6-Month Report 2007/08

1 April – 30 September 2007

IKB Deutsche Industriebank

IKB Key Figures

Income Statement Figures	1 Apr to 30 Sep 2007 in € million	Change vs. previous year in %
Net interest income	268.4	–16.5
Provision for possible loan losses	166.1	19.9
Net interest income (after provision for possible loan losses)	102.3	–44.0
Net commission income	34.4	29.3
Net income from financial instruments at fair value	–2 027.1	–
Net income from investment securities	–1 044.1	–
General administrative expenses	183.1	28.5
Operating result	–889.2	–
Net income for the period	–965.1	–

Balance Sheet Figures	30 Sep 2007 in € million	Change vs. 31 March 2007 in %
Total assets	53 086	–16.5
Loans and advances to customers	31 238	5.2
Liabilities to banks	16 257	16.8
Securitised liabilities	24 241	–38.7
Total equity	214	–82.0

Selected Ratios	1 Apr to 30 Sep 2007	1 Apr to 30 Sep 2006
Return on equity	–149.3%	22.2%
Cost-income ratio	–	34.2%
Earnings per share	–10.98 €	1.01 €

Selected Ratios	30 Sep 2007	31 March 2007
Capital ratio (Principle I)	10.7%	12.2%
Tier 1 capital ratio	6.3%	7.1%
Number of employees	1 915	1 838

IKB Rating	Long-Term	Short-Term	Outlook
Moody‘s	Baa3	P-3	negative
Fitch IBCA	A+	F1	stable

Letter to shareholders

Dear Shareholders,

In this half-yearly financial report 2007/08, for the six month ended 30 September 2007, we present for the first time figures reflecting the effects on IKB since the start of the crisis on 27 July 2007. In accordance with the value adjustment principle, we have taken into account all known adjusting events up until the report preparation date.

In the first-quarter 2007/08 figures (1 April 2007 to 30 June 2007), published in September 2007, we stated that we were not yet in the possession of the results of the agreed upon procedures that we had commissioned from PricewaterhouseCoopers (PwC). The results of this review were presented in October 2007 and have now been implemented in all their essential points. In particular, we have made retrospective changes to the Annual Report 2006/07 as well as the Financial Statements and Management Report 2006/07, which have entailed numerous consequential changes in regard to the comparative figures for subsequent financial statements. This interim Financial Statements and Management Report could therefore only be prepared as a follow-up to the restated Financial Statements 2006/07. We have also had the six-month financial report reviewed by PwC so as to ensure the greatest possible transparency and certainty.

Consequently, the figures now presented could only be published after a significant delay. However, the long preparation period has allowed us to form a transparent analysis of the crisis, its causes and the conclusions drawn, and to develop new valuation methods for structured securities.

The fact that the statutory regulations now require very much more comprehensive interim reporting is something that we expressly welcome in this context. For this reason, we are presenting by far the most comprehensive six-month financial report in the history of IKB.

The results for the first half of 2007/08 are a graphic reflection of the crisis. The operating result of € –889 million demonstrates the full vehemence with which IKB has been exposed to the dramatic developments on the market in recent months. As a result, IKB's traditional income and expense components, such as interest income, commission income, provisions and administrative expenses, are of hardly any consequence. Instead, negative net income from financial instruments at fair value of around € –2.0 billion and negative net income from investment securities of about € –1.0 billion are the most important components of the income statement. These figures stand in contrast to the positive result from the assumption of risks by the banking pool amounting to € 2.2 billion.

The intensification of the financial crisis and in some cases erratic market movements have an impact on market valuations, which have deteriorated steadily in recent months, causing substantial valuation losses for IKB.

KfW largely offset these valuation losses on 19 February and 19 March 2008 with two capital measures totalling € 1,050 million. This, together with the previous support that IKB had received from KfW and the German banking sector, saved the Bank.

In the past few months, we have succeeded in stabilising the Bank and keeping it in business in its traditional segments of Corporate Clients, Real Estate Clients and Structured Finance. For this, we wish to express our thanks above all to our loyal customers and also to our committed employees.

The capital increase that the Annual General Meeting approved on 27 March 2008 creates the right framework for the Bank to recover its capital market capability and focus with all of its strength on its core business once again. We are now actively monitoring the selling process by which KfW and the Stiftung Industrieforschung wish to divest their interests in IKB.

Dr. Günther Bräunig
Chairman of the Board of Managing Directors

Consolidated interim management report

1. General conditions

One essential factor in business performance during the first half of the 2007/08 business year was the developments on the international capital and credit markets, which had been moving along an orderly course up until the early summer of 2007. Nevertheless, the number of real estate foreclosure sales increased in the USA.

Since the mortgage loans issued in the USA in recent years were in large measure securitised and globally placed, the resulting risks were spread across the entire financial world. Long-term securitised mortgage loans often stood in contrast to short-term refinancing through asset-backed commercial paper programmes. The market for this commercial paper almost came to complete standstill in July 2007. Consequently, banks were compelled to draw on their designated contractually binding liquidity lines. The drawing down of these lines of credit and the continuing escalating uncertainty about the extent of the subprime risks resulted in a massive liquidity shortage within the market for highly structured credit products.

Also noteworthy was that the boom on the private-equity markets weakened tangibly from mid-2007 onwards, and major takeover transactions, in particular, could no longer be syndicated. The mid-cap markets in Europe, which are relevant for IKB, were just slightly affected by this downturn up until late summer.

Economic conditions for the domestic and foreign lending business continued to look positive in the first half of the 2007/08 business year. The economic upturn in Germany continued, with GDP growth of around 2.5%. This positive development was attributable primarily to the investment in capital goods on the part of companies, which are so important for IKB. The German economy achieved further significant growth in export activity too, despite the persistent appreciation of the euro.

Economic developments on the relevant foreign markets were fundamentally positive, but with regional differences. US economic growth flattened noticeably during the course of 2007, but still stood at just under 2%. Exacerbating factors included rising commodity prices, the crisis on the real estate market and rising inflation rates. Developments in the EU countries of western and central Europe – considered so important for the lending business – proved to be more robust. This trend was driven by growth in investments and private consumption, in particular.

2. Important events in the reporting period

On 27 July 2007, IKB faced a crisis that threatened its very existance, which was attributable to developments in the subprime sector of the US mortgage market. IKB's survival could only be assured by a comprehensive rescue package provided by KfW Banking Group (KfW) as well as three German banking associations (Bundesverband deutscher Banken (BdB), Bundesverband der deutschen Volksbanken und Raiffeisenbanken (BvR), and Deutscher Sparkassen- und Giroverband (DSGV)).

IKB was invested to a substantial degree in structured securities portfolios that included significant risks from US real estate loans. At 31 July 2007, these comprised the following activities:

- The Rhineland Funding conduit (consisting of the refinancing company Rhineland Funding Capital Corporation and some 30 purchasing entities), with a nominal volume of € 13.2 billion, to which IKB had promised liquidity facilities of € 8.1 billion and from which it had also taken over credit default risks of nominal € 1.2 billion from other special-purpose vehicles associated with the conduit (Havenrock I Ltd and Havenrock II Ltd).

- Investments of IKB AG and IKB International S.A., Luxembourg, of nominal € 6.3 billion (subsequently referred to as ‚portfolio investments').

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

In spite of the initial high investment-grade component of these investments of 100% with Rhineland Funding, 99.2% with the portfolio investments and 100% with Rhinebridge, from the current standpoint the risks stemming from these structured securities far outstripped the Bank's risk-bearing capacity.

Triggers of the crisis

The crisis was triggered by stagnating and falling real estate prices in the USA, especially as a consequence of increased interest rates. This was accompanied by growing doubts on the market about lending practices in the US mortgage market for subprime debtors. A volatile increase in payment defaults was expected and thus far higher ultimate losses than had previously been anticipated.

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

Risk shield

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

In an initial step, on 30 July 2007 KfW redeemed the liquidity lines of IKB of € 8.1 billion in favour of Rhineland Funding. Risks amounting to € 0.8 billion out of IKB commitments to the Havenrock companies were also shielded.

Particularly high-risk securities, specifically CDOs and ABS with subprime components, as well as so-called first-loss pieces, with a nominal value of € 3.3 billion were also identified from IKB's overall portfolio investments. KfW, with the support of the three banking associations, committed itself to covering initial losses of up to € 1 billion for this subportfolio.

3. Events after 30 September 2007 (supplementary report)

By the end of 2007, the risk shield proved to be inadequate since market conditions for structured securities continued to deteriorate significantly.

Extension of the risk shield

With effect from 9 January 2008, the still-unsecured risks of IKB vis-a-vis Havenrock I and Havenrock II of € 350 million were for the most part assumed by KfW with the support of the banking pool. In this context, on 7 January 2008, IKB AG also issued a convertible bond with mandatory conversion (volume: € 54.3 million) that was taken up in full by KfW with the exclusion of the subscription rights.

Further supporting measures

Owing to the continuing deterioration in market conditions, it became apparent in February 2008 that the risk shield of € 1 billion was not enough for the portfolio investments. Using recently developed valuation models for the portfolio investments of IKB, the Board of Managing Directors expected to see additional valuation losses of about € 950 million over and above the existing shield. The higher-risk subportfolio with a nominal volume of € 3.1 billion (at February 2008) accounted for the major share of these valuation losses of approximately € 630 million.

In February 2008, IKB identified a value loss of approximately € 320 million for the basically lower-risk portfolio investments with a nominal volume of around € 2.8 billion (at February 2008) that were not covered by the risk shield.

Critical areas of the portfolio investments were valued using the modelling methods designed by IKB (mark to model) for the largely very complex structured portfolio investments. As required in the "Position paper of 10 December 2007 of the ‚Institut der Wirtschaftsprüfer' on reporting and valuation issues in conjunction with the subprime crisis", these methods – where available – allow for current market data and loss expectations.

As a result of the equity burden imposed by the additional losses of the portfolio investments, the convertible bond that was issued on 7 January 2008 was converted in February 2008, increasing the subscribed capital of IKB AG as of 28 February 2008 to € 247.8 million (previously € 225.3 million) and the number of no-par shares to 96.8 million (88.0 million), and bringing the share of KfW Banking Group in the share capital of IKB AG to 43.4% (37.8%). By the end of March 2008, the share of KfW in IKB rose to 45.5%.

On 19 February 2008, KfW strengthened the regulatory core capital of IKB AG by € 600 million and on 19 March 2008 by a further € 450 million as a further element in the package of measures. In both instances, this was achieved by granting a new loan with immediate write-off (debt waiver), to be treated as an additional capital contribution (under German Commercial Code Section 272 Paragraph 2 Number 4) to the capital reserves. The contractual detail of these capital injections contains agreements on compensation out of future profits (Besserungsabrede), with the following key elements:

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

- Interest payments will only be made in years when IKB AG does not incur an annual loss in its HGB individual financial statement as a result of the compensation payments.

- The claims to the compensation payments take commercial precedence over the claims of bonus-share holders and silent participations of IKB AG.

On 27 March 2008, the AGM of IKB AG also approved an increase in cash capital of up to nominal € 1.49 billion (exchange ratio of 1 to 6), while granting options to shareholders. KfW has promised BaFin that as many new shares in IKB AG will be subscribed or taken over out of the capital increase so that at least € 1.25 billion (before costs) will flow into IKB AG as a result of the increase.

The sale of IKB portfolio investments proposed for mid-March 2008 has temporarily been deferred in the current market environment. However, there is still the intention to sell parts of these investments. As a consequence of the prevailing negative developments on the financial markets, IKB expected additional losses of some € 450 million for the higher-risk component of its portfolio investments (nominal € 3.0 billion in March 2008). In fact, € 630 million had already been written off on this portfolio as of the end of February 2008, which exceeded the shielded losses of nominal € 1 billion. Hence, roughly two-thirds of this portfolio is value-adjusted. Of these value impairments, € 1, 285 million was already taken into account as of 30 September 2007, according to IFRS regulations.

For the non-shielded portfolio of nominal € 2.8 billion (March 2008), which by February 2008 accrued valuation losses of € 320 million, IKB calculated further valuation losses of € 140 million by mid-March 2008. Of these value impairments, € 238 million was already taken into account as of 30 September 2007, according to IFRS regulations.

Rhinebridge

At the end of June 2007, the special-purpose vehicle Rhinebridge made investments in credit portfolios through the acquisition of securities. The London branch of IKB Credit Asset Management GmbH (IKB CAM) acted as a portfolio manager for this company. Rhinebridge was financed through capital notes and short-term commercial paper (CP). From August 2007 onwards, it became impossible to place this commercial paper owing to the continued disturbances on the global CP market. In August, IKB invested in capital notes and CPs in order to stabilise Rhinebridge. As a result of the continued deterioration in the market, Rhinebridge went into receivership in October 2007 following related breaches of various contract rules regulating compliance with portfolio ratios. The receiver was appointed on 22 October 2007. This means that all the activities of Rhinebridge are now steered by the receiver. The Bank's investments totalled € 183 million in capital notes and € 222 million in CPs at that time. Since then there have been capital repayments of € 35 million on the CPs. Rhinebridge is currently being restructured under the supervision of the receiver.

Findings of the PwC agreed upon procedures

On 1 August 2007, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) was commissioned with the task of carrying out comprehensive agreed upon procedures. The findings of the agreed upon procedures were submitted on 15 October 2007.

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

- No further new business in portfolio investments.
- Implementation of a comprehensive evaluation of existing assets and implementation of a significantly improved asset management (including an update of valuation models).
- Re-integration of the IKB CAM subsidiary: Transfer of functions and human resources to IKB AG.
- Strengthening the function of the Chief Risk Officer (CRO), specifically by merging responsibility for risk controlling and credit risk management.
- Establishing a risk committee to be headed by the CRO, for the overall valuation and control of all risk items.
- Improving reporting to the Supervisory Board covering all the Bank's activities, particularly with respect to the still-existing portfolio investments.
- Reviewing the conception of risk-bearing capacity.
- Restatement of the Annual Report as well as Financial Statements and Management Report of IKB AG as at 31 March 2007.

Personnel changes

The Supervisory Board of IKB AG has also implemented far-reaching personnel changes to overcome the Bank's survival crisis and on the basis of the findings of the agreed upon procedures conducted by PwC. The spokesman of the Board of Managing Directors, Stefan Ortseifen, and Chief Financial Officer Dr. Volker Doberanzke resigned from the Board with effect from 29 July 2007 and 7 August 2007, respectively. The Board of Managing Directors mandates of Dr. Markus Guthoff and Frank Braunsfeld were terminated with effect from 15 October 2007.

With effect from 29 July 2007, the Supervisory Board appointed Dr. Günther Bräunig, member of the Board of Managing Directors of KfW, as Chairman of the Board of Managing Directors, and Dr. Dieter Glüder, previously a Director of KfW, as member of the Board of Managing Directors of IKB AG. Dr. Günther Bräunig's Board of Managing Directors mandate with KfW will be suspended during his Board of Managing Directors activity for IKB AG. Dr. Reinhard Grzesik was appointed as the new CFO of IKB AG with effect from 15 October 2007. The Supervisory Board appointed Dr. Andreas Leimbach as member of the Board of Managing Directors on 1 April 2008.

With effect from 1 August 2007, the Board of Managing Directors of IKB AG immediately terminated the employment of Winfried Reinke, the Managing Director of IKB CAM Düsseldorf, and released Claus-Dieter Wagner, Head of Risk Management, from his duties with effect from 17 October 2007.

AGM and dividends

The AGM that was originally planned to take place on 30 August 2007 was held on 27 March 2008. All of the administration's proposals made at this AGM were approved by a large majority. The AGM also approved two applications by the German association for private investors (Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW)) for a special review of the responsibilities of the old Board of Managing Directors and the Supervisory Board. Details of the voting results can be found on the Internet at www.ikb.de.

Since the restated HGB financial statement of IKB AG at 31 March 2007 showed no consolidated profit, no dividend was distributed. A dividend of € 0.85 per share was originally proposed.

