing labour markets and the legal environment, IKB not only developed existing human resources concepts but also introduced new HR instruments and initiatives.

135 additional employees

The continuous expansion of our domestic operations and – increasingly – of our international business activities, led to further rising demand for specialists within the bank in the financial year under review. IKB successfully attracted highly-qualified expert and management personnel for the various positions. Much of our human resources work last year related to the successful integration of these employees.

Personnel recruitment is facing new challenges in the light of increasing competition surrounding highly-qualified employees. On the one hand, demographic developments and increasing demand on the labour market will lead to a reduction in the number of potentially suitable trainees. On the other, the bank's continuous growth is amplifying the demand for specialist staff.

IKB has prepared itself for this challenge and has further enhanced its attractive employer status.

New online job application portal

IKB's new online job application portal allows us to process applications even more efficiently. This has led to a further positive perception of our image on the labour market. The achievements in implementing our application management are reflected in the successful appointment of specialists to fill various vacancies.

Successful cooperation in initial vocational training

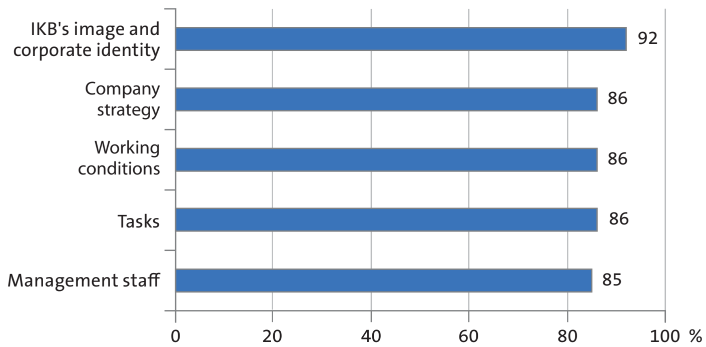
We have designed IKB's initial vocational training even more specifically to meet the requirements of a specialist bank. Within the scope of the commercially-oriented training programme, we cooperated with the Technical College for Economics and Management (FOM – Fachhochschule für Oekonomie und Management) in Essen as well as with the Frankfurt School of Finance & Management. Our young trainees qualify with a Bachelor of Business Administration from either of these colleges.

Cooperation with the FOM on initial IT vocational training is a new approach. Our trainees qualify here with a Bachelor of Science degree, which includes technical and well as commercial course content.

This qualitative training programme facilitates quick integration of these young people into IKB upon completion of their training courses.

Key identification and motivation factors for IKB staff

Share of positive responses



Source: IKB Employee Survey 2006

Expanding the trainee programme

The IKB Trainee Programme has been significantly expanded during the 2006/07 financial year. IKB employed six additional university graduates, who will gain experience in various business segments and divisions. We will also be further expanding the trainee programme in future, based on the rising demand.

Employee survey yields excellent result

The employee survey conducted in 2002 and again in 2004 was run for a third time in 2006, and for the first time throughout the Group.

We were not only delighted with participation levels of 81%, but also with the very positive feedback from our employees. We succeeded once again in improving many aspects over the high level already achieved in 2004. This applies in particular to the assessment of our executive staff. The greatest leap was achieved in the satisfaction recorded with the process flows.

We can be justifiably proud of the exceptional result. We achieved top marks in three categories in the banking and insurance business worldwide.

Development programmes to attract executive trainees

We continued to successfully operate our development programmes for executive trainees. Thus, we were able to fill the majority of vacant management and advisor positions from within our own Group.

Our project manager training was launched for the second time in the 2006/07 financial year with eight participants, and has established itself as a further key component of our HR development approach. The first class – from 2005 – successfully concluded their training in the financial year under review.

Internal training measures enhanced

We continue to set great store by the training of our staff. This is clearly highlighted by the repeated rise in attendance at internal seminars. It is particularly worth noting the specialist seminars that are specific to the business divisions involved, as well as the training measures for sales support.

We have taken into account the growing internationalisation of IKB's business by expanding the number of foreign language courses available to our staff. We have seen a gradual rise in attendance here too. During the 2006/07 financial year, 1 781 employees at IKB attended seminars.

IKB anticipates change in the society

Heightened competition for qualified staff has required us to further enhance our status as an attractive employer. IKB therefore promotes good health within the company and offers a family-friendly human resources policy, in addition to a competitive compensation system and professional development perspectives. We have also taken due account of demographic trends by introducing a working-life time accounts plan and new pension rules. We will continue to emphasise this in the future as well.

Following the government's decision to raise the statutory retirement age to 67 years, many employees expressed a desire to structure the start of their early retirement in line with their individual requirements. With the introduction of the deferred income accounts scheme, IKB was able to provide an attractive offer in this respect. Combined with other provision and remuneration components, the deferred income accounts scheme represents a valuable contribution towards promoting a self-determined transfer into retirement.

Company pensions extended

IKB has extended the financial provisions for its retired employees. The bank's new 2006 pension fund plan is an attractive defined contribution plan (cash balance plan), which is performance-related but features a minimum rate of interest plus special additional benefits in the event of disability or death.

IKB awarded Basic Certificate of the Career and Family Audit “berufundfamilie”

IKB was awarded the Basic Certificate of the Career and Family Audit – “berufundfamilie” (under the patronage of the Federal Ministry of Economics and Technology and of the Federal Ministry for the Family, Senior Citizens, Women and Youth) in recognition of its family-friendly corporate culture. This was attributable amongst other things to IKB’s flexible working hours, teleworking opportunities, various job-sharing models and the provision of child care facilities during the holidays and in emergencies. The new Guiding Principles of the IKB Group stipulate that possible challenges arising in conjunction with working and family life should be taken into consideration and countered as best as possible within the team. IKB will continue to emphasise the compatibility of working and family in the future.

IKB continues to promote a high level of good health within the company

Our employees’ physical and emotional wellbeing is vital to their ability to carry out their duties successfully and enthusiastically. Health and general wellbeing are closely linked to job satisfaction and efficiency, and at the same time ensure our bank maintains its competitive edge.

IKB has been an advocate of company sports such as tennis, badminton and football for many years now. Pre-employment health examinations, health checks, flu vaccinations and a company medical care scheme are some of the voluntary services (partly due to occupational medical requirements) the bank has offered its staff for quite some time now.

Within the scope of corporate health management, IKB also contributed actively – through various measures – to preventative medicine in the financial year under review. These measures include, for example, yoga, badminton or Nordic Walking, as well as preventative health measures such as flu vaccinations or blood donation.

Employee idea submission: sharp increase in suggestions for improvement

Employees are thinkers too. IKB’s staff once again proved their commitment and creativity in this year under review. The bank received and reviewed 105 suggestions on how to improve workflows and processes. The three-fold increase in suggestions for improvement and ideas submitted by our staff compared with the previous financial year (+200%) confirms the success of our new “Suggestions Management” model and the particular corporate identity of IKB employees.

Key human resources indicators

As at 31 March 2007, the Group had 1 838 employees (previous year: 1 703), of which 560 were in the market units, 666 in the corporate centres and 612 in the subsidiaries.

Within the Group, eleven employees are training to become IT specialists, or are completing an integrated vocational study course to gain a degree in business management awarded by a technological university.

During the period under review, 260 staff joined the IKB Group, while 125 left the company. Our staff fluctuation rate of 4.1% changed considerably over the previous year (1.9%), due to markets.

Women account for 40.3% of the workforce. The average age of our employees fell to 40.9, with the average length of service down to 8.7 years.

57 employees celebrated an anniversary with the company during the past year. 44 staff members celebrated 10 years' service, 9 individuals celebrated 25 years with the company, two reached their 40th and a further two their 45th anniversary.

The subscription rate for employee shares was almost unchanged at 78.2%, with consolidated expenses for these share programmes amounting to € 180 000.

Stiftung
Industrieforschung

Innovation through cooperation – bringing higher education and SMEs closer together

Many medium-sized companies lack the resources to build up their own research department, to carry out ongoing research or to shoulder high-risk projects alone. These companies in particular are reliant on cooperation with external research partners if they are to continue to hold a leading technological position. Against this background, it is a core objective of Stiftung Industrieforschung, a foundation which holds just under 12% of the share capital of IKB, to support, above all, cooperation projects between higher education and the medium-sized sector. Two thirds of the research projects financed by the Foundation every year are carried out at institutions of higher education.

A study published by Fraunhofer-Gesellschaft in early 2007 investigated the high potential success of such cooperation projects using the example of mechanical engineering. This showed that particularly companies with relatively low research and development costs were able to achieve a clear increase in their innovative success and competitiveness as a result of cooperation projects. Our foundation projects themselves also provide numerous examples that demonstrate the major opportunities for industrial SMEs that can arise when science and industry work together.

Foundation projects: new noise reduction strategies

Minimising noise emissions is an important challenge for mechanical engineering as equipment is developed that can operate ever faster and as health and safety regulations become ever stricter. Following a suggestion from experienced practitioners Stiftung Industrieforschung made the subject "New strategies for noise reduction" one of the main focuses of its support for one year. Three projects, which have now been concluded, resulted in findings that can now be applied in practice to good effect.

Two research teams headed by Professor Klaus Dilger (TU Braunschweig) and Professor Christian Brecher (RWTH Aachen) examined how, using an innovative composite material, toothed gearing could be designed in such a way as to minimise noise levels. Their idea was that a lightweight material in the gear blank should reduce the weight and noise whilst a steel material in the toothed wheel work should guarantee the required load-bearing capacity. And the results were convincing. The new composite material tooth wheels are not just up to 40% lighter. They also reduce noise emissions by up to 10 dB(A) – which means that, to the human ear, the noise sounds half as loud. Four companies are already in the process of putting this solution to use.

A further project headed by Professor Jürgen Fleischer (TU Karlsruhe) dealt with the noise sources in ball screws and linear guidance systems. The result of their research – specific parameter recommendations for component design – have already been put to use in several companies with profitable results. An engine works was able to allocate different noise sources to individual machinery components and processes so that the components and processes responsible for the highest noise levels could be optimised. For another company, the findings provided the proof that particular dividing components have a positive impact on the noise development.

A third project focused on the key sources of noise in the case of cutting machine tools used in woodworking. Among those woodworking sectors insured under the relevant employers' liability insurance association, hearing loss is the most common industrial disease. The team working under Professor Johannes Tröger (Stuttgart University) used the results of their research to develop specific noise-reduction strategies, primarily involving optimisation of the flow conditions. Six medium-sized manufacturers of woodworking machinery are now successfully implementing these strategies in practice. This has made it easier for them to comply with the EU directives on noise prevention.

The Foundation is to continue to focus its support on the research needs of the medium-sized sector, as seen in the new priority areas of support agreed in March 2007. The three subject areas concerned are: "Strategies to protect intellectual property in medium-sized companies", "Innovative strategies for the resource-optimised operation of production plants" and "Strategies for the use of digital imaging in industrial SMEs".

Dr.-Ing Michael Militzer,
CEO, Executive Committee of
MITEC Automotive AG, Eisenach

MITEC Automotive AG

MITEC Automotive AG is one of the international leaders in automotive propulsion technology. Established in Eisenach in 1991, the family business focused on the consistent application of state-of-the-art production technology, combined with an innovative product strategy, from the very beginning. Nowadays, around 800 staff at three production sites in Thuringia generate annual revenues of approx. € 150 million, with consistent strong growth momentum. MITEC's products are as popular as ever, with more than 70% of production being exported to international customers. MITEC has launched a production site in China in 2007.

The focus of MITEC's business is on reducing noise emissions and vibrations from the power train. This is achieved predominantly through developing and producing balancer systems, and components and gear boxes for four-wheel drives and modern engine technology.

