IKB: Interim announcement as of 30 June 2012

The interim announcement covers the period from the start of the financial year on 1 April 2012 to 30 June 2012.

Business performance

The first quarter of the 2012/13 financial year was determined by rising uncertainty in the wake of the debt crisis in the European currency union. As a result of the crisis, the already low interest level declined further across all maturities in April 2012 and approached the zero line in short maturities. Risk premiums for the major euro nations Spain and Italy climbed to record heights in the first quarter. Not only international investors feared the collapse of the euro zone or Greece's withdrawal. Neither the European Central Bank nor the European Stability Mechanism, the launch of which has been delayed, were able to reassure markets. There have recently also been signs that the order situation on the German economy has been negatively affected by the euro crisis.

In the first quarter of 2012/13, the volume of new lending business was only slightly down on the figure for the same quarter of the previous year at € 628 million despite the lingering euro crisis (1 April to 30 June 2011: € 686 million). The credit volume for the Bank as a whole has risen by € 0.7 billion as against the end of the previous reporting period (31 March 2012). Thanks to the continuing overall stability of the German economy, defaults were at only a low level.

After adjustment for provisions for possible loan losses, the operating result of the core business segments (Credit Products, Consulting and Capital Markets) was stable year-on-year at € 24 million. The net interest income of the two core segments was virtually unchanged as compared to the same quarter of the previous year at € 49 million.

Result of operations (IFRS consolidated income statement for the period 1 April to 30 June 2012)

The income statement for the first quarter of the 2012/13 financial year reports a consolidated net loss of € 139 million, an increase of € 53 million as against the same period of the previous year. The further rise in risk premiums and the very low interest level again squeezed net income from financial instruments at fair value. Adjusted for extraordinary factors, the consolidated net loss was € 30 million.

IKB's results are still affected by the payment of commission to SoFFin. However, commission expenses have declined significantly as a result of the early repayment and maturity of SoFFin-guaranteed bonds.

Table: Consolidated income statement for the first three months of the 2012/13 financial year (1 April 2012 to 30 June 2012)

€ million	**1 Apr. 2012 to 30 June 2012**	**1 Apr. 2011 to 30 June 2011**	**Change**
Net interest income	18.7	41.4	-22.7
Provisions for possible loan losses	2.1	-9.3	11.4
Net interest income (after provisions for possible loan losses)	**16.6**	**50.7**	**-34.1**
Net fee and commission income	-4.7	-15.8	11.1
Net income from financial instruments at fair value	-69.8	-45.2	-24.6
Net income from investment securities	4.9	-6.0	10.9
Net income from investments accounted for using the equity method	0.3	1.5	-1.2
Administrative expenses	70.7	74.5	-3.8
Personnel expenses	*38.6*	*40.2*	*-1.6*
Other administrative expenses	*32.2*	*34.3*	*-2.1*
Net other operating income	6.9	7.7	-0.8
Operating result	**-116.5**	**-81.6**	**-34.9**
Tax expense	22.1	4.3	17.8
Consolidated net loss for the period	**-138.6**	**-85.9**	**-52.7**

Figures for the previous year adjusted. The adjustments relate to the net interest income and the provision for possible loan losses, both of which increased by € 2.2 million. The change has no influence on total comprehensive income. Furthermore, the net income from financial instruments at fair value declined by a total of € 2.6 million.

Net interest income declined by € 23 million to € 19 million. This was due to lower interest income, which resulted from cash collateral bearing interest at close to money market rates and the almost € 3 billion reduction in customer lending (due in part to EU requirements), while interest expenses did not decline to the same extent. The development in net interest income in the Credit Products segment was stable. The earnings contributions by the Treasury and Investments segment decreased as against the same period of the previous year.

The **provisions for possible loan losses** were at a moderate € 2 million. In the previous year, reversals of some portfolio impairment losses and the reversal of individual impairment losses essentially resulted in net income of € 9 million.

Net fee and commission income improved to € -5 million largely as a result of the significant € 11 million year-on-year decline in guarantee commission to be paid to SoFFin.

Net income from financial instruments at fair value amounted to € -70 million, down € 25 million on the previous year's figure of € -45 million. The negative result was primarily due to the euro crisis and related further remeasurement losses on European government and corporate bonds. The Bank's own obligations carried at fair value resulted in losses on remeasurement due to the decline in the interest rate overall in the financial year, which were not offset by gains on remeasurement as a result of spread developments.

