3-Month Report 2007/08
1 April – 30 June 2007

IKB. Committed to enterprise.

IKB Deutsche Industriebank

IKB Key Figures

Income Statement Figures	3 months 2007/08 in € million	Change vs. 3 months 2006/07 in %
Net interest income	142.2	–0.3
Provision for possible loan losses	23.5	–48.9
Net interest income (after provision for possible loan losses)	118.7	22.9
Net commission income	23.1	–9.1
General administrative expenses	76.8	15.7
Operating result	18.4	–66.1
Net income for the period	11.7	–66.7

Balance Sheet Figures	30 June 2007 in € million	Change vs. 31 March 2007 in %
Total assets	53 178	2.2
Loans and advances to customers	30 226	1.8
Liabilities to banks	13 805	–0.8
Securitised liabilities	28 516	1.8
Total equity	1 381	–1.1

Selected Ratios	3 months 2007/08	3 months 2006/07
Return on equity	5.6 %	17.0 %
Cost-income ratio	64.7 %	39.8 %
Earnings per share	0.13 €	0.40 €

Selected Ratios	30 June 2007	31 March 2007
Capital ratio (Principle I)	12.2 %	12.3 %
Tier 1 capital ratio	7.1 %	7.2 %
Number of employees	1 882	1 838

IKB Rating	Long-Term	Short-Term	Outlook
Moody's	A2	P-1	under review
Fitch IBCA	A+	F1	stable

Dear Shareholders,

Much has been written in the press over the last few weeks and months on the crisis affecting the US real estate market, and the resulting impact on IKB. Events intensified only after the reporting date of our quarterly financial statements: hence, their full impact is only reflected to a limited extent in our figures for the first quarter.

The crisis in the subprime segment of the US mortgage market has been triggering major reactions on the market for structured capital market products since mid-July. Institutional investors' willingness to assume these risks has diminished significantly since this time, particularly following the serious problems affecting various hedge funds, and the downgrading of some tranches of subprime transactions. As a result, the market for Asset Backed Commercial Paper has dried up, and there has been a clear widening in credit spreads for structured securities, which consequences continue up-to-date.

As at 30 June 2007, IKB was engaged in structured portfolio investments which also included exposures to US real estate loans in the sub-prime segment, via own holdings and through the special purpose vehicle Rhinebridge plc, which is being consolidated. IKB had also committed to liquidity facilities for the Rhineland Funding conduit (which is also exposed to sub-prime risks); in addition to liquidity facilities of € 8.1 billion, the bank had assumed further risks resulting from the conduit.

In late July 2007, uncertainty in the Commercial Paper market threatened the ability of the Rhineland Funding conduit to secure its refinancing in the longer term. For IKB, this posed the risk that the liquidity facilities extended would be drawn upon. As a result, IKB's creditworthiness was called into question and insolvency could not be ruled out. To avoid a moratorium of IKB, a rescue package was put together on 28/29 July 2007 by KfW Banking Group (KfW) together with the German banking supervisory authority (BaFin), the Bundesbank, the Federal Finance Ministry and Germany's three banking associations (the Association of German Banks, the Federal Association of German Credit Unions and Rural Banking Cooperatives, and the German Savings Bank Association).

With effect from 30 July 2007, KfW assumed IKB's financial obligations under the liquidity facilities granted to Rhineland Funding. Moreover, KfW and the three banking associations undertook to assume further IKB risk exposures relating to Rhineland Funding, and any potential losses resulting from IKB's investments in structured securities, up to the amount of € 1 billion. The banking pool, which was established under the lead of KfW, estimated the aggregate potential losses from the entire risk shield at around € 3.5 billion. The risk shield means a sustained risk release for IKB and enables the Board of Managing Directors to commence necessary restructuring measures for the bank.

The former CEO, Stefan Ortseifen, and the former CFO, Dr. Volker Doberanzke, have left the company with effect from 29 July 2007 and 7 August 2007 respectively. Winfried Reinke, Managing Director of IKB Credit Asset Management GmbH in Düsseldorf, was released from his duties on 1 August 2007.

The Supervisory Board appointed Dr. Günther Bräunig, Member of the Board of Managing Directors of KfW, as the CEO of IKB with effect from 29 July 2007. In addition, Dr. Dieter Glüder, Director of KfW, was also appointed to the Board of Managing Directors of IKB.

For the purposes of determining the risk situation and assessing the accounting and valuation practices of IKB, and to evaluate questions raised by the Supervisory Board, the accounting firm Pricewaterhouse-Coopers AG (PwC) was commissioned with the task of carrying out a comprehensive special audit. The special audit report is expected to be completed in the course of October.

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

Should these audits reveal material faults in the consolidated financial statements as at 31 March 2007, any resulting restatement would also affect the interim financial statements for the quarter ended 30 June 2007. In this sence, the quarterly figures as at 30 June 2007 presented here (including the comparative figures) are provided subject to the proviso that the consolidated statements as at 31 March 2007 are free of material faults.

Against the background of the critical developments affecting IKB, the Board of Managing Directors and the Supervisory Board will propose to the Annual General Meeting that no dividend be paid from the 2006/07 distributable profit. The original plan was to distribute a dividend of € 0.85 per share.

On 10 August, Düsseldorf's Department of Public Prosecution began investigating managers of the bank on suspicion of criminal disloyalty and violation of the German Public Limited Companies Act (*Aktiengesetz*). The Board of Managing Directors is supporting the Department of Public Prosecution in its work, and cooperating in all regards, in order to ensure that the matters concerned are cleared up in full, as soon as possible.

Over the last few weeks a series of claims for damages against IKB have been lodged or announced by investors.