Together with its wholly-owned subsidiary MITEC engine.tec GmbH, the MITEC Automotive AG and the MITEC Group are renowned as world market leaders for balancer systems. The Group's customers include all major automotive producers, such as Ford Motor Company, General Motors, BMW, DaimlerChrysler, Volkswagen, Mazda, Skoda, Cosworth, Audi AG, as well as others. MITEC Automotive AG production capacity for four-wheel-drive components using ground hypoid gear is one of the largest amongst automotive suppliers in Europe.

www.mitec-automotive-ag.de

Consolidated Financial Statements in accordance with International Financial Reporting Standards for the financial year ended 31 March 2007

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2006 to 31 March 2007

	Notes	2006/07 in € million	2005/06 in € million	Change in %
Net interest income	(21)	**646.4**	**557.3**	**16.0**
Interest income		3 212.4	2 374.3	35.3
Interest expenses		2 566.0	1 817.0	41.2
Provision for possible loan losses	(22)	**259.0**	**318.6**	**–18.7**
Net interest income after provision for possible loan losses		**387.4**	**238.7**	**62.3**
Net fee and commission income	(23)	**107.9**	**90.5**	**19.2**
Fee and commission income		123.8	98.0	26.3
Fee and commission expense		15.9	7.5	>100.0
Net income from financial instruments at fair value	(24)	**79.8**	**39.6**	**>100.0**
Net income from investment securities	(25)	**6.9**	**13.1**	**–47.3**
General administrative expenses	(26)	**316.8**	**269.0**	**17.8**
Personnel expenses		185.8	162.8	14.1
Other administrative expenses		131.0	106.2	23.4
Net other operating income	(27)	**–2.2**	**119.6**	
Operating result		**263.0**	**232.5**	**13.1**
Income taxes	(28)	81.4	62.4	30.4
Other taxes		1.9	2.1	–9.5
Net income for the year		**179.7**	**168.0**	**7.0**
Minority interests		–0.1	0.0	
Net income after minority interests		**179.6**	**168.0**	**6.9**
Allocation to retained earnings		–104.8	–93.2	12.4
Consolidated profit		**74.8**	**74.8**	**0.0**

Earnings per share	2006/07	2005/06	Change in %
Net income after minority interests (in € million)	179.6	168.0	6.9
Average number of shares outstanding (million)	87.9	88.0	–0.1
Earnings per share (€)	**2.04**	**1.91**	**6.8**

There was no dilution, since there were no conversion or options rights outstanding as at the balance sheet date.

Board of Managing Directors will propose a dividend of 0.85 € per share to the General Meeting.

Consolidated Income Statement (quarterly)

in € million	Q4 2006/07	Q3 2006/07	Q2 2006/07	Q1 2006/07	Q4 2005/06	Q3 2005/06	Q2 2005/06	Q1 2005/06
Net interest income	**178.8**	**162.3**	**162.7**	**142.6**	**148.0**	**139.4**	**146.7**	**123.2**
Interest income	946.8	777.4	820.2	668.0	653.7	586.5	580.1	554.0
Interest expenses	768.0	615.1	657.5	525.4	505.7	447.1	433.4	430.8
Provision for possible loan losses	**66.6**	**53.9**	**92.5**	**46.0**	**97.8**	**67.1**	**79.8**	**73.9**
Net interest income after provision for possible loan losses	**112.2**	**108.4**	**70.2**	**96.6**	**50.2**	**72.3**	**66.9**	**49.3**
Net fee and commission income	**21.3**	**30.5**	**30.7**	**25.4**	**24.4**	**29.5**	**16.5**	**20.1**
Fee and commission income	28.4	33.4	33.5	28.5	27.9	30.0	18.8	21.3
Fee and commission expense	7.1	2.9	2.8	3.1	3.5	0.5	2.3	1.2
Net income from financial instruments at fair value	**17.7**	**5.9**	**61.7**	**–5.5**	**–16.2**	**1.5**	**22.1**	**32.2**
Net income from investment securities	**0.3**	**–1.2**	**1.7**	**6.1**	**2.0**	**5.3**	**–2.6**	**8.4**
General administrative expenses	**94.9**	**79.4**	**76.1**	**66.4**	**74.9**	**66.1**	**67.3**	**60.7**
Personnel expenses	53.5	47.7	43.1	41.5	44.4	40.4	40.6	37.4
Other administrative expenses	41.4	31.7	33.0	24.9	30.5	25.7	26.7	23.3
Net other operating income	**1.8**	**1.8**	**–3.9**	**–1.9**	**121.6**	**–1.9**	**2.6**	**–2.7**
Operating result	**58.4**	**66.0**	**84.3**	**54.3**	**107.1**	**40.6**	**38.2**	**46.6**
Income taxes	10.3	22.8	29.5	18.8	21.0	11.7	14.4	15.3
Other taxes	0.6	0.6	0.3	0.4	0.2	1.5	0.2	0.2
Net income for the year	**47.5**	**42.6**	**54.5**	**35.1**	**85.9**	**27.4**	**23.6**	**31.1**
Minority interests	0.0	0.0	–0.1	0.0	0.0	0.0	0.0	0.0
Net income for the year after minority interests	**47.5**	**42.6**	**54.4**	**35.1**	**85.9**	**27.4**	**23.6**	**31.1**

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 31 March 2007

	Notes	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Assets				
Cash reserve	(7, 29)	28.7	47.6	–39.7
Loans and advances to banks	(8, 30)	4 441.9	2 197.1	>100.0
Loans and advances to customers	(8, 31)	29 685.0	28 017.7	6.0
Provision for possible loan losses	(9, 33)	–1 094.7	–1 411.7	–22.5
Assets held for trading	(10, 34)	2 054.3	557.5	>100.0
Investment securities	(11, 35)	15 943.5	14 152.1	12.7
Intangible assets	(12, 36)	37.9	27.5	37.8
Property and equipment	(13, 37)	212.1	231.1	–8.2
Income tax assets	(14, 38)	13.7	28.9	–52.6
Other assets	(15, 39)	730.7	361.8	>100.0
Total assets		**52 053.1**	**44 209.6**	**17.7**
Shareholders' equity and liabilities				
Liabilities to banks	(8, 40)	13 912.5	14 060.5	–1.1
Liabilities to customers	(8, 41)	4 277.8	2 546.0	68.0
Securitised liabilities	(16, 42)	28 024.2	21 718.9	29.0
Liabilities held for trading	(10, 43)	1 011.9	952.7	6.2
Provisions	(17, 18, 44, 45)	60.0	303.4	–80.2
Income tax liabilities	(14, 46)	79.2	102.9	–23.0
Other liabilities	(15, 47)	264.3	260.3	1.5
Subordinated capital	(19, 48)	3 026.4	2 910.4	4.0
Shareholders' equity	(20, 49)	1 396.8	1 354.5	3.1
Subscribed capital		225.3	225.3	–
Capital reserve		568.2	568.2	0.0
Retained earnings		462.4	356.5	29.7
Currency translation reserve		–11.8	–7.5	57.3
Revaluation reserve		77.7	137.0	–43.3
Minority interests		0.2	0.2	0.0
Consolidated profit		74.8	74.8	0.0
Total shareholders' equity and liabilities		**52 053.1**	**44 209.6**	**17.7**

Statement of recognised income and expense

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

The changes in equity are presented in Note 49.

	2006/07 in € million	2005/06 in € million	Change in %
Gains/losses on remeasurement of securities	–39.5	–1.1	>100.0
Unrealised gains/losses from investment securities available for sale	–33.1	14.0	
Reclassification into income statement due to investment securities available for sale	–6.4	–15.1	–57.6
Fair value changes from hedging relationships recognised in profit or loss	–74.8	–74.8	–
Exchange differences	–4.3	3.5	
Changes due to actuarial gains/losses	20.3	–19.0	
Deferred taxes on changes recognised directly in equity	34.7	40.3	–13.9
Gains/losses recognised directly in equity (net)	**–63.6**	**–51.1**	**24.5**
Net income for the year	**179.7**	**168.0**	**7.0**
Total recognised gains/losses	**116.1**	**116.9**	**–0.7**
Attributable to shareholders of IKB	116.1	116.9	–0.7
Attributable to minority interests	0.0	0.0	

Cash flow statement

in € million	2006/07	2005/06
Net income for the year	**180**	**168**
Non-cash items included in net income for the year and reconciliation of net income to net cash provided by (used in) operating activities		
Write-downs and valuation allowances of loans and advances, and write-ups to loans and advances and additions to provisions for credit risks	262	321
Depreciation and write-downs of property and equipment, and write-downs of investment securities, less reversals of impairment losses on these items	17	43
Changes in other non-cash items (mainly changes in provisions and certain liabilities, and positive and negative market values from derivative financial instruments)	–72	212
Gains/losses on disposal of investment securities	–7	–37
Gains/losses on disposal of property and equipment	2	–141
Other adjustments (mainly reclassification of interest received and interest paid incl. gains/losses from leases and income taxes paid)	–567	–516
Subtotal	**–185**	**50**
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances		
to banks	–2 228	–791
to customers	–2 189	–1 348
Assets held for trading	–1 361	361
Other assets from operating activities	–410	–42
Liabilities		
to banks	–163	1 797
to customers	1 672	543
Liabilities held for trading	36	–166
Securitised liabilities	6 037	2 858
Other liabilities from operating activities	–54	–149
Interest and dividends received	2 893	1 990
Interest paid	–2 135	–1 643
Income taxes paid	–86	–20
Net cash provided by (used in) operating activities	**1 827**	**3 440**
Proceeds from the disposal of		
Investment securities	3 406	1 746
Property and equipment	37	233
Payments for the acquisition of		
Investment securities	–5 136	–5 135
Property and equipment	–100	–32
Effects of changes in the scope of consolidation	–129	–265
Net cash provided by (used in) investing activities	**–1 922**	**–3 453**
Dividend payments	–75	–70
Net change in cash and cash equivalents from other financing activities (reserves, subordinated capital, etc.)	151	97
Net cash provided by (used in) financing activities	**76**	**27**
Cash and cash equivalents at end of prior period	**48**	**34**
Net cash provided by (used in) operating activities	1 827	3 440
Net cash provided by (used in) investing activities	–1 922	–3 453
Net cash provided by (used in) financing activities	76	27
Cash and cash equivalents at end of period	**29**	**48**

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Basis of group accounting

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

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

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

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

Accounting policies

(1) Accounting principles

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

Generally, the financial statements of the consolidated subsidiaries are prepared as at the same date as the financial statements of the parent. Financial statements prepared as at 31 December 2006 are shown in the list of IKB shareholdings. For IKB Capital Corporation, interim financial statements were prepared as at 31 March 2007.

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

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

(2) Changes to acccounting policies

The accounting policies have not changed in general compared to last year's consolidated financial statements.

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

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

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

(3) Scope of consolidation

In addition to the parent company, 26 (prior year: 24) German and 15 (prior year: 15) foreign companies are included in the consolidated financial statements of IKB as at 31 March 2007. IKB Deutsche Industriebank AG holds the majority of the voting rights in these companies. The consolidated companies are disclosed in the list of shareholdings in Note 69.

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

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

In the financial year 2006/07, IKB Lux Beteiligungen S.a.r.l., Luxembourg, was founded and included in the consolidated financial statements by full consolidation. This company now holds our shares in IKB International S.A.

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

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

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

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

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

(4) Consolidation methods

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

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

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

Interests 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 and IKB Erste Equity Suporta GmbH are measured at fair value, and reported under investment securities.

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

(5) Currency translation

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

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

(6) Financial instruments: recognition and measurement

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

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

a. Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

b. Financial liabilities

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

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

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

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

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

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

c. Financial instruments with embedded derivatives

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

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

d. Financial guarantee contracts

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

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

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

e. Securities repurchase agreements

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

(7) Cash reserve

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

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

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

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

Leases

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

(9) Provision for possible loan losses

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

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

The amount of the portfolio impairment is based on the present value of expected future cash flows. The present value is determined by taking into account probabilities of default, which are calculated on the basis of historical data for the relevant portfolio.

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

Interest on impaired loans and advances is recognised as interest income (unwinding) due to the relevant change in the present value of future payments.

(10) Assets and liabilities held for trading

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

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

(11) Investment securities

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

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

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

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

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

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

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

(12) Intangible assets

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

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

(13) Property and equipment

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

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

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

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

Leases

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

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

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

(14) Income tax assets and liabilities

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

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

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

(15) Other assets/liabilities

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

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

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

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

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

(16) Securitised liabilities

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

(17) Provisions for pensions and similar obligations

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

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

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

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

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

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

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

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

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

(18) Other provisions

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

(19) Subordinated capital

Subordinated liabilities

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

Interest accruals for such transactions are recognised under *Other liabilities*.