Net income from investment securities climbed by € 11 million from € -6 million in the previous year to € 5 million. A key factor in this was the portfolio investments and non-current assets, which resulted in net income of € 4 million, while in the previous year contributions of € -6 million had been reported due to changes in value and losses on disposal.

At € 71 million, **administrative expenses** were down € 4 million on the previous year. The decline reflects the success of the measures taken to cut costs. Personnel expenses dropped by € 2 million to € 39 million while other administrative expenses also decreased by € 2 million to € 32 million.

The **net other operating income** fell by € 1 million to € 7 million.

Overall, the **operating result** amounted to € -117 million (previous year: € -82 million). After adjustment for extraordinary factors, the operating result was € -28 million (previous year: € 11 million). The consolidated net loss after taxes amounted to € 139 million (previous year: consolidated net loss of € 86 million).

Net asset situation (balance sheet as of 30 June 2012)

Total assets amounted to € 32.1 billion as of 30 June 2012, climbing slightly by € 0.5 billion as against 31 March 2012.

According to the report to Deutsche Bundesbank, the tier 1 capital ratio of the IKB Group based on HGB figures was 9.4% on 30 June 2012 (31 March 2012: 9.4%), while the total capital ratio was 13.3% (31 March 2012: 13.0%).

Financial position

The liquidity situation at IKB is stable. This is thanks in part to the utilisation of the SoFFin guarantees and the diversification of the funding mix. IKB also accepts revolving deposits from a number of customers, a practice that has also included the “IKB direkt” retail banking platform since March 2011. In addition, the Bank is reducing non-strategic assets in particular and conducting selective on-balance sheet new lending business to reduce its eligible risk-weighted assets. Further SoFFin guarantees of € 250 million each were repaid early in May and August 2012.

Key events and transactions

The following events and transactions are material:

Mandatory conversion of convertible bonds

In December 2008, IKB Deutsche Industriebank AG issued subordinate convertible bonds (ISIN DE000A0SMN11) with a nominal value of € 123,671,070.72. Following several elective conversions, the remaining convertible bonds of nominally € 146,488.32, underwent mandatory conversion into a corresponding number of IKB bearer shares in line with a conversion ratio stipulated in the terms of issue on 11 April 2012, the stated final conversion date. As a result of this mandatory conversion and an elective conversion performed in January 2012, the total number of voting rights rose by 58,662 from 633,326,261 to 633,384,923, and issued capital increased by € 150,174.72 from € 1,621,315,228.16 to € 1,621,465,402.88.

Change in segment from regulated market to open market quality segments

With the approval of the Supervisory Board, the Board of Managing Directors of IKB Deutsche Industriebank AG has resolved to initiate a change in segment for all the Bank’s securities from the regulated market to the open market quality segments.

This move affects the following securities of IKB, ISIN:

Shares: DE0008063306; bearer bonds (subordinated bonds): DE0002197761, XS0118282481, XS0163286007, XS0163773251, XS0165828673, XS0165937458, XS0169197646, XS0171797219, XS0200612355, XS0241326924, XS0266017622, XS0282589505; bearer bonds: DE0002731304, DE0002731445, DE0002731494, DE000A0SMPA3, DE000A0SMPB1, XS0238155088; profit participation certificates: DE0002731429, DE0002731197; credit-linked notes: DE000A0EUEZ7

IKB has applied for the admission of IKB's shares to the General Standard of the regulated market of the Frankfurt stock exchange to be revoked, coupled with an application for introduction in the open market Entry Standard of the Frankfurt stock exchange. The revocation application has since been granted and will take effect from 26 October 2012. IKB's shares and some of the securities listed above were launched on the primary market of the Düsseldorf stock exchange in July 2012. The other securities of IKB will also be launched in open market quality segments on a German stock exchange. The change in segment is expected to be completed by the end of the 2012 calendar year at the latest.

The segment change will enable IKB to save costs and grant it the option of restricting its accounting to the regulations of the German Commercial Code.

Debt issuance programme

The Bank is planning to update its debt issuance programme in the 2012/13 financial year.

SoFFin guarantees

IKB AG repaid SoFFin guarantees of € 250 million ahead of schedule on two occasions on 18 May 2012 and 2 August 2012. The guarantees repaid related to the bond maturing on 2 February 2015. IKB's SoFFin guarantee framework has therefore been reduced to a total of € 4.0 billion.

