IKB Deutsche Industriebank

Preliminary figures of IKB Deutsche Industriebank AG in the financial year 2021: solid results despite challenging environment

Please note: The figures shown for the financial year 2021 are preliminary and may change upon publication of the annual report. The financial year 2021 can only be compared to a limited extent with the 2020 financial stub year since the latter comprises only a period of nine months.

- **Consolidated net income before taxes of €104 million**
- **Return on equity (ROE) after taxes of 8.3%**
- **Administrative expenses of €135 million, cost/income ratio (CIR) 55%**
- **Risk provisions of €12 million and NPL ratio (EBA definition) of 1.9% at low level**
- **No direct credit or derivative exposure to Russia, Belarus or Ukraine**
- **CET 1 ratio (fully phased) 16.6%, pro-forma CET 1 ratio in accordance with Basel IV 17.5%**
- **Increase in leverage ratio to 8.0%**

[Düsseldorf, 11 March 2022] Despite the continuing COVID-19 pandemic and a challenging economic environment, IKB achieved a solid financial result in the financial year 2021 (1 January to 31 December 2021). Consolidated net income before taxes amounted to €104 million, thus significantly exceeding the previous year (nine-month financial stub year 2020: €63 million). Operating profit before risk provisions (net interest and commission income less administrative expenses) reached €113 million (financial stub year 2020: €82 million) and resulted primarily from the low administrative expenses of €135 million. The cost/income ratio decreased from 56% to 55%.

Targeted increase in new financing business for German mid-cap companies

The volume of new business in financial year 2021 came to €3.0 billion (nine months of the previous year: €1.5 billion) and therefore significantly exceeded the forecast published in the 2020 annual report. This increase is driven by our close customer relationships. The proportion of corporate loan business as percentage of the total volume normalized to 66%.

Strong profitability in 2021

In financial year 2021, IKB generated consolidated net income before taxes of €104 million (financial stub year 2020: €63 million) despite the difficult economic environment. This was predominantly due to the decline in administrative expenses to €135 million and moderate risk provisioning of €12 million (financial stub year 2020: €20 million) together with a stable client portfolio and a conservative approach to risk. Consolidated net income after taxes amounted to €86 million which is impacted by higher than expected tax expenses of €18 million (financial stub year 2020: tax income of €10 million). As in the previous year, the return on equity stood at 8.3% (based on a CET 1 ratio of 12% calculated on the basis of average risk-weighted assets). At 1.78%, the net interest margin on the loan book decreased in comparison with the previous year (financial stub year 2020: 1.93%) due to the greater volume of short-dated loans granted.

The Group's administrative expenses reached €135 million in the reporting period, thus was slightly above the expected figure of €130 million due to a number of extraordinary effects. The cost/income ratio stood at 55% in the reporting period, compared with 56% in financial year 2020.

Preliminary risk provisioning amounted to €12 million (financial stub year 2020: €20 million). This preliminary figure includes facts known as of the date of publication but is subject to change upon the publication of the annual report due to potential adjusting events after the reporting period. Despite the outbreak of the COVID-19 pandemic, the proportion of non-performing assets remains very low, with an NPL ratio (in accordance with the EBA definition) of 1.9% (31 December 2020: 1.6%). This was mainly due to IKB's resilient loan book that has only small exposure to sectors particularly affected by the coronavirus pandemic. Total portfolio loan loss provisions and single loan loss provisions amounted to €154 million (31 December 2020: €169 million). IKB has no direct credit or derivatives exposure to Russia, Belarus or Ukraine.

In the reporting period, €5.1 billion of IKB's loan book of €9.3 billion was refinanced through public programme loans from KfW and other development banks with matching maturities. This means that more than half the loan book does not require refinancing via deposits. IKB's loan book consists largely of loans to mid-cap German companies, i.e. companies with annual revenue of more than €100 million. They are characterised by very solid business models and, in most cases, high capital and liquidity ratios.