The AGM elected Ulrich Grillo, Werner Oerter, Dieter Pfundt and Dr. Alfred Tacke as new members of the Supervisory Board. The Supervisory Board mandates of Dr. Jürgen Behrend, Dr. h.c. Ulrich Hartmann, Dr.-Ing. Mathias Kammüller and Dr. Alexander v. Tippelskirch ended on 27 March 2008. The new Chairman of the Supervisory Board of IKB AG is Werner Oerter.

Current rating situation

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

4. Earnings, financial and assets position as at 30 September 2007

Business performance

The volume of new business was increased in the first half of the year to € 8.4 billion, a growth rate of 27.3% compared with the same period of the previous year. It should be noted, however, that the crisis only began after four months of the 2007/08 business year. Since early August, IKB has significantly reduced new business for reasons of liquidity and margin equity.

Consolidated income statement for the first half of 2007/08

The consolidated income statement is greatly impacted by the Bank's crisis. In the first six months of 2007/2008, IKB Group shows an operating result of € –889 million versus € 135 million in the relevant same period of the previous year's period.

The following table shows the main extraordinary influencing factors on the Bank's operating results, broken down into the individual items on the income statement:

	Net trading result and other FV results	Fair Value Option	Net income from investment securities	Result as of risk assumption	Total
Rhineland Funding	647	–1 260		547	–66
Havenrock	–1 023			773	–251
Higher-risk subportfolio		–467	–818	923	–361
Unshielded subportfolio		–25	–213		–238
Rhinebridge [1]	–1	–198			–199
Market value losses on long-term investments and derivatives	–214	–24			–237
Amortisation from dissolved hedging relationships	–68				–68
Liabilities valuation		609			609
Sub-total	**–659**	**–1 364**	**–1 031**	**2 243**	**–811**
Others	–1	–3	–13	–5	–22
Total	**–660**	**–1 367**	**–1 044**	**2 238**	**–833**
Net interest income					268
Provision for possible loan losses					–166
Net fee and commission income					34
Net other operating income					–10
General administrative expenses					–183
Operating result					**–889**

Discrepancies in totals are due to rounding differences

[1] See notes (4)

In detail:

Rhineland Funding. The fair value loss of € 1,260 million on the assets of the Rhineland Funding Companies compares with valuation gains among the liquidity hedges concluded for these assets by the special-purpose vehicles of Rhineland Funding, amounting to € 647 million. The companies of Rhineland Funding were deconsolidated at the end of July 2007 by the takeover of the liquidity lines by KfW and the extensive relinquishment of influencing options by IKB. The consequential earnings of € 547 million are shown in the result as of risk assumption.

Havenrock. The takeover of credit risks for investments of the special-purpose vehicles of Rhineland Funding against two liquidity providers resulted in valuation losses of € 3,232 million, compared with valuation gains from hedges concluded with two credit insurers amounting to € 2,209 million. The net result is a valuation loss in the trading result of € 1,023 million. At the balance sheet date, this loss was covered by a shield provided by KfW of € 773 million, shown in the result as of risk assumption, which led to a net valuation loss of € 251 million. We expect a loss of approximately € 50 million by the end of the year owing to a further sub-participation in the risks by KfW after the date of the financial statements.

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

- Securities for which the fair value option has been exercised are valued at current market value as at 30 September 2007, resulting in a loss of € 467 million. On the basis of the publicly available information and the assessments of market participants on hand as of the key reporting date, valuation parameters were estimated when calculating the market values with valuation models that were based on further market deterioration, especially in the US mortgage market.

- For those securities that are valued at amortised costs, and taking adjusting events up to the financial statement closing date into consideration, values were applied that resulted in a loss of € 818 million.

The negative trend in value during the long statement period means that the risk shield, with its present value of € 923 million at 30 September 2007, does not cover the total posted loss from the portfolio, leaving a net loss of € 361 million after shielding.

Unshielded subportfolio. This subportfolio, representing mainly corporate risks, incurred a valuation expense totalling € 238 million at 30 September 2007 owing to the weak market environment.

Rhinebridge. The loss from Rhinebridge of € –199 million corresponds to the reduction in the value of Rhinebridge assets unless carried by other capital providers to Rhinebridge.

Market value losses on long-term investments and derivatives. IKB's equity is invested in long-term investments, with a significant proportion in structured form, including derivatives. Changes in market interest rates during the reporting period led to valuation losses of € 237 million.

Amortisation from discontinued hedging relationships. The scheduled and unscheduled amortisation of hedge adjustments to be amortised according to IFRS 1 IG 60A and IG 60B had a net impact on the result of € –68 million.

Liabilities valuation. In the past, i.e. prior to the crisis, IKB opted for the fair value measurement under IFRS on a substantial part of its liabilities. The liabilities of IKB have lost significant market value as a result of the crisis and are therefore to be shown at a lower market value in the balance sheet in accordance with IFRS. The resulting gain in valuation of € 609 million is shown in the net income from financial instruments at fair value position in the consolidated interim financial statement. Of this, € 419 million fall on silent participations and profit participation certificates (Genussrechte). In so far as this valuation gain does not apply to ultimate interest and capital losses on hybrid liabilities, it will have dissipated by the time liabilities are repaid and result in a commensurate expense.

The other income statement items can be explained as follows:

Net interest income of € 268 million in the first six months was down 16.5% on the same period of the previous year (€ 321 million). The drop is due mainly to the lower income from interest rate management, where a flatter yield curve and a more conservative investment strategy have had their effects. The deconsolidation of Rhineland Funding after four out of six months of the reporting period and the increased refinancing costs have also been a factor.

The provision for possible loan losses of € 166 million is higher than in the same period of the previous year (€ 139 million). Two opposing effects can be observed here. On the one hand, the favourable cyclical trend at home and abroad had a positive effect on the credit quality structure of our loan exposure, resulting in a reduced allocation to reserves. On the other hand, adjusting events post reporting period must be taken into consideration. This means that appropriate provision for possible loan losses had to be created for risks entered into prior to 30 September 2007, but not known until post 30 September 2007 up until the time of preparing the consolidated interim financial statement. This led to an increase in value owing to the significantly longer adjusting events period than in the same period of the previous year. This effect will relieve the provision for possible loan losses in the subsequent quarters.

Compared with the same period of the previous year, net interest income after provision for possible loan losses fell in the first six months, by 44.0% to € 102 million.

At € 34 million, net commission income is 29.3% higher than in the same period of the previous year (€ 27 million). This increase of € 7 million is chiefly attributable to the Structured Finance segment.

General administrative expenses rose by 28.5% to € 183 million. While the rise in personnel expenses – due mainly to higher staffing levels – was 8.7%, other administrative expenses were up by 57.3%, which can be primarily attributed to the increased cost (consultancy costs in particular) of resolving the critical developments at IKB. The average level of employees stood at 1,840 (1,728) in the first half-year.

Regarding the tax position, deferred tax assets on losses carried forward from previous years were written down since they will cease to apply as a result of the anticipated change of ownership. Deferred tax liabilities on these already explained positive result effects were also created out of the valuation of the liabilities, in so far as these valuation effects contain no immediately tax-effective earnings. The consolidated loss after allowing for the tax expense of € 75 million stands at € –965 million.

The result per share in the first half-year represents a value of € –10.98 (€ 1.01). No measures were taken during the reporting period that resulted in a dilution effect on the share. Please refer to the supplementary report regarding share issues and conversion of the convertible bond.

Segment reporting in the first half of 2007/08

Segment reporting was adjusted in line with the restated consolidated financial statement at 31 March 2007 and the quarterly report at 30 June 2007. Details of these changes will be found in the Notes to the segment reporting. This relates in particular to the former "Securitisation" segment, which has therefore been renamed "Portfolio Investments", and the "Head Office / Consolidation" segment. The comparative values have been adjusted accordingly.

In the first six months of the 2007/08 business year, the Corporate Clients segment, which comprises domestic corporate financing, private equity activities and product leasing, posted an operating result of € –18 million (€ 42 million). This result is determined by negative valuation results in the private equity segment and the clear increase in the provision for possible loan losses. Net interest income in the operational business was on a par with the same period of the previous year. The margin on new business fell in the first half of 2007/08 to 1.04% (same period of the previous year 1.17%) owing to the continued keen competition and improved average credit standing. The volume of new business, which rose to € 2.6 billion (same period of the previous year: € 2.1 billion), helped to stabilise net interest income. It was possible to further reduce costs. General administrative expenses in the reporting period stood at € 68 million (same period of the previous year € 72 million).

The net loss from financial instruments at fair value was due to the valuation result with a failed investment by our Private Equity segment. The provision for possible loan losses rose significantly in the Corporate Clients segment following allowances for adjusting events. Since the provision for possible loan losses was created with the amount of information available when the financial statement was prepared, we anticipate a normalisation for the third quarter and, in particular, for the full financial year.

As a result of these extraordinary factors, the return on equity was negative, at –5.2% (12.8%); the cost/income ratio was 69.3% (54.5%).

The Real Estate Clients segment, which comprises national and international property financing, realised an operating result of € 3 million (same period of the previous year: € 12 million). At € 32 million, net interest income was slightly higher than the comparable same period of the previous year's value (€ 31 million). It was possible to expand the volume of new business by over 70% to € 0.7 billion, due above all to the establishment of the European financing platform last year. The new business margin was held at a pleasingly high level of 1.32% (1.37%). However, the dynamic new business has to be seen against the correspondingly higher general administrative expenses of foreign activities, which necessitates a significant rise in provision for possible loan losses also due in particular to the long period for adjusting events.

Return on equity in the Real Estate Clients segment was 3.1% (11.4%), while the cost/income ratio was 55.1% (51.4%).

The Structured Finance segment, which comprises national and international project and acquisition financing, posted a negative operating result in the first half of 2007/08 of € –10 million (€ 47 million). New business was down on the same period of the previous year, at € 3.1 billion (€ 3.4 billion). The margin in new business rose to 2.04% (2.01%). Net interest income fell by 7% and net commission income rose by 34%. In financial assets, and following the general market trend, value adjustments amounting to € 35 million were formed on the First Loss Pieces from the structuring of our own credits. The provision for possible loan losses was more than doubled, at € 26 million. Further personnel and asset investments at the European IKB foreign locations caused general administrative expenses to rise to € 34 million (€ 30 million).

Return on equity in this segment was –5.4% (29.4%); the cost/income ratio stood at 67.9% (34.1%).

The Securitisation segment was renamed Portfolio Investments. This name change came about as a result of the reduction of the segment to investments in securitisation products including the consolidated special-purpose vehicles. The Portfolio Investments segment shows an operating result of € –1,022 million (same period of the previous year: € 89 million), reflecting in particular IKB's losses following the financial crisis.

Specifically, net income from financial instruments at fair value fell to € –2,325 million and net income from investment securities declined to € –992 million. This stood in contrast to the positive result from risk assumption of € 2,238 million. General administrative expenses rose to € 20 million (€ 12 million) as a result of project costs and the costs of risk shielding.

Consolidated balance sheet

At € 53.1 billion, the balance sheet total at 30 September 2007 was € 10.5 billion, or 16.5% below the level recorded on the balance sheet date 31 March 2007. This is in essence due to Rhineland Funding, with a balance sheet volume of € 11.6 billion (31 March 2007), being deconsolidated after KfW had entered into the liquidity lines granted by IKB to Rhineland Funding on 30 July 2007.

Loans and advances to banks fell by € 2.1 billion to € 2.3 billion, due mainly to the short-term interbank business. While loans and advances that are due daily rose slightly owing to the key reporting date, loans and advances with terms of up to four years fell significantly by € 2.4 billion.

Loans and advances to customers rose compared with 31 March 2007 by € 1.6 billion to € 31.2 billion, an increase due primarily to growth in terms by up to four years.

The level of provision for possible loan losses fell by € 0.1 billion to € 1.0 billion.

The level of assets held for trading rose by € 0.7 billion to € 2.9 billion. On the one hand, the positive market values from derivative financial instruments rose by € 2.1 billion; which was due mainly to the increase in value of the credit derivatives of the Havenrock companies closed as security. On the other hand, the assets held for trading fell because bonds and other fixed-interest securities with a volume of € 1.2 billion are shown in the investment securities after completion of the build-up of the Rhinebridge portfolios (end of June 2007).

Investment securities fell by € 12.0 billion to € 15.3 billion, which was due particularly to the deconsolidation of Rhineland Funding as previously explained, and depreciations on portfolio investments.

Of the other assets, receivables from hedging of € 1.7 billion were capitalised and were therefore largely responsible for the increase in other assets to € 2.1 billion.

The refinancing of IKB business activities through borrowing from banks (€ +2.3 billion to € 16.3 billion) and customers (€ +0.3 billion to € 4.6 billion) increased, especially within the short-term range.

Securitised liabilities, on the other hand, fell sharply (€ –15.3 billion to € 24.2 billion), which was due primarily to the deconsolidation of Rhineland Funding, the take-back of issues as part of market management and the credit rating-induced decreases in value of the fair-valued financial instruments.

Assets held for trading rose significantly by € 3.6 billion, due in particular to the protection seller items with the Havenrock companies.

Subordinated capital was down by a total of € 0.5 billion to € 2.6 billion as a result of credit rating-induced reductions in value among fair-valued subordinated liabilities, profit participation certificates and silent partnership contributions, while shareholders' equity fell by € 1.0 billion to € 0.2 billion. This development includes the value adjustments processed on the income statement up until the time of statement preparation. As explained in the supplementary report, further capital reorganisation measures were implemented post-balance sheet date in order to strengthen shareholders' equity.

IKB held 0.1% of treasury shares at 30 September 2007. The approved limit was 10%.

Financial position

IKB's liquidity position at 30 September 2007 was tight. Borrowing at the money and capital market was virtually possible only short term and in collateralised form. Please refer to the statements made in the risk report for further details.

Overall view

Overall, business performance and the position in the first six months of 2007/08 were very much characterised by the crisis that hit the Bank at the end of July 2007. Ultimately, the survival of IKB could only be ensured by a comprehensive rescue package put together by KfW with support from the banking pool.

5. Risk report

This risk report provides an account of the main changes in the Bank's risk-bearing capacity and the individual risk types since 31 March 2007. In order to make a comprehensive assessment of the current risks, the following statements should be seen in conjunction with the notes on risk in the forecast report. Please refer to the statements made in the Group Management Report as at 31 March 2007 with regard to the objectives, strategies and principles of the organisation of risk management.

Risk-bearing capacity

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

Regulatory risk capital

	30 Sep 2007[1)] in € million	31 Mar 2007 in € million	Change in € million	in %
Risk-weighted assets	34 365	32 747	1 618	4.9
Market risk equivalent	538	750	–212	–28.3
Risk position	**34 903**	**33 497**	**1 406**	**4.2**
Tier 1 capital	2 275	2 434	–159	–6.5
Tier II capital	1 612	1 726	–114	–6.6
Tier III capital	31	9	22	244.4
Deductions	–190	–88	–102	115.9
Equity capital	**3 728**	**4 081**	**–353**	**–8.6**
Tier 1 ratio in %	6.3	7.1		
Capital ratio (Principle I) in %	10.7	12.2		

[1)] The figures as at 30 September 2007 are based on the "Grundsatz-I-Meldung" [Principle I Report] by the IKB Group to the Deutsche Bundesbank at 30 September 2007.

The Tier 1 ratio as well as the capital ratio fell due to the rise in risk-weighted assets on the basis of the increase in new business and to the decline in equity capital following the half-year loss below the levels at the end of the 2006/07 business year. At 6.3%, the reported Tier 1 ratio is above the regulatory minimum of 4.0%. The reported Capital ratio of 10.7% is above the regulatory minimum of 8.0%. Further downratings of the portfolio investments as well as the reduction in the liable equity capital as a result of the HGB losses anticipated for the year as a whole resulted in a further fall in both the Tier 1 ratio and Capital ratio. On the strength of the capital injections made by KfW and the decision to increase capital, the Board of Managing Directors anticipates that minimum regulatory requirements will continue to be achieved in the future.

The existing risk-bearing capacity concept is currently undergoing review in light of the crisis. In future, the existing risk limitation from the standpoint of an unsubordinated creditor will be supplemented by an analysis from the viewpoint of an investor. Risk quantifying on the basis of stressed parameters will also be enhanced by other macroeconomic stress scenarios. Against the background of the current situation, the Board of Managing Directors decided to use only the stressed parameters and basic assumptions pending the implementation of these new risk quantification measures.