Profit-participation certificates

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

Interest accruals for such transactions are recognised under *Other liabilities*.

Silent partnership contributions / preferred shares

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

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

(20) Shareholders' equity

Subscribed capital

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

Capital reserve

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

Retained earnings

Retained earnings are composed of legal reserves and other reserves.

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 re-measurement of *Financial assets available for sale*. In addition, effects from re-measurement 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. In accordance with IAS 19, the revaluation reserve also includes 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. The items mentioned are each adjusted by effects from deferred taxes.

Minority interests

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

Consolidated profit

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

Notes to the Consolidated Income Statement

(21) Net interest income

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

	2006/07 in € million	2005/06 in € million	Change in %
Interest income from derivatives	699.8	449.7	55.6
Interest income from financial instruments accounted for under the fair value option	172.0	112.2	53.3
Interest income from securities held for trading	35.4	11.9	>100.0
Total interest income from financial assets at fair value through profit or loss	**907.2**	**573.8**	**58.1**
Interest income from lending and money market transactions	1 554.5	1 249.1	24.4
Interest income from fixed-income and floating-rate securities	507.6	322.4	57.4
Current income from equity investments	10.5	5.9	78.0
Dividends	2.1	0.5	> 100.0
Current income from shares in associated companies	1.7	0.8	> 100.0
Current income from leasing transactions	228.8	221.8	3.2
Total interest income from other categories	**2 305.2**	**1 800.5**	**28.0**
Total interest income	**3 212.4**	**2 374.3**	**35.3**
Interest expenses for derivatives	671.2	344.3	94.9
Interest expenses for financial liabilities accounted for under the fair value option	275.2	202.8	35.7
Total interest expenses from financial liabilities at fair value through profit or loss	**946.4**	**547.1**	**73.0**
Interest expenses for securitised liabilities	717.1	513.5	39.6
Interest expenses for other liabilities	636.0	477.5	33.2
Interest expenses for subordinated capital	72.5	66.1	9.7
Expenses for leasing transactions	134.1	134.4	–0.2
Expenses similar to interest expenses, incl. interest expenses for pension obligations	59.9	78.4	–23.6
Total interest expense from other categories	**1 619.6**	**1 269.9**	**27.5**
Total interest expense	**2 566.0**	**1 817.0**	**41.2**
Net interest income	**646.4**	**557.3**	**16.0**

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

(22) Provision for possible loan losses

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

(23) Net fee and commission income

	2006/07 in € million	2005/06 in € million	Change in %
Net fee and commission income from lending business	41.3	35.0	18.0
Net fee and commission income from securitisation	59.0	48.0	22.9
Other	7.6	7.5	1.3
Total	**107.9**	**90.5**	**19.2**

(24) Net income from financial instruments at fair value

	2006/07 in € million	2005/06 in € million	Change in %
Net trading result	93.2	59.7	56.1
Net result from fair value option*	–10.1	24.0	
Amortisation of discontinued hedging relationships	–3.3	–44.1	–92.5
of which from cash flow hedges	74.8	74.8	–
of which from fair value hedges	–77.9	–118.9	–34.5
Total	**79.8**	**39.6**	**> 100.0**

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

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

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

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

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

(25) Net income from investment securities

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

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

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

(26) Administrative expenses

	2006/07 in € million	2005/06 in € million	Change in %
Personnel expenses	185.8	162.8	14.1
Other administrative expenses	112.4	83.9	34.0
Depreciation and write-downs of operating and office equipment and property, and amortisation and write-downs of intangible assets	18.6	22.3	–16.6
Total	**316.8**	**269.0**	**17.8**

The individual expense categories are as follows:

Personnel expenses

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

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

Other administrative expenses

	2006/07 in € million	2005/06 in € million	Change in %
Advisory expenses, mandatory contributions, miscellaneous other administrative expenses, and expenses required under company law	26.3	16.2	62.3
IT costs	24.1	19.0	26.8
Occupancy expenses	17.4	8.0	> 100.0
Travel expenses and vehicle costs	12.7	11.3	12.4
Workstation costs	12.3	13.0	–5.4
Advertising, marketing and representation costs	8.0	7.2	11.1
Other administrative expenses	11.6	9.2	26.1
Total	**112.4**	**83.9**	**34.0**

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

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

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

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

(27) Net other operating income

	2006/07 in € million	2005/06 in € million	Change in %
Material other operating income	17.9	18.8	–4.8
Cost allocations	10.9	5.7	91.2
Reversals of provisions/valuation allowances for other receivables	4.2	8.9	–52.8
Income from buildings not used for banking purposes	2.8	4.2	–33.3
Material other operating expenses	16.5	11.0	50.0
Expenses for buildings not used for banking purposes (incl. depreciation)	8.1	4.9	65.3
Additions to provisions/valuation allowances for other receivables	5.1	3.5	45.7
Voluntary social benefits (incl. donations)	3.3	2.6	26.9
Results from the sale of non-financial assets	–1.9	116.2	
Miscellaneous other operating income and expenses (net)	–1.7	–4.4	–61.4
Total	**–2.2**	**119.6**	

(28) Income taxes

	2006/07 in € million	2005/06 in € million	Change in %
Current income taxes	39.6	49.7	–20.3
for the current year	57.3	67.5	–15.1
for prior years	–17.7	–17.8	–0.6
Deferred taxes	41.8	12.7	> 100.0
Total	**81.4**	**62.4**	**30.4**

On the basis of the Group's operating result in 2006/07, a tax expense of € 104.4 million (prior year: € 92.2 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:

	2006/07 in € million	2005/06 in € million	Change in %
Profit/loss before income taxes	261.1	230.4	13.3
Applicable tax rate	40.0 %	40.0 %	–
Expected income taxes	104.4	92.2	13.2
Tax effects			
from previous years and tax rate changes	–19.8	–11.5	72.2
from differences between tax rates in Germany and abroad	–7.9	–11.6	–31.9
from tax-free income	–31.7	–17.7	79.1
from non-deductible expenses	17.8	6.7	> 100.0
from other differences	18.6	4.3	> 100.0
Income taxes	**81.4**	**62.4**	**30.4**

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

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

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

Notes to Assets

(29) Cash reserve

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

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

(30) Loans and advances to banks

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

(31) Loans and advances to customers

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

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

(32) Total loan volume

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Credit extended to banks	45.9	45.8	0.2
Credit extended to customers	27 790.8	26 235.2	5.9
Securitisation business	7 782.9	6 268.7	24.2
Operating and finance leases	1 642.3	1 468.3	11.9
Contingent liabilities (gross) and credit default swaps	2 477.4	2 741.9	–9.6
Total	**39 739.3**	**36 759.9**	**8.1**

(33) Provision for possible loan losses

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

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

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

Provision for possible loan losses exclusively relate to loans and advances to customers.

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

Provisions for credit risks, by customer groups, are as follows:

in € million	Specific valuation allowances, provisions, and investment securities (loans and advances)		Utilisation of specific valuation allowances and provisions		Net additions risk provisioning for the lending business	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
German customers	976.7	1 174.8	484.2	205.7	212.8	295.2
Production	254.9	335.2	160.2	60.9	52.0	75.2
Trade	65.4	102.8	58.1	16.8	10.9	28.7
Services	609.0	716.9	255.5	126.8	117.7	188.8
Transport	20.8	6.7	2.1	0.9	10.2	1.4
Other	26.6	13.2	8.3	0.3	22.0	1.1
Foreign customers	40.6	54.5	33.8	13.5	24.9	23.4
Production	22.1	14.2	6.4	8.5	15.5	6.0
Trade	0.1	0.2	0.1	0.2	0.3	0.2
Services	12.7	18.9	22.4	4.1	8.2	6.6
Transport	4.3	8.8	4.9	0.7	0.9	4.9
Other	1.4	12.4	0.0	0.0	0.0	5.7
Securitisation	21.3	0.0	0.0	0.0	21.3	0.0
Total	**1 038.6**	**1 229.3**	**518.0**	**219.2**	**259.0**	**318.6**

Key figures related to provisions for possible loan losses:

	2006/07 in %	2005/06 in %	Change absolut
Additions	0.7	0.9	–0.2
Utilisations	1.3	0.6	0.7
Balance	2.9	4.0	–1.1

The above-mentioned key figures are defined as follows:

- Addition = Net additions to provisions for possible loan losses, in relation to total loan volume
- Utilisation = Credit defaults in relation to total loan volume
- Total = Total amount of provisions for possible loan losses, in relation to total loan volume

(34) Assets held for trading

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Bonds and other fixed-income securities	1 201.4	79.6	> 100.0
Equities and other non-fixed-income securities	1.9	1.1	72.7
Promissory notes carried as trading assets	419.2	43.1	> 100.0
Positive fair values of derivative financial instruments	431.8	433.7	–0.4
Total	**2 054.3**	**557.5**	**> 100.0**

The increase in bonds and other fixed-income securities mainly relates to securities that we purchased in the context of the planned introduction of a Structured Investment Vehicle and now hold on a temporary basis. These securities were simultaneously sold through a forward sale to the Structured Investment Vehicle.

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

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

(35) Investment securities

Investment securities include the following items:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Bonds and other fixed-income securities	15 653.8	13 877.4	12.8
Equities and other non-fixed-income securities	18.5	19.3	–4.1
Equity investments	264.7	250.2	5.8
of which to banks	78.5	96.0	–18.2
Investments in associates	6.4	5.1	25.5
of which to banks	–	–	–
Shares in affiliated companies	0.1	0.1	0.0
of which to banks	–	–	–
Total	**15 943.5**	**14 152.1**	**12.7**

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

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Investment securities accounted for under the fair value option	4 581.5	3 273.6	40.0
Bonds and other fixed-income securities	4 424.7	3 128.2	41.4
Equity investments	156.8	145.4	7.8
Financial assets available for sale	941.5	1 231.7	–23.6
Bonds and other fixed-income securities	815.0	1 107.5	–26.4
Equities and other non-fixed-income securities	18.5	19.3	–4.1
Shares in affiliated companies	0.1	0.1	0.0
Equity investments	107.9	104.8	3.0
Loans and advances	10 414.1	9 641.7	8.0
Bonds and other fixed-income securities	10 414.1	9 641.7	8.0
Investments in associates	6.4	5.1	25.5
Total	**15 943.5**	**14 152.1**	**12.7**

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

31 Mar 2007 – € million	Total marketable	listed	unlisted
Bonds and other fixed-income securities	15 254.6	13 948.5	1 306.1
Equities and other non-fixed-income securities	5.8	0.1	5.7
Equity investments	91.2	78.3	12.9

As at 31 March 2007, the Company did not hold any marketable investments in associates or interests in subsidiaries.

(36) Intangible assets

No goodwill is included in intangible assets.

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

(37) Property and equipment

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

(38) Income tax assets

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

(39) Other assets

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Documents for collection	333.3	–	–
Deferred taxes	141.2	168.7	–16.3
Receivables from leasing transactions	93.2	47.2	97.5
Trade receivables	82.9	45.4	82.6
Deferred expenses	39.9	47.9	–16.7
Other loans and advances	40.2	52.6	–23.6
Total	**730.7**	**361.8**	**> 100.0**

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

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

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to customers/ provision for possible loan losses	142.7	247.1	–42.3
Assets held for trading	45.6	47.8	–4.6
Investment securities	31.3	20.5	52.7
Property and equipment	8.7	18.0	–51.7
Loss carryforwards	81.8	5.7	> 100.0
Liabilities to banks	1.3	1.2	8.3
Liabilities held for trading	356.8	351.6	1.5
Pension provisions	21.2	31.1	–31.8
Subordinated capital	–	–	–
Other balance sheet items	21.6	23.9	–9.6
Subtotal	**711.0**	**746.9**	**–4.8**
Set-off against deferred tax liabilities	–569.8	–578.2	–1.5
Total	**141.2**	**168.7**	**–16.3**

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

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

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

Notes to Equity and Liabilities

(40) Liabilities to banks

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

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

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

(41) Liabilities to customers

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

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

(42) Securitised liabilities

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Bonds issued (initial maturity < 4 years)	19 182.0	13 677.3	40.2
less own bonds (initial maturity < 4 years)	18.1	18.9	–4.2
Subtotal (initial maturity < 4 years)	19 163.9	13 658.4	40.3
Bonds issued (initial maturity ≥ 4 years)	8 887.7	8 092.8	9.8
less own bonds (initial maturity ≥ 4 years)	27.4	32.3	–15.2
Subtotal (initial maturity ≥ 4 years)	8 860.3	8 060.5	9.9
Total	**28 024.2**	**21 718.9**	**29.0**

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

(43) Liabilities held for trading

This item exclusively comprises derivatives with a negative fair value. As at 31 March 2007, liabilities held for trading amounted to € 1 011.9 million (prior year: € 952.7 million).