In view of the above events, we postponed the publication of the interim report for the first quarter of the 2007/08 financial year, which had originally been scheduled in our financial calendar for 14 August 2007. An application for this extension of the deadline was submitted to Deutsche Börse. The postponement enabled us to review the amounts and valuations as of 30 June 2007 on the basis of up-to-date and elucidating information until the valuation date (19 September 2007). As a result subsequent adjustments of financial asset valuations are reflected in the fair-value result. The operating result of € 18.4 million as at 30 June 2007 is therefore substantially lower than the provisional figure of € 63 million, communicated in IKB's press release of 20 July 2007.

Consolidated income statement for the first quarter of the financial year 2007/08

The basic economic conditions with regard to our domestic and foreign lending business were positive during the first quarter. The economic upturn in Germany continued uninterruptedly. Key contributory factors include the positive development in exports and the volume of investment in plant and equipment, the latter being an important factor for our business activities. In addition, the foreign markets of significance to our lending business in Western and Central Eastern Europe and in the USA also continued to move in an upwards direction.

In this context, we were able to raise the volume of new business generated by the Group in the first quarter to € 4.5 billion, which represents a year-on-year increase of 36.7%. At the same time, the Group's total loan volume rose by € 5.1 billion, or 13.5%, to € 42.9 billion, whilst risk-weighted assets rose by € 1.1 billion, or 3.3%, to € 34.1 billion.

IKB recorded an operating result of € 18.4 million during the first quarter. This result was significantly below the corresponding quarter of the previous financial year (€ 54 million). The decrease is primarily due to the reduction in net income from financial instruments at fair value compared with the previous year, which was down by € 37 million to –€ 43 million.

Consolidated net interest income during the first quarter, at € 142 million, was down slightly on the same quarter of the previous financial year (€ 143 million). Whilst net interest income was increased in all of the segments, securitisation costs, the refinancing costs of non-strategic loans written down, and the net result from interest rate management, amounting to –€ 10 million, placed a higher burden on the result than in the same quarter of the previous financial year (–€ 1 million).

Provisions for possible loan losses, at € 24 million, were significantly lower than in the previous year (€ 46 million). This is mainly due to the favourable economic development in Germany and abroad, which had a positive impact on the credit quality structure of our loan exposures. Against this background, the NPL ratio (non-performing loans in relation to total loan volume) fell from 4.9% (31 March 2007) to 4.4% (30 June 2007).

Due to the lower provisions for possible loan losses, net interest income after loan loss provisions rose by € 22 million, or 22.9%, to € 119 million during the first quarter compared with the same period of the previous financial year.

Net commission income, at € 23 million, was slightly lower than in the previous financial year (€ 25 million). This was due to the fact that, whilst net commission income from lending operations remained constant, income in relation to treasury business was down € 2 million year-on-year.

Net income from financial instruments at fair value, at –€ 43 million (–€ 6 million), was significantly down. This can be primarily attributed to the widening of credit spreads compared with the previous year.

Net income from investment securities, at –€ 3 million, was lower than during the same quarter of the previous financial year (€ 6 million). This can be mainly explained by the realisation of losses in relation to sales of securities.

Administrative expenses rose by 15.7%, to € 77 million. Whilst personnel costs rose by 7.2%, other administrative expenses grew by 29.7%, primarily due to a rise in IT-related and plant costs, a rise in normal depreciation and additional costs incurred in establishing workplaces as part of the further internationalisation of our business. The average number of employees during the first quarter was 1,820 (1,683). Net other operating income and expenses, at –€ 1 million, was more or less maintained at the same level as in the previous financial year (–€ 2 million).

The Group's operating result, at € 18.4 million, was € 36 million or 66.1% down year-on-year. A similar fall, namely of 65.1%, was recorded for tax expenses, which meant that consolidated net income fell by 66.7% to € 12 million.

Earnings per share in the first quarter amounted to € 0.13 (€ 0.40). No measures which would have diluted the value of IKB shares were taken during the period under review.

Return on equity stood at 5.6% (17.0%), whilst the cost-income ratio rose to 64.7% (39.8%).

Segment reporting for the first quarter of the 2007/08 financial year

During the first three months of the 2007/08 financial year, the Corporate Clients segment, encompassing domestic corporate lending, private equity and equipment leasing, recorded an operating result of € 32 million (€ 35 million). Whilst there was a tangible year-on-year rise in the volume of new business, which totalled € 1.3 billion (€ 1.0 billion), there was a fall in the margin for new business to 1.04% (1.17%), with competition remaining as fierce as ever.

Lower levels of net commission income, fair value and net income from investment securities also had a negative effect on the result. Correspondingly, return on equity stood at 18.9% and was down on the previous financial year (23.3%), whilst the cost-income ratio was 47.7% (45.9%).

The Real Estate Clients segment was able to post a slight year-on-year increase in its operating result, which amounted to slightly above € 12 million. Although it was possible to expand the volume of new business by almost 50% to € 362 million, primarily due to the establishment of our European financing platform last year, there was at the same time a rise in administrative expenses relating to our foreign operations. It is, however, gratifying to note that the margin for new business was improved to 1.38% (1.22%).

Return on equity for the segment stood at 24.9% (25.1%), whilst the cost-income ratio was 44.8% (42.5%).

The Structured Finance segment increased its operating result to € 27 million during the first quarter (€ 25 million). New business, at € 1.5 billion, was down on the same period of the previous year (€ 1.7 billion). However, due to expansion, particularly in the previous financial year, the total loan volume, at € 8.4 billion, was significantly up on the previous year (€ 6.8 billion). Net interest income therefore increased to € 38 million (€ 35 million), although the margin in new business fell to 1.99% (2.09%). Administrative expenses grew due to the increase in personnel, which is necessary to safeguard business growth, and further investment at our foreign sites (particularly in Paris), reaching € 16 million (€ 14 million).