In light of the further decline in value of the portfolio investments after 30 September 2007, as well as the resulting reduction in aggregate risk cover, risk-bearing capacity was no longer assured. Hence, restoring risk-bearing capacity requires coverage for the risks from the portfolio investments and the reinstatement of the aggregate risk cover in the manner described as part of the previously presented risk shield and the further package of measures.

The following table shows the ratios of fixed economic capital for those risk types not associated with portfolio investments, on the basis of stressed parameters (in particular higher loss probabilities, loss expectations and correlation assumptions). For the purpose of comparison, we have added the values determined on the basis of unstressed parameters and published as at 31 March 2007.

Economic Capital

	30 Sep 2007		31 Mar 2007			
	Stressed Parameters		Stressed Parameters		Unstressed Parameters	
	in million €	in %**	in million €	in %**	in million €	in %
Market price risk*	228	11	274	13	108	14
Counterparty risk*	1 532	72	1 573	72	473	62
Operational risk	277	13	246	11	82	11
Business risk	98	5	94	4	94	13
Total	**2 135**	**100**	**2 187**	**100**	**757**	**100**

*) excl. portfolio investments
**) Discrepancies in totals are due to rounding differences

Market price risk

To further restrict the overall risk position, during the reporting period the Bank continually reduced the interest rate risk even though this involved sustaining sales losses.

Traditional lending business

Despite the increased loan volume, the economic capital needed for the credit risk from traditional business has fallen slightly, not least because of the further improved credit quality structure.

This positive trend in the credit quality structure of the lending businesses was maintained in the first half of the 2007/08 business year.

Credit quality structure of the lending business at 30 September 2007 compared with previous years, at 31 March (excl. non performing loans)

Internal rating*	2004	2005	2006	2007	Sep. 07
1/1.5	6.0	6.5	8.8	13.1	14.8
2/2.5	9.2	9.5	10.1	8.9	9.5
3/3.5	6.0	6.0	5.1	5.4	6.0
4/4.5	3.2	2.4	2.1	2.2	2.4
5 and higher	2.5	1.9	1.6	1.3	0.9
	26.8	**26.3**	**27.7**	**30.9**	**33.6**

*) 11-stage internal scale from 1.0 (best rating) to 6.0 in steps of 0.5

At € 166 million, the provision for possible loan losses is higher than in the previous year (€ 139 million) for reasons explained further in the notes on the consolidated income statement.

The level of risk provision for the traditional lending business including the portfolio value adjustments at 30 September 2007 is € 1,077 million. The cover ratio for non performing loans by specific valuation allowances is 56% (56% at 31 March 2007).

The following table provides an overview of the changes in receivables classified as *non-performing loans*:

Non Performing Loans[1)]

	30 Sep 2007 in € million	31 Mar 2006 in € million	Change in € million	in %
Domestic clients	1 660	1 750	–90	–5
West Germany	898	943	–45	–5
East Germany	762	807	–45	–6
Foreign clients	89	82	+7	+9
Structured credit products	150	15	+135	>+100
Total	**1 899**	**1 847**	**+52**	**+3**
% of loan volume [2)]	5.3	5.6		

[1)] An asset is classified as ‚non performing' when
– bankruptcy proceedings have been brought, or
– interest or capital repayments that are more than 90 consecutive days in arrears, or
– there are other clear indicators that the debtor cannot meet his contract obligations, or
– market values of less than 90% of the nominal amounts are determined
and there are no objective indications that it can be realised by later payments or the sale of collateral.

[2)] The credit volume (at 30 September 2007: € 36 billion; at 31 March 2007: € 33 billion) is made up of loans to clients, loans to banks, collateralised lending, operating and finance leasing agreements as well as guarantees and credit default swaps, but excludes the loan volume of the Portfolio Investment segment

While the non-performing loans of domestic clients in both East Germany and West Germany fell back, the Bank sustained losses among the foreign clients and – owing to the current uncertainty on the capital market – among the securities tranches held by the Structured Finance segment, in particular. The tranches held by the segments referred to above are related to outplacements of the Bank's own financing; approximately half of them are shielded by the securitising measures described above.

Portfolio investments

Against a background of the significant weakening in market values, all of the following investment information is presented based on nominal values and not, as in previous reports, on book values.

At 30 September 2007, the investments in the IKB Group in structured securities portfolios comprised the following:

- Investments of IKB AG and IKB International S.A., Luxembourg, of nominal € 6.2 billion.
- The special investment vehicle Rhinebridge plc, with a nominal investment volume of € 1 billion, in which IKB itself had a share through capital notes of € 183 million and commercial paper of € 222 million.
- The first-loss risk secured against the Havenrock companies of € 1.2 billion, of which KfW had assumed some € 0.8 billion at balance sheet date and a further € 0.35 billion on 9 January 2008.

We would refer to the comments made relating to the consolidated income statement for the first half of 2007/08 with regard to the losses determined in the reporting period.

Portfolio investments of IKB AG and IKB International S.A.

Credit quality structure of IKB portfolio investments at 30 September 2007 compared with previous years at 31 March*

Nominal in € billion	2003	2004	2005	2006	2007	30 Sep 2007*
Aaa	0.8	1.4	1.8	2.2	2.1	1.8
Aa	0.5	0.7	1.7	2.5	2.9	2.3
A	0.2	0.5	1.0	1.2	1.2	1.3
Baa	0.3	0.3	0.3	0.5	0.6	0.5
Ba/B	0.1	0.1	0.2	0.2	0.1	0.1
Sub B	–	0.0	0.0	0.0	0.2	0.1
	1.9	**3.0**	**5.0**	**6.7**	**7.0**	**6.2**

*) Discrepancies in totals are due to rounding differences

Underlying asset structure of IKB portfolio investments at 31 March and 30 September 2007*

Unterlying Portfolios Nominal in € billion	30 Sep 2007 Total		31 Mar 2007 Total	
Corporates	2.6	(42%)	3.0	(43%)
ABS[1]	2.6	(42%)	3.1	(44%)
with subprime components	2.0	(33%)	2.4	(34%)
ABS + Corporates mixed	0.9	(15%)	0.9	(13%)
with subprime components	0.2	(3%)	0.2	(2%)
Total	**6.2**	**(100%)**	**7.0**	**(100%)**

1) Real estate financing in particular
*) Discrepancies in totals are due to rounding differences

Out of the total of € 6.2 billion nominal portfolio investments at 30 September 2007 plus € 0.1 billion capital notes from Rhinebridge, a nominal € 3.2 billion are shielded up to a maximum loss of € 1 billion. These consist mainly of the particularly risky investments with subprime elements, and investments that have lost significant value since the outbreak of the crisis. Only 3.6% or a nominal € 0.1 billion of investments with subprime risks remained within the unshielded part at 30 September 2007. These investments were subjected to value adjustments of € 73 million.

Underlying asset structure of IKB portfolio investments at 30 September 2007 broken down by shielded and unshielded investment volumes (excl. Rhinebridge and Havenrock)*

Nominal in € billion	Total		30 Sep 2007 Shielded		Unshielded	
Corporates	2.6	(42%)	0.6	(19%)	2.1	(66%)
ABS[1]	2.6	(42%)	2.0	(65%)	0.6	(20%)
with subprime components	2.0	(33%)	1.9	(63%)	0.1	(3%)
ABS + Corporates mixed	0.9	(15%)	0.5	(17%)	0.4	(13%)
with subprime components	0.2	(3%)	0.2	(5%)	0.0	(1%)
Total	**6.2**	**(100%)**	**3.1**	**(100%)**	**3.1**	**(100%)**

1) Real estate financing in particular
*) Discrepancies in totals are due to rounding differences

Of the unshielded corporate investments of € 2.1 billion, 52% of the underlyings are in North America. The following table shows the external rating structure of the corporate investments:

Rating structure of the IKB portfolio investments with corporate underlyings at 30 September 2007 broken down by shielded and unshielded investment volumes (excl. Rhinebridge and Havenrock)*

Corporates Nominal in € billion	**Total**	**30 Sep 2007** **Shielded**	**Unshielded**
Aaa	0.6	0.1	0.5
Aa	1.6	0.3	1.3
A	0.2	0.1	0.1
Baa	0.1	0.0	0.1
Ba/B	0.0	0.0	0.0
Sub B	0.1	0.1	0.0
	2.6	**0.6**	**2.1**

*) Discrepancies in totals are due to rounding differences

Of the unshielded investments with ABS underlyings (e.g. mortgage financing, credit cards) of € 0.6 billion, 78% of the underlying assets are in North America. Here again, the external ratings are in the upper investment-grade range:

Rating structure of the IKB portfolio investments with ABS underlyings at 30 September 2007 broken down by shielded and unshielded investment volumes (excl. Rhinebridge and Havenrock)*

ABS Nominal in € billion	**Total**	**30 Sep 2007** **Shielded**	**Unshielded**
Aaa	0.8	0.4	0.3
Aa	0.5	0.3	0.1
A	0.9	0.8	0.2
Baa	0.4	0.3	0.0
Ba/B	0.1	0.1	0.0
Sub B	0.1	0.1	0.0
	2.6	**2.0**	**0.6**

*) Discrepancies in totals are due to rounding differences

Of the unshielded investments with mixed underlying assets of € 0.4 billion, 34% are in North America. The external ratings were still within the Aaa to A range at 30 September 2007.

Rating structure of the IKB portfolio investments with mixed underlyings at 30 September 2007 broken down by shielded and unshielded investment volumes (excl. Rhinebridge and Havenrock)*

Corporates + ABS Nominal in € billion	**Total**	**30 Sep 2007** **Shielded**	**Unshielded**
Aaa	0.5	0.2	0.2
Aa	0.2	0.1	0.1
A	0.2	0.1	0.1
Baa	0.1	0.1	0.0
Ba/B	0.0	0.0	0.0
Sub B	0.0	0.0	0.0
	0.9	**0.5**	**0.4**

*) Discrepancies in totals are due to rounding differences

Portfolio investments of Rhinebridge

At 30 September 2007, the investment volume of Rhinebridge was a total of nominal € 1 billion, of which € 0.9 billion showed an external rating of Aaa and € 0.1 billion of Aa on closing date. Almost 100% of the underlyings consisted of ABS, including some 12% with subprime elements.

For IKB, the risk from these investments is restricted to capital notes that it holds (at 30 September 2007: € 183 million) and commercial paper (at 30 September 2007: € 222 million). A total of € 131 million of the capital notes were already shielded at 30 September 2007. The risk remaining out of the capital notes of € 52 million was shielded as part of the securitisation extended in January 2008.

Havenrock

Of the first-loss risks arising to IKB out of the Havenrock companies amounting to 25% of the credit default swaps transacted by those companies (nominal € 4.6 billion), KfW had taken over the first 17% points at 30 September 2007. Simulation calculations carried out post-closing date showed that the losses from these transactions very probably exceed the protection provided by KfW, and as a result further shielding was granted by KfW on 9 January 2008, reducing the risk to the IKB to € 51 million (March 2008).

Operational risks

Operational risks have increased significantly as a result of the effects of the subprime crisis on IKB. Internal crisis management requires resources that go far beyond the Bank's own capacities. This gap is bridged by the use of outside consultants as far as possible. The Bank's own resources are also weakened by staff losses as a response to the crisis, and these staff losses can only be partly offset by new appointments at the present time. Around 200 employees have terminated their employment contracts since the outbreak of the crisis.

Legal risks

A number of shareholders have brought claims against the Bank in recent months, which relate specifically to a press release on 20 July 2007. In essence, the shareholders base their claims for damages on the allegation that the IKB press release on 20 July 2007 was deliberately false. IKB regards these claims as unfounded. At the time, IKB assumed that no appreciable risks were imminent out of the liquidity lines for Rhineland Funding because the Bank did not believe it was possible for the entire asset-backed commercial paper (ABCP) market to collapse, making re-financing impossible in the long term. In the press release on 20 July 2007, IKB therefore concentrated on the risks in its own balance sheet as it saw them at that time. The provisional value of the shareholders' claims totalled roughly € 2.4 million by mid-April 2008. The values of individual claims range from approximately € 4 thousand to approx. € 600 thousand. It is expected that the main legal and factual issues of these shareholder claims will be dealt with in a model court case held under the ‚Kapitalanleger-Musterverfahrensgesetz' (Capital Markets Model Case Act – KapMuG). In addition to the claims mentioned, there are a number of shareholders and other investors in IKB securities who have approached IKB out of court with demands for damages.

On 10 March 2008, the US bond insurer, Financial Guaranty Insurance Company (FGIC), and its UK subsidiary filed a lawsuit with a New York court against IKB AG and its subsidiary IKB CAM. It is the opinion of IKB that this complaint has not yet been lawfully served. The wording of the complaint is known, however. The complainants are petitioning to be released from contractual obligations of up to US $ 1.875 billion in favour of another liquidity provider for Rhineland Funding. They are also claiming damages from IKB in an unnamed amount. IKB rejects the allegations made in the complaint as unfounded.

It is not ruled out that claims for damages will also be brought against IKB AG and/or IKB CAM in respect of their activities and operations relating to Rhineland Funding and/or Rhinebridge by other parties involved in these transactions.

In addition, on 10 August 2007 the Public Prosecutor's Office in Düsseldorf instituted enquiries against IKB officers on suspicion of a breach of trust and breaches of the Joint-Stock Corporation Law. The Bank's role is one of potential injured party in this matter. The Board of Managing Directors is supporting the work of the Public Prosecutor's Office and is co-operating with it in every respect to achieve a full clarification of these matters as rapidly as possible.

In connection with the aforementioned shielding measures implemented by KfW with the support of the banking associations for the benefit of IKB, the German government informed the European Commission about the measures and, as a precaution, filed the first two packages of measures with a letter dated 15 January 2008 with the Commission. The third package of measures was filed with the Commission with a letter dated 14 March 2008.

On 27 February 2008, the European Commission initiated a detailed review of the measures under the state aid regulations of the EC Treaty to establish whether the support measures constitute subsidies and, if so, whether they are in line with the state aid rules of the EC Treaty.

It is the view of the German government that the measures implemented so far do not constitute state aid nor state aid that is unapprovable.

Should the Commission come to the conclusion that state subsidies are involved, it may declare these to be permissible, particularly if they meet the requirements for state aid for the rescue and restructuring of businesses in difficulty. The Commission will also examine the issue of whether the proposed restructuring will restore the long-term profitability of the Bank, whether the support is limited to the necessary minimum, and which compensatory measures will minimise any distortion of competition. However, if the Commission decides that the support measures do not represent subsidies that can be approved, they will have to be claimed back.

Based on the course of the enquiry so far, the Board of Managing Directors assumes that the measures do not constitute a subsidy or a subsidy that can be approved.

With regard to the AGM on 27 March 2008, legal challenges could still be brought against the resolutions adopted at that meeting. Shareholders who lodged an official protest at the AGM on 27 March 2008 are entitled to raise such challenges within a period of one month. Such legal challenges had come to our attention by mid-April 2008.

Liquidity risks

Up until the crisis in the asset-backed commercial paper market, the Bank‘s liquidity was based on credit instruments available at short and long term and on a reasonable volume of securities that could be pledged with the European Central Bank (ECB) at any time. The Bank was involved on an ongoing basis in the ECB’s so-called tender facilities by which the banking system is supplied with liquidity.

When quantifying the volume required for its liquidity provision, the Bank assumed that sustained market disturbances – even including a total collapse of all market activities – would last for a maximum period of two weeks. However, this analysis only took account of the particularly liquid balance sheet assets such as “Pfandbriefe” and disregarded other realisable assets.

At the beginning of 2007, the Bank decided to build up its own liquidity provision, not least in view of the liquidity lines granted to Rhineland Funding. As a result, from 1 January to 31 July 2007 the volume of refinanceable securities with the ECB rose by € 2.0 billion, from € 5.2 billion to € 7.2 billion. In June 2007, further liquidity lines with a volume of US $ 2.5 billion were also syndicated to a third party on the market.

