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Sub-prime crisis to cost IKB \$1bn

The German lender IKB Industriebank has said it expects to lose almost \$1bn (£500m) as a result of its exposure to sub-prime mortgages in the US.



IKB issued a profits warning in July linked to US sub-prime loans

The warning follows a profit warning issued in July and the resignation of chief executive Stefan Ortseifen.

Before the alert it had forecast annual profits of 280m euros (\$382m; £189m). It now expects to lose 600m-700m euros.

Concerns about sub-prime lending to high risk, low income consumers have sparked credit fears across the globe.

In an effort to turn around its fortunes, IKB now plans to restructure itself and focus more on domestic business.

Takeover target

"Innovative financing solutions will remain an integral part of the business model, while investments in international securities portfolios will not," it said.

The new focus of the business has led to speculation that it might become a takeover target.

"If they are only going to do purely domestic lending business, with a big credit book that is not very diversified, then staying independent is not a good idea," said Dirk Becker, analyst at Kepler Securities.

Banks and financial firms around the world, but particularly in Europe, have been heavily investing in this once-lucrative sub-prime sector of the US housing market over the past few years.

But they have suffered as record numbers of US homeowners have defaulted on their mortgages, leaving these investments almost worthless.

The German regional lender Sachsen Landesbank was hastily sold to a bigger state-owned bank when it faced the same problems.

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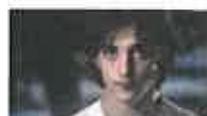
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