IKB: interim announcement as of 31 December 2008

With the end of 26 February 2009, the IKB Deutsche Industriebank AG share left the Prime Standard of the Frankfurt Stock Exchange and was then listed in the General Standard. As a result, IKB no longer publishes IFRS consolidated interim financial statements to 31 December 2008, but rather an interim report. The interim report covers the period from the start of the financial year on 1 April 2008 to 31 December 2008.

Key events and transactions

For details on the following events and transactions in the reporting period, refer to the consolidated interim financial statements dated 30 September 2008:

- Reduction of portfolio investments including winding up Rheinbridge
- Settlement of risk shielding measures.
- Approval of rescue measures by the EU Commission
- Implementation of a capital increase
- Sale of the KfW IKB shares to Lone Star
- Capital strengthened with Lone Star
- Acquisition of IVG Kavernen GmbH
- Transfer of portfolio investments into a special-purpose company
- SoFFin guarantees

Profit and loss (income statement to 31 December 2008)

Excerpts from the IKB income statement after nine months of the financial year 2008/09:

**Consolidated income statement of IKB Deutsche Industriebank AG
for the period between 1 April 2008 and 31 December 2008**

	from 1 April 2008 to 31 Dec. 2008 € million	from 1 April 2007 to 31 Dec. 2007 € million	Change € million
Net interest income	**324.3**	**327.5**	**-3.2**
Provision for possible loan losses	**230.6**	**206.9**	**23.7**
Net interest income (after provision for possible loan losses)	**93.7**	**120.6**	**-26.9**
Net fee and commission income	**25.1**	**44.3**	**-19.2**
Fair value result	**-43.0**	**-1,883.8**	**1,840.8**
Result on investment securities	**-239.8**	**-1,035.1**	**795.3**
Result of investments accounted for at equity	**-6.1**	**0.8**	**-6.9**
Administrative expenses	**262.2**	**270.7**	**-8.5**
Personnel expenses	126.7	140.2	-13.5
Other administrative expenses	135.5	130.5	5.0
Other operating income	**218.7**	**-1.8**	**220.5**
Income from risk transfer	**--**	**2,206.5**	**-2,206.5**
Operating result	**-213.6**	**-819.2**	**605.6**
Tax expense	**-219.4**	**136.4**	**-355.8**
Net income for the period	**5.8**	**-955.6**	**961.4**
Minority interest	-0.2	-0.1	-0.1
Consolidated income for the period	**5.6**	**-955.7**	**961.3**

In the first nine months of the financial year 2008/09 (1 April to 31 December 2008), the consolidated results of IKB Deutsche Industriebank AG amounted to € 6 million (9M 2007/08: € -956 million).

The consolidated result of the third quarter of the financial year (1 October to 31 December 2008) of € -245 million was impacted not only by the crisis which the Bank has been facing since the middle of 2008, but also the jitters which have impacted all global finance markets after the bankruptcy of Lehman.

There were the following developments in the first nine months of the financial year:

In contrast to the previous year, the fair value result of € -43 million (previous year: € -1,884 million) was composed of net losses from portfolio investments amounting to only approximately € 28 million. There were large opposite effects in the fair-value result: Market value losses on long-term investments and derivatives totalled € 774 million. There were three key reasons for this:

1. The sharp increase in interest rate volatilities to high levels resulted in correspondingly large market value losses in structured securities as option issuer.

2. The strong spread widening due to rating reasons generated notable market value losses, even on government papers and mortgage bonds, particularly in the third quarter of 2008/09 (1 October to 31 December 2008).

3. Due to the sharp downturn in interest rates in the third quarter, market value losses were taken on interest rate derivatives entered into for hedging purposes for which there were no comparable valuation gains for securities in the income statement at a level of approximately € 100 million.

These fair value losses are countered by – largely spread-induced – valuation gains from liability instruments, for which IKB opted for recognition at fair value through profit and loss, at a level of € 759 million. In the future, the valuation gains achieved as of now from the liabilities which must be fully serviced with interest and repayments (all primary and subordinate liabilities), will reverse into corresponding valuation losses – with the approach to the duration date or the decline of the IKB-specific risk premiums.

The net loss on investment securities in the amount of € 240 million is due primarily to value losses of portfolio investments not valued to fair value. These relate primarily to those securities which at the beginning of December 2008 were transferred to the special-purpose company Rio Debt Holdings (Ireland) Limited. As this special-purpose company is fully consolidated, these portfolio investments are still posted in the consolidated balance sheet and partly (still) carried at amortised cost (posted in the result on investment securities). The loss risks of IKB from these securities are largely limited to the first loss share assumed by IKB (a nominal volume of US$ 243 million). The liabilities of € 0.7 billion of the special-purpose company to KfW and Lone Star were posted at fair value.