Return on equity for the segment stood at 30.5% (37.2%), whilst the cost-income ratio was 35.4% (32.2%).

The Securitisation segment reported an operating result of € 30 million (€ 28 million). This does not, however, take account of fluctuations in fair value, which are stated under “Head Office/Consolidation” due to the method used for segment reporting. Taking this reclassification into account, the operating result for the Securitisation segment would have been negative during the first quarter.

Due to the consolidation of the special purpose vehicle Rhinebridge in particular, but also due to investments in securities eligible for inclusion in the premium reserve fund and in structured securities portfolios, the lending volume in this segment rose to € 8.8 billion (€ 6.9 billion).

Consolidated Balance Sheet

Total assets as at 30 June 2007 were € 53.2 billion, which was € 1.1 billion or 2.2% higher than at the reporting date of 31 March 2007.

The total loan volume as at 30 June 2007, at € 42.9 billion, was € 5.1 billion or 13.5% higher than on 30 June 2006. The total loan volume as at the reporting date comprises loans and advances to banks, loans and advances to customers, securitised lending, leased assets, contingent liabilities, and credit default swaps (CDS).

Loans and advances to customers rose by € 0.5 billion compared with 31 March 2007, to € 30.2 billion. A rise was recorded both for maturities of up to four years and, in particular, for longer maturities.

Provisions for possible loan losses were reduced by € 33 million to € 1.061 billion. Utilisation and reversals (including the unwinding effect) totalled € 87 million, contrasting with additions in the amount of € 54 million.

Loans and advances to banks were down by € 0.8 billion to € 3.6 billion. Whilst loans and advances payable on demand increased by € 0.4 billion due to flows around the reporting date, loans and advances with maturities of up to four years fell substantially.

A significant portion of the trading assets will now be reported under investment securities, following the conclusion of the development of the Rhinebridge portfolio. There was a corresponding drop in the trading assets, down by € 0.9 billion to € 1.2 billion, whilst financial assets – particularly due to further investments in the Rhinebridge portfolio – were increased by € 2.5 billion to € 18.4 billion.

Our business activities were mainly refinanced through the expansion of liabilities to customers (up by € 0.3 billion to € 4.6 billion) and the increase in securitised liabilities (up by € 0.5 billion to € 28.5 billion). Trading liabilities were also increased (up by € 0.3 billion to € 1.4 billion).

Subordinated capital fell by a total of € 50 million to just under € 3 billion as a result of falls in subordinated liabilities, profit-participation certificates and silent partnership contributions, whilst shareholders' equity remained more or less unchanged at € 1.4 billion.

Regulatory capital in accordance with section 10 of the German Banking Act (KWG) – including subscribed capital, capital reserve and retained earnings, and subordinated capital – amounted to € 4.2 billion (€ 4.1 billion) as at 30 June. Based on the risk-weighted assets, the capital ratio according to the German Banking Act (*Grundsatz I*) was 12.2% (12.3%), and the tier 1 ratio was 7.1% (7.2%).

As at 30 June 2007 the bank held 0.1% of treasury shares. The authorised maximum limit is 10%.

Outlook

In view of the crisis, the Board of Managing Directors took extensive measures to stabilise the bank, and has conducted a review of IKB's business model. IKB's future business model will be focused more strongly on the core business units Domestic Corporate Clients, Leasing and Private Equity, Structured Finance and Real Estate Finance. Innovative financing solutions will remain an integral component of the business model, whilst investments in international structured securities portfolios, funded via short-term Commercial Paper issues, will not. The remaining securities portfolio on the balance sheet will be restructured.

Against the background of recent developments, the Board of Managing Directors believes that a comprehensive one-off balance sheet adjustment is required, which will have a major negative effect on the result for the current financial year. The measures include the realisation of hidden accounting losses, combined with the market price risks that have now occurred and the necessary restructuring measures including the requisite write-down of deferred taxes on the assets side. In addition, the Board of Managing Directors expects significant losses from the special purpose vehicle Rhinebridge plc. This is due to the fact that Rhinebridge plc cannot refinance itself with Commercial Paper but only through asset sales. The Board of Managing Directors therefore expects the Group to record a loss for the 2007/08 financial year (according to IFRS) in a magnitude of up to € 700 million, with IKB AG expected to post an annual loss of up to € 450 million (according to the HGB) in its single-entity financial statements. For this reason, it is expected that there will be a negative impact on the profit-participation certificates and silent partnership contributions.

The Board of Managing Directors expects that the special audit of PricewaterhouseCoopers will be completed during the month of October.

The Annual General Meeting for the 2006/07 financial year is currently planned for the fourth quarter of 2007. In the event that the above-mentioned special audits have an impact on the annual financial statement or consolidated financial statements of IKB as at 31 March 2007, or if there are other good reasons for a postponement, the General Meeting may be delayed until the first quarter of 2008.

