IKB: Interim Announcement as of 30 June 2010

The interim report covers the period from the start of the financial year on 1 April 2010 to 30 June 2010.

Profit and loss (consolidated income statement to 30 June 2010)

In the first quarter of the 2010/11 financial year, the economic effects of the crisis first hit Greece and then infected the entire Euro zone. This led to substantial mark-ups in risk premiums for specific sovereign risks in Europe, as well as for corporate and banking risks – whether covered or uncovered. At the same time, there began a strong recovery, especially on the German economy. Both of these developments are reflected in consolidated results in addition to the lingering negative effects of the implementation of the EU conditions and the payment of guarantee commission to SoFFin:

- The widening risk premiums resulted in measurement losses on the securities portfolio in particular, much of which is held by IKB for refinancing with the European Central Bank. These measurement losses were only partially offset by measurement gains generated by the increase in risk premiums on IKB liabilities as a result of general capital market developments.

- Provisions for possible loan losses were significantly lower than in the previous year. This already reflects the economic development and positive business expectations in the German economy in the first half of 2010. However, corporate demand for credit has not yet increased.

IKB is reporting a consolidated net loss in the first quarter of the 2010/11 financial year (1 April to 30 June 2010) of € 135 million (Q1 2009/10: consolidated net loss of € 16 million).

in € million	1 April 2010 to 30 June 2010	1 April 2009 to 30 June 2009	Change
Net interest income	40.0	51.6	-11.6
Provision for possible loan losses	16.8	63.6	-46.8
Net interest income (after provision for possible loan losses)	**23.2**	**-12.0**	**35.2**
Net fee and commission income	-23.5	-5.3	-18.2
Net income from financial instruments at fair value	-61.0	-5.8	-55.2
Net income from investment securities	27.9	-1.5	29.4
Results of investments accounted for at equity	-0.1	0.1	-0.2
Administrative expenses	71.5	72.0	-0.5
Personnel expenses	*36.8*	*41.6*	*-4.8*
Other administrative expenses	*34.7*	*30.4*	*4.3*
Other operating income	-22.8	74.6	-97.4
Operating result	**-127.8**	**-21.9**	**-105.9**
Tax expenses/income	7.4	-5.6	13.0
Consolidated net loss for the period	**-135.2**	**-16.3**	**-118.9**
Minority interests	*0.0*	*-0.1*	*0.1*
Consolidated cumulative loss	**-135.2**	**-16.4**	**-118.8**

Figures for the previous year have been adjusted. The change resulted from the translation of an item under “Loans and advances to banks” in foreign currency at the consolidated company Havenrock Ltd., St. Helier, Jersey, in which the exchange rate used was not updated as of the reporting date. This error was corrected in the restated 2009/10 six-month report. As a result of the change, the fair value result declined by € 35.8 million from € 30 million to € -5.8 million. The consolidated net profit for the period of € 19.5 million became a consolidated net loss of € -16.3 million.

Net interest income was down € 12 million year-on-year to € 40 million. The main reason for this was lower earnings contributions from equity investments in the Treasury and Investments segments.

Risk provisioning expenses, which also include the losses on sales of loans due to the EU conditions, were at an encouragingly low level of € 17 million and significantly below the previous year’s level (€ 64 million), partly as a result of the economic recovery.

Net interest income after provisions for possible loan losses was positive overall and up € 35 million year-on-year to € 23 million.

Net fee and commission income amounts to € -24 million (€ -5 million). The decline is due to the guarantee commission to be paid to SoFFin, which rose to € 32 million in the reporting period. Commission income in the divisions remained stable.

At € -61 million, the fair value result was down significantly on the previous year (€ -6 million), essentially as a result of the effects of the euro crisis on market values. As in previous years, this contains opposing earnings components. In particular, the fair value losses on long-term investments and derivatives of € 221 million (€ 176 million) had a negative effect, while portfolio investments were only a slight drain on earnings at € -15 million (€ 70 million). The measurement losses on long-term investments and derivatives are mainly due to the negative developments of credit rating-driven spreads on the European government and corporate bonds used for refinancing at the ECB. In addition, falling long-term interest rates also had a negative effect. However, as IKB spreads were also affected by the general development, the widening of rating-driven IKB spreads resulted in opposing gains on remeasurement of € 176 million (€ -252 million) on own liabilities carried at fair value.