(44) Provisions for pensions and similar obligations

			Additions						
in € million	Opening balance at 31 Mar 2005	Pension payments	Current service cost	Interest cost	Total additions	Recognition of actuarial losses directly in equity	Closing balance at 31 Mar 2006	Plan assets in acc. with IAS 19	Change in %
Defined benefit obligations	220.2	8.0	8.4	9.2	17.6	–20.0	209.8	207.4	2.4
Deferred compensation	3.4		0.8	0.1	0.9	–0.3	4.0	4.0	0.0
Early retirement plans	3.8	0.4	0.9	0.2	1.1		4.5	4.5	0.0
Deferred income accounts	0.0		0.3		0.3		0.3	0.0	0.3
Total	**227.4**	**8.4**	**10.4**	**9.5**	**19.9**	**–20.3**	**218.6**	**215.9**	**2.7**

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

As at 31 March 2007, the present value of the pension obligations amounted to € 218.6 million (prior year: € 227.4 million). The decrease by € 8.8 million compared to the previous year is primarily attributable to actuarial gains of € 20.3 million (prior year: actuarial losses in the amount of € 19.0 million); of which € 21.9 million (prior year: € 14.0 million) are changes in actuarial parameters and bases of calculation and € -1.6 million (prior year: € 5.0 million) relate to changes in the number of beneficiaries. Taking into account the prior year amount (€ 35.6 million), the actuarial losses total € 15.3 million as at the balance sheet date. They were recognised directly in equity as a component of the total obligations. Adjustments of the measurement parameters made during the reporting period mainly relate to the increase of the discount rate from 4.25% to 4.75%. In addition, minor changes occurred with respect to future salary increases and employee turnover.

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

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

The calculation was based on the following actuarial assumptions:

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

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

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

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

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

(45) Other provisions

in € million	Opening balance at 31 Mar 2006	Utilisation	Reversals	Additions	Reclassification	Currency translation adjustments	Closing balance at 31 Mar 2007	Change in %
Provisions for credit risks	42.8	10.4	15.2	21.9	–10.9	0.0	28.2	–34.1
Provisions for interests on taxes	11.5	0.0	0.0	3.0	0.0	0.0	14.5	26.1
Provisions for jubilee payments	4.1	0.1	0.0	0.7	0.0	0.0	4.7	14.6
Provisions for taxes (excl. income taxes)	2.5	1.9	0.0	0.6	0.1	0.0	1.3	–48.0
Litigation and recourse claims	0.6	0.0	0.0	–0.3	0.0	0.0	0.3	–50.0
Other	14.5	8.2	0.8	3.4	–0.6	0.0	8.3	–42.8
Total	**76.0**	**20.6**	**16.0**	**29.3**	**–11.4**	**0.0**	**57.3**	**–24.6**

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

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

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

(46) Income tax liabilities

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

(47) Other liabilities

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Trade payables	107.8	82.9	30.0
Interest payable from subordinated capital	81.6	84.5	–3.4
Deferred taxes	16.7	37.1	–55.0
Deferred income	12.2	11.5	6.1
Remaining liabilities	46.0	44.3	3.8
Total	**264.3**	**260.3**	**1.5**

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

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

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to customers / provision for possible loan losses	227.8	309.0	–26.3
Assets held for trading	143.8	135.6	6.0
Investment securities	38.6	40.9	–5.6
Property and equipment	0.4	8.8	–95.5
Liabilities	51.1	23.8	> 100.0
Liabilities held for trading	39.8	40.9	–2.7
Pension provisions	6.5	–	–
Other liabilities	42.7	31.9	33.9
Subordinated capital	24.6	11.6	> 100.0
Other balance sheet items	11.2	12.8	–12.5
Subtotal	**586.5**	**615.3**	**–4.7**
Set-off against deferred tax assets	–569.8	–578.2	–1.5
Total	**16.7**	**37.1**	**–55.0**

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

(48) Subordinated capital

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

Subordinated liabilities

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

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

Start of term	Nominal amount in € million	Currency	Interest rate in %	Maturity
1999/2000	125.0	EUR	7.50	28 Dec 2007
2000/2001	150.0	EUR	6.00	27 Feb 2009
2003/2004	310.0	EUR	4.50	9 Jul 2013
2006/2007	160.0	EUR	4.00	1 Jan 2017

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

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

Profit-participation certificates

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

Profit-participation certificates can be broken down as follows:

Year of issue	Nominal amount in € million	Currency of issue	Interest rate in %	Maturity
1995/1996	81.8	DM	8.40	31 Mar 2007
1997/1998	102.3	DM	7.05	31 Mar 2009
1999/2000	20.0	EUR	7.23	31 Mar 2010
2001/2002	100.0	EUR	6.50	31 Mar 2012
2001/2002	74.5	EUR	6.55	31 Mar 2012
2004/2005	30.0	EUR	4.50	31 Mar 2015
2005/2006	150.0	EUR	6.62	31 Mar 2015
2006/2007	50.0	EUR	4.70	31 Mar 2017

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

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

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

Silent partnership contributions / preferred shares

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

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

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

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

(49) Shareholders' equity

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Subscribed capital	225.3	225.3	–
Capital reserve	568.2	568.2	0.0
Retained earnings	462.4	356.5	29.7
Legal reserves	2.4	2.4	–
Other revenue reserves	460.0	354.1	29.9
Currency translation reserve	–11.8	–7.5	57.3
Revaluation reserve	77.7	137.0	–43.3
Minority interests	0.2	0.2	0.0
Consolidated profit	74.8	74.8	–
Total	**1 396.8**	**1 354.5**	**3.1**

Subscribed capital

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

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

During financial year 2006/07, we purchased a total of 1 017 230 treasury shares at an average price of € 29.88 per share and sold the same quantity at an average price of € 29.78 per share. The net loss from these transactions totals € 0.1 million and has been recognised directly in equity under capital reserves. The largest amount of treasury shares held on any one day totalled 0.21% of the Company's share capital. Our affiliated companies did not sell or purchase IKB shares. No treasury shares were held by the bank as at the balance sheet date.

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

Statement of changes in equity

2006/07 in € million	Opening balance as at 1 Apr 2006	Issue/ redemption of shares	Dividends paid	Changes in the scope of consoli- dation	Net income for the year	Currency translation differences	Changes in the revaluation reserve	Closing balance as at 31 Mar 2007
Subscribed capital	225.3							225.3
Capital reserve	568.2	0.0						568.2
Retained earnings	356.5			1.1	104.8			462.4
Legal reserve	2.4							2.4
Other retained earnings	354.1			1.1	104.8			460.0
Currency translation reserve	–7.5					–4.3		–11.8
Revaluation reserve	137.0						–59.3	77.7
Minority interests	0.2				0.1		–0.1	0.2
Consolidated profit	74.8		–74.8		74.8			74.8

2005/06 in € million	Opening balance as at 1 Apr 2005	Issue/ redemption of shares	Dividends paid	Changes in the scope of consoli- dation	Net income for the year	Currency translation differences	Changes based on new accountancy rules	Closing balance as at 31 Mar 2006
Subscribed capital	225.3							225.3
Capital reserve	568.0	0.2						568.2
Retained earnings	265.0			–1.7	93.2			356.5
Legal reserve	2.4							2.4
Other retained earnings	262.6			–1.7	93.2			354.1
Currency translation reserve	–11.0					3.5		–7.5
Revaluation reserve	191.6						–54.6	137.0
Minority interests	0.2				0.0			0.2
Consolidated profit	70.4		–70.4		74.8			74.8

Revaluation reserve

in € million	
Opening balance at 31 Mar 2006	**137.0**
Unrealised gains/losses from investment securities available for sale	–33.1
Reclassification into income statement due to investment securities available for sale	–6.4
Actuarial gains or losses from IAS 19	20.3
Changes in value due to discontinued hedging relationships recognised in income, in accordance with IFRS 1	–74.8
Deferred taxes on changes recognised directly in equity	34.7
Closing balance at 31 Mar 2007	**77.7**

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

Conditional capital/authorised capital

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

No use has been made of these authorisations to date.

Regulatory indicators

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

	Weighting in %				
31 Mar 2007 in € million	100	50	20	10	Total
Balance sheet transactions	26 640	102	1 284	527	28 553
Off-balance sheet transactions	2 204	1 644	18	0	3 866
Derivative transactions in the banking book	0	143	185	0	328
Total risk-weighted assets	**28 844**	**1 889**	**1 487**	**527**	**32 747**
Amount attributable for market risk					750
Aggregate items for mandatory inclusion					**33 497**
Tier 1 capital					2 472
Tier 2 capital					1 735
Deductible items					–88
Liable capital [1]					**4 119**
Tier 3 capital					0
Eligible capital [2]					**4 119**
Tier 1 capital ratio (in %)					**7.2**
Capital ratio (in %)					**12.3**

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

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

Notes to the Cash Flow Statement

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

Cash flow from operating activities

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

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

Cash flow from investing activities

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

Cash flow from financing activities

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

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

Segment Reporting

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

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

The operating divisions are:

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

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

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

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

In the ***Securitisation*** segment, we report the results from the bank's activities in the fields of investments in international loan portfolios, advisory services to Group-external investors, and securitisation and outplacement of credit risks.

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 our operating business units. 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. Fluctuations in the fair value of financial instruments, except for client derivatives of IKB International S.A. are also allocated to the Head Office segment.

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 division on a calculatory basis. Since the divisions are regarded as independent entities equipped with their own capital resources, net interest income also comprises the investment income from this economic capital. Accordingly, an equity ratio of 4% based on the risk-weighted assets in accordance with the German Banking Act (Principle I) is allocated to the divisions.

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

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

Each segment's earnings are represented by the operating result of the individual divisions. In addition, we measure the results 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.

Segment reporting

	Corporate Clients		Real Estate Clients		Structured Finance		Securitisation		Head Office/ Consolidation		Total	
in € million	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
Net interest income	279.2	280.2	79.2	77.7	172.4	123.2	86.6	84.6	29.0	–8.4	646.4	557.3
Provision for possible loan losses	37.5	44.1	15.4	20.3	35.4	17.1	19.3	0.0	151.4	237.1	259.0	318.6
Net interest income after provision for possible loan losses	**241.7**	**236.1**	**63.8**	**57.4**	**137.0**	**106.1**	**67.3**	**84.6**	**–122.4**	**–245.5**	**387.4**	**238.7**
Net fee and commission income	12.9	14.3	8.0	8.0	36.1	23.9	56.6	40.2	–5.7	4.1	107.9	90.5
Net income from financial instruments at fair value	23.2	19.7	3.4	1.2	1.9	0.3	14.5	0.0	36.8	18.4	79.8	39.6
Net income from investment securities	2.4	0.0	0.0	0.0	0.0	0.0	0.4	6.0	4.1	7.1	6.9	13.1
General administrative expenses	150.8	139.4	41.5	34.4	65.8	52.4	30.2	22.9	28.5	19.9	316.8	269.0
Net other operating income	5.3	–0.4	1.4	0.0	1.6	0.3	–0.4	0.0	–10.1	119.7	–2.2	119.6
Operating result	**134.7**	**130.3**	**35.1**	**32.2**	**110.8**	**78.2**	**108.2**	**107.9**	**–125.8**	**–116.1**	**263.0**	**232.5**
Cost/income ratio in %	46.7	44.4	45.1	39.6	31.0	35.5	19.2	17.5			37.8	38.2
Return on equity in %	21.0	21.6	18.2	17.0	33.8	35.2	n.a.	n.a.			20.6	18.8
Average allocated equity	640	602	193	189	328	222	53	51	65	175	1 279	1 239
Total loan volume	16 835	15 720	4 889	4 819	7 870	5 786	6 954	6 838	3 191	3 597	39 739	36 760
Volume of new business	4 756	4 168	1 299	1 007	5 270	3 468	1 175	2 108	312	556	12 812	11 307