Yours sincerely,

IKB Deutsche Industriebank AG
The Board of Managing Directors

Düsseldorf, September 2007

Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2007 to 30 June 2007

	Notes	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Net interest income	(1)	**142.2**	**142.6**	**–0.3**
Interest income		781.8	668.0	17.0
Interest expenses		639.6	525.4	21.7
Provision for possible loan losses	(2)	**23.5**	**46.0**	**–48.9**
Net interest income after provision		**118.7**	**96.6**	**22.9**
Net fee and commission income	(3)	**23.1**	**25.4**	**–9.1**
Fee and commission income		27.1	28.5	–4.9
Fee and commission expense		4.0	3.1	29.0
Net income from financial instruments at fair value	(4)	**–43.0**	**–5.5**	**>100.0**
Net income from investment securities	(5)	**–2.6**	**6.1**	
General administrative expenses	(6)	**76.8**	**66.4**	**15.7**
Personnel expenses		44.5	41.5	7.2
Other administrative expenses		32.3	24.9	29.7
Net other operating income	(7)	**–1.0**	**–1.9**	**–47.4**
Operating result		**18.4**	**54.3**	**–66.1**
Income taxes		6.4	18.8	–66.0
Other taxes		0.3	0.4	–25.0
Net income for the period		**11.7**	**35.1**	**–66.7**
Minority interests		0.0	0.0	
Net income for the period after minority interests/ Consolidated profit		**11.7**	**35.1**	**–66.7**

Earnings per share	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Net income after minority interests (in € million)	11.7	35.1	–66.7
Average number of shares outstanding (million)	87.9	87.9	0.0
Earnings per share (€)	**0.13**	**0.40**	**–67.5**

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

Consolidated income statement (quarterly)

in € million	Q1 2007/08	Q4 2006/07	Q3 2006/07	Q2 2006/07	Q1 2006/07
Net interest income	**142.2**	**178.8**	**162.3**	**162.7**	**142.6**
Interest income	781.8	946.8	777.4	820.2	668.0
Interest expenses	639.6	768.0	615.1	657.5	525.4
Provision for possible loan losses	**23.5**	**66.6**	**53.9**	**92.5**	**46.0**
Net interest income after provision for possible loan losses	**118.7**	**112.2**	**108.4**	**70.2**	**96.6**
Net fee and commission income	**23.1**	**21.3**	**30.5**	**30.7**	**25.4**
Fee and commission income	27.1	28.4	33.4	33.5	28.5
Fee and commission expense	4.0	7.1	2.9	2.8	3.1
Net income from financial instruments at fair value	**–43.0**	**17.7**	**5.9**	**61.7**	**–5.5**
Net income from investment securities	**–2.6**	**0.3**	**–1.2**	**1.7**	**6.1**
General administrative expenses	**76.8**	**94.9**	**79.4**	**76.1**	**66.4**
Personnel expenses	44.5	53.5	47.7	43.1	41.5
Other administrative expenses	32.3	41.4	31.7	33.0	24.9
Net other operating income	**–1.0**	**1.8**	**1.8**	**–3.9**	**–1.9**
Operating result	**18.4**	**58.4**	**66.0**	**84.3**	**54.3**
Income taxes	6.4	10.3	22.8	29.5	18.8
Other taxes	0.3	0.6	0.6	0.3	0.4
Net income for the period	**11.7**	**47.5**	**42.6**	**54.5**	**35.1**
Minority interests	0.0	0.0	0.0	–0.1	0.0
Net income for the period after minority interests	**11.7**	**47.5**	**42.6**	**54.4**	**35.1**

Consolidated balance sheet of IKB Deutsche Industriebank AG as at 30 June 2007

	Notes	30 June 2007 in € million	31 March 2007 in € million	Change in %
Assets				
Cash reserve		25.5	28.7	–11.1
Loans and advances to banks	(8)	3 597.6	4 441.9	–19.0
Loans and advances to customers	(9)	30 226.3	29 685.0	1.8
Provision for possible loan losses	(11)	–1 061.4	–1 094.7	–3.0
Assets held for trading	(12)	1 215.3	2 054.3	–40.8
Investment securities	(13)	18 371.4	15 943.5	15.2
Intangible assets		37.5	37.9	–1.1
Property and equipment	(14)	210.6	212.1	–0.7
Income tax assets		62.4	13.7	>100.0
Other assets	(15)	493.2	730.7	–32.5
Total assets		**53 178.4**	**52 053.1**	**2.2**
Shareholders' equity and liabilities				
Liabilities to banks	(16)	13 804.9	13 912.5	–0.8
Liabilities to customers	(17)	4 579.2	4 277.8	7.0
Securitised liabilities	(18)	28 516.0	28 024.2	1.8
Liabilities held for trading	(19)	1 356.8	1 011.9	34.1
Provisions	(20)	59.6	60.0	–0.7
Income tax liabilities		129.8	79.2	63.9
Other liabilities		374.8	264.3	41.8
Subordinated capital	(21)	2 976.1	3 026.4	–1.7
Shareholders' equity	(22)	1 381.2	1 396.8	–1.1
Subscribed capital		225.3	225.3	–
Capital reserve		568.1	568.2	0.0
Treasury shares		–2.7	–	–
Retained earnings		463.8	462.4	0.3
Currency translation reserve		–10.9	–11.8	–7.6
Revaluation reserve		50.9	77.7	–34.5
Minority interests		0.2	0.2	0.0
Consolidated profit		86.5	74.8	15.6
Total shareholders' equity and liabilities		**53 178.4**	**52 053.1**	**2.2**

Statement of recognised income and expense

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Gains/losses on remeasurement of securities	–19.6	–44.9	–56.3
Unrealised gains/losses from investment securities available for sale	–19.7	–37.3	–47.2
Reclassification into income statement due to investment securities available for sale	0.1	–7.6	
Fair value changes from hedging relationships recognised in profit or loss	–18.7	–18.7	0.0
Exchange differences	0.9	–2.8	
Changes from actuarial gains/losses	–3.0	–	–
Deferred taxes on changes recognised directly in equity	14.5	22.2	–34.7
Gains/losses recognised directly in equity (net)	**–25.9**	**–44.2**	–41.4
Net income for the period	**11.7**	**35.1**	**–66.7**
Total recognised gains and losses	**–14.2**	**–9.1**	**56.0**
Attributable to shareholders of IKB AG	–14.2	–8.9	**59.6**
Attributable to minority interests	0.0	–0.2	–

The changes in equity are presented in Note 22.