The crisis on the ABCP market, by which Rhineland Funding had financed itself in the USA and Europe without difficulty since it was established in 2002, began at the end of July 2007 and still continues today. Starting from around the 23 July 2007, Rhineland Funding lost virtually all of its ability to refinance itself on the ABCP market. This trend persisted, with the result that a drawing on the liquidity lines provided by the Bank was imminent. At the same time, market assessments by a number of business associates prompted them to cancel the usual money trading lines that were available to IKB in very large measure. As a result, on 27 July 2007, the Bank's solvency was called into question to such an extent as to create a liquidity risk of a volume for which the liquidity reserve was far too inadequate.

In this context, on 30 July 2007, KfW redeemed the liquidity lines of IKB of € 8.1 billion in favour of the "Rhineland Funding" conduit.

Following the outbreak of the crisis, the Bank completely reviewed and refined its liquidity planning. This now enables us to give a detailed forecast of the day-to-day liquidity position for the subsequent three months and a sufficiently reliable prognosis over a 12 month period.

The Bank's liquidity requirement was covered by borrowing on the money market (overnights and time deposits) in secured and unsecured form, participation in the ECB tender, the sale of liquid securities investments as well as bonded loans and the collection of client monies on a promissory note basis. KfW, with the support of the banking pool, granted IKB a liquidity line amounting to € 1.5 billion on a secured basis. Further funds flowed to the IKB from development loan programmes of KfW and of the development agencies of the German federal states, which IKB uses to finance its small- and medium-sized clients.

These instruments also form the basis for the Bank's further liquidity procurement until capital market capability for medium- and long-term refinancing is restored. The Bank's resolved capital increase will also make a decisive contribution to this.

The Bank also plans to deploy at least part of its portfolio investments of nominal € 5.8 billion (March 2008) for liquidity procurement. Funds will flow in from the shielded portion of these portfolio investments, either from a sale of this type or from loss offsetting from the risk shield up to € 1 billion.

The Bank anticipates an as yet uncovered borrowing requirement of € 12 to 14 billion spread over the next 12 months, depending on how the new business develops. The financing measures needed to meet this requirement are already partly in place or initiated.

Overall view of the risk situation

Given the prevailing significant uncertainty about future developments in the value of securitised credit risk structures, the possibility cannot be ruled out that the continuing financial crisis will lead to further value losses among structured securities and thus to additional burdens on the income statement.

Against this background, the Bank's risk-bearing capacity can still only be assured on the basis of the resolved and guaranteed capital increase.

IKB's survival will depend on whether access to the capital market can again be achieved in the 2008/09 business year even for unsecured, longer-term refinancing. For this to happen, is the following factors are particularly important:

- The resolved capital increase of € 1.5 billion is registered and promptly realised and led to a capital inflow of at least € 1.25 billion.
- The proposed measures for liquidity procurement are implemented, especially the addition and renewal of the secured money market refinancing that will be necessary in the short term.
- The sale of a significant portion of the portfolio investments at adequate prices is undertaken.
- No legal reservations, specifically EU proceedings, are brought against the above-mentioned measures and the whole risk shield.
- No significant risks arise out of the legal dispute with a credit insurer.

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

6. Report on essential transactions with affiliated organisations and persons

The transactions with affiliated organisations and persons relate in the first instance to the support measures through the IKB's major shareholder, KfW Banking Group. These are explained in the sections "Important events in the reporting period", in the "Supplementary Report" and in Note (34).

7. Outlook

Opportunities for future progress

IKB is a leading German bank that specialises in the long-term financing of small- and medium-sized enterprises, property investors, project partners and institutional investors. The Bank is a market leader in long-term corporate loans to the manufacturing industry, with a market share of just under 10%. IKB's biggest competitors in Germany are the major universal banks and selected larger organisations in the public banking sector.

The strengths of IKB lie in its specialisation, its associated competencies and the high level of confidence that it enjoys with its clients. Its excellently trained and highly committed employees are the foundation for its activities.

In the *Corporate Clients* segment, Germany will continue to be the core market. However, the Bank's acquisition potential is to be increased by offering long-term investment credits to businesses with an annual turnover of € 7.5 million and more (previously € 10 million). The reliable partnership between IKB and its long-standing corporate clients will remain the basis for this effort. The Equipment Leasing unit proposes not only to improve its market position in Germany, but also to establish branches in Russia and Romania in addition to existing locations in Central Eastern Europe. In so doing, the Bank is responding to the fact that many German and West European companies have now opened branches in these countries where they are financing parts of their production capacities on a leasing basis.

IKB's favourable positioning in the Corporate Clients segment is illustrated by the fact that it succeeded in increasing the disbursements for the full-year 2007/08 (1 April 2007 to 31 March 2008) to € 4.7 billion (previous year: € 4.6 billion), although IKB has cut back on new commitments in recent months.

In the *Real Estate Clients* segment, the volume of new business is set to grow organically over the next three years. The European real estate platform established in 2006/07, which focuses primarily on syndicated financing, will contribute to this, as will medium- and long-term real estate financing in Germany. It will be supplemented by project developments for which IKB will offer the full spectrum of its services and earn commission in the process.

In the 2007/08 business year, the Bank was able to increase new disbursements in the Real Estate Clients segment to € 1.4 billion (previous year: € 1.3 billion).

In the *Structured Finance* segment, IKB intends to continue its successful internationalisation strategy, placing particular emphasis on the European markets in whose development it will participate more intensively. This applies to both the mid-cap LBO area and to selected fields of project financing. However, even in the mid-cap segment, the LBO market has also shrunk significantly in recent months following the crisis on the financial market. The Bank anticipates that around 70% of its income from the Structured Finance segment will be earned on foreign markets in the next two years, with the share of project financing continuing to expand.

After the exceptionally strong 2006/07 financial year, in which € 5.3 billion were disbursed, disbursements for 2007/08 stand at € 3.8 billion and as such surpassing the level for 2005/06 (€ 3.5 billion).

IKB therefore disbursed a total of € 9.9 billion (previous year: € 11.2 billion) in the 2007/08 financial year in the three core business areas of Corporate Clients, Real Estate Clients and Structured Finance, despite the critical developments. This is the second-highest figure in the Bank's history.

On this basis, IKB has significant growth potential in terms of expanding its range of products, through active cross-selling and not least through further enhanced client focusing.

The business trend in the *Portfolio Investments* segment will be strongly dependent on future market developments. In this regard, it appears that a certain easing of the situation on the financial markets emerged in April 2008, and the spreads on corporate CDSs have narrowed again. In addition, the market for structured securities has seen a resumption of liquidity and volumes, despite the underlying subprime loans. Consequently, IKB intends to continue to divest – if necessary, in small blocs – its higher-risk subportfolio. Given a continuation of the financial crisis and renewed deterioration of the situation on the markets, further losses in the Portfolio Investments segment cannot be ruled out.

Sale process

On 18 January 2008, KfW launched the process whereby its shares in IKB will be sold. The ‚Stiftung Industrieforschung' as the second-largest shareholder in IKB also intends to sell its stake as part of this sale process. According to KfW Banking Group, there are a range of offers from both home and abroad.

IKB has given selected bidders an opportunity to conduct a due diligence exercise to allow binding offers to be prepared on this basis.

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

Financial position

IKB has stabilised its financial and assets position through the risk shield and further package of measures. In addition, on 27 March 2008, the AGM of IKB AG approved an increase in cash capital of up to nominal € 1.49 billion (exchange ratio of 1 to 6) while granting to its shareholders. KfW has promised BaFin that as many new shares in IKB AG will be subscribed or taken over out of the capital increase that at least € 1.25 billion (before costs) will flow into IKB AG as a result of the increase.

The Bank's solvency ratios will be sustainably improved as a result of the increase in capital. Nevertheless, other opportunities will also be used to ease the Bank's risk-bearing capacity from the assets side. This includes reducing risk assets in the lending business as well as the further reduction in market price risks.

Liquidity position

The refinancing of lending business in the 2007/08 financial year became significantly more difficult following the crisis in July 2007 and was achieved primarily through secured borrowing. The money markets have also become tighter since the outbreak of the crisis in the summer of 2007. For most banks, the interbank market has not yielded as much as in previous periods. Secured financing and borrowing against securities or loans with the central bank have become important sources of refinancing for all banks, including IKB. Following the proposed capital increase, the Board of Managing Directors anticipates it will be able to resume unsecured refinancing as well – in the form of bonds – on the national and international capital markets. This will depend on a normalisation on the international capital markets. As it has done in the past, IKB will also refinance part of its lending by borrowing funds from the public development banks.

Expected performance

The necessary restructuring measures and, in particular, the downward movement in the market value of securitised loan portfolios will be a significant drag on the current business year's result. However, this must be seen against a positive valuation effect – based on the current market situation – of around € 1.5 billion after deferred taxes, which is only partly sustained. The background to this is that IKB has opted for fair value measurement under IFRS for a substantial part of its liabilities. Since IKB's liabilities have lost significant market value as a result of the crisis, they are to be shown at a lower market value on the balance sheet. This valuation gain has a bottom-line impact in the IFRS consolidated financial statement. In so far as the valuation gain does not apply to future interest losses and final capital losses on hybrid liabilities, it will have dissipated at nominal value by the time liabilities are repaid, and result in a corresponding expense. If the market values of the liabilities rise as a result of an improvement in IKB's capital market standing, this expense may accrue a lot earlier.

Overall, the Board of Managing Directors anticipates an IFRS loss of € 0.2 billion for the 2007/08 financial year. In the individual financial statement for IKB AG (according to the HGB), the Board of Managing Directors expects a balance sheet loss after loss-bearing by profit participation certificates and silent partnership contributions in the neighbourhood of € 1.2 billion. These results estimates are still subject to some uncertainty, however.

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

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

The Bank's future performance will also depend on its ability to refinance itself adequately, and this, in turn, will require a normalising of the capital markets and the restoration of confidence in the banks generally, in addition to the capital increase.

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

IKB Deutsche Industriebank AG
The Board of Managing Directors

Düsseldorf, 24 April 2008

Consolidated interim report in accordance with International Financial Reporting Standards as at 30 September 2007

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

	Notes	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Net interest income	(1)	**268.4**	**321.3**	**–16.5**
Interest income		1 827.8	1 721.7	6.2
Interest expenses		1 559.4	1 400.4	11.4
Provision for possible loan losses	(2)	**166.1**	**138.5**	**19.9**
Net interest income after provision for possible loan losses		**102.3**	**182.8**	**–44.0**
Net fee and commission income	(3)	**34.4**	**26.6**	**29.3**
Fee and commission income		41.0	32.6	25.8
Fee and commission expense		6.6	6.0	10.0
Net income from financial instruments at fair value	(4)	**–2 027.1**	**68.2**	
Net income from investment securities	(5)	**– 1 044.1**	**7.8**	
General administrative expenses	(6)	**183.1**	**142.5**	**28.5**
Personnel expenses		92.0	84.6	8.7
Other administrative expenses		91.1	57.9	57.3
Net other operating income	(7)	**–9.7**	**–7.8**	**24.4**
Result as of risk assumption	(8)	**2 238.1**	**–**	**–**
Operating result		**–889.2**	**135.1**	
Income taxes	(9)	75.4	45.1	67.2
Other taxes		0.5	0.7	–28.6
Net income for the period/net loss		**–965.1**	**89.3**	
Minority interests		0.0	–0.1	–100.0
Net income for the period/net loss after minority interests		**–965.1**	**89.2**	

Earnings per share

	1 April 2007 to 30 Sept 2007	1 April 2006 to 30 Sept 2006 after restatements	Change in %
Net income/loss after minority interests (€ million)	–965.1	89.2	
Average number of shares outstanding (million)	87.9	87.9	0.0
Earnings per share (€)	**–10.98**	**1.01**	

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	Q2 2007/08	Q1 2007/08 after restatements	Q2 2006/07 after restatements	Q1 2006/07 after restatements
Net interest income	**117.6**	**150.8**	**171.5**	**149.8**
Interest income	902.1	925.7	945.2	776.5
Interest expenses	784.5	774.9	773.7	626.7
Provision for possible loan losses	**142.6**	**23.5**	**92.5**	**46.0**
Net interest income after provision for possible loan losses	**–25.0**	**127.3**	**79.0**	**103.8**
Net fee and commission income	**24.9**	**9.5**	**13.7**	**12.9**
Fee and commission income	25.7	15.3	17.1	15.5
Fee and commission expense	0.8	5.8	3.4	2.6
Net income from financial instruments at fair value	**–1 470.9**	**–556.2**	**137.8**	**–69.6**
Net income from investment securities	**–1 041.5**	**–2.6**	**1.7**	**6.1**
General administrative expenses	**106.3**	**76.8**	**76.1**	**66.4**
Personnel expenses	47.5	44.5	43.1	41.5
Other administrative expenses	58.8	32.3	33.0	24.9
Net other operating income	**–7.8**	**–1.9**	**–4.9**	**–2.9**
Result as of risk assumption	**2 238.1**	**–**	**–**	**–**
Operating result	**–388.5**	**–500.7**	**151.2**	**–16.1**
Income taxes	74.8	0.6	28.0	17.1
Other taxes	0.2	0.3	0.3	0.4
Net income for the period/net loss	**–463.5**	**–501.6**	**122.9**	**–33.6**
Minority interests	0.0	0.0	–0.1	0.0
Net income for the period/net loss after minority interests	**–463.5**	**–501.6**	**122.8**	**–33.6**

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

	Notes	30 Sept 2007 in € million	31 March 2007 in € million after restatements	Change in %
Assets				
Cash reserve		0.7	28.7	–97.6
Loans and advances to banks	(10)	2 299.8	4 441.9	–48.2
Loans and advances to customers	(11)	31 237.9	29 685.0	5.2
Provision for possible loan losses	(12)	–1 038.4	–1 094.7	–5.1
Assets held for trading	(13)	2 855.3	2 208.5	29.3
Investment securities	(14)	15 296.7	27 265.0	–43.9
Intangible assets		45.3	37.9	19.5
Property and equipment	(15)	208.9	212.1	–1.5
Income tax assets	(16)	122.0	163.9	–25.6
Other assets	(17)	2 057.4	589.4	>100.0
Total assets		**53 085.6**	**63 537.7**	**–16.5**
Shareholders' equity and liabilities				
Liabilities to banks	(18)	16 256.5	13 912.5	16.8
Liabilities to customers	(19)	4 635.9	4 277.8	8.4
Securitised liabilities	(20)	24 241.2	39 555.5	–38.7
Liabilities held for trading	(21)	4 729.7	1 164.7	>100.0
Provisions	(22)	104.1	60.0	73.5
Income tax liabilities	(23)	124.4	95.9	29.7
Other liabilities	(24)	219.0	254.3	–13.9
Subordinated capital	(25)	2 560.6	3 026.4	–15.4
Shareholders' equity	(26)	214.2	1 190.6	–82.0
Subscribed capital		225.3	225.3	–
Capital reserve		566.6	568.2	–0.3
Treasury shares		–1.4	–	–
Retained earnings		342.3	323.7	5.7
Currency translation reserve		–5.7	–15.2	–62.5
Revaluation reserve		53.1	88.4	–39.9
Minority interests		0.2	0.2	0.0
Consolidated profit/loss		–965.1	–	–
Total shareholders' equity and liabilities		**53 085.6**	**63 537.7**	**–16.5**

Statement of recognised income and expense (SORIE[1])

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million after restatements	Change in %
Gains/losses on remeasurement of securities	–25.8	–10.7	>100.0
Unrealised gains/losses from investment securities available for sale	–30.4	–2.5	>100.0
Reclassification into income statement due to investment securities available for sale	4.6	–8.2	
Changes from hedging relationships recognised in profit or loss (Cash flow hedges)	–37.4	–37.4	–
Exchange differences	9.5	–3.8	
Changes due to actuarial gains/losses (IAS 19)	14.3	0.2	>100.0
Deferred taxes on changes recognised directly in equity	28.9	19.0	52.1
Gains/losses recognised directly in equity (net)	**–10.5**	**–32.7**	**–67.9**
Net income for the period/loss	**–965.1**	**89.3**	
Total recognised gains/losses	**–975.6**	**56.6**	
Attributable to shareholders of IKB AG	–975.6	56.7	
Attributable to minority interests	0.0	–0.1	

[1] Statement of Recognised Income and Expense

The changes in equity are presented in Note (26).