At € 324 million, net interest income in the first nine months of the financial year 2008/09 was almost at the level of the equivalent period in the previous year (€ 328 million). Opposite effects are included here. On the one hand, there was a decline in the net interest income of the operating segments and the Portfolio Investments segment and higher expenses from the unwinding in line with IAS 39 AG8 of the profit participation certificates, silent partnership contributions and compensation agreements to be carried at the present value of the expected cash flows. On the other hand, there are increases in income from proprietary trading and lower expenses due to discontinued hedging relationships in accordance with IFRS 1 IG 60A from the amortisation to be reported in net interest income.

At € 231 million, the provision for possible loan losses moved up by 12% (previous year: € 207 million). This is due to the period of economic weakness which has started.

In total, net interest income (after provision for possible loan losses) decreased to € 94 million (previous year: € 121 million) in the reporting period.

Against the equivalent period in the previous year, at € 25 million net fee and commission income declined by € 19 million (previous year: € 44 million). Fee/commission income declined by € 14 million due to lower commissions from arranger mandates due to reduced new business. Fee and commission expenses increased by € 5 million, driven mainly by transactions to procure liquidity.

Administrative expenses declined by € 9 million to € 262 million. While personnel expenses fell by € 14 million to € 127 million, largely as a result of a lower number of employees (1,739 as against 1,876 as of 31 December 2007), other administrative expenses rose by € 5 million to € 136 million. The latter is due primarily to the sharp rise in deposit insurance premiums for the current financial year and retroactively for previous years, with external costs for managing the crisis remaining high.

Other operating income of € 219 million contains valuation gains of € 428 million from profit participation certificates, silent partnership contributions and compensation agreements to be carried at the present value of the expected cash flows in accordance with IAS 39 AG8. Due to loss participations and future interest losses, the present values determined were considerably below the nominal amounts. In addition, as scheduled, a goodwill write down of € 186 million was taken on IVG Kavernen GmbH acquired in autumn 2008. The company was amalgamated with IKB Beteiligungen GmbH at the end of December 20008. In the context of this amalgamation, income tax provisions of € 373 million were reversed, resulting in a positive contribution from this transaction of € 186 million.

At € -214 million, the operating result shows a considerably lower loss than in the comparable period of the previous year (€ -819 million).

The positive tax result of € 219 million is due to the above reversal of income tax provisions of € 373 million, which is offset by expenses totalling € 138 million from establishing deferred tax liabilities due to the utilisation of tax losses.

Net assets (balance sheet as of 31 December 2008)

At € 45.6 billion, total assets as of 31 December 2008 were € 4.7 billion lower than the level at 31 March 2008. This decline was essentially due to the reduction of financial instruments (including portfolio investments) and other assets (as a result of the early settlement of risk shielding by KfW). On the liabilities side, there was a decline chiefly in the portfolio of securitised liabilities due to repayments, early buy-backs and measurement effects.

After implementation of the capital increase resolved in March 2008, IKB AG received € 1.25 billion on 24 October 2008. On 31 December 2008, the Tier 1 ratio of the Bank was 8.9%.

Financial position

As of 31 December 2008, IKB's liquidity situation remained difficult. In a turbulent capital market environment, due to being able to access SoFFin guarantees, IKB can issue large-volume issues.

Key events and transactions after 31 December 2008

In January 2009, the first issue guaranteed by SoFFin with a volume of € 2 billion was successfully placed on the market.

The ongoing financial market and economic crisis remained key factors for the business at IKB in January and February 2009. For this reason, we are expecting in the near future a considerable increase and thus an upturn in defaults.

Discontinuation of risks jeopardising the company as an ongoing concern

The risks jeopardizing the company as an ongoing concern in relation to the IKB risk situation described in the Group Management Report for financial year 2007/08 are now no longer in place. For details, refer to the comments in the consolidated interim management report as dated 30 September 2008.

Outlook

It is not possible to forecast the further development and the end of the current financial market and economic crisis. Both will continue to impact the IKB’s business development negatively and result in a high level of earnings volatility. This applies both to the positions carried at fair value and to the core business.

IKB will be forced to impose strict limits on new business as long as banks are unable to obtain sufficient funding – also on an unsecured basis – at appropriate costs and suitable levels. This is compounded by the increase in risk costs expected in the recession. Finally, by 30 September 2011, in line with the conditions imposed by the EU Commission, total group assets are to be reduced to € 33.5 billion. For IKB this means aligning its asset operations to services not impacting the balance sheet.

In addition, IKB will reduce its costs considerably. It is planned to pare back other operating expenses by 30% on an annual basis. In addition, it is expected that 370 jobs will be lost in the IKB Group. These measures target securing the profitability of IKB from its operating business in the medium term.

Düsseldorf, 4 March 2009

Board of Managing Directors