The maturity structure of the outstanding bonds issued under the SoFFin guarantee is as follows as at 14 August 2012:

- € 2.0 billion maturing on 10 September 2012
- € 0.75 billion maturing on 1 February 2013
- € 1.25 billion maturing on 2 February 2015.

Changes in the Group

The investment fund Partner Fonds Eurobonds, Luxembourg, was liquidated in full in April 2012.

IKB Partner Fonds, Luxembourg, and Partner Fonds Europa Renten Teilfonds II, Luxembourg, were dissolved in May 2012.

Legally relevant events

On 25 May 2012, King County, Iowa Student Loan Liquidity Corporation and IKB reached a court-witnessed agreement intending to end the pending legal dispute between the two parties before the United States District Court of the Southern District of New York, USA. The confidential agreement sets out an end to the legal dispute without an admission of guilt by any party involved. IKB is assuming that the agreement will not constitute a financial burden to the Bank and considers its legal risks to have been mitigated as a result.

The company is carefully monitoring the legal landscape in the United States, where a number of disputes are emerging concerning irregularities in subprime lending or its packaging in securitisation products. It has taken initial steps and filed suits against several parties in the US. The company is therefore analysing its duties under stock corporation law on an ongoing basis to determine whether new information can be gained on the crisis at IKB and its causes, and the legal consequences of this in the interests of the company.

Reconciliation of interests and redundancy scheme

A new reconciliation of interests and redundancy scheme has been negotiated with employee representatives and was signed on 8 May 2012 in order to perform further cost-cutting and restructuring measures.

Bonds referencing Greece

All Greek bonds were sold after 31 March 2012. The expenses of this have been recognised under bonds carried at amortised cost as of 31 March 2012 as an adjusting event.

Personnel – Supervisory Board

Mr Olivier Brahin resigned effective 25 May 2012.

Outlook

Please see the 2011/12 annual report for details of the forecast for further business developments. It has since proven to be true that the debt crisis is increasingly becoming a burden for economic participants in the euro zone. Fears that the euro zone could collapse have been on the rise since investors began to have massive doubts about Italy and Spain. It will take some time to restore confidence.

The fundamental changes in IKB's business model have been implemented. The Bank has a solid tier 1 capital base and ratio, risk management has been expanded, risks have been reduced and liquidity has been secured. IKB has been able to devote more attention to customer business since it fulfilled the EU conditions (deadline: 30 September 2011). The costs resulting from implementing the EU requirements by that deadline will gradually diminish. The repayment of the SoFFin guarantee means that the currently high commission expenses will be reduced further.

IKB believes it has good prospects for expanding its activities in the area of consulting, hedging and credit products. However, owing to the high restructuring costs and the issues arising from Basel III in particular, it will still be some time before the reorganisation is reflected positively and permanently in the income statement. Greece's default and the smouldering Euro crisis are delaying the return to a positive result of ordinary operations. The European debt crisis is continuing to impair the global economy and financial markets; there is still no end to the crisis in sight and it could still cause severe earnings volatility in the future business performance of IKB.

The future earnings structure will feature a stronger share of commission income from consulting, derivatives and capital market business. Net interest income will stabilise in the medium term with profitable new lending business. The expenses of the guarantee commission owed to SoFFin will continue to diminish. The downward trend in total assets will continue. The Group's administrative expenses will be reduced continuously with efficiency enhancements, particularly in the fulfillment of regulatory requirements, the reduction of Group complexity and headcount reductions.

Uncertainties on the effects of implementing Basel III in terms of costs and business developments have increased because legislators have not yet made any final determinations nor technical implementing provisions just a few months before Basel III is due to take effect on 1 January 2013.

To limit its refinancing costs and ensure its liquidity in the future as well, IKB will continue to diversify its refinancing structure. The key components of this are secured financing, actively using programme loans and global loans from government development banks and sustainable deposit business with corporate and retail clients.

The Board of Managing Directors is maintaining its objective of returning to operating profitability in the medium term and thereby creating more room to further strengthen its tier 1 capital. Servicing the compensation agreements of a total amount of € 1,151.5 million and the value recovery rights of the hybrid investors mean that IKB AG will probably not report any, or only minimal, profit for several financial years to come, even if operating activities are profitable.

Düsseldorf, 14 August 2012

The Board of Managing Directors

IKB Deutsche Industriebank AG supports medium-sized enterprises and private equity funds in Germany and Europe with loans, risk management, capital market services and advisory services.

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