Condensed cash flow statement from 1 April 2007 to 30 September 2007

	2007 in € million	2006 in € million	Change in %
Cash and cash equivalents as at 1 April	**28.7**	**47.6**	**–39.7**
Cash flow from operating activities	912.5	1 468.6	–37.9
Cash flow from investing activities	–905.5	–1 334.5	–32.1
Cash flow from financing activities	–34.9	–85.6	–59.2
Effects from exchange rate differences	–0.1	0.2	–
Cash and cash equivalents as at 30 September	**0.7**	**96.3**	**–99.3**

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Notes to the condensed consolidated interim financial statements

General

IKB Deutsche Industriebank AG, as a stock exchange listed public company, is obliged to prepare half yearly financial statements under German Law (Section 37 (w) Public Traded Securities Act – WpHG). The half yearly financial statements include, in addition to the condensed consolidated financial statements, an interim management report as well as a responsibility statement prepared in accordance with Section 2 (3) and Section 315 (1) of the German Commercial Code (HGB).

The consolidated interim financial statement of IKB for the period ended 30 September 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted into European Law at the reporting date by the EU based on Regulation No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 and related subsequent regulations. Furthermore all currently applicable interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) are applied. The condensed consolidated interim financial statement is prepared in accordance with IAS 34, Interim Financial Reporting. The national requirements of Section 315 (a) of the German Commercial Code (HGB) were applied to the extent that they were required to be applied at the balance sheet date.

On 15 November 2007 at the request of the IKB AG, the Dusseldorf County Court appointed Pricewaterhouse-Coopers as Auditors of the condensed consolidated interim financial statement and group interim management report.

Accounting Policies

a. Accounting prinicples

With the exception of the restatements made described below under “Restatements made to the financial statements made in accordance with IAS 8” the consolidated interim financial statements were prepared using the same accounting policies as were applied in preparing the Bank‘s (restated) consolidated financial statements for the year ended 31 March 2007.

In the light of the sub-prime crisis, IKB has made restatements to its valuation procedures; these restatements are in accordance with the position paper of the German Institute of Public Accountants (IDW) dated 10 December 2007. In accordance with these procedures the following approaches were applied in determining fair values:

Valuation of ABS-Securities: For most ABS securities, quotations from market data providers were used. In exceptional cases securities with low levels of market liquidity were valued using a Discounted-Cash-Flow-Model applying spreads identified for securities with a comparable risk profile.

Valuation of CDOs, the value of which is indexed to ABS-Securities with sub-prime content: Due to a lack of liquidity, discounted cash flow model based valuations were used. For this purpose, cash flow estimates were generated for ABS-Portfolios, taking account of various factors, in particular expected default rates and the potential effect of early repayments. These were based on empirical time series data and on published data provided by respected market players and taking into consideration the current difficult market conditions. For each expected payment in respect of a specific CDO Tranche the assumption is made that the payment should be assigned to the highest ranking ABS security respectively. Thereafter the cash flows of individual CDO's were considered on a total basis. Simplifying assumptions in respect of the ranking levels within the CDO contracts ("Waterfalls") were made. In determining net present values for the resulting summary cash flows additional discounts for lack of liquidity were made.

Valuation of other CDOs, the value of which is indexed to corporate risks: These CDO's were primarily based on methods generally accepted by market participants. To the extent that CDOs were indexed to other CDOs (known as CDO^2) these instruments were first converted to a primary level CDO. Special features applicable were used in determining the lower and higher loss participation ranges at primary CDO level. The significant valuation variables – CDS-Spreads and correlations for the underlying corporate risks – were obtained or derived from market data and where necessary restated for the specific characteristics of the relevant portfolio. Discounts were applied to reflect the limited liquidity of these securities.

The procedures described above were used to determine the fair value of securities classified as *Financial assets at fair value through profit or loss*. Based on the values calculated under this method, the requirement for impairment charges against securities classified as *Loans and receivables* were reviewed, and where appropriate, impairment losses were recorded. The effects of adjusting events occurring after the balance sheet date were considered.

The values of derivative financial instruments of the Havenrock entities were valued using methods generally accepted by market participants for Options and Credit Default Swaps. The market values of the basic instruments were firstly valued using a discounted cash flow model and on the basis of spreads applicable to instruments with a similar risk profile. In a second stage these values were calibrated using values determined from comparable portfolios valued using the approach described above.

In valuing senior level emissions of IKB a valuation curve was used which is based on the spreads of so-called "re-purchases" (re-purchase of own issues) for maturities under 4 years and for maturities exceeding 4 years comparable CDS's were used. For junior issues a valuation curve based on liquid CDS spread quotations was created. The Bank's own hybrid equity instruments were valued on the basis of observed market prices.

b. Risk transfer

KfW Banking Group, together with three German Banking Associations, has undertaken a rescue package, as the continued existence of IKB is otherwise under threat as a consequence of the sub-prime crisis. Due to the specific nature of the rescue measures, their effects are reported separately in the income statement in consistent with IAS 1; the effect is presented as an additional line item entitled *Result as of a risk assumption* (Note 8). Financial amounts receivable from KfW Banking Group arising as a result of the risk transfer are reported within *Other assets* and are explained in further detail in the Notes (Note 17). The rescue measures are as follows:

Late July, 2007, KfW Banking Group acceded to the IKB's liquidity line provided to Conduits Rhineland Funding Capital Corporation (RFCC), Delaware, an fund established to acquire financial assets. As a consequence of this liquidity arrangement and further pursuant to a supplementary agreement in late September 2007 the IKB's rights of influence over this entity had been significantly diminished. The RFCC entities were deconsolidated in the financial statements as the SIC-12 criteria were no longer fulfilled as of of late July 2007. This resulted in the balance sheet total being reduced by approximately € 13 billion, and to a profit on deconsolidation, which is reported in the line *Result from risk transfer*.

KfW Banking Group, supported by the Banking Associations, provided IKB with a risk cover of € 1 billion for a total nominal value of € 3.3 billion. Risk coverage totalling € 1 billion was utilised. Under agreement with KfW, KfW makes payment when default occurs or on sale, if earlier, which is subject to the KfW's prior agreement. To the extent that the risk coverage extends to financial instruments in the category *Loans and receivables*, the risk coverage is provided in the form of a financial guarantee. For financial instruments categorised as *Financial Instruments at Fair value through profit or loss* the risk cover was made available in the form of a credit derivative.

The loss cover provided to IKB in the form of financial guarantees and credit derivatives is valued in the balance sheet as using methods appropriate to a CDO, as a result of the close relationship to the underlying covered asset risk, whereby initial losses of up to € 1.0 billion are covered by KfW. The valuation takes account of the premium paid by IKB and the values determined by IKB for the covered financial instruments, assumptions regarding the correlation of the default risk of these financial instruments and market data regarding historical losses on comparable financial instruments.

At 30 September 2007, impairment losses amounting to € 818.0 million have been recorded in respect of financial instruments categorised as *Loans and receivables* and amounting to € 466.8 million for *Financial instruments at fair value through profit or loss*. Under consideration of the maximum liability sum, the premium payable to KfW and the effect of discounting, the value of the risk cover amounted to € 923.3 million.

As there is interdependence between the two elements of the risk cover and the nominal maximum amount was already reached at the balance sheet date, the receivable amount under both risk cover instruments were combined under *Other assets* and the effect on the income statement recorded in the position *Result as of risk assumption*. Accordingly amounts receivable from KfW under the risk guarantees are already recorded in the balance sheet as assets: in the light of events since the balance sheet date the realisation of the asset is effectively assured and therefore meets the IAS 37 criteria to warrant recognition as an asset in the balance sheet.

In addition under an agreement between KfW Banking Group and IKB, IKB's risks from its US $ 1.6 billion liquidity commitments to Havenrock I Ltd. and Havenrock II Ltd. are partially covered. To effect this, KfW has agreed to participate in any resulting first risk up to an amount of US $ 1.1 billion. Based on the market value movements of IKB's liquidity commitments, the realisation of € 772.6 million can be regarded as effectively assured. Accordingly a receivable, recorded according to IAS 37 at present value in the position *Other assets* has been recorded in the balance sheet at 30 September 2007, and recorded as income in the income statement within the position *Result as of risk assumption*.

Consolidated group

In addition to the parent company 26 (31 March 2007: 26; 30. September 2006: 25) German and 15 (31 March 2007: 15; 30. September 2006: 15) foreign entities are included in the IKB consolidated financial statements as of 30 September 2007. The IKB controls the majority of voting rights of consolidated entities. A list of consolidated entities is shown in Note (37).

In addition, four Special Purpose Entities are consolidated in accordance with SIC-12:

- Havenrock I Ltd., Jersey,
- four cells (Silo entities) – ELAN Ltd., Jersey,
- Rhinebridge plc, Dublin, consolidated since it commenced operations in June, 2007,
- Havenrock II Ltd., Jersey, consolidated since it commenced operations in June, 2007.

Following KfW Banking Group's accession to the RFCC conduit liquidity lines and IKB's associated substantial loss of influence, the conduit has been de-consolidated with effect from 30 July, 2007. The effect of the deconsolidation is reported within the line *Result as of risk assumption*.

We draw attention to the fact that to some extent estimates and assumptions were necessary in respect of the RFCC conduits, Havenrock I and Havenrock II and for Rhinebridge plc (which is under receivership since October 2007), since financial statements were not fully available for these entities. To some extent these entities are not compelled by local law to prepare financial statements.

The ProPart Funding Limited Partnership (ProPart), Jersey, the central purpose of which is to place profit participating papers with a nominal volume of € 150 million, fulfils the criteria for consolidation set out in SIC-12 as a Special Purpose Entity. The consolidation of this entity however would not have any significant effect on the financial statements as a whole, as transactions made by the entity are of an offsetting nature, being the recording of funds passing through the entity. Accordingly the entity has not been consolidated on materiality gounds. As a result of not consolidating the ProPart Funding Limited Partnership, participating paper issued by IKB to ProPart entity are recorded in the balance sheet in place of ProPart's identical obligations to third parties.

For the same reasons the entities Capital Raising GmbH, Norderfriedrichskoog, and Hybrid Raising GmbH, Norderfriedrichskoog were not consolidated. These entities are used to channel silent partnerships with a nominal value of € 200 million.

In addition to the consolidated entities described above, IKB is engaged in various capacities with various other entities. Under consideration of the substance of the economic transactions, the criteria set out under IAS 27 and SIC-12 under which consolidation of these entities would be required was not fulfilled. For further details, in particular in respect of the unconsolidated Bacchus entities, we refer to the disclosures made concerning the consolidated group in the restated consolidated financial statements for the year ending 31 March 2007.

Restatements to the financial statements made in accordance with IAS 8

a. Corrections

PwC, engaged with a agreed upon procedures engagement in view of the onset of the sub-prime crisis, issued their report mid-October 2007. The auditors concluded that, in respect of the scope of entities included in the consolidation and the allocation of interest on certain structured securities, the consolidated financial statements for the year ended 31 March 2007, as originally issued, were not correct. The Supervisory Board and the Board of Managing Directors agreed with the findings and concluded that the consolidated financial statements should be restated. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft as the Bank's auditors issued an unqualified audit report on the consolidated financial statements dated 4 June 2007 and 15 February 2008. To the extent that the changes made in those financial statements have an effect on these consolidated interim financial statements, restatements were made in these financial statements in accordance with IAS 8. To the extent that corrections are not made in the restated 31 March 2007 consolidated financial statements, the effect on comparative periods and the respective interim consolidated financial statements to 30 June 2007 are described below.

The consolidation of RFCC conduits, Havenrock I and Havenrock II resulted in a substantial increase in the balance sheet total. The increase at 30 June 2007 amounted to € 13.0 billion (31 March 2007: € 11.5 billion); and primarily affected *Investment securities* (€ 12.6 billion) and *Assets held for trading* (€ 0.4 billion) on the assets side of the balance sheet, and on the liabilities and equity side of the balance sheet affected *Securitised liabilities* (€ 13.0 billion) and *Liabilities held for trading* (€ 0.4 billion). In the consolidated income statement, a reclassification resulted between *Net interest income* (amounting to € 25 million for the first half of 2006/07 and € 13 million in the first quarter of 2007/08), and *Net fee and commission income* (amounting to € –30 million for the first half of 2006/07 and € –14 million in the first quarter of 2007/08). In addition the consolidation resulted in an increase in the *Net income from financial instruments at fair value* in the first half year 2006/07 of € 14 million, and a reduction in the first quarter of € 399 million in the first quarter of 2007/08.

Following the consolidation of four cells (Silo entities) of ELAN Ltd., the reported Investment securities fell at 30 June 2007 by € 0.1 billion. The inclusion of four cell's derivate financial instruments resulted in a € 0.1 billion increase of *Liabilities held for trading*. Reported *Net income from financial instruments at fair value* fell as a result of the consolidating four cells by € 2 million in the first half year 2006/07 (thereof € –71 million in the first quarter of 2006/07 and € +69 million in the second quarter) and in the first quarter of 2007/08 by € 115 million.

In addition, for certain structured securities used for the Bank's own investment purposes, the element of fixed coupon interest which represents income above the general level of market rates has been recognised over the period in which the creditor under the terms of the security has conversion rights instead of immediate recognition of income. As a result, retained earnings at 30 June 2007 were reduced by € 23 million, and interest income in the first quarter of 2007/08 was reduced by € 5 million. In the first half year of 2006/07 interest income was reduced by € 9 million.

Actuarial gains and losses previously presented in the revaluation reserve are now shown within retained earnings. As a result the revaluation reserve increased and retained earnings were reduced by € 18 million as at 30 June 2007.

An excess of € 18 million resulting from the set off of dedicated pension plan assets against recorded pension liabilities under a Contractual Trust Arrangement (CTA) in accordance with IAS 19 at 30 June 2007 has been reported within *Other assets.*

b. Changes in accounting policies

The changes in provisions for losses on investment securities categorised as *Loans and receivables* previously reported in the income statement within *Provision for possible loan losses* have been reclassified and shown in the category *Net income from investment securities*. Accordingly – consistent with the balance sheet presentation – individual provisions and allowances against investment securities are reported within the category *Net income from investment securities*. An adjustment in the comparative figures presented in the income statement was not necessary, as no individual provisions against the value of investment securities was required in prior reporting periods.

Deferred tax assets and liabilities are no longer reported within *Other assets* and *Other liabilities*, but under the positions *Income tax assets* and *Income tax liabilities*. As at 31 March 2007 this reclassification resulted in an adjustment within assets amounting to € 150.2 million, and within liabilities of € 16.7 million. At 30 June 2007 reclassification adjustment were made within the asset (liabilities) balance sheet categories amounting to € 176.6 million (€ 16.7 million) and valuation changes amounted to € 15.0 million (€ –0.5 million).

In accordance with contractual arrangements, fair values are used to manage Rhinebridge Portfolios and to measure their performance. Fair values are also used for reporting purposes. Accordingly IKB exercises the fair value option set out in IAS 39 not only in cases of a so called “Accounting Mismatch” or for embedded derivatives, but also in cases where a portfolio is managed and performance is measured on the basis of fair values.

Due to the limited availability of financial statements for Rhinebridge plc, subject to administration due to a compulsory liquidation of the company since October 2007, it was necessary to make certain estimates and assumptions, in particular in order to estimate the value of assets. As a result of the limited information available it was not possible to differentiate between Assets held for trading which had been purchased by IKB prior to the commencement of business by Rhinebridge plc (of approximately € 1.8 billion at 30 June 2007) and assets subsequent purchased by Rhinebridge plc. Accordingly the assets (€ 0.8 billion after disposals and impairments at 30 September 2007) were recorded in total under Investment securities. The valuation was performed for all investment securities within the Rhinebridge portfolio at fair value with the resulting changes being recorded within the income statement. For the same reasons it was not possible to obtain or prepare a split between valuation gains and losses and gains and losses on disposal of financial instruments in Assets held for trading gains and losses and the application of the fair value option for notes disclosure purposes. We refer to Note (4).

We refer to Note (27) in respect of changes in segment reporting.