Cash flow statement

	2007 in € million	2006 in € million	Change in %
Cash and cash equivalents as at 1 April	**29**	**48**	**–39.6**
Cash flow from operating activities	732	468	56.4
Cash flow from investing activities	–715	–357	>100.0
Cash flow from financing activities	–20	–99	–79.8
Effect of exchange rate differences	–	–	–
Cash and cash equivalents as at 31 June	**26**	**60**	**–56.7**

Notes

Accounting policies

The consolidated interim financial statements of IKB as at 30 June 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), if they were required to be applied as at the reporting date.

These interim financial statements were prepared using the same accounting policies applied for the consolidated financial statements as at 31 March 2007. An overview of the applied regulations is included in IKB's consolidated financial statements as at 31 March 2007. In addition, the consolidated interim financial statements also comply with the provisions for interim financial reporting included in IAS 34.

Scope of consolidation

Included in the consolidated interim financial statements of IKB as at 30 June 2007 are 26 (prior year: 24) German and 15 (prior year: 15) foreign companies in addition to the parent company. IKB Deutsche Industriebank AG holds the majority of the voting rights in these companies.

Unlike in the consolidated financial statements as at 31 March 2007, Rhinebridge plc, Dublin, was included in the consolidated interim financial statements as at 30 June 2007 as a special purpose entity (SPE) in accordance with the interpretation of SIC 12.

Rhinebridge plc, Dublin, is a special purpose vehicle (SPV) founded in September 2006. IKB has since acquired assets and concluded a Forward Sale Agreement with Rhinebridge to transfer these assets to Rhinebridge. Rhinebridge started its operating activities following the transfer.

Notes to the Consolidated Income Statement

(1) Net interest income

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Interest income from lending and money market transactions as well as from securities and derivatives	716.8	609.6	17.6
Current income from leasing transactions	60.4	55.3	9.2
Other interest income	4.6	3.1	48.4
Total interest income	**781.8**	**668.0**	**17.0**
Interest expenses for securitised liabilities, subordinated capital and other liabilities as well as for derivatives	606.1	492.5	23.1
Expenses for leasing transactions	33.5	32.9	1.8
Total interest expense	**639.6**	**525.4**	**21.7**
Net interest income	**142.2**	**142.6**	**–0.3**

(2) Provision for possible loan losses

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Additions to specific valuation allowances/provisions/securities	54.0	99.0	–45.5
Additions to specific valuation allowances	50.6	96.9	–47.8
Additions to provisions	3.4	2.1	61.9
Direct write-offs	0.5	1.0	–50.0
Recoveries on loans and advances previously written off	1.9	1.3	46.2
Additions to/reversals of portfolio impairment	–3.1	–26.5	–88.3
Reversals of specific valuation allowances/provisions	26.0	26.2	–0.8
Reversals of specific valuation allowances	20.2	24.0	–15.8
Reversals of provisions	5.8	2.2	>100.0
Provision for possible loan losses	**23.5**	**46.0**	**–48.9**

(3) Net fee and commission income

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Net fee and commission income from lending business	11.6	11.3	2.7
Net fee and commission income from treasury business	11.5	14.1	–18.4
Total	**23.1**	**25.4**	**–9.1**

(4) Net income from financial instruments at fair value

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Net trading result	49.8	–28.4	
Net result from fair value option	–81.4	16.5	
Amortisation of discontinued hedging relationships	–9.9	6.4	
Net result from hedging relationships	–1.5	–	–
Total	**–43.0**	**–5.5**	**>100.0**

The result from hedge accounting comprises the result from hedged items (–€ 9.2 million) and the result from hedging derivatives (€ 7.7 million).

(5) Net income from investment securities

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Net result from equity investments	–2.4	–	–
Net result from securities	–0.2	6.1	
Total	**–2.6**	**6.1**	

(6) General administrative expenses

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Personnel expenses	44.5	41.5	7.2
Other administrative expenses	27.4	20.9	31.1
Depreciation and write-downs of operating and office equipment and property, and amortisation and write-downs of intangible assets	4.9	4.0	22.5
Total	**76.8**	**66.4**	**15.7**

(7) Net other operating income

	1 April 2007 to 30 June 2007 in € million	1 April 2006 to 30 June 2006 in € million	Change in %
Other operating income	5.6	9.5	–41.1
Other operating expenses	6.6	11.4	–42.1
Net other operating income	**–1.0**	**–1.9**	**–47.4**

Notes to Assets

(8) Loans and advances to banks

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Payable on demand	1 087.0	692.2	57.0
Loans and advances to banks (initial maturity < 4 years)	2 181.2	3 568.5	–38.9
Loans and advances to banks (initial maturity ≥ 4 years)	329.4	181.2	81.8
Total	**3 597.6**	**4 441.9**	**–19.0**

(9) Loans and advances to customers

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Loans and advances to customers (initial maturity < 4 years)	4 310.1	4 107.8	4.9
Loans and advances to customers (initial maturity ≥ 4 years)	24 342.0	24 038.8	1.3
Receivables from finance leases	1 574.2	1 538.4	2.3
Total	**30 226.3**	**29 685.0**	**1.8**

Loans and advances to customers include fair value changes from hedged items totalling –€ 27.0 million.