The fourth quarter of the financial year 2006/07 is as follows:

in € million	Corporate Clients Q4 2006/07	Corporate Clients Q4 2005/06	Real Estate Clients Q4 2006/07	Real Estate Clients Q4 2005/06	Structured Finance Q4 2006/07	Structured Finance Q4 2005/06	Securitisation Q4 2006/07	Securitisation Q4 2005/06	Head Office/ Consolidation Q4 2006/07	Head Office/ Consolidation Q4 2005/06	Total Q4 2006/07	Total Q4 2005/06
Net interest income	73.3	76.5	24.1	17.8	47.7	31.6	25.0	21.3	8.7	0.8	178.8	148.0
Provision for possible loan losses	12.2	12.3	8.9	6.2	10.5	5.2	19.3	0.0	15.7	74.1	66.6	97.8
Net interest income after provision for possible loan losses	**61.1**	**64.2**	**15.2**	**11.6**	**37.2**	**26.4**	**5.7**	**21.3**	**–7.0**	**–73.3**	**112.2**	**50.2**
Net fee and commission income	2.8	4.2	1.6	2.6	7.0	6.6	14.2	8.7	–4.3	2.3	21.3	24.4
Net income from financial instruments at fair value	17.9	15.1	1.1	0.0	0.6	0.1	10.1	0.0	–12.0	–31.4	17.7	–16.2
Net income from investment securities	–2.4	–7.3	0.0	0.0	0.0	0.0	0.6	0.0	2.1	9.3	0.3	2.0
General administrative expenses	42.2	38.8	13.2	10.2	18.0	16.9	9.6	8.3	11.9	0.7	94.9	74.9
Net other operating income	1.3	–1.5	1.4	0.0	1.5	–0.3	0.0	0.0	–2.4	123.4	1.8	121.6
Operating result	**38.5**	**35.9**	**6.1**	**4.0**	**28.3**	**15.9**	**21.0**	**21.7**	**–35.5**	**29.6**	**58.4**	**107.1**
Cost/income ratio in %	45.4	44.6	46.8	50.0	31.7	44.5	19.2	27.7			43.2	45.8
Return on equity in %	23.3	21.7	12.7	7.8	31.9	30.4	10.2	27.1			18.3	34.6
Average allocated equity	662	662	192	204	355	209	205	80	–135	84	1 279	1 239
Total loan volume	16 835	15 720	4 889	4 819	7 870	5 715	6 954	6 838	3 191	3 668	39 739	36 760
Volume of new business	1 164	1 009	578	309	489	759	357	397	105	–36	2 693	2 438

The secondary reporting format is prepared according to the regional distribution of the locations of our branches or Group companies.

in € million	Germany 2006/07	Germany 2005/06	Rest of Europe 2006/07	Rest of Europe 2005/06	Americas 2006/07	Americas 2005/06	Head Office/ Consolidation 2006/07	Head Office/ Consolidation 2005/06	Total 2006/07	Total 2005/06
Net interest income	411.7	403.0	181.6	147.7	24.1	15.0	29.0	–8.4	646.4	557.3
Provision for possible loan losses	85.2	65.5	22.4	14.8	0.0	1.2	151.4	237.1	259.0	318.6
Net interest income after provision for possible loan losses	**326.5**	**337.5**	**159.2**	**132.9**	**24.1**	**13.8**	**–122.4**	**–245.5**	**387.4**	**238.7**
Net fee and commission income	111.0	73.5	0.6	12.4	2.0	0.5	–5.7	4.1	107.9	90.5
Net income from financial instruments at fair value	32.7	3.5	10.1	17.8	0.2	–0.1	36.8	18.4	79.8	39.6
Net income from investment securities	2.6	6.0	0.2	0.0	0.0	0.0	4.1	7.1	6.9	13.1
General administrative expenses	242.7	212.5	40.6	32.6	5.0	4.0	28.5	19.9	316.8	269.0
Net other operating income	3.5	–1.1	4.5	0.7	–0.1	0.3	–10.1	119.7	–2.2	119.6
Operating result	**233.6**	**206.9**	**134.0**	**131.2**	**21.2**	**10.5**	**–125.8**	**–116.1**	**263.0**	**232.5**
Cost/income ratio in %	43.2	43.8	20.6	18.3	19.1	25.5			37.8	38.2
Total loan volume	24 414	23 716	10 992	8 684	1 142	763	3 191	3 597	39 739	36 760

Notes to Financial Instruments

(50) Derivatives

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

Derivatives	Nominal amount			Fair value						
				Positive		Negative		Total		
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Interest rate derivatives	**39 424.5**	**35 613.3**	**10.7**	**305.7**	**323.7**	**860.8**	**844.2**	**–555.1**	**–520.5**	**6.6**
Remaining term of up to 1 year				134.7	148.5	104.1	68.3	30.6	80.2	–61.8
Remaining term of between 1 and 5 years				52.3	66.7	176.6	151.6	–124.3	–84.9	46.4
Remaining term of more than 5 years				118.7	108.5	580.1	624.3	–461.4	–515.8	–10.5
Credit derivatives	**1 576.4**	**1 812.1**	**–13.0**	**20.8**	**35.9**	**14.8**	**20.4**	**6.0**	**15.5**	**–61.3**
Remaining term of up to 1 year				1.5	5.1	0.0	15.7	1.5	–10.6	< –100.0
Remaining term of between 1 and 5 years				16.2	25.5	13.0	2.6	3.2	22.9	–86.0
Remaining term of more than 5 years				3.1	5.3	1.8	2.1	1.3	3.2	–59.4
Currency derivatives	**8 194.8**	**6 691.4**	**22.5**	**105.3**	**73.6**	**136.3**	**85.1**	**–31.0**	**–11.5**	**>100.0**
Remaining term of up to 1 year				63.4	34.2	45.0	18.8	18.4	15.4	19.5
Remaining term of between 1 and 5 years				41.7	32.4	70.8	40.9	–29.1	–8.5	>100.0
Remaining term of more than 5 years				0.2	7.0	20.5	25.4	–20.3	–18.4	10.3
Equity derivatives	**0.0**	**0.0**	**–**	**0.0**	**0.5**	**0.0**	**3.0**	**0.0**	**–2.5**	**–100.0**
Remaining term of up to 1 year				0.0	0.0	0.0	0.0	0.0	0.0	
Remaining term of between 1 and 5 years				0.0	0.0	0.0	3.0	0.0	–3.0	–100.0
Remaining term of more than 5 years				0.0	0.5	0.0	0.0	0.0	0.5	–100.0
Total	**49 195.7**	**44 116.8**	**11.5**	**431.8**	**433.7**	**1 011.9**	**952.7**	**–580.1**	**–519.0**	**11.8**

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

The breakdown of derivatives by counterparties is as follows:

	Fair value 31 Mar 2007		Fair value 31 Mar 2006	
in € million	Positive	Negative	Positive	Negative
OECD banks	332.1	901.9	340.9	909.4
Other OECD companies and OECD private individuals	99.2	105.9	91.7	27.5
Non-OECD	0.5	4.1	1.1	15.8
Total	**431.8**	**1 011.9**	**433.7**	**952.7**

(51) Market price risks arising from trading activities

IKB's market price risks result from the positions of both the trading book and the banking book. We are exposed to interest rate, volatility and share price risks. The exposure to currency risks in the total portfolio is insignificant. Currency risks are limited by means of restrictions with regard to the volume of open currency positions.

The quantification of market price risks is based on mathematical-statistical methods in the form of value-at-risk, using a confidence level of 95% and a holding period of ten days. For the measurement of market price risks within the scope of own-account trading, we use a variance-covariance approach, extended by scenarios for derivatives. The underlying statistical parameters are based on an observation period of the last 50 and 500 trading days.

Market price risks in the banking book are also measured pursuant to the historical simulation method on the basis of a present value concept. The underlying parameters correspond to an observation period of 250 trading days.

The amount of the market price risk of the bank is limited by a limit system adopted by the Board of Managing Directors and is continuously monitored by our risk management function. Limits exist for the risk potential of the interest rate and volatility exposure and are monitored by risk controlling on a daily basis.

	Risk potential at confidence level of 95 %		
Portfolio	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Trading book	2.0	0.1	> 100.0
Banking book	50.9	163.2	–68.8
Group	**52.9**	**163.3**	**–67.6**

The calculation of market price risks arising from trading activities was changed during the financial year due to a change in the strategy to invest own funds. Taking into account this new investment strategy, the risk potential now amounts to € 101.1 million as at 31 March 2006.

In the past financial year, the limit for the risk potential was reduced, as was the utilisation of this limit.

(52) Credit risk concentration

Credit risk as at 31 March 2007 compared to the prior year is as follows:

	Total loan volume		
	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
German customers	24 534.5	24 360.7	0.7
Production	12 414.1	12 251.1	1.3
Trade	2 404.3	2 557.7	–6.0
Services	6 951.0	7 372.1	–5.7
Transport	716.0	677.7	5.7
Other	2 049.1	1 502.1	36.4
Foreign customers	8 250.3	5 783.4	42.7
Production	3 752.8	2 973.2	26.2
Trade	565.6	488.2	15.9
Services	2 566.4	1 493.0	71.9
Transport	649.8	270.4	> 100.0
Other	715.7	558.6	28.1
Securitisation	6 954.5	6 615.8	5.1
Total	**39 739.3**	**36 759.9**	**8.1**

Detailed information about the risks associated with our activities can be found in the risk report, which is included in this annual report.

(53) Fair value of financial assets and liabilities

In accordance with IAS 32, the fair value (market value) of a financial asset or a financial liability is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

The fair value for financial instruments traded in an active market can be derived from the (quoted) market price as at the balance sheet date. The fair value was not separately calculated for cash reserves, as well as for current loans and advances and current liabilities where the carrying amount represents a reasonable approximation of fair value. The applicable carrying amount was used in these cases. Loans were measured taking into account current ratings, probabilities of default and collateral developments. The amortised carrying amounts were used for equity investments measured at equity. For all other financial assets and liabilities for which there is no liquid market, we used appropriate measurement models (amongst others, discounted cash flow method and option pricing models).

The following table is a comparison of the fair values and the corresponding carrying amounts.

	Fair value		Book value		Difference	
in € million	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Assets						
Loans and advances to banks	4 441.7	2 195.4	4 441.9	2 197.1	–0.2	–1.7
Loans and advances to customers	29 293.7	27 797.7	29 685.0	28 017.7	–391.3	–220.0
Assets held for trading	2 054.3	557.5	2 054.3	557.5	–	–
Investment securities	15 643.4	13 970.9	15 943.5	14 152.1	–300.1	–181.2
Shareholders' equity and liabilities						
Liabilities to banks	13 810.6	13 945.9	13 912.5	14 060.5	–101.9	–114.6
Liabilities to customers	4 275.6	2 567.1	4 277.8	2 546.0	–2.2	21.1
Securitised liabilities	27 952.9	21 672.6	28 024.2	21 718.9	–71.3	–46.3
Liabilities held for trading	1 011.9	952.7	1 011.9	952.7	–	–
Subordinated capital	3 048.8	2 966.0	3 026.4	2 910.4	22.4	55.6

The difference between the carrying amount of the financial liabilities measured at fair value and the repayment amount is € 42.5 million (prior year: € 45.6 million).

Other disclosures

(54) Subordinated assets

Assets have to be classified as subordinated assets when – in the case of the winding-up or the insolvency of the obligor – they may be repaid only after the receivables of other creditors.

Subordinated assets mainly comprise the following items:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to customers	505.2	394.9	27.9
Assets held for trading	0.4	–	–
Investment securities	423.7	191.9	> 100.0
Total	**929.3**	**586.8**	**58.4**

(55) Contingent assets/liabilities and commitments

Contingent liabilities include, amongst others, potential future liabilities of the Group which result from term credit facilities granted to customers that have not been utilised.

Income from guarantees and similar transactions are recognised in net fee and commission income. The amount to be recognised is determined on the basis of agreed rates from the nominal value of the guarantees.