The following tables show, in summary form, the effect of the retrospective corrections and restatements made to the accounting policies of prior periods to the extent that these are not included in the restated consolidated financial statements for the year ended 31 March 2007.

Effect of changes in accordance with IAS 8 on the consolidated income statement for the period 1 April to 30 September 2006

in € millon	1 April 2006 to 30 Sept 2006 before restatements	Restatements according IAS 8	1 April 2006 to 30 Sept 2006 after restatements
Net interest income	**305.3**	**16.0**	**321.3**
Interest income	1 488.2	233.5	1 721.7
Interest expenses	1 182.9	217.5	1 400.4
Provision for possible loan losses	**138.5**	**–**	**138.5**
Net interest income after provision for possible loan losses	**166.8**	**16.0**	**182.8**
Net fee and commission income	**56.1**	**–29.5**	**26.6**
Fee and commission income	62.0	–29.4	32.6
Fee and commission expense	5.9	0.1	6.0
Net income from financial instruments at fair value	**56.2**	**12.0**	**68.2**
Net income from investment securities	**7.8**	**0.0**	**7.8**
General administrative expenses	**142.5**	**–**	**142.5**
Personnel expenses	84.6	–	84.6
Other administrative expenses	57.9	–	57.9
Net other operating income	**–5.8**	**–2.0**	**–7.8**
Operating result	**138.6**	**–3.5**	**135.1**
Income taxes	48.3	–3.2	45.1
Other taxes	0.7	–	0.7
Net income for the period/loss	**89.6**	**–0.3**	**89.3**
Minority interests	–0.1	–	–0.1
Net income for the period/loss after minority interests	**89.5**	**–0.3**	**89.2**

Effect of the changes in accordance with IAS 8 on the result per share:

before restatements

	1 April 2007 to 30 June 2007	1 April 2006 to 30 Sept 2006	1 April 2006 to 30 June 2006
Net income/loss after minority interests (€ million)	11.7	89.5	35.1
Average number of shares outstanding (million)	87.9	87.9	87.9
Earnings per share (€)	**0.13**	**1.02**	**0.40**

Restatements according IAS 8

	1 April 2007 to 30 June 2007	1 April 2006 to 30 Sept 2006	1 April 2006 to 30 June 2006
Net income/loss after minority interests (€ million)	–513.3	–0.3	–68.7
Average number of shares outstanding (million)	–	–	–
Earnings per share (€)	**–5.84**	**–0.01**	**–0.78**

after restatements

	1 April 2007 to 30 June 2007	1 April 2006 to 30 Sept 2006	1 April 2006 to 30 June 2006
Net income/loss after minority interests (€ million)	–501.6	89.2	–33.6
Average number of shares outstanding (million)	87.9	87.9	87.9
Earnings per share (€)	**–5.71**	**1.01**	**–0.38**

Effect of the changes in accordance with IAS 8 on the consolidated income statement (quarterly)

before restatements

in € million	Q1 2007/08	Q2 2006/07	Q1 2006/07
Net interest income	**142.2**	**162.7**	**142.6**
Interest income	781.8	820.2	668.0
Interest expenses	639.6	657.5	525.4
Provision for possible loan losses	**23.5**	**92.5**	**46.0**
Net interest income after provision for possible loan losses	**118.7**	**70.2**	**96.6**
Net fee and commission income	**23.1**	**30.7**	**25.4**
Fee and commission income	27.1	33.5	28.5
Fee and commission expense	4.0	2.8	3.1
Net income from financial instruments at fair value	**–43.0**	**61.7**	**–5.5**
Net income from investment securities	**–2.6**	**1.7**	**6.1**
General administrative expenses	**76.8**	**76.1**	**66.4**
Personnel expenses	44.5	43.1	41.5
Other administrative expenses	32.3	33.0	24.9
Net other operating income	**–1.0**	**–3.9**	**–1.9**
Operating result	**18.4**	**84.3**	**54.3**
Income taxes	6.4	29.5	18.8
Other taxes	0.3	0.3	0.4
Net income for the period/loss	**11.7**	**54.5**	**35.1**
Minority interests	0.0	–0.1	0.0
Net income for the period/loss after minority interests	**11.7**	**54.4**	**35.1**

Restatements according IAS 8

in € million	Q1 2007/08	Q2 2006/07	Q1 2006/07
Net interest income	**8.6**	**8.8**	**7.2**
Interest income	143.9	125.0	108.5
Interest expenses	135.3	116.2	101.3
Provision for possible loan losses	**0.0**	**0.0**	**0.0**
Net interest income after provision for possible loan losses	**8.6**	**8.8**	**7.2**
Net fee and commission income	**–13.6**	**–17.0**	**–12.5**
Fee and commission income	–11.8	–16.4	–13.0
Fee and commission expense	1.8	0.6	–0.5
Net income from financial instruments at fair value	**–513.2**	**76.1**	**–64.1**
Net income from investment securities	**0.0**	**0.0**	**0.0**
General administrative expenses	**0.0**	**0.0**	**0.0**
Personnel expenses	0.0	0.0	0.0
Other administrative expenses	0.0	0.0	0.0
Net other operating income	**–0.9**	**–1.0**	**–1.0**
Operating result	**–519.1**	**66.9**	**–70.4**
Income taxes	–5.8	–1.5	–1.7
Other taxes	0.0	0.0	0.0
Net income for the period/loss	**–513.3**	**68.4**	**–68.7**
Minority interests	0.0	0.0	0.0
Net income for the period/loss after minority interests	**–513.3**	**68.4**	**–68.7**

after restatements

in € million	Q1 2007/08	Q2 2006/07	Q1 2006/07
Net interest income	**150.8**	**171.5**	**149.8**
Interest income	925.7	945.2	776.5
Interest expenses	774.9	773.7	626.7
Provision for possible loan losses	**23.5**	**92.5**	**46.0**
Net interest income after provision for possible loan losses	**127.3**	**79.0**	**103.8**
Net fee and commission income	**9.5**	**13.7**	**12.9**
Fee and commission income	15.3	17.1	15.5
Fee and commission expense	5.8	3.4	2.6
Net income from financial instruments at fair value	**–556.2**	**137.8**	**–69.6**
Net income from investment securities	**–2.6**	**1.7**	**6.1**
General administrative expenses	**76.8**	**76.1**	**66.4**
Personnel expenses	44.5	43.1	41.5
Other administrative expenses	32.3	33.0	24.9
Net other operating income	**–1.9**	**–4.9**	**–2.9**
Operating result	**–500.7**	**151.2**	**–16.1**
Income taxes	0.6	28.0	17.1
Other taxes	0.3	0.3	0.4
Net income for the period/loss	**–501.6**	**122.9**	**–33.6**
Minority interests	0.0	–0.1	0.0
Net income for the period/loss after minority interests	**–501.6**	**122.8**	**–33.6**

Effect of the changes in accordance with IAS 8 on the consolidated balance sheet at 30 June 2007:

in € millon	30 June 2007 before restatements	Restatements according IAS 8	30 June 2007 after restatements
Assets			
Cash reserve	25.5	–	25.5
Loans and advances to banks	3 597.6	–	3 597.6
Loans and advances to customers	30 226.3	–	30 226.3
Provision for possible loan losses	–1 061.4	–	–1 061.4
Assets held for trading	1 215.3	393.1	1 608.4
Investment securities	18 371.4	12 417.9	30 789.3
Intangible assets	37.5	–	37.5
Property and equipment	210.6	–	210.6
Income tax assets	62.4	191.6	254.0
Other assets	493.2	–158.4	334.8
Total assets	**53 178.4**	**12 844.2**	**66 022.6**
Shareholders' equity and liabilities			
Liabilities to banks	13 804.9	–	13 804.9
Liabilities to customers	4 579.2	–	4 579.2
Securitised liabilities	28 516.0	13 020.1	41 536.1
Liabilities held for trading	1 356.8	518.5	1 875.3
Provisions	59.6	0.0	59.6
Income tax liabilities	129.8	16.2	146.0
Other liabilities	374.8	–9.1	365.7
Subordinated capital	2 976.1	–	2 976.1
Shareholders' equity	1 381.2	–701.5	679.7
Subscribed capital	225.3	–	225.3
Capital reserve	568.1	–	568.1
Treasury shares	–2.7	–	–2.7
Retained earnings	463.8	–129.5	334.3
Currency translation reserve	–10.9	–4.3	–15.2
Revaluation reserve	50.9	20.4	71.3
Minority interests	0.2	–	0.2
Consolidated profit/loss	86.5	–588.1	–501.6
Total shareholders' equity and liabilities	**53 178.4**	**12 844.2**	**66 022.6**

The changes in the retained earnings and elements of the changes in the current period retained earnings are a result of changes made to the financial statements of prior periods.

Effect of the changes in accordance with IAS 8 on the consolidated balance sheet at 31 March 2007:

At 31 March 2007 a reclassification of deferred tax assets amounting to € 150.2 million and deferred tax liabilities amounting to € 16.7 million was made from the balance sheet heading *Other assets* to *Income tax liabilities* and from *Other liabilities* to *Income tax liabilities* respectively.

c. Changes in estimates

In determining impairment allowances required against irrevocable credit commitments at 30 September 2007 the factors used in estimating the time delay in identifying a default event (loss identification period factors) were adjusted by a factor which takes account of the purpose for which the loans are used. As a result of the change in estimates, the portfolio impairment allowance was reduced by € 2.9 million which is accounted for prospectively, consistent with IAS 8.

Notes to the Income Statement

(1) Net interest income

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Interest income from lending and money market transactions as well as from securities and derivatives	1 680.1	1 610.5	4.3
Current income from leasing transactions	142.0	106.7	33.1
Other interest income/Income from shares and associated companies	5.7	4.5	26.7
Total interest income	**1 827.8**	**1 721.7**	**6.2**
Interest expenses for securitised liabilities, subordinated capital and other liabilities as well as for derivatives	1 472.9	1 337.7	10.1
Expenses for leasing transactions	86.5	62.7	38.0
Total interest expense	**1 559.4**	**1 400.4**	**11.4**
Net interest income	**268.4**	**321.3**	**–16.5**

(2) Provision for possible loan losses

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Additions to specific valuation allowances/provisions	235.8	216.2	9.1
Additions to specific valuation allowances	211.5	204.9	3.2
Additions to provisions	24.3	11.3	>100.0
Direct write-offs	3.0	4.6	–34.8
Recoveries on loans and advances previously written off	3.2	1.8	77.8
Additions to/reversals of portfolio impairment	–10.4	–37.3	–72.1
Reversals of specific valuation allowances/provisions	59.1	43.2	36.8
Reversals of specific valuation allowances	47.8	39.4	21.3
Reversals of provisions	11.3	3.8	>100.0
Provision for possible loan losses	**166.1**	**138.5**	**19.9**

(3) Net fee and commission income

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Net fee and commission income from lending business	28.1	21.7	29.5
Net fee and commission income from treasury business	2.9	2.5	16.0
Other	3.4	2.4	41.7
Total	**34.4**	**26.6**	**29.3**

(4) Net income from financial instruments at fair value

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Net trading result	–585.3	16.7	
Net result from fair value option	–1 169.3	27.9	
Results from Rhinebridge	–197.8	0.0	
Amortisation of discontinued hedging relationships (IFRS 1 IG 60A and 60B)	–67.7	12.8	
Net result from hedging relationships	–7.0	10.8	
Total	**–2 027.1**	**68.2**	

The negative change to Net income from financial instruments at fair value are primarily a result of the effects of value changes recorded in respect of Havenrock I, Havenrock II and the ELAN cells.

Included in the results reported for fair value option accounting value changes are negative value changes for portfolio investments of the RFCC conduits (until their deconsolidation) and IKB. Further details are included in the management report.

The reported results of Rhinebridge of € –197.8 million include loss on disposals amounting to € –31.4 million, valuation losses of € –283.9 million on investments valued at fair value, as well as valuation gains of totalling € 117.5 million on Capital Notes and Commercial Paper issued by Rhinebridge to third parties and valued at fair value. Trading results include a valuation loss of € –1.4 million on derivative financial instruments held by Rhinebridge.

As a result of IKB's current financial difficulties, Commercial Paper issued by the Bank are traded at 30 September 2007 at a discount on capital markets reflecting default risk of the paper. As a result of the fact that for a portion of these issues the option to value the securities at fair value has been exercised, the fall in value of the securities resulting from the default risk has resulted in income being recorded in the income statement amounting to € 609.2 million within the category *Net income from financial instruments at fair value*. Since the adoption of IFRS in the 2005/06 fiscal year the cumulated default risk-driven change in the market value of liabilities amounts to € 609.8 million. Net income from financial instruments at fair value may be detrimentally affected in periods between the balance sheet date and the maturity date of these liabilities.

The result of fair value hedging activities includes the result of underlying hedged items (€ 35.1 million) and of derivates used for hedging purposes (€ –42.1 million).

(5) Net income from investment securities

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Net result from equity investments	–2.4	0.2	
Net result from securities	–1 041.7	7.6	
Total	**–1 044.1**	**7.8**	

The net result from securities includes an amount of € 1,031.2 million of provisions against securities in the category IAS 39 *Loans and receivables.*

(6) General administrative expenses

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Personnel expenses	92.0	84.6	8.7
Other administrative expenses	80.9	49.4	63.8
Depreciation and write-downs of operating and office equipment and property, and amortisation and write-downs of intangible assets	10.2	8.5	20.0
Total	**183.1**	**142.5**	**28.5**

The increase in other administration expenses is due to an increase in consultancy and other services in connection with the current situation (€ 22.3 million).

(7) Net other operating income

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Other operating income	23.6	8.4	> 100.0
Other operating expenses	33.3	16.2	> 100.0
Net other operating income	**–9.7**	**–7.8**	**24.4**

Net other operating income primarily includes the repurchase of own securities (€ 11.6 million) and accruals made for legal risks (€ 16.7 million).

(8) Result as of risk assumption

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Result from risk coverage of IKB Portfolio Investments	923.3	–	–
Result from risk coverage of Havenrock	772.6	–	–
Effects from deconsolidation of Rhineland Funding	547.2	–	–
Expenses from risk shield	–5.0	–	–
Total	**2 238.1**	**–**	**–**

(9) Income taxes

	1 April 2007 to 30 Sept 2007 in € million	1 April 2006 to 30 Sept 2006 in € million	Change in %
Current income taxes	2.2	18.1	–87.8
Deferred taxes	73.2	27.0	>100.0
Total	**75.4**	**45.1**	**67.2**

The deferred tax expense is primarily a result of derecognising of deferred tax assets previously recognised in prior periods. Further details are provided in Note (16).

Notes to assets

(10) Loans and advances to banks

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Loans and advances to banks payable on demand	811.6	692.2	17.2
Loans and advances to banks (initial maturity < 4 years)	1 128.4	3 568.5	–68.4
Loans and advances to banks (initial maturity ≥ 4 years)	359.8	181.2	98.6
Total	**2 299.8**	**4 441.9**	**–48.2**

(11) Loans and advances to customers

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Loans and advances to customers (initial maturity < 4 years)	5 541.3	4 107.8	34.9
Loans and advances to customers (initial maturity ≥ 4 years)	24 049.1	24 038.8	0.0
Receivables from finance leases	1 647.5	1 538.4	7.1
Total	**31 237.9**	**29 685.0**	**5.2**

Loans and advances to customers include valuation changes of € –2.4 million on underlying hedged items.