(10) Loan volume

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Credit extended to banks	46.2	45.9	0.7
Credit extended to customers	28 342.6	27 790.8	2.0
Securitisation business	10 288.6	7 782.9	32.2
Operating and finance leases	1 678.3	1 642.3	2.2
Contingent liabilities (gross) and credit default swaps	2 501.9	2 477.4	1.0
Total	**42 857.6**	**39 739.3**	**7.8**

(11) Provision for possible loan losses

in € million	Specific valuation allowances	Provisions	Investment securites (loans and recievables)	Portfolio impairment	Total
Opening balance at 1 April 2007	**991.1**	**28.2**	**19.3**	**103.6**	**1 142.2**
Utilisations	51.3	0.4	0.0	0.0	51.7
Reversals	20.2	5.8	0.0	6.7	32.7
Unwinding	8.7	0.1	0.0	0.0	8.8
Additions	50.6	3.4	0.0	3.6	57.6
Reclassification	–0.6	0.0	0.0	0.0	–0.6
Closing balance at 30 June 2007	**960.9**	**25.3**	**19.3**	**100.5**	**1 106.0**
Less provisions					25.3
Less investment securites (loans and receivables)					19.3
Recognised provision for possible loan losses as at 30 June 2007					**1 061.4**

(12) Assets held for trading

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Bonds and other fixed-income securities	143.5	1 201.4	–88.1
Equities and other non-fixed-income securities	1.0	1.9	–47.4
Promissory notes carried as trading assets	390.5	419.2	–6.8
Positive fair values of derivative financial instruments	618.7	431.8	43.3
Positive fair values from hedging	61.6	–	–
Total	**1 215.3**	**2 054.3**	**–40.8**

(13) Investment securities

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Bonds and other fixed-income securities	18 093.4	15 653.8	15.6
Equities and other non-fixed-income securities	13.3	18.5	–28.1
Equity investments	256.1	264.7	–3.2
Investments in associates	6.4	6.4	0.0
Shares in affiliated companies	2.2	0.1	>100.0
Total	**18 371.4**	**15 943.5**	**15.2**

(14) Property and equipment

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Operating leases	104.1	104.0	0.1
Land and buildings	84.8	84.5	0.4
Operating and office equipment	21.7	21.4	1.4
Properties held for sale	–	2.2	–100.0
Total	**210.6**	**212.1**	**–0.7**

(15) Other assets

Other assets include deferred tax assets in the amount of € 176.6 million (31 March 2007: € 141.2 million).

Notes to Equity and Liabilities

(16) Liabilities to banks

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Payable on demand	1 264.6	1 278.2	–1.1
Liabilities to banks (initial maturity < 4 years)	4 011.0	4 499.9	–10.9
Liabilities to banks (initial maturity ≥ 4 years)	8 529.3	8 134.4	4.9
Total	**13 804.9**	**13 912.5**	**–0.8**

(17) Liabilities to customers

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Payable on demand	159.0	204.8	–22.4
Liabilities to customers (initial maturity < 4 years)	834.6	978.0	–14.7
Liabilities to customers (initial maturity ≥ 4 years)	3 585.6	3 095.0	15.9
Total	**4 579.2**	**4 277.8**	**7.0**

(18) Securitised liabilities

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Bonds issued (initial maturity < 4 years)	19 735.0	19 182.0	2.9
Less own bonds (initial maturity < 4 years)	23.0	18.1	27.1
Subtotal (initial maturity < 4 years)	19 712.0	19 163.9	2.9
Bonds issued (initial maturity ≥ 4 years)	8 838.9	8 887.7	–0.5
Less own bonds (initial maturity ≥ 4 years)	34.9	27.4	27.4
Subtotal (initial maturity ≥ 4 years)	8 804.0	8 860.3	–0.6
Total	**28 516.0**	**28 024.2**	**1.8**

(19) Liabilities held for trading

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Negative fair values from derivative financial instruments	1 309.2	1 011.9	29.4
Negative fair values hedging derivatives	47.6	–	–
Total	**1 356.8**	**1 011.9**	**34.1**

(20) Provisions

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Provisions for pensions and similar obligations	4.2	2.7	55.6
Other provisions	55.4	57.3	–3.3
Total	**59.6**	**60.0**	**–0.7**

(21) Subordinated capital

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Subordinated liabilities	1 430.5	1 444.9	–1.0
Profit-participation certificates	570.6	590.4	–3.4
Silent partnership contributions / preferred shares	975.0	991.1	–1.6
Total	**2 976.1**	**3 026.4**	**–1.7**

(22) Shareholders' equity

in € million	Sub-scribed capital	Capital reserve	Treasury shares	Retained earnings	Legal reserve	Other revenue reserves	Currency trans-lation reserve	Revalua-tion reserve	Minority interests	Consoli-dated profit	Total
Shareholders' Equity as at 1 Apr 2006	**225.3**	**568.2**	**–**	**365.5**	**2.4**	**354.1**	**–7.5**	**137.0**	**0.2**	**74.8**	**1 354.5**
Issue/redemption of shares		0.0	–4.8								–4.8
Dividends paid											0.0
Changes in the scope of consolidation											0.0
Net income for the period 1 April 2006 to 30 June 2006										35.1	35.1
Currency translation differences							–2.8				–2.8
Changes in the revaluation reserve								–41.3	–0.2		–41.5
Shareholders' Equity as at 30 June 2006	**225.3**	**568.2**	**–4.8**	**356.5**	**2.4**	**354.1**	**–10.3**	**95.7**	**0.0**	**109.9**	**1 340.5**
Issue/redemption of shares			4.8								4.8
Dividends paid										–74.8	–74.8
Changes in the scope of consolidation				1.1		1.1			0.2		1.3
Net income for the period 1 July 2006 to 31 March 2007				104.8		104.8				39.7	144.5
Currency translation differences							–1.5				–1.5
Changes in the revaluation reserve								–18.0			–18.0
Shareholders' Equity as at 31 March 2007	**225.3**	**568.2**	**–**	**462.4**	**2.4**	**460.0**	**–11.8**	**77.7**	**0.2**	**74.8**	**1 396.8**
Issue/redemption of shares		–0.1	–2.7								–2.8
Dividends paid											0.0
Changes in the scope of consolidation				1.4		1.4					1.4
Net income for the period 1 April 2007 to 30 June 2007									0.0	11.7	11.7
Currency translation differences							0.9				0.9
Changes in the revaluation reserve								–26.8	0.0		–26.8
Shareholders' Equity as at 30 June 2007	**225.3**	**568.1**	**–2.7**	**463.8**	**2.4**	**461.4**	**–10.9**	**50.9**	**0.2**	**86.5**	**1 381.2**

