

Ad hoc announcement

KfW backs IKB

IKB Deutsche Industriebank AG (IKB) has felt the impact of the crisis in the US sub-prime mortgage market, as spreads widened sharply during last week's violent fluctuations, causing massive uncertainty amongst institutional investors. In this context, the ability of the Rhineland Funding conduit (managed by IKB) to access funding appeared to be threatened, in which case IKB would have been drawn upon liquidity facilities provided to Rhineland Funding. Rhineland Funding – and, to a lesser extent, IKB itself – have invested in structured credit portfolios, which include exposures to US sub-prime real estate loans. Despite market discounts affecting the valuation of such assets, to date there have been few loan defaults, and only some rating downgrades affecting portfolio investments. Nevertheless, towards the end of last week IKB's creditworthiness was being questioned due to said exposures. There was a risk that this confidence crisis would deteriorate further.

KfW, IKB's main shareholder holding a 38% stake, took immediate action, implementing measures to safeguard IKB's creditworthiness without delay. Specifically, KfW will assume IKB's financial obligations under the liquidity facilities vis-à-vis Rhineland Funding with effect from 30 July 2007. In addition, KfW will protect IKB against risks resulting from certain portfolio investments. These measures will maintain IKB's strong creditworthiness, in particular in its banking business with German medium-sized businesses.

Given the developments outlined above, IKB is no longer in a position to maintain its earnings forecast of €280 million for the 2007/08 financial year. From today's perspective, results will be significantly lower.

With the approval of the Supervisory Board, Mr. Stefan Ortseifen has retired from his office as a Member of the Board of Managing Directors, and from his position as Speaker of the Board of Managing Directors. The Supervisory Board has appointed Dr. Günther Bräunig, Member of the Board of Managing Directors of KfW, as the Chief Executive Officer of IKB. In addition, the Supervisory Board has appointed Dr. Dieter Glüder, a director of KfW, as a Member of IKB's Board of Managing Directors.

Dusseldorf, 30 July 2007