(12) Provision for possible loan losses

in € million	Specific valuation allowances	Provisions	Portfolio impairment	Total
Opening balance at 1 April 2007	**991.1**	**28.2**	**103.6**	**1 122.9**
Utilisations	192.1	0.9	0.0	193.0
Reversals	47.8	11.3	14.0	73.1
Unwinding	16.3	0.3	0.0	16.6
Additions	211.5	24.3	3.6	239.4
Reclassification	–0.6	0.0	0.0	–0.6
Currency translation adjustments	–0.2	0.0	–0.4	–0.6
Closing balance at 30 September 2007	**945.6**	**40.0**	**92.8**	**1 078.4**
Less provisions				40.0
Recognised provision for possible loan losses as at 30 September 2007				**1 038.4**

(13) Assets held for trading

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Bonds and other fixed-income securities	34.3	1 201.4	–97.1
Equities and other non-fixed-income securities	0.8	1.9	–57.9
Promissory notes carried as trading assets	93.2	419.2	–77.8
Positive fair values of derivative financial instruments	2 687.8	586.0	>100.0
Positive fair values from hedging derivatives	39.2	–	–
Total	**2 855.3**	**2 208.5**	**29.3**

The fall in bonds and other fixed income securities is due to the transfer of assets to Rhinebridge (€ 1.2 billion at 31 March 2007), which are now presented in the Investment securities category, although they remain valued at fair value (we refer to explanations above in the note detailing changes in accounting policies). The increase in the positive market value of derivative financial instruments is due to the inclusion of the Havenrock entities portfolios (€ 2.2 billion).

(14) Investment securities

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Bonds and other fixed-income securities	15 040.0	26 975.3	–44.2
Equities and other non-fixed-income securities	12.7	18.5	–31.4
Equity investments	231.8	264.7	–12.4
Investments in associates	7.0	6.4	9.4
Shares in affiliated companies	5.2	0.1	>100.0
Total	**15 296.7**	**27 265.0**	**–43.9**

The change in the reported amounts of bonds and other fixed-income securities is primarily a result of the deconsolidation of Rhineland Funding Capital Corporation (RFCC), for which € 11.5 billion were included at 31 March 2007.

(15) Property and equipment

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Operating leases	103.3	104.0	–0.7
Land and buildings	84.8	84.5	0.4
Operating and office equipment	20.8	21.4	–2.8
Investment Properties	–	2.2	–100.0
Total	**208.9**	**212.1**	**–1.5**

(16) Income tax assets

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Current income tax assets	16.6	13.7	21.2
Deferred income tax assets	105.4	150.2	–29.8
Total	**122.0**	**163.9**	**–25.6**

IKB anticipates a change in share ownership exceeding 50% (KfW and Stiftung Industrieforschung) and therefore that tax losses carried forward may not be set off against future profits due to German tax law provisions (Section 8c Corporate Income Tax Law and Section 10a Business Income Tax Law). Accordingly the deferred tax assets recorded on tax losses carried forward amounting to € 119.7 million have been derecognised.

Following Germany‘s 2008 tax reform, the applicable tax rate on IKB‘s German operations has fallen from c. 39.8% to 31.5%. This change has been incorporated in the tax calculations of the period. The deferred tax assets and liabilities, recognised in the balance sheet based on previous tax rates in prior periods have been recalculated based on tax rates applicable in the future. This has resulted in an additional tax expense of € 10.2 million (being a reduction of the domestic deferred tax asset surplus) as well as a reduction in deferred tax liabilities, not affecting the current period income, amounting to € 7.5 million.

In the fiscal year 2007/08 the Bank anticipates significant amounts of tax losses, which, as described, will not be available for future set off. On the other hand significant amounts of positive income are expected from valuation changes and from changes in the market value of liabilities which will to a large extent match these losses in the IFRS financial statements. As a result of the Bank not recognising deferred tax assets for current period tax losses, whilst at the same time recording deferred tax liabilities, the Bank anticipates that a significant income tax expense will be recorded in the financial statements for the current fiscal year. The special circumstances applicable at the current time result in the deferred and current tax calculations diverging. The deferred taxes are calculated based on actual differences as of 30 September 2007; German deferred tax assets of €40.2 and foreign deferred tax assets of € 16.5 million have been recorded.

(17) Other assets

Other assets of € 2,057.4 million (31 March 2007: € 589.4 million) include receivables from KfW Banking Group amounting to € 1,695.9 million (see notes above describing risk transfer).

Notes to equity and liabilities

(18) Liabilities to banks

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Liabilities to banks payable on demand	469,1	1 278,2	–63,3
Liabilities to banks (initial maturity < 4 years)	6 853,8	4 499,9	52,3
Liabilities to banks (initial maturity ≥ 4 years)	8 933,6	8 134,4	9,8
Total	**16 256,5**	**13 912,5**	**16,8**

Of liabilities to banks, € 1,560.5 million (31 March 2007: € 660.7 million) are included in the category *Financial liabilities valued at fair value through the income statement* as a result of the Bank exercising the fair value option for these liabilities.

(19) Liabilities to customers

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Liabilities to customers payable on demand	42,8	204,8	–79,1
Liabilities to customers (initial maturity < 4 years)	965,8	978,0	–1,2
Liabilities to customers (initial maturity ≥ 4 years)	3 627,3	3 095,0	17,2
Total	**4 635,9**	**4 277,8**	**8,4**

Of liabilities to customers, € 1,790.1 million (31 March 2007: € 1,872.4 million) are included in the category *Financial liabilities valued at fair value through the income statement* as a result of the Bank exercising the fair value option for these liabilities.

(20) Securitised liabilities

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Bonds issued (initial maturity < 4 years)	16 862.5	30 713.3	–45.1
less own bonds (initial maturity < 4 years)	747.6	18.1	>100.0
Subtotal (initial maturity < 4 years)	16 114.9	30 695.2	–47.5
Bonds issued (initial maturity ≥ 4 years)	8 419.9	8 887.7	–5.3
less own bonds (initial maturity ≥ 4 years)	293.6	27.4	>100.0
Subtotal (initial maturity ≥ 4 years)	8 126.3	8 860.3	–8.3
Total	**24 241.2**	**39 555.5**	**–38.7**

New issues with a volume of € 2.0 billion were raised, and repayments of issues with a book value of € 5.9 billion were made.

The change in the value of securitised liabilities is primarily a result of the deconsolidation of Rhineland Funding Capital Corporation (RFCC), which had an effect of € 11.5 billion (as at 31 March 2007).

Of securitised liabilities, € 3,332.9 million (31 March 2007: € 3,652.8 million) are included in the category *Financial liabilities valued at fair value through the income statement* as a result of the Bank exercising the fair value option for these liabilities.

(21) Liabilities held for trading

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Negative fair values from derivative financial instruments	4 685.1	1 164.7	>100.0
Negative fair values from hedging derivatives	44.6	–	–
Total	**4 729.7**	**1 164.7**	**>100.0**

The increase in the negative market value of derivative financial instruments is due to the inclusion of the Havenrock entities portfolios (€ 3.2 billion).

(22) Provisions

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Provisions for pensions and similar obligations	7.4	2.7	>100.0
Other provisions	96.7	57.3	68.8
Total	**104.1**	**60.0**	**73.5**

(23) Income tax liabilities

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Current income tax liabilities	108.3	79.2	36.7
Deferred income tax liabilities	16.1	16.7	–3.6
Total	**124.4**	**95.9**	**29.7**

(24) Other liabilities

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Trade payables	104.5	107.2	–2.5
Interest payable from subordinated capital	64.1	81.6	–21.4
Deferred income	12.2	12.2	0.0
Remaining liabilities	38.2	53.3	–28.3
Total	**219.0**	**254.3**	**–13.9**

(25) Subordinated capital

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Subordinated liabilities	1 423.2	1 444.9	–1.5
Profit-participation certificates	475.0	590.4	–19.5
Silent partnership contributions / preferred shares	662.4	991.1	–33.2
Total	**2 560.6**	**3 026.4**	**–15.4**

Subordinated liabilities

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	4.48	23 Jan 2017

Subordinated liabilities totalling € 558.1 million (31 March 2007: € 580.2 million) are included in the category *Financial liabilities valued at fair value through the income statement* as a result of the Bank exercising the fair value option for these liabilities.

Profit-participation certificates

Year of issue	Nominal amount in € million	Currency	Interest rate in %	Maturity
1997/1998	102.3	DM	7.05	31 Mar 2009
1999/2000	20.0	EUR	7.23	31 Mar 2010
2001/2002	100.0	EUR	6.50	31 Mar 2012
2001/2002	74.5	EUR	6.55	31 Mar 2012
2004/2005	30.0	EUR	4.50	31 Mar 2015
2005/2006	150.0	EUR	3.86	31 Mar 2015
2006/2007	50.0	EUR	4.70	31 Mar 2017
2007/2008	70.0	EUR	5.63	31 Mar 2017

Profit-participation certificates totalling € 253.3 million (31 March 2007: € 286.9 million) are included in the category *Financial liabilities valued at fair value through the income statement* as a result of the Bank exercising the fair value option for these liabilities.

Silent partnership contributions / Preferred Shares

The book value of silent partnership contributions at 30 September 2007 totalled € 662.4 million (31 March 2007: € 991.1 million). Included in this total are preferred shares with a book value of € 254.7 million (31 March 2007: € 433.4 million).

Silent partnership contributions / Preferred Shares totalling € 417.3 million (31 March 2007: € 746.0 million) are included in the category *Financial liabilities valued at fair value through the income statement* as a result of the Bank exercising the fair value option for these liabilities.

(26) Statement of changes in equity

in € million	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Currency translation reserve	Revaluation reserve	Minority interests	Consolidated profit/ loss	Total
Shareholders' equity as at 1 Apr 2006 before restatements	**225.3**	**568.2**	**–**	**356.5**	**–7.5**	**137.0**	**0.2**	**74.8**	**1 354.5**
Restatements according to IAS 8	0.0	0.0	–	–83.5	0.0	22.1	0.0	0.0	–61.4
Shareholders' equity as at 1 Apr 2006 after restatements	**225.3**	**568.2**	**–**	**273.0**	**–7.5**	**159.1**	**0.2**	**74.8**	**1 293.1**
Issue/redemption of shares		0.0	–2.4						–2.4
Dividends paid								–74.8	–74.8
Changes in the scope of consolidation/ Others				–1.3					–1.3
Net income/loss for the period 1 April 2006 to 30 Sept 2006								89.2	89.2
Currency translation differences					–3.8				–3.8
Gains/losses recognised directly in equity (SORIE)				0.2		–29.0	–0.1		–28.9
Shareholders' equity as at 30 Sept 2006	**225.3**	**568.2**	**–2.4**	**271.9**	**–11.3**	**130.1**	**0.1**	**89.2**	**1 271.1**
Issue/redemption of shares		0.0	2.4						2.4
Dividends paid									0.0
Changes in the scope of consolidation/ Others				2.3					2.3
Net income/loss for the period 1 October 2006 to 31 March 2007				37.8				–89.2	–51.4
Currency translation differences					–3.9				–3.9
Gains/losses recognised directly in equity (SORIE)				11.7		–41.7	0.1		–29.9
Shareholders' equity as at 31 March 2007	**225.3**	**568.2**	**–**	**323.7**	**–15.2**	**88.4**	**0.2**	**–**	**1 190.6**
Issue/redemption of shares		–1.6	–1.4						–3.0
Dividends paid									0.0
Changes in the scope of consolidation/ Others				2.2					2.2
Net income/loss for the period 1 April 2007 to 30 Sept 2007								–965.1	–965.1
Currency translation differences					9.5				9.5
Gains/losses recognised directly in equity (SORIE)				15.3		–35.4	0.0		–20.0
Shareholders' equity as at 30 Sept 2007	**225.3**	**566.6**	**–1.4**	**341.2**	**–5.7**	**53.1**	**0.2**	**–965.1**	**214.2**

Segment reporting

(27) Segment reporting

6 Months

in € million	Corporate Clients		Real Estate Clients		Structured Finance		Portfolio Investments		Head Office/ Consolidation		Total	
	H1 2007/08	H1 2006/07	H1 2007/08	H1 2006/07	H1 2007/08	H1 2006/07	H1 2007/08	H1 2006/07	H1 2007/08	H1 2006/07	H1 2007/08	H1 2006/07
Net interest income	116.4	116.7	32.1	30.9	64.0	68.7	74.5	77.6	–18.6	27.4	268.4	321.3
Provision for possible loan losses	48.1	18.0	14.0	5.9	26.3	10.1	0.0	0.0	77.7	104.5	166.1	138.5
Net interest income after provision for possible loan losses	**68.3**	**98.7**	**18.1**	**25.0**	**37.7**	**58.6**	**74.5**	**77.6**	**–96.3**	**–77.1**	**102.3**	**182.8**
Net fee and commission income	4.2	6.2	4.0	3.7	22.9	17.1	3.0	–0.8	0.3	0.4	34.4	26.6
Net income from financial instruments at fair value	–20.9	3.2	1.3	1.6	–2.1	0.6	–2 324.8	26.3	319.4	36.5	–2 027.1	68.2
Net income from investment securities	–4.4	2.8	0.0	0.0	–35.1	0.0	–991.7	0.0	–12.9	5.0	–1 044.1	7.8
General administrative expenses	67.9	71.5	21.1	18.6	33.9	29.5	20.3	12.1	39.9	10.8	183.1	142.5
Net other operating income	2.7	2.4	0.9	0.0	0.2	0.2	–1.2	–2.4	–12.3	–8.0	–9.7	–7.8
Results from risk assumption	0.0	0.0	0.0	0.0	0.0	0.0	2 238.1	0.0	0.0	0.0	2 238.1	0.0
Operating result	**–18.0**	**41.8**	**3.2**	**11.7**	**–10.3**	**47.0**	**–1 022.4**	**88.6**	**158.3**	**–54.0**	**–889.2**	**135.1**
Cost/income ratio in %	69.3	54.5	55.1	51.4	67.9	34.1	< 0	12.0			< 0	34.2
Return on equity in %	–5.2	12.8	3.1	11.4	–5.4	29.4	–679.3	63.1			–149.3	22.2
Average allocated equity	689	653	209	205	384	320	301	281	–392	–241	1 191	1 218
Total loan volume	17 406	15 635	4 969	4 724	8 617	7 646	6 201	17 104	4 972	3 860	42 165	48 969
Volume of new business	2 638	2 127	705	411	3 066	3 381	283	494	1 668	152	8 360	6 565

Q2

in € million	Corporate Clients Q2 2007/08	Corporate Clients Q2 2006/07	Real Estate Clients Q2 2007/08	Real Estate Clients Q2 2006/07	Structured Finance Q2 2007/08	Structured Finance Q2 2006/07	Portfolio Investments Q2 2007/08	Portfolio Investments Q2 2006/07	Head Office/ Consolidation Q2 2007/08	Head Office/ Consolidation Q2 2006/07	Total Q2 2007/08	Total Q2 2006/07
Net interest income	59.2	59.1	15.5	15.3	31.2	37.6	33.0	38.4	–21.3	21.1	117.6	171.5
Provision for possible loan losses	42.0	12.9	13.7	5.9	23.5	5.8	0.0	0.0	63.4	67.9	142.6	92.5
Net interest income after provision for possible loan losses	**17.2**	**46.2**	**1.8**	**9.4**	**7.7**	**31.8**	**33.0**	**38.4**	**–84.7**	**–46.8**	**–25.0**	**79.0**
Net fee and commission income	1.8	2.7	1.9	1.9	16.1	10.0	4.8	–0.4	0.3	–0.5	24.9	13.7
Net income from financial instruments at fair value	–21.6	1.8	0.6	1.2	–2.5	0.1	–1 852.1	2.6	404.7	132.1	–1 470.9	137.8
Net income from investment securities	–4.4	0.8	0.0	0.0	–35.1	0.0	–990.9	0.0	–11.1	0.9	–1 041.5	1.7
General administrative expenses	33.3	37.2	10.8	9.8	17.8	15.7	15.3	6.8	29.1	6.6	106.3	76.1
Net other operating income	1.3	1.6	0.4	0.0	–0.1	0.1	–0.4	–1.1	–9.0	–5.5	–7.8	–4.9
Results from risk assumption	0.0	0.0	0.0	0.0	0.0	0.0	2 238.1	0.0	0.0	0.0	2 238.1	0.0
Operating result	**–39.0**	**15.9**	**–6.1**	**2.7**	**–31.7**	**26.3**	**–582.8**	**32.7**	**271.1**	**73.6**	**–388.5**	**151.2**
Cost/income ratio in %	91.7	56.4	58.7	53.3	185.4	32.8	< 0	17.2			< 0	23.8
Return on equity in %	–21.3	9.6	–11.7	5.3	–32.4	32.3	–749.6	47.2			–130.5	49.7
Average allocated equity	732	661	209	204	391	326	311	277	–452	–250	1 191	1 218
Total loan volume	17 406	15 635	4 969	4 724	8 617	7 646	6 201	17 104	4 972	3 860	42 165	48 969
Volume of new business	1 400	1 097	343	167	1 591	1 655	66	300	453	49	3 853	3 268

The following changes in the segment reporting methodology were made in the current reporting and comparative periods presented:

The name of the *Securitisation* segment was changed to Portfolio Investments to reflect the reduction of activities in this segment (including consolidated special purpose entities) to investing in securitisation products. The results of securitisation and credit risk placing activities presented in prior periods in this segment are now reported in the head office/consolidation segment.

