IKB: interim announcement as of 30 June 2009

The interim report covers the period from the start of the 2009/10 financial year on 1 April 2009 to 30 June 2009.

Consolidated Profit and loss

Condensed Consolidated income statement of IKB Deutsche Industriebank AG for the period from 1 April 2009 to 30 June 2009

	From 1 April 2009 to 30 June 2009 € million	From 1 April 2008 to 30 June 2008 € million*	Change € million
Net interest income	51.6	118.3	-66.7
Provision for possible loan losses	63.6	25.2	38.4
Net interest income (after provision for possible loan losses)	**-12.0**	**93.1**	**-105.1**
Net fee and commission income	-5.3	13.9	-19.2
Net income from financial instruments at fair value	30.0	-445.8	475.8
Income from investment securities	-1.5	-96.2	94.7
Result of investments accounted for at equity	0.1	-8.1	8.2
Administrative expenses	72.0	90.4	-18.4
Personnel expenses	*41.6*	*44.3*	*-2.7*
Other administrative expenses	*30.4*	*46.1*	*-15.7*
Other operating result	74.6	20.1	54.5
Operating result	**13.9**	**-513.4**	**527.3**
Taxes	-5.6	3.6	-9.2
Consolidated income	**19.5**	**-517.0**	**536.5**
Minority interests	*-0.1*	*-0.1*	*0.0*
Consolidated profit	**19.4**	**-517.1**	**536.5**

* Previous year's figures adjusted according to IAS 8

In the first quarter of the 2009/10 financial year (1 April to 30 June 2009), the consolidated income of IKB amounted to € 20 million (first quarter of 2008/09: consolidated loss of € 517 million).

In the reporting period, net interest income fell by € 67 million to € 52 million. The drop in the net interest income is primarily due to the following effects:

- Net interest income in the operating segments fell by € 30 million owing to the reduction in the portfolios of the Portfolio Investments segment. In the Corporate Clients, Real Estate Clients and Structured Finance segments, there were smaller drops in the net interest income, owing to reductions in volume, while margins before SoFFin costs remained largely stable.

- Income from proprietary trading fell by € 24 million as a result of lower own funds and a significantly lower interest rate.

- Other factors contributed towards € 17 million of the decline, particularly the final waiver of the positive contribution from the amortisation of discontinued hedging relationships in accordance with IFRS 1 IG 60B in the previous financial year.

Risk provisioning expenditure increased by € 38 million to € 64 million in the reporting period as a result of the significantly worsened economic situation in comparison with the previous year. This included portfolio allowances to which € 28 million was allocated in the first quarter of 2009/10.

Net interest income (after provision for possible loan losses) decreased to € -12 million (previous year: € 93 million) in the reporting period.

Net commission income stood at € -5 million (€ 14 million). This € 19 million decline is primarily the result of increased costs for procuring liquidity. Here, the previous-year figure still did not include commission payments for guarantees provided by SoFFin. In addition, there was a decline in commission income, primarily in the Structured Finance segment.

The fair value result of € 30 million (previous year: € -446 million) includes opposite earnings components, just as in the previous financial year. Earnings contributions from net portfolio investments in the amount of € 70 million (€ 47 million) and fair value gains from long-term investments and derivatives of € 212 million (€ -70 million) had a positive effect. The latter can be broken down as follows:

- Interest rate volatility which rose to high levels in the previous financial year has declined and led to market value gains on option issuer positions.

- The extensive reduction in credit rating driven spreads for public sector and non-public sector issuers resulted in corresponding market value gains on investments categorised at fair value.

The narrowing of credit rating driven spreads affects not only investments on the assets side, but also spreads for own issues of IKB. In the first quarter of the 2009/10 financial year, this led to measurement losses for Bank issues categorised at fair value, thus resulting in a partial reversal of measurement gains generated in earlier periods as a result of the crisis. In the first quarter of the 2009/10 financial year, credit rating driven measurement losses totalled € 252 million and were therefore lower than the measurement losses of € 423 million in the same period of the previous year.

As a result of considerably reduced losses from portfolio investments, the net loss on investment securities was reported at € -2 million (previous year: € -96 million).