Segment reporting

Q1

in € million	Corporate Clients Q1 2007/08	Corporate Clients Q1 2006/07	Real Estate Clients Q1 2007/08	Real Estate Clients Q1 2006/07	Structured Finance Q1 2007/08	Structured Finance Q1 2006/07	Securitisation Q1 2007/08	Securitisation Q1 2006/07	Head Office/ Consolidation Q1 2007/08	Head Office/ Consolidation Q1 2006/07	Total Q1 2007/08	Total Q1 2006/07
Net interest income	68.7	67.0	19.7	18.5	38.1	35.2	25.4	22.4	–9.7	–0.5	142.2	142.6
Provision for possible loan losses	6.1	5.1	0.3	0.0	2.8	4.3	0.0	0.0	14.3	36.6	23.5	46.0
Net interest income after provision for possible loan losses	**62.6**	**61.9**	**19.4**	**18.5**	**35.3**	**30.9**	**25.4**	**22.4**	**–24.0**	**–37.1**	**118.7**	**96.6**
Net fee and commission income	2.4	3.5	2.1	1.8	6.8	7.1	11.3	12.2	0.5	0.8	23.1	25.4
Net income from financial instruments at fair value	0.7	1.4	0.7	0.4	0.3	0.5	0.0	0.0	–44.7	–7.8	–43.0	–5.5
Net income from investment securities	0.0	2.0	0.0	0.0	0.0	0.0	–0.8	0.0	–1.8	4.1	–2.6	6.1
General administrative expenses	34.9	34.3	10.3	8.8	16.1	13.8	6.0	6.3	9.5	3.2	76.8	66.4
Net other operating income	1.4	0.8	0.5	0.0	0.3	0.1	0.1	–0.3	–3.3	–2.5	–1.0	–1.9
Operating result	**32.2**	**35.3**	**12.4**	**11.9**	**26.6**	**24.8**	**30.0**	**28.0**	**–82.8**	**–45.7**	**18.4**	**54.3**
Cost/income ratio in %	47.7	45.9	44.8	42.5	35.4	32.2	16.7	18.4			64.7	39.8
Return on equity in %	18.9	23.3	24.9	25.1	30.5	37.2	n/a	n/a			5.6	17.0
Average allocated equity	680	607	199	190	349	267	116	77	–22	138	1 322	1 279
Total loan volume	17 251	15 742	4 881	4 768	8 365	6 819	8 832	6 873	3 529	3 571	42 858	37 773
Volume of new business	1 331	1 030	362	244	1 475	1 725	682	194	657	104	4 507	3 297

Notes to Financial Instruments

(23) Derivatives

	Nominal amount			Fair value						
				Positive		Negative		Total		
	30 June 2007 in € million	31 Mar 2007 in € million	Change in %	30 June 2007 in € million	31 Mar 2007 in € million	30 June 2007 in € million	31 Mar 2007 in € million	30 June 2007 in € million	31 Mar 2007 in € million	Change in %
Interest rate derivatives	47 683.2	39 424.5	20.9	557.9	305.7	1 134.2	860.8	–576.3	–555.1	–3.8
Credit derivatives	1 479.5	1 576.4	–6.1	12.7	20.8	34.4	14.8	–21.7	6.0	
Currency derivatives	9 027.4	8 194.8	10.2	109.7	105.3	188.2	136.3	–78.5	–31.0	<–100.0
Gesamt	**58 109.1**	**49 195.7**	**18.3**	**680.3**	**431.8**	**1 356.8**	**1 011.9**	**–676.5**	**–580.1**	**–16.6**

(24) Market price risks arising from trading activities

	Risk potential at confidence level of 95 %		
Portfolio	30 June 2007 in € million	31 March 2007 in € million	Change in %
Trading book	0.9	2.0	–55.0
Banking book	37.7	50.9	–25.9
Group	**38.6**	**52.9**	**–27.0**

(25) Fair value of financial assets and liabilities

	Fair value		Book value		Difference	
in € million	30 June 2007	31 March 2007	30 June 2007	31 March 2007	30 June 2007	31 March 2007
Assets						
Loans and advances to banks	3 593.5	4 441.7	3 597.6	4 441.9	–4.1	–0.2
Loans and advances to customers	29 621.3	29 293.7	30 226.3	29 685.0	–605.0	–391.3
Assets held for trading	1 215.3	2 054.3	1 215.3	2 054.3	–	–
Investment securities	17 763.1	15 643.4	18 371.4	15 943.5	–608.3	–300.1
Shareholders’ equity and liabilities						
Liabilities to banks	13 575.9	13 810.6	13 804.9	13 912.5	–229.0	–101.9
Liabilities to customers	4 537.1	4 275.6	4 579.2	4 277.8	–42.1	–2.2
Securitised liabilities	28 412.2	27 952.9	28 516.0	28 024.2	–103.8	–71.3
Liabilities held for trading	1 356.8	1 011.9	1 356.8	1 011.9	–	–
Subordinated capital	2 978.9	3 048.8	2 976.1	3 026.4	2.8	22.4