The business segments are managed as separate entities, each with its own capital allocation. Capital is allocated to individual business segments on the basis of risk assets in accordance with regulatory principle I with an restated equity ratio and under consideration of hybrid financial instruments. The negative average allocated equity for the head office/consolidation segment is primarily a result of the effect on equity of securitised loans which are reported in this category following the changes in methodology described. The net interest income includes, in addition to the income from investment of economic capital, the expenses for hybrid and subordinated finance. The interest applied for equity investment represents the interest rates applicable for a risk free long term capital market investment.

Notes to financial instruments

(28) Derivatives

	Nominal amount			Fair value						
				Positive		Negative		Total		
	30 Sept 2007 in € million	31 Mar 2007 in € million after re-statements	Change in %	30 Sept 2007 in € million	31 Mar 2007 in € million	30 Sept 2007 in € million	31 Mar 2007 in € million	30 Sept 2007 in € million	31 Mar 2007 in € million	Change in %
Interest rate derivatives	47 754.9	42 311.4	12.9	343.0	305.7	1 138.7	894.9	–795.7	–589.2	–35.0
Credit derivatives	8 876.8	10 167.1	–12.7	2 219.7	125.3	3 398.1	124.8	–1 178.4	0.5	
Currency derivatives	11 769.1	8 200.4	43.5	164.3	155.0	192.9	145.0	–28.6	10.0	
Equity derivatives	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	
Total	**68 400.8**	**60 678.9**	**12.7**	**2 727.0**	**586.0**	**4 729.7**	**1 164.7**	**–2 002.7**	**–578.7**	**<–100.0**

The credit derivate arising from the risk transfer agreement with KfW Banking Group is not included in this table.

(29) Market price risk in trading activities

	Risk potential at confidence level of 95%		
Portfolio	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Trading book	0.4	2.0	–80.0
Banking book	26.1	50.9	–48.7
Group	**26.5**	**52.9**	**–49.9**

(30) Fair value of financial assets and liabilities

in € million	Fair value		Book value		Difference	
	30 Sept 2007	31 March 2007	30 Sept 2007	31 March 2007	30 Sept 2007	31 March 2007
Assets						
Loans and advances to banks	2 298.9	4 441.7	2 299.8	4 441.9	–0.9	–0.2
Loans and advances to customers	30 803.1	29 293.7	31 237.9	29 685.0	–434.8	–391.3
Assets held for trading	2 855.3	2 208.5	2 855.3	2 208.5	–	–
Investment securities	15 607.1	27 113.5	15 296.7	27 265.0	310.4	–151.5
Shareholders' equity and liabilities						
Liabilities to banks	15 994.2	13 810.6	16 256.5	13 912.5	–262.3	–101.9
Liabilities to customers	4 549.9	4 275.6	4 635.9	4 277.8	–86.0	–2.2
Securitised liabilities	23 916.8	39 484.2	24 241.2	39 555.5	–324.4	–71.3
Liabilities held for trading	4 729.7	1 164.7	4 729.7	1 164.7	–	–
Subordinated capital	2 407.2	3 048.8	2 560.6	3 026.4	–153.4	22.4

The fair values of financial assets and liabilities are determined based on market data as of 30 September 2007 and 31 March 2007. For the determination of the book values of assets included in the category *Loans and receivables* however, information available after the balance sheet date relevant for valuation purposes which is available until the date of issue of the relevant financial statements is taken into consideration in the valuation exercise. In particular the positive difference between the fair values and the book values, less impairment charges, at 30 September 2007 is a result of the effect of different points in time relevant for the determination of the values reported. The difference in values therefore does not represent off balance sheet reserves available to the Bank. The provisions for losses against loans and advances to banks and loans to customers are recorded separately from the book values of those loans.

Other disclosures

(31) Contingent liabilities and other commitments

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Contingent liabilities	1 852.1	1 012.5	82.9
Guarantees, warranties, other	1 686.4	842.9	>100.0
Assumptions of liability	165.7	169.6	–2.3
Other commitments	5 145.0	5 776.8	–10.9
Commitments for up to one year	2 342.3	3 201.8	–26.8
Commitments for more than one year	2 802.7	2 575.0	8.8
Total	**6 997.1**	**6 789.3**	**3.1**

The reported amounts represent amounts, adjusted for provisions made, which would be payable in the case that the relevant facilities are fully utilised.

(32) Collateral/Securities repurchase agreements

Fixed-interest securities totalling € 8.0 billion (31 März 2007: € 6.0 billion) had been pledged with the 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 € 3.3 billion (31 March 2007: € 0.8 billion) had been drawn upon.

IKB has increased the volume of securities repurchase transactions in the first half year of fiscal 2007/08. As at the balance sheet date, the Bank had transferred investment securities with a book value of € 1,067.0 million (repo transactions). These transactions involve collateral which can be resold and used as collateral by the recipient. Liabilities to banks repo transactions amounted to € 908.0 million at the balance sheet date. In fiscal 2006/07 one repo transaction was carried out. At the 31 March 2007 the liability arising from this repo transaction amounted to € 75.2 million, as this transaction was made as a consequence of a reverse repo transaction with the same counterparty.

In addition IKB as lender had government securities with a fair value of € 69.7 million (31 March 2007: € 74.1 million) (reverse repo transactions), which the Bank can re-sell or use as collateral. From this receivables from banks with a book value of € 70.6 million result (31 March 2007: € 75.1 million). In accordance with typical terms and conditions for repo transactions a repayment obligation for the government security exists in the same amount. The security was used as collateral in the context of repo transactions.

(33) Average number of employees

	30 Sept 2007	31 March 2007	Change in %
Men	1 133	1 056	7.3
Women	707	672	5.2
Total	**1 840**	**1 728**	**6.5**

(34) Related party disclosures

Amounts receivable and payable to/from non-consolidated subsidiaries, associated companies and entities in which an investment is held were as follows:

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Loans and advances to banks	**0.9**	**1.9**	**–52.6**
Subsidiaries	–	0.2	–100.0
Associates and other investees	0.9	1.7	–47.1
Loans and advances to customers	**305.5**	**242.0**	**26.2**
Subsidiaries	–	–	
Associates and other investees	305.5	242.0	26.2
Bonds and other fixed income securities	**203.1**	**203.6**	**–0.2**
Subsidiaries	–	–	–
Associates and other investees	203.1	203.6	–0.2
Other assets	**1 695.9**	**–**	
Subsidiaries	–	–	
Associates and other investees	1 695.9	–	
Total	**2 205.4**	**447.5**	**>100.0**

	30 Sept 2007 in € million	31 March 2007 in € million	Change in %
Liabilities to banks	**7 675,3**	**5 848,0**	**31,2**
Subsidiaries	–	–	
Associates and other investees	7 675,3	5 848,0	31,2
Liabilities to customers	**11,7**	**6,7**	**74,6**
Subsidiaries	0,9	0,3	>100,0
Associates and other investees	10,8	6,4	68,8
Other liabilities	**5,0**	**–**	
Subsidiaries	–	–	
Associates and other investees	5,0	–	
Total	**7 692,0**	**5 854,7**	**31,4**

Transactions with related party entities represent primarily loan and refinancing arrangements for the IKB and its subsidiaries with KfW Banking Group. In addition the support provided to IKB by the its major shareholder, KfW Banking Group, are included.

Compared with 31 March 2007 there was no significant change in the Group‘s assets, liabilities and income resulting from transactions with related parties.

(35) Events after 30 September 2007

We refer to the interim management report in which we report on events since 30 September 2007.

(36) Executive bodies

Board of Managing Directors

Dr. Günther Bräunig
(Chairman of the Board of Managing Directors since 29 July 2007)
Frank Braunsfeld (until 15 October 2007)
Dr. Volker Doberanzke (until 7 August 2007)
Dr. Dieter Glüder (since 29 July 2007)
Dr. Reinhard Grzesik (since 15 October 2007)
Dr. Markus Guthoff (until 15 October 2007)
Dr. Andreas Leimbach (since 1 April 2008)
Claus Momburg
Stefan Ortseifen (Spokesman until 29 July 2007)

Supervisory Board

Dr. h. c. Ulrich Hartmann (Chairman until 27 March 2008)
Werner Oerter (since 27 March 2008 and Chairman since 29 March 2008)
Detlef Leinberger (Deputy Chairman)
Dieter Pfundt (since 27 March 2008 and Deputy Chairman since 29 March 2008)
Dr. Alexander v. Tippelskirch
(Deputy Chairman until 27 March 2008)
Dieter Ammer
Jörg Asmussen
Dr. Jens Baganz
Dr. Jürgen Behrend (until 27 March 2008)
Wolfgang Bouché*
Hermann Franzen
Ulrich Grillo (since 27 March 2008)
Dr.-Ing. Mathias Kammüller (until 27 March 2008)
Jürgen Metzger*
Roland Oetker
Dr.-Ing. E. h. Eberhard Reuther
Randolf Rodenstock
Rita Röbel*
Dr. Michael Rogowski
Jochen Schametat*
Dr. Carola Steingräber*
Dr. Alfred Tacke (since 27 March 2008)
Dr. Martin Viessmann
Ulrich Wernecke*
Andreas Wittmann*

*Employee representatives

(37) List of consolidated entities, 30 September 2007

	Equity interest in %
A. Consolidated subsidiaries	
1. Foreign banks	
IKB International S.A., Luxemburg	100[1)]
2. Other German companies	
AIVG Allgemeine Verwaltungsgesellschaft mbH, Düsseldorf	100
ICCO Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	100[1)]
ICCO Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	100[1)]
IKB Autoleasing GmbH, Hamburg	100[1)]
IKB Beteiligungen GmbH, Düsseldorf	100
IKB Credit Asset Management GmbH, Düsseldorf	100
IKB Data GmbH, Düsseldorf	100
IKB Equity Capital Fund I GmbH & Co. KG, Düsseldorf	100[1)]
IKB Equity Finance GmbH, Düsseldorf	100[1)]
IKB Erste Equity Suporta GmbH, Düsseldorf	100[1)]
IKB Grundstücks GmbH & Co. Objekt Degerloch KG, Düsseldorf	100
IKB Grundstücks GmbH & Co. Objekt Hamburg KG, Düsseldorf	100
IKB Grundstücks GmbH & Co. Objekt Holzhausen KG, Düsseldorf	100
IKB Grundstücks GmbH & Co. Objekt Uerdinger Straße KG, Düsseldorf	100
IKB Grundstücks GmbH, Düsseldorf	100
IKB Immobilien Management GmbH, Düsseldorf	75
IKB Leasing Berlin GmbH, Erkner	100[1)]
IKB Leasing GmbH, Hamburg	100[1)]
IKB Private Equity GmbH, Düsseldorf	100[1)]
IKB Projektentwicklung GmbH & Co. KG, Düsseldorf	100
IKB Projektentwicklungsverwaltungsges. mbH, Düsseldorf	100
IMAS Grundstücks-Vermietungsges. mbH, Düsseldorf	100
ISOS Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf	100[1)]
ISOS Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf	100[1)]
ISTOS Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH, Düsseldorf	100
ISTOS Erste Beteiligungsverwaltungs- und Grundstücksvermietungsges. mbH & Co. KG, Düsseldorf	100
3. Other foreign companies	
IKB Capital Corporation, New York	100
IKB Finance B. V., Amsterdam	100
IKB Financière France S.A., Paris	100
IKB Funding LLC I, Wilmington, Delaware	100
IKB Funding LLC II, Wilmington, Delaware	100
IKB Leasing Austria GmbH, Salzburg	100[1)]
IKB Leasing ČR s.r.o., Prag	100[1)]
IKB Leasing France S.A.R.L., Marne	100[1)]
IKB Leasing Hungária Kft., Budapest	100[1)]
IKB Leasing Polska Sp.z o.o., Posen	100[1)]
IKB Leasing SR s.r.o., Bratislava	100[1)]
IKB Lux Beteiligungen S. á.r.l., Luxemburg	100
IKB Penzüdyi Lizing Hungária Rt., Budapest	100[1)]
Still Location S.A.R.L., Marne	100[1)]

[1)] Indirect holding

	Equity interest in %
B. Joint ventures/associates	
Linde Leasing GmbH, Wiesbaden	30[1)]
Movesta Lease and Finance GmbH, Düsseldorf	50[1)]
C. Special Purpose Vehicles according to SIC-12	
ELAN Ltd., Jersey (four cells)	
Havenrock I Ltd., Jersey	
Havenrock II Ltd., Jersey	
Rhinebridge plc, Dublin	

[1)] Indirect holding

Düsseldorf, 24 April 2008
IKB Deutsche Industriebank AG
Düsseldorf
The Board of Managing Directors

Dr. Günther Bräunig

Dr. Dieter Glüder

Dr. Reinhard Grzesik

Dr. Andreas Leimbach

Claus Momburg

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § (Article) 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the condensed consolidated financial statements – comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, statement of recognised income and expenses and selected explanatory notes – and the interim group management report of IKB Deutsche Industriebank AG, Düsseldorf, for the period from April 1 to September 30, 2007.

Auditor's Report

We have audited the condensed consolidated interim financial statements – comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, statement of recognised income and expenses and selected explanatory notes – and the interim group management report of IKB Deutsche Industriebank AG, Düsseldorf, for the period from April 1 to September 30, 2007, which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the condensed consolidated interim financial statements and on the interim group management report based on our audit.

We conducted our audit of the condensed consolidated interim financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the condensed consolidated interim financial statements in accordance with the applicable financial reporting framework and in the interim 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 condensed consolidated interim financial statements and the interim group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial data of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the condensed consolidated interim financial statements and the interim 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 condensed consolidated interim financial statements comply with the IFRS applicable to interim financial reporting as adopted by the EU. The interim group management report has been prepared in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

According to our duties, we refer to the fact that the Company's ability to continue as a going concern is threatened by risks which are described in section "Overall view of the risk situation" of the interim group management report. In this section it is stated that the Company's ability to continue as a going concern depends on its ability to regain extended access to the capital market in the business year 2008/09 also for unsecured longer-term refinancing. For this purpose, it is particularly necessary that

- the approved capital increase is entered in the Commercial Register, carried out on a timely basis and results in a capital inflow of at least € 1.25 bn,

- the measures planned to generate liquidity, especially entering into new and extending existing secured money market refinancing as necessary on a short term basis, are implemented,

- a significant portion of portfolio investments is disposed at sufficient prices,

- no legal action is taken against the measures set out above, or against the entire risk shield, particularly action taken by the EU, and

- no significant risks arise out of the legal dispute with a credit insurer.

Düsseldorf, 24 April 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Ralf Schmitz	Michael Maifarth
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility statement of the Board of Managing Directors according to § 37y WpHG in conjunction with § 37w Abs. 2 Nr. 3 WpHG

To the best of our knowledge, and in accordance with the applicable interim reporting principles, the condensed consolidated financial statements give a true and fair view of the assets, liabilities, and profit or loss of the Group, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining period of the current fiscal year.

Düsseldorf, 24 April 2008
IKB Deutsche Industriebank AG
Düsseldorf
The Board of Managing Directors

Dr. Günther Bräunig

Dr. Dieter Glüder

Dr. Reinhard Grzesik

Dr. Andreas Leimbach

Claus Momburg

Financial Calendar

9-month figures for the financial year 2007/08	May 2008
Preliminary figures for the financial year 2007/08	June 2008
3-month figures for the financial year 2008/09	14 August 2008
General Meeting for the financial year 2007/08	28 August 2008
6-month figures for the financial year 2008/09	13 November 2008
9-month figures for the financial year 2008/09	February 2009

If you have questions please contact:

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