In particular, the positive earnings contributions from the portfolio investments of the special-purpose entity Rio Debt Holdings (Ireland) Limited, Dublin/Ireland, resulted in net income from investment securities of € 28 million (€ -2 million).

At € 72 million, administrative expenses matched the previous year's level overall. Staff costs were down € 5 million as against the previous year. Other administrative expenses rose by virtually the same amount. This was due to the fact that legal and consulting costs increased as a result of ongoing litigation and internal process optimisation projects.

Other operating income slid from € 75 million in the previous year to € -23 million. The positive result of the previous year was essentially due to the decision by LSF6 Europe Financial Holdings L.P., Dallas, USA, to waive repayment of subordinated registered bonds held against a compensation agreement (*Besserungsscheinvereinbarung*). As a result of this transaction, the present value of expected cash flows, as calculated in line with IAS 39 AG 8, declined. In the first quarter of 2010/11, other operating income was largely characterised by the write-down on a property held for sale in project development business.

Overall, a negative operating result of € 128 million was therefore generated. The consolidated net loss after taxes amounted to € 135 million.

Net assets (balance sheet as of 30 June 2010)

Total assets as of 30 June 2010 amount to € 35.7 billion and are therefore unchanged as against the level of 31 March 2010. Balance sheet equity (IFRS) is € 0.8 billion. The Tier I capital ratio of the IKB Group was 10.2% on 30 June 2010 (30 June 2009: 9.0%).

Financial position

The liquidity situation at IKB remains stable. Factors contributing to this include the utilisation of the SoFFin guarantees, the substantial reduction in assets and the increase in deposits by customers. It should still be noted that the money and capital markets are only functioning to a limited extent. Thus, mainly collateralised borrowing is a possible financing option. Looking ahead to a more positive market performance in future, IKB updated its debt issuance programme in February 2010 so as to also be able to float issues on the capital market on an unsecured basis.

Key events and transactions

Please see the 2009/10 annual report for details of the significant events and transactions in the reporting period.

There have been no significant events or transactions since 24 June 2010.

Risks jeopardising the company as a going concern

The risks to the company as a going concern listed in the 2009/10 annual report on the risk situation at IKB still exist. For further details, please see the 2009/10 annual report.

Outlook

For a detailed analysis of expected developments, please see the forecast report in the 2009/10 annual report.

If the financial and economic crisis persists or flares up again, the business development of IKB can remain under strain, possibly resulting in high earnings volatility depending on its intensity and duration. This applies to core business and especially items measured at fair value.

Once its restructuring is complete, IKB is expected to have a substantially different earnings structure and a lower overall income level than in the financial years prior to 2007/08 as its consolidated total assets and therefore its interest-bearing business will be greatly reduced. Over time, in addition to income from lending business, there will be an increasing relevance of commission income from consultancy business, derivatives and capital market business with a growing number of intensive SME customer relationships.

Among other things, the results for the 2010/11 financial year could be squeezed by higher defaults in the corporate sector if the current recovery on the economy proves to be of only a temporary nature. In any event, the costs of satisfying the EU's conditions will continue to play a role until 30 September 2011 and will result in the closure of locations, business restrictions and the active reduction of total assets. The structural reduction of administrative costs will continue, while at the same time the Bank will invest in the development of its infrastructure and staff for more extensive services for SMEs.

The medium-term goal of achieving an appropriate return on operating business is dependent on the further expansion of consultancy services, derivatives and capital market business so as to be able to increase successively fee and commission income and trading gains on customer business and on lending business gradually achieving reasonable margins on a significantly reduced administrative and risk cost basis.

The further development of IKB is currently also dependent on the capital markets normalising in the current or subsequent year so that adequate refinancing is possible again. This could then also entail a reduction in refinancing costs, which for the Bank are largely determined by the costs of the SoFFin guarantees at this time.

The need to service the compensation agreements in the total amount of € 1,151 million and the value recovery rights of the hybrid investors mean that the Group and IKB AG will probably not report any, or only minimal, profit for several financial years to come.

Düsseldorf, 26 August 2010

Board of Managing Directors