Other disclosures

(26) Contingent liabilities and other commitments

	30 June 2007 in € million	31 March 2007 in € million	Change in %
Contingent liabilities	1 366.7	1 012.5	35.0
Guarantees, warranties, other	849.8	842.9	0.8
Assumptions of liability	516.9	169.6	>100.0
Other commitments	16 264.0	16 703.1	–2.6
Commitments for up to one year	13 552.2	14 085.4	–3.8
Commitments for more than one year	2 711.8	2 617.7	3.6
Total	**17 630.7**	**17 715.6**	**–0.5**

(27) Average number of employees

	30 June 2007	31 March 2007	Change in %
Men	1 121	1 056	6.1
Women	699	672	4.1
Total	**1 820**	**1 728**	**5.3**

(28) Events after 30 June 2007

We refer to the Board of Managing Directors' letter to shareholders included in this quarterly report. As mentioned in this letter, KfW has assumed a liquidity line amounting to € 8.1 billion that IKB had committed to provide to Rhineland Funding. A further € 2.0 billion of liquidity lines which had been agreed for future investments, have been reduced to zero by IKB. Therefore, the loan commitments with a maturity of up to one year as explained in note (26) decrease by € 10.1 billion in total. As a consequence, contributions to net interest income (see note 1) and net commission income (see note 3) associated with these liquidity lines will not be effectuated in the future.

The changes in market developments between 30 June 2007 and 19 September 2007 (the validation date), in particular the massive widening of credit spreads that led to corresponding losses in market values, initially negatively affected the position „net income of financial instruments at fair value" as explained in note (4). An additional negative effect of € 0.1 billion is attributable to the consolidated vehicle Rhinebridge plc into which IKB invested another € 80 million by way of Junior Capital Notes on 7 August 2007 to strengthen its capital basis. For the purpose of loss coverage related to balance sheet items of IKB, a pool of German banks led by KfW will indemnify IKB from expected losses of up to € 1.0 billion. This has a positive effect on the position „net income of financial instruments at fair value" (see note 4) and predominantly compensates the negative effects mentioned above.

Furthermore, the pool of German banks indemnified IKB from risks resulting from the conduit Rhineland Funding. Overall, the pool of German banks has estimated potential losses in terms of the risk shield to amount to € 3.5 billion.

The quarterly report is based on the assumption that deferred taxes on the asset side loss carryforwards can be used in the foreseeable future. This assumption cannot be maintained anymore. Taking into account the reduction of tax rates as a result of the business tax reform 2008, this will lead to a reduction in earnings of approx. € 0.1 billion.

After 30 June 2007, a series of claims for damages against IKB have been lodged by investors. These claims essentially relate to a press release IKB issued on 20 July 2007. Further damage claims have been announced.

The Board of Managing Directors has assessed the main risk positions of the bank as identifiable to date, taking into consideration the relieving effect of the risk shield. On the basis of this assessment, the Board of Managing Directors expects an annual loss of up to € 700 million. The share of the loss, which corresponds to the profit and loss account as of 30 September 2007 will be disclosed in the interim financial statements.

(29) Executive bodies

Board of Managing Directors

Dr. Günther Bräunig (Chairman of the Board of Managing Directors since 29 July 2007)
Frank Braunsfeld
Dr. Volker Doberanzke (until 7 August 2007)
Dr. Dieter Glüder (since 29 July 2007)
Dr. Markus Guthoff
Claus Momburg
Stefan Ortseifen (Chairman of the Board of Managing Directors until 29 July 2007)

Supervisory Board

Prof. Dr. jur. Dr.-Ing. E. h. Dieter Spethmann (Honorary Chairman)
Dr. h. c. Ulrich Hartmann (Chairman)
Detlef Leinberger (Deputy Chairman)
Dr. Alexander v. Tippelskirch (Deputy Chairman)
Dieter Ammer
Jörg Asmussen
Dr. Jens Baganz
Dr. Jürgen Behrend
Wolfgang Bouché*
Hermann Franzen
Dr.-Ing. Mathias Kammüller
Jürgen Metzger*
Roland Oetker
Dr.-Ing. E. h. Eberhard Reuther
Randolf Rodenstock
Rita Röbel*
Dr. Michael Rogowski
Jochen Schametat*
Dr. Carola Steingräber*
Dr. Martin Viessmann
Ulrich Wernecke*
Andreas Wittmann*

*employee representative

Disclaimer

This interim report contains forward-looking statements that are based on the development of macro-economic indicators, and on IKB Deutsche Industriebank's financial position and performance. At the time of preparing this report, these forward-looking statements were based on the current assessments of renowned economic research institutes and of IKB. Owing to the risks and elements of uncertainty that are contained in the forward-looking statements, actual results may deviate significantly from the forecasts. IKB assumes no responsibility with regard to providing updates to the statements in response to the emergence of new information or the occurrence of unexpected events.

Financial Calendar

3-month figures for the financial year 2007/08	28 September 2007
General Meeting	newly scheduled
6-month figures for the financial year 2007/08 (Conference call)	15 November 2007
9-month figures for the financial year 2007/08 (Press conference and conference call)	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

If you have questions please contact:

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