Solid capitalization and liquidity position

As of 31 December 2021, the CET 1 ratio (IKB Group/fully phased) stood at 16.6%, thus exceeding the previous year's figure significantly (31 December 2020: 14.3%). It exceeded the minimum regulatory requirements of 8.1% under the supervisory review and evaluation process (SREP). Under the Basel IV regulations, the pro forma CET 1 ratio increased to 17.5%.

At 8.0%, the leverage ratio noticeably exceeded the previous year's level (31 December 2020: 7.4%). The liquidity coverage ratio as of 31 December 2021 reached 274% (31 December 2020: 271%) for the IKB Group, thereby also significantly exceeding the minimum regulatory requirements. IKB's loan-to-deposit ratio – calculated as the loan book excluding public programme loans relative to the total of retail and business customer deposits and promissory note loans – stood at a solid 88% as of 31 December 2021 (31 December 2020: 70%).

Outlook

The global tensions caused by the war in Ukraine and its consequences which are difficult to assess as well as the uncertain course of the COVID-19 pandemic may have an impact on the Bank's risk situation and economic performance in 2022. Accordingly, IKB will continue to resolutely apply its high lending standards in the current environment and further develop its risk profile. IKB expects net interest and commission income for financial year 2022 to be moderately lower than in the previous year. The Bank also assumes that, at around €3 billion, new lending business will remain stable compared with the previous year.

On the basis of the experience gained in the previous financial year and the close monitoring of our customer base, the Bank expects risk provisioning of up to €25 million in the financial year 2022.

Ongoing cost-cutting and optimisation measures should reduce administrative expenses to slightly under €130 million in financial year 2022. IKB anticipates a cost/income ratio below the prior year level. In the Bank's view, it will be necessary to further improve cost efficiency in the medium term to continue lowering administrative expenses to around €105 million to achieve a target cost/income ratio of around 40%.

In addition, IKB plans to reduce market price risks. This will help to reinforce the Bank's profitability and improve its risk-bearing capacity. In the financial year 2022, the Bank anticipates extraordinary effects from these adjustments resulting from the related recognition of unrealised losses through profit and loss. However, this effect will be offset by a partial release of reserves from the fund for general banking risks. The net impact of these extraordinary effects on the Bank's profit and loss will be neutral.

The Bank projects net income before taxes of around €85 million for IKB Group (IKB AG: roughly €60 million) and an ROE of around 9% after taxes in financial year 2022. In the medium term, it is aiming for a ROE of over 10%.

IKB expects a CET 1 ratio of around 13% for the Group (IKB AG: over 13.5%) as of 31 December 2022. The decrease from the current year end level will be primarily attributable to the aforementioned extraordinary risk management actions as well as rising risk-weighted assets from planned new business originations. IKB considers itself to be sufficiently capitalised, also allowing for modified institution-specific regulatory capital requirements, particularly as IKB has additional broad flexibility with regard to capital management options.

Given the current market and risk situation, IKB intends not to pay dividends to its owner for financial year 2021. The bank aims to distribute regular dividends equalling 60% to 80% of the Group's consolidated net income after taxes in the medium term.

The Bank expects an LCR of consistently over 100% and a leverage ratio for the IKB Group of around 7% for financial year 2022.

Table: IKB's income statement for the 2021 financial year (consolidated, in accordance with German GAAP – HGB)

in € million	1 Jan. 2021 – 31 Dec. 2021	1 Apr. 2020 – 31 Dec. 2020	1 Apr. 2019 – 31 Mar. 2020
Net interest income	221	165	201
Net fee and commission income	26	20	40
Total banking income	**247**	**186**	**241**
Administrative expenses	-135	-104	-156
Personnel expenses	*-78*	*-65*	*-81*
Other administrative expenses	*-56*	*-39*	*-75*
Operating profit before risk provisions	**113**	**82**	**85**
Net risk provisioning	-12	-20	-30
Operating profit	**101**	**63**	**56**
Net other income	4	1	-47
Earnings before tax	**104**	**63**	**9**
Tax expense/income	-18	10	-1
Net profit after tax	**86**	**73**	**8**

Any differences in totals are due to rounding effects.

Further details on developments in the 2021 financial year can be found in the investor presentation at https://www.ikb.de/en/investor-relations/reports-and-presentations.

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