Contingent liabilities and commitments of IKB can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Contingent liabilities	1 012.5	934.7	8.3
Guarantees, warranties, other	842.9	714.7	17.9
Assumptions of liability	169.6	220.0	–22.9
Other commitments	16 703.1	14 103.0	18.4
Commitments for up to one year	14 085.4	12 060.7	16.8
Commitments for more than one year	2 617.7	2 042.3	28.2
Total	**17 715.6**	**15 037.7**	**17.8**

Contingent liabilities are generally matched with contingent assets in the same amount.

Other commitments include credit commitments totalling € 11.9 billion (prior year: € 11.2 billion) in favour of special purpose companies, which can only be utilised by these companies in case of a short-term liquidity squeeze.

The figures presented reflect the amounts which would have to be paid out in case the customer fully draws on the relevant credit facility. The largest portion of these obligations by far will probably expire without ever being utilised. The figures are not representative for the actual future credit exposure or for liquidity requirements resulting from these obligations.

(56) Other financial obligations

In the Group, funding commitments arising from shares in public (AG) or private (GmbH) limited companies, and shares in affiliated companies which have not been fully paid up as well as from the shareholdings of IKB Private Equity and the subordinated loans, amount to € 46.8 million (prior year: € 35.7 million) as at the balance sheet date.

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

(57) Leases

Finance leases

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Gross investment value (maturities)			
up to 1 year	532.3	467.1	14.0
more than 1 year up to 5 years	1 124.3	974.3	15.4
more than 5 years	77.7	53.0	46.6
Gross investment value (total)	**1 734.3**	**1 494.4**	**16.1**
of which:			
Non-guaranteed residual values	55.9	35.8	56.1
Unearned finance income (maturities)			
up to 1 year	79.1	65.3	21.1
more than 1 year up to 5 years	111.2	86.4	28.7
more than 5 years	5.6	3.2	75.0
Unearned finance income (total)	**195.9**	**154.9**	**26.5**
Net investment value (maturities)			
up to 1 year	453.2	401.8	12.8
more than 1 year up to 5 years	1 012.8	887.9	14.1
more than 5 years	72.4	49.8	45.4
Net investment value (total)	**1 538.4**	**1 339.5**	**14.8**
Contingent rent recognised in income	6.4	5.7	12.3
Accumulated allowances for uncollectible minimum lease payments	–0.6	–5.4	–88.9

Future minimum lease payments from non-cancellable finance leases can be broken down by maturity as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
up to 1 year	486.1	426.6	13.9
more than 1 year up to 5 years	997.1	879.1	13.4
more than 5 years	75.0	50.7	47.9
Total	**1 558.2**	**1 356.4**	**14.9**

Operating leases

Future minimum lease payments to be received under non-cancellable operating leases can be broken down by maturities as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
up to 1 year	37.6	50.8	–26.0
more than 1 year up to 5 years	48.8	67.2	–27.4
more than 5 years	0.3	0.6	–50.0
Total	**86.7**	**118.6**	**–26.9**

As in the prior year, no contingent rents were recognised in profit or loss in the year under review.

IKB Leasing GmbH, Hamburg, has commitments from sale and leaseback transactions totalling € 7.4 million (prior year: € 18.5 million). The commitments are offset with corresponding claims against lessees.

The two administrative buildings in Düsseldorf were leased for a fixed lease term of 20 years under an operating lease agreement. The lease may be renewed on two occasions, each time for five years, at then applicable market conditions. In addition, IKB was granted a preferential purchase right and a preferential lease right. For the first three years of the lease agreement, a price escalation clause with a rate of 1% p.a. was agreed. As from the fourth year, a provision applies with regard to contingent rents pursuant to which the increase of the rents will be linked to changes in the consumer price index.

Future minimum lease payments to be paid by IKB from non-cancellable operating leases can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
up to 1 year	14.7	12.7	15.7
more than 1 year up to 5 years	55.3	52.1	6.1
more than 5 years	185.5	196.7	–5.7
Total	**255.5**	**261.5**	**–2.3**

As before, IKB expects to receive rental payments from the sub-lease of parts of the administrative buildings to Group-external tenants of at least € 1.7 million p.a.

(58) Letter of comfort

IKB ensures, excluding political risk, that its subsidiaries included in the list of shareholdings of IKB Deutsche Industriebank AG and marked as being covered by the letter of comfort, will be able to meet their contractual obligations.

IKB Leasing GmbH, Hamburg, has issued letters of comfort on behalf of the subsidiaries IKB Leasing Hungaria Kft., Budapest, and IKB Penzüdyi Lizing Hungaria Rt., Budapest, to Commerzbank Rt., Budapest. A letter of comfort has also been issued to Bankhaus Carl Spängler & Co., Salzburg on behalf of IKB Leasing Austria GmbH, Salzburg.

(59) Disclosures related to collateral

Disclosures related to collateral provided for own liabilities and contingent liabilities

IKB has assigned or transferred assets and accepted collateral for the following liabilities:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Liabilities to banks	6 146.7	5 488.7	12.0
Liabilities to customers	18.3	20.0	–8.5
Total	**6 165.0**	**5 508.7**	**11.9**

We provide collateral above all for loans granted by KfW Bankengruppe and other development banks. These institutes have linked the issue of loans to the provision of collateral.

Fixed-income securities totalling € 6.0 billion (prior year: € 5.3 billion) have been pledged with Deutsche Bundesbank as collateral for the European Central Bank's repurchase agreement process (collateral pool). As at the balance sheet date, credit facilities amounting to € 0.8 billion (prior year: € 3.3 billion) had been drawn upon.

We have provided banks with cash collateral in connection with credit derivative transactions, in the amount of € 290.0 million (prior year: € 540.0 million).

We have provided cash collateral for interest rate derivatives as part of the Company's collateral management, in the amount of € 262.3 million (prior year: € 271.7 million).

In order to fulfil payment obligations for securities transactions, securities with a market value of € 3.5 million (prior year: € 3.5 million) have been deposited as collateral at Clearstream Banking AG, Frankfurt, and a security with a market value of € 7.0 million (prior year: € 7.0 million) has been deposited as collateral at Clearstream Banking S.A., Luxembourg. As part of futures trading at EUREX Deutschland, securities with a market value of € 20.0 million (prior year: € 5.0 million) have been pledged with BHF-Bank AG, Frankfurt/Main and Berlin, as well as to Citigroup, London, to cover margin requirements.

In addition, securities with an unchanged nominal amount of USD 67.0 million have been pledged with WestLB AG, London branch, as collateral within the scope of an issue. Securities in the amount of USD 390.1 million have been pledged to KfW Bankengruppe to support the hedging of joint business transactions.

Disclosures related to collateral received

We have received government bonds with a fair value of € 74.1 million as collateral. These securities may be re-sold or re-pledged. The securities are subject to a redemption obligation in the same amount, in accordance with normal conditions under securities repurchase agreements. These securities were re-pledged under repurchase agreements.

(60) Securities repurchase agreements

In the financial year 2006/07, we entered into securities repurchase transactions for the first time. As at the balance sheet date, the bank, as lender in genuine repurchase transactions (reverse repo transactions), had receivables from banks in the amount of € 75.1 million and, as borrower (repo transactions), liabilities to banks in the amount of € 75.2 million.

(61) Statement of changes in non-current assets

Non-current assets changed during the year under review as follows:

	Property and equipment				Intangible assets	Equity investments/ associates/ affiliated companies	Total
in € million	Assets from non-cancellable operating leases	Land and buildings and buildings under construction, excluding investment property held for sale	Operating and office equipment incl. low value assets	Investment property held for sale			
Cost							
Balance at 31 Mar 2006	216.1	110.7	55.0	10.1	55.7	278.2	**725.8**
Changes in the scope of consolidation	0.0	0.0	–1.2	0.0	0.0	0.0	**–1.2**
Exchange differences	0.1	0.0	0.0	0.0	0.0	0.0	**0.1**
Additions	61.4	16.8	10.7	0.0	20.1	170.8	**279.8**
Reclassifications	–34.7	0.0	0.1	0.0	0.0	0.0	**–34.6**
Disposals	67.2	28.3	4.1	0.0	0.6	148.9	**249.1**
Balance at 31 Mar 2007	175.7	99.2	60.5	10.1	75.2	300.1	**720.8**
Cumulative changes from the application of the equity method	0.0	0.0	0.0	0.0	0.0	4.6	**4.6**
Depreciation, amortisation, impairment and write-ups							
Balance at 31 Mar 2006	87.4	29.6	35.9	7.9	28.2	9.7	**198.7**
Changes in the scope of consolidation	0.0	0.0	–0.6	0.0	0.0	0.0	**–0.6**
Exchange differences	0.0	0.0	–0.1	0.0	0.0	0.0	**–0.1**
Depreciation and amortisation	32.0	1.7	7.2	0.0	9.7	0.0	**50.6**
Impairment	0.1	0.0	0.0	0.0	0.0	0.9	**1.0**
Write-ups	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Reclassifications	–7.3	0.0	0.2	0.0	0.0	0.0	**–7.1**
Disposals	40.5	16.6	3.5	0.0	0.6	0.0	**61.2**
Balance at 31 Mar 2007	71.7	14.7	39.1	7.9	37.3	10.6	**181.3**
Cumulative fair value changes	0.0	0.0	0.0	0.0	0.0	–22.9	**–22.9**
Carrying amounts							
Balance at 31 Mar 2006	128.7	81.1	19.1	2.2	27.5	255.4	**514.0**
Balance at 31 Mar 2007	104.0	84.5	21.4	2.2	37.9	271.2	**521.2**

(62) Maturity groupings

The table below shows the structure of the maturities of assets and liabilities:

31 Mar 2007 in € million	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years
Loans and advances to banks	4 239.0	44.0	59.1	99.8
Loans and advances to customers	3 075.6	3 816.8	14 088.8	8 703.8
Assets held for trading	204.4	33.6	201.1	1 615.2
Investment securities	252.5	942.4	5 423.3	9 325.3
Total	**7 771.5**	**4 836.8**	**19 772.3**	**19 744.1**
Liabilities to banks	5 132.2	1 272.2	3 808.1	3 700.0
Liabilities to customers	996.1	117.1	1 047.1	2 117.5
Securitised liabilities	1 867.4	7 647.3	18 013.8	495.7
Liabilities held for trading	67.7	52.5	233.5	658.2
Subordinated capital	2.5	231.2	693.5	2 099.2
Total	**8 065.9**	**9 320.3**	**23 796.0**	**9 070.6**

31 Mar 2006 in € million	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years
Loans and advances to banks	2 147.6	9.0	34.2	6.3
Loans and advances to customers	3 676.2	3 239.9	12 992.8	8 108.8
Assets held for trading	164.3	15.9	217.9	159.4
Investment securities	392.4	919.2	5 359.2	7 481.3
Total	**6 380.5**	**4 184.0**	**18 604.1**	**15 755.8**
Liabilities to banks	6 618.2	1 083.7	3 203.9	3 154.7
Liabilities to customers	526.1	182.1	901.1	936.7
Securitised liabilities	1 993.0	4 543.2	14 676.9	505.8
Liabilities held for trading	39.6	44.8	197.0	671.3
Subordinated capital	92.0	0.0	871.3	1 947.1
Total	**9 268.9**	**5 853.8**	**19 850.2**	**7 215.6**

The maturity results from the period of time between the balance sheet date and the due date of each partial amount of an asset or a liability. If a repricing date occurs before the actual due date, this repricing date has been used as the due date.

(63) Foreign currency balances

The recognised foreign currency balances, translated into euro, are shown in the following overview.

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Foreign currency assets	8 446.4	5 590.4	51.1
Foreign currency liabilities	8 373.3	5 806.6	44.2

The exchange rates for the material currencies of IKB are presented in the following table.

Exchange rates (for € 1)	31 Mar 2007	31 Mar 2006	Change in %
USD	1.3318	1.2104	10.0
CHF	1.6247	1.5801	2.8

(64) Average number of employees during the financial year

	2006/07	2005/06	Change in %
Men	1 056	996	6.0
Women	672	630	6.7
Total	**1 728**	**1 626**	**6.3**

The average increase of 102 employees mainly results from further recruitment at subsidiaries and with regard to market and central functions.