Administrative expenses were reduced by € 18 million to € 72 million as part of the cost cutting measures. € 16 million of this decline concerned other administrative expenses, where consultancy costs in particular were reduced. It should be noted that the previous-year figure for other administrative expenses included additional payments for the Deposit Protection Fund in the amount of € 9 million.

The other operating result totalling € 75 million (€ 20 million) is mainly characterised by income from the decision made by LSF6 Europe Financial Holdings L.P., Dallas, USA, to waive repayment of subordinated registered bonds held contrary to the compensation agreement (Besserungsscheinvereinbarung). This income corresponds to the adjustment of the present value of the expected cash flows in accordance with IAS 39 AG 8.

Overall, an operating result of € 14 million was generated (€ -513 million). Consolidated income after allowing for tax income of € 6 million stands at € 20 million.

Consolidated Net assets

At € 42.8 billion, total assets as of 30 June 2009 were € 1.9 billion lower than the level at 31 March 2009. This decline was essentially due to the reduction of loans and advances to customers (primarily as a result of EU requirements), trading assets and financial instruments (including portfolio investments). On the liabilities side, there was a decline chiefly in the portfolio of liabilities to banks, liabilities held for trading and securitised liabilities due to repayments, early buy-backs and measurement effects.

On 30 June 2009, the Tier 1 capital ratio of the IKB Group stood at 9.0% (before the addition to Tier 1 capital from the conversion of the convertible bond in July 2009).

Financial position

As of 30 June 2009, IKB's liquidity situation remained difficult. In a capital market environment where it is barely possible to obtain unsecured refinancing in the banking sector – which is therefore also the case for IKB – IKB can issue large-volume issues due to granted SoFFin guarantees. IKB also procures liquidity by means of collateralised borrowing and the lending of securities and loan assets with the Central Bank, as well as collateralised borrowing on the inter-bank market.

Key events and transactions

For details on key events and transactions in the reporting period, please refer to the supplementary report contained in the Group management report for the 2008/09 financial year.

On 3 July 2009, the Special Fund for the Stabilisation of the Financial Market (Sonderfonds Finanzmarktstabilisierung - SoFFin) informed IKB of its intention to extend the guarantee for new bonds to be issued by IKB AG by € 7 billion, subject to conditions (please see the supplementary report in the 2008/09 Group management report for the main conditions). Following the contractual implementation of this decision and approval by the EU Commission – after the Federal Republic of Germany committed the filing of a modified restructuring plan – IKB has total guarantees of € 12 billion, € 5 billion of which was previously used to issue guaranteed bonds.

In connection with the extension of the SoFFin guarantee, Lone Star has undertaken to strengthen the Tier 1 capital of IKB further. Lone Star fulfilled this obligation by waiving claims from a subordinate bonds and early voluntary conversion of a convertible bond. Following conversion of the convertible bond, Lone Star's stake in IKB is now 91.5%.

Risks jeopardising the company as an ongoing concern

The risks jeopardising the company as an ongoing concern in relation to the IKB risk situation described in the Group management report for the 2008/09 financial year remain in place, however in the meantime the EU Commisson has approved the extension of the SoFFin-guarantees. For details, refer to the comments in the Group management report for the 2008/09 financial year.

Outlook

Based on the ongoing financial market and economic crisis, IKB expects many insolvencies in the corporate sector, despite the fact that the situation has since brightened, which will continue to lead to high additions to the Bank's risk provisioning for possible loan losses. The crisis will thus continue to impact IKB's business development negatively and result in a high level of earnings volatility. This applies to the positions carried at fair value as well as the core business.

IKB will continue working intensively to advance its restructuring and to focus more strongly on SMEs. Building on its credit competence, a greater focus will be placed on the interests of clients and the Bank's offering will be extended to include services such as M&A, restructuring consulting, derivatives and capital market services in order to generate commission income. On the costs side, IKB plans to reduce its administrative expenditure significantly by lowering operating expenses by 30% year-on-year and reduction of anticipated 370 jobs. The Bank is expected to achieve a sustainable earnings structure by means of restructuring. The medium-term target is to achieve a reasonable return from its operating business on the capital deployed.

Düsseldorf, 24 August 2009

The Board of Managing Directors