(65) Related party disclosures

KfW Bankengruppe continues to hold an interest of 37.8% in IKB. Accordingly, it is a related party within the meaning of IAS 24. The credit and refinancing transactions of IKB as well as its subsidiaries with KfW 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 2007, liabilities to banks include individual refinancing transactions of € 4.0 million (prior year: € 3.6 million) and global loans of € 1.7 million (prior year: € 1.5 million).

As at 31 March 2007, KfW Bankengruppe had provided to IKB Private Equity GmbH 10 (prior year: 23) guarantees, in a volume of € 13.2 million (prior year: € 23.0 million), and to IKB Equity Capital Fund I GmbH & Co. KG, a subsidiary of IKB Private Equity GmbH, 7 guarantees in a volume of € 9.2 million (prior year: € 0.0 million). The guarantees of IKB Equity Capital Fund I GmbH & Co. KG were transferred by IKB Private Equity GmbH upon the spin-off as at 1 January 2007.

These guarantees exclusively relate to guarantee credits from different development programmes of KfW Bankengruppe for providers of equity. These development programmes are available at identical conditions for all providers of equity approved by KfW 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 € 2.1 million (prior year: € 1.2 million).

In addition, there is an individual investor's indemnity granted by KfW Bankengruppe in favour of IKB Private Equity GmbH amounting to € 5.9 million (prior year: € 13.0 million). The conditions of this agreement on the provision of equity capital were structured in line with the mezzanine fund jointly initiated in 2001 and reflect the fund's economic substance. The fund was dissolved in the financial year 2005/06. In the year under review, IKB paid guarantee commissions for these guarantee credits to KfW Bankengruppe in the amount of € 0.8 million (prior year: € 0.1 million).

The following overview shows related party transactions with the bank's executive bodies in the consumer credit business:

Group of persons incl. close members of the family	Total loan volume (utilisation or amount of commitment) in € thousand		Average maturity in years		Average interest rate in %	
	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Board of Managing Directors	–	–	–	–	–	–
Employee representatives on the Supervisory Board	177	57	6.2	4.8	4.1	4.0
Shareholder representatives on the Supervisory Board	400	700	1.3	2.3	5.3	4.1
Companies controlled by shareholder representatives	116 609	151 081	11.5	7.0	4.5	4.8
Total	**117 186**	**151 838**	**11.5**	**7.0**	**4.5**	**4.8**

All loans were granted at normal market conditions on the basis of IKB's standard principles of business and were secured either with real property liens or other collateral instruments. These exposures represent 0.3% (prior year: 0.4%) of total loan volume by the Group. No specific valuation allowances were recognised for these exposures.

The following table illustrates the remaining related party transactions which were also carried out at normal market conditions:

Group of persons	Type of transaction	Volume in € thousand		Average maturity in years		Average interest rate in %	
		31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Companies controlled by shareholders' representatives	Securities holding with IKB	11 900	11 900	3.0	4.0	8.0	8.0
Companies controlled by shareholders' representatives	Interest swaps	11 500	1 250	3.1	4.1	Variable payer, between 3m Euribor and 6m Euribor; receives 3.25 to 6m Euribor +/- basis points	Variable payer, between 3m Euribor and 6m Euribor; receives 3.25 and 3.68 as well as 6m Euribor + basis points

IKB has prepared a subordinate status report in accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG). This report will not be published. The final declaration of the Board of Managing Directors in the subordinate status report reads as follows: "IKB received appropriate consideration for each legal transaction set out in the report on transactions with related parties. This assessment was based on the conditions known to us at the time such reportable transactions were undertaken. We did neither take nor omit to take any measures within the meaning of Section 312 of the German Stock Corporation Act (AktG)."

Directors' dealings within the meaning of Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

Below, we provide an overview of directors' dealings as well as of transactions involving shares or related financial instruments of IKB Deutsche Industriebank AG which were carried out with persons or companies classified as related parties to such directors.

Company	Position/relationship	Trading day/ exchange	Description of security	Trade type	Quantity	Share price in €
Hella KGaA Hueck & Co.	Dr. Jürgen Behrend, General Partner of Hella KGaA Hueck & Co. and a member of the Supervisory Board of IKB Deutsche Industriebank AG	22 Sep 2006 Frankfurt	IKB shares (unit shares)	Sale	17 850	27.23

Until 31 March 2007, there were no shareholdings required to be reported in accordance with Section 6.6 of the German Corporate Governance Code.

Loans and advances from, and liabilities to, subsidiaries, associates and other investees

The loans and advances from unconsolidated subsidiaries, associates and other investees can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Loans and advances to banks	**1.9**	**5.6**	**–66.1**
Subsidiaries	0.2	0.1	100.0
Associates and other investees	1.7	5.5	–69.1
Loans and advances to customers	**242.0**	**80.0**	**> 100.0**
Subsidiaries	0.0	–	–
Associates and other investees	242.0	80.0	> 100.0
Total	**243.9**	**85.6**	**> 100.0**

The liabilities from unconsolidated subsidiaries, associates and other investees can be broken down as follows:

	31 Mar 2007 in € million	31 Mar 2006 in € million	Change in %
Liabilities to banks	**5 848.0**	**5 095.3**	**14.8**
Subsidiaries	0.0	0.1	–100.0
Associates and other investees	5 848.0	5 095.2	14.8
Liabilities to customers	**6.7**	**0.3**	**> 100.0**
Subsidiaries	0.3	0.3	0.0
Associates and other investees	6.4	–	–
Total	**5 854.7**	**5 095.6**	**14.9**

(66) Remuneration and loans to executive bodies

A detailed description of the principles of the remuneration and the compensation system for the members of the Board of Managing Directors and of the Supervisory Board is included in the remuneration report, which is part of the management report.

The remuneration for the members of the Board of Managing Directors

For the financial year 2006/07, the total remuneration for the Board of Managing Directors amounted to € 7 424 thousand, € 6 837 thousand of which related to the annual remuneration and € 587 thousand to additions to pension provisions (service costs).

Former and retired members of the Board of Managing Directors

The total remuneration for former and retired Board members and their surviving dependents amounted to € 5 345 thousand (prior year: € 2 871 thousand) in form of cash payments or additions to provisions. A total amount of € 37 227 thousand was provided for pension obligations to former members of the Board of Managing Directors and their surviving dependents.

The remuneration for the members of the Supervisory Board

For the financial year 2006/07, the total remuneration for the Supervisory Board amounted to € 1 339 thousand. This figure includes travel expenses/VAT totalling € 189 thousand.

Remuneration of the Advisory Board

The members of the Advisory Board received € 403 thousand (prior year: € 390 thousand), including VAT.

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

As at 31 March 2007, we had extended loans to members of the Supervisory Board and of the Advisory Board in an aggregate amount of € 1.4 million (prior year: € 2.4 million).

(67) Corporate Governance Code

On 28 June 2006, the Board of Managing Directors and the Supervisory Board submitted the annual Declaration of Compliance within the meaning of Section 161 of the AktG and made it permanently available to shareholders on the Company's website.

(68) Executive bodies

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

a) their membership in other statutory supervisory boards; and

b) similar offices held in comparable governing bodies of German and foreign companies.

Supervisory Board

Chairman

Dr. h.c. Ulrich Hartmann, Düsseldorf
Chairman of the Supervisory Board of
E.ON AG

a) E.ON AG (Chairman)
Deutsche Bank AG
Deutsche Lufthansa AG
Hochtief AG
Münchener Rückversicherungs-Gesellschaft AG

b) Henkel KGaA

Deputy Chairman

Hans W. Reich, Frankfurt (Main)
Chairman of the Board of Managing Directors of
KfW Bankengruppe (retired)
(until 31 August 2006)

a) Aareal Bank AG (Chairman)
HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a.G.
HUK-COBURG-Holding AG
ThyssenKrupp Steel AG

b) Citigroup Inc.
DePfa Bank plc.

Detlef Leinberger, Frankfurt (Main)
Member of the Board of Managing Directors of
KfW Bankengruppe
(since 31 August 2006)

b) European Investment Fund (EIF)

Dr. Alexander v. Tippelskirch, Düsseldorf
Deputy Chairman of the Supervisory Board of
IKB Deutsche Industriebank AG

a) Alba AG (Chairman)
GELITA AG (Chairman)
P-D INTERGLAS TECHNOLOGIES AG (Deputy Chairman)

b) Hako-Holding GmbH & Co.
Hako-Werke Beteiligungsgesellschaft mbH
Krono-Holding AG
nobilia-Werke J. Stickling GmbH & Co.
Schmolz & Bickenbach KG
Schmolz & Bickenbach AG
Hans Martin Wälzholz-Junius Familienstiftung
Eckart Wälzholz-Junius Familienstiftung
Dietrich Wälzholz Familienstiftung

Members

Dieter Ammer, Hamburg
Businessman

a) Beiersdorf AG (Chairman)*
Conergy AG (Chairman)
Tchibo GmbH (Chairman)*
GEA AG
Heraeus Holding GmbH
*tesa AG**
*(*Group boards)*

Jörg Asmussen, Berlin
Ministerial Director
in the German Federal Ministry of Finance

a) Euler Hermes Kreditversicherungs-AG
Postbank AG

b) Bundesanstalt für Finanzdienstleistungsaufsicht
(Deputy Chairman)

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

a) Messe Düsseldorf GmbH

b) GfW Gesellschaft für Wirtschaftsförderung
Nordrhein-Westfalen GmbH (Chairman)
NRW.International GmbH (Chairman)
Entwicklungsgesellschaft Zollverein mbH
Forschungszentrum Jülich GmbH
NRW.BANK
NRW Japan K.K.
ZENIT GmbH

Dr. Jürgen Behrend, Lippstadt
Managing Director and
General Partner of Hella KGaA Hueck & Co.

a) Leoni AG

Wolfgang Bouché, Düsseldorf
Employee representative

Hermann Franzen, Düsseldorf
General Partner of
Porzellanhaus Franzen KG

a) SIGNAL IDUNA Allgemeine Versicherung AG
(Deputy Chairman)
IDUNA Vereinigte Lebensversicherung aG
SIGNAL IDUNA Holding AG

b) BBE Unternehmensberatung GmbH (Chairman)

Dr.-Ing. Mathias Kammüller, Ditzingen
Chairman of the Management of
TRUMPF Werkzeugmaschinen GmbH + Co. KG

b) Bürkert GmbH & Co.
HUBER VERPACKUNGEN GmbH & Co. KG

Wilhelm Lohscheidt, Düsseldorf
(until 31 August 2006)
Employee representative

Jürgen Metzger, Hamburg
Employee representative

Roland Oetker, Düsseldorf
Managing Partner
of ROI Verwaltungsgesellschaft mbH

a) Mulligan BioCapital AG (Chairman)
Deutsche Post AG
Volkswagen AG

b) Dr. August Oetker KG (Deputy Chairman)

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

a) Körber AG (Chairman)

Randolf Rodenstock, Munich
Managing Partner
of Optische Werke G. Rodenstock KG

a) E.ON Energie AG
Rodenstock GmbH

Rita Röbel, Leipzig
Employee representative

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

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

b) European Aeronautic Defence and Space Company EADS N.V.
Freudenberg & Co.

Jochen Schametat, Düsseldorf
(since 31 August 2006)
Employee representative

Dr. Carola Steingräber, Berlin
Employee representative

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

a) Messe Frankfurt GmbH
Schott AG
Sto AG

Ulrich Wernecke, Düsseldorf
Employee representative

Andreas Wittmann, Munich
Employee representative

Board of Managing Directors

Frank Braunsfeld
(since 1 March 2007)

b) IKB Credit Asset Management GmbH
IKB Capital Corporation
IKB Immobilien Management GmbH

Dr. Volker Doberanzke
(since 1 June 2006)

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

Dr. Markus Guthoff

a) Carl Zeiss Meditec AG

b) IKB Capital Corporation (Chairman)
IKB Credit Asset Management GmbH (Deputy Chairman)
IKB Private Equity GmbH (Chairman until 31 March 2007)
IKB International S. A. (since 1 April 2007)
Movesta Lease and Finance GmbH
Poppe & Potthoff GmbH

Claus Momburg

b) IKB Autoleasing GmbH (Chairman)
IKB Leasing Berlin GmbH (Chairman)
IKB Leasing GmbH (Chairman)
IKB Private Equity GmbH (Chairman since 1 April 2007)
Movesta Lease and Finance GmbH (Deputy Chairman)
Argantis GmbH
IKB International S. A.

Joachim Neupel
(until 31 December 2006)

a) Aareal Bank AG

b) IKB Immobilien Management GmbH (Chairman)
Movesta Lease and Finance GmbH (Chairman)
IKB Leasing GmbH
IKB Leasing Berlin GmbH
IKB Autoleasing GmbH
IKB Private Equity GmbH)

Stefan Ortseifen

a) Coface Deutschland AG
Coface Holding AG

b) IKB International S. A. (Chairman)
IKB Credit Asset Management GmbH (Chairman)
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (Deputy Chairman)
IKB Autoleasing GmbH (Deputy Chairman)
IKB Capital Corporation (Vice Chairman)
IKB Leasing Berlin GmbH (Deputy Chairman)
IKB Leasing GmbH (Deputy Chairman)
IKB Private Equity GmbH (Deputy Chairman)
KfW Bankengruppe

Frank Schönherr
(until 30 November 2006)

b) IKB Capital Corporation (Chairman)
IKB Financière France S.A. (Président Directeur Général)

Offices held by employees

As at 31 March 2007, the following employees were represented in statutory supervisory boards of large corporations:

Rolf Brodbeck
Spiele Max AG

Roland Eschmann
Oechsler AG
ODS Optical Disc Service GmbH

Stefan Haneberg
MASA AG

Klaus Reineke
GKD Gebr. Kufferath AG

(69) Shareholdings

	Letter of comfort	Equity interest in %	Financial year	Equity in € thousand
A. Consolidated subsidiaries				
1. Foreign banks				
IKB International S.A., Luxemburg	x	100[1]	1 Apr - 31 Mar	530 652[2]
2. Other German companies				
AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf	x	100	1 Jan - 31 Dec	5 811
ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf [3]	x	100[1]	1 Apr - 31 Mar	60
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100[1]	1 Apr - 31 Mar	42
IKB Autoleasing GmbH, Hamburg	x	100[1]	1 Apr - 31 Mar	4 000
IKB Beteiligungen GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	401 515
IKB Credit Asset Management GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	8 000
IKB Data GmbH, Düsseldorf	x	100	1 Apr - 31 Mar	20 000
IKB Equity Capital Fund I GmbH & Co. KG, Düsseldorf	x	100[1]	1 Apr - 31 Mar	98 046
IKB Equity Finance GmbH, Düsseldorf		100[1]	1 Apr - 31 Mar	25
IKB Erste Equity Suporta GmbH, Düsseldorf		100[1]	1 Apr - 31 Mar	6 017
IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf [3]	x	100	1 Jan - 31 Dec	6 663
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf [3]	x	100	1 Jan - 31 Dec	2 715
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf [3]	x	100	1 Jan - 31 Dec	9 734
IKB Grundstücks GmbH & Co Objekt Uerdinger Straße KG, Düsseldorf [3]	x	100	1 Jan - 31 Dec	8 620
IKB Grundstücks GmbH, Düsseldorf	x	100	1 Jan - 31 Dec	89
IKB Immobilien Management GmbH, Düsseldorf	x	75	1 Jan - 31 Dec	948
IKB Leasing Berlin GmbH, Erkner	x	100[1]	1 Apr - 31 Mar	8 000
IKB Leasing GmbH, Hamburg	x	100[1]	1 Apr - 31 Mar	30 000
IKB Private Equity GmbH, Düsseldorf	x	100[1]	1 Apr - 31 Mar	97 500
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf[3]	x	100	1 Jan - 31 Dec	20 040
IKB Projektentwicklungsverwaltungsges. mbH, Düsseldorf	x	100	1 Jan - 31 Dec	22
IMAS Grundstücks-Vermietungsges. mbH, Düsseldorf	x	100	1 Apr - 31 Mar	268
ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf [3]	x	100[1]	1 Apr - 31 Mar	310
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	x	100[1]	1 Apr - 31 Mar	42
ISTOS Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH, Düsseldorf	x	100	1 Jan - 31 Dec	34
ISTOS Erste Beteiligungsverwaltungs- und Grundstücks-vermietungsges. mbH & Co. KG, Düsseldorf [3]	x	100	1 Jan - 31 Dec	2 485

	Letter of comfort	Equity interest in %	Financial year	Equity in € thousand
3. Other foreign companies				
IKB Capital Corporation, New York		100	1 Jan - 31 Dec	48 508
IKB Finance B. V., Amsterdam	x	100	1 Apr - 31 Mar	11 060
IKB Financière France S.A., Paris	x	100	1 Jan - 31 Dec	72 083
IKB Funding LLC I, Wilmington, Delaware	x[4]	100	1 Apr - 31 Mar	75 057
IKB Funding LLC II, Wilmington, Delaware	x[4]	100	1 Apr - 31 Mar	400 064
IKB Leasing Austria GmbH, Salzburg	x	100[1]	1 Jan - 31 Dec	1 276
IKB Leasing ČR s.r.o., Prag	x	100[1]	1 Jan - 31 Dec	2 215
IKB Leasing France S.A.R.L., Marne	x	100[1]	1 Jan - 31 Dec	9 527
IKB Leasing Hungária Kft., Budapest	x	100[1]	1 Jan - 31 Dec	1 844
IKB Leasing Polska Sp.z o.o., Posen	x	100[1]	1 Jan - 31 Dec	4 579
IKB Leasing SR s.r.o., Bratislava	x	100[1]	1 Jan - 31 Dec	798
IKB Lux Beteiligungen S. á.r.l., Luxemburg	x	100	1 Apr - 31 Mar	428 878
IKB Penzüdyi Lizing Hungária Rt., Budapest	x	100[1]	1 Jan - 31 Dec	1 267
Still Location S.A.R.L., Marne	x	100[1]	1 Jan - 31 Dec	9 527
B. Joint ventures / associates				
Linde Leasing GmbH, Wiesbaden		30[1]	1 Jan - 31 Dec	21 318
Movesta Lease and Finance GmbH, Düsseldorf		50[1]	1 Jan - 31 Dec	10 335

[1] Indirect interest
[2] Incl. silent partnership contributions/preferred shares
[3] Company did not prepare separate notes to its financial statements in accordance with Section 264b of the HGB
[4] Subordinated letter of comfort

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

The following list is an overview of the assets and liabilities of associated companies:

Name of associates in € million	Assets	Liabilities
Linde Leasing GmbH, Wiesbaden	398	377
Movesta Lease and Finance GmbH, Düsseldorf	23	13

Düsseldorf, 15 May 2007
IKB Deutsche Industriebank AG
Düsseldorf
The Board of Managing Directors

Auditors' 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 recognized 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 1 April 2006 to 31 March 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and 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 IFRSs, as adopted by the EU, 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.

Düsseldorf, 4 June 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Ufer
German Public Auditor	German Public Auditor

Development of key financial indicators

Development of key items of the Consolidated Income Statement of IKB Deutsche Industriebank AG in accordance with IFRS

Consolidated Income Statement in € million	2006/07	2005/06	2004/05*
Interest income	3 212.4	2 374.3	2 664.5
Interest expenses	2 566.0	1 817.0	2 142.9
Net interest income	646.4	557.3	521.6
Provision for possible loan losses	–259.0	–318.6	–313.8
Net interest income after provision for possible loan losses	387.4	238.7	207.8
Net fee and commission income	107.9	90.5	83.6
Net income from financial instruments at fair value	79.8	39.6	–
Net income from investment securities	6.9	13.1	135.7
Personnel expenses	185.8	162.8	139.6
Other administrative expenses	131.0	106.2	96.3
Net other operating income	–2.2	119.6	9.3
Operating result	263.0	232.5	200.5
Taxes	83.3	64.5	45.1
Net income for the year	179.7	168.0	155.4
Minority interests	–0.1	0.0	–0.3
Net income after minority interests	179.6	168.0	155.1
Earnings per share €	2.04	1.91	1.76

* The consolidated income statement for the financial year 2004/05 was prepared without applying IAS 32 and IAS 39.

Development of key items of the Consolidated Income Statement of IKB Deutsche Industriebank AG in accordance with the German Commercial Code (HGB)

Consolidated Income Statement in € million	2003/04	2002/03	2001/02	2000/01	1999/2000	1998/99	1997/98	1996/97
Interest income, income from leasing transactions	3 251.6	3 223.2	3 215.2	3 097.6	2 524.3	2 334.3	2 138.9	2 093.6
Current income from securities, investments and profit transfer agreements	2.0	1.8	4.8	2.7	36.7	12.9	20.0	11.0
Interest expenses, expenses and scheduled depreciation from leasing transactions	2 728.2	2 740.0	2 748.7	2 661.6	2 141.3	1 953.6	1 793.7	1 753.9
Net interest income	525.4	485.0	471.3	438.7	419.7	393.6	365.2	350.7
Net commission income	84.7	64.1	39.5	12.3	7.7	8.8	7.6	5.6
Net result from financial operations	3.2	0.8	1.9	2.5	–2.6	6.6	8.1	4.9
Personnel expenses	146.8	137.8	133.4	117.2	107.2	87.4	82.5	78.6
Other administrative expenses including depreciation of tangible fixed assets	85.4	82.1	73.1	66.0	59.1	51.3	49.6	41.4
Net other operating income/expenses	11.2	20.2	29.3	91.8	77.8	–3.5	–8.1	–12.0
Risk provisioning balance	–211.7	–183.4	–175.2	–187.2	–165.5	–88.4	–78.7	–80.6
Result from ordinary activities	180.6	166.8	160.3	174.9	170.8	178.4	162.0	148.6
Other income/expenses	–	–	–	–1.5	–10.0	–3.1	–7.7	–
Taxes	75.8	81.0	77.2	87.5	85.3	84.3	77.9	74.6
Net income	104.8	85.8	83.1	85.9	75.5	91.0	76.4	74.0
Earnings per share €	1.19	0.98	0.94	0.98	0.86	1.03	0.87	0.84

Development of key items of the Consolidated Balance Sheet of IKB Deutsche Industriebank AG in accordance with IFRS

Consolidated Balance Sheet in € million	31 Mar 2007	31 Mar 2006	31 Mar 2005*
Loans and advances to banks	4 442	2 197	1 381
Loans and advances to customers	29 685	28 018	26 628
Provision for possible loan losses	–1 095	–1 412	–1 378
Assets held for trading	2 054	557	766
Investment securities	15 944	14 152	10 757
Property and equipment	212	231	338
Remaining assets	811	467	1 011
Liabilities to banks	13 913	14 060	12 170
Liabilities to customers	4 278	2 546	1 982
Securitised liabilities	28 024	21 719	18 861
Liabilities held for trading	1 012	953	1 100
Provisions	60	303	254
Income tax liabilities	79	103	142
Other liabilites	264	261	850
Subordinated capital	3 026	2 910	2 834
Shareholders' equity	1 397	1 355	1 310
Subscribed capital	225	225	225
Capital reserve	568	568	568
Retained earnings	463	357	265
Currency translation reserve	–12	–7	–11
Revaluation reserve	78	137	192
Minority interests	0	0	0
Consolidated profit	75	75	71
Total	**52 053**	**44 210**	**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**

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Financial Calendar

Press conference: annual accounts for the financial year 2006/07	28 June 2007
3-month figures for the financial year 2007/08	14 August 2007
Analysts‘ conference	27 August 2007
General Meeting	30 August 2007
Dividend payments	31 August 2007
6-month figures for the financial year 2007/08 (Conference call)	15 November 2007
9-month figures for the financial year 2007/08 (Conference call and press conference)	14 February 2008
Preliminary figures for the financial year 2007/08 (Conference call)	15 May 2008
Press conference: annual accounts for the financial year 2007/08	26 June 2008
3-month figures for the financial year 2008/09	14 August 2008
Analysts‘ conference	25 August 2008
General Meeting	28 August 2008
Dividend payments	29 August 2008
6-month figures for the financial year 2008/09 (Conference call)	13 November 2008

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