IKB Deutsche Industriebank

IKB Deutsche Industriebank AG figures for the 2023 financial year: Solid figures achieved in a difficult environment

- **Consolidated net income before taxes of €63 million slightly above the previous year (€61 million)**
- **Return on equity (ROE) after tax of 7.3% up on the previous year (6.3%)**
- **At €147 million, administration expenses slightly above the previous year (€145 million)**
- **Cost income ratio (CIR) of 60%, or 52% after adjustments**
- **Resilient loan book: Risk provisions of €34 million in line with budget and NPL ratio (EBA definition) stable at 2.0%**
- **CET1 ratio (fully phased) of 16.8%, significantly up on the previous year (14.5%)**
- **Ample liquidity with free available liquidity reserve of €1.4 billion (previous year: €1.2 billion)**
- **Dr Michael Wiedmann, Chairman of the Board of Managing Directors of IKB: "We have met our annual targets and are on track to achieving our medium-term goals. In our business with our mid-cap customers, we have maintained our high risk standards and have a resilient loan book."**

[Düsseldorf, 15 March 2024] In 2023, IKB generated consolidated net income of €63 million (previous year: €61 million) in a challenging environment. 2023 was largely characterised by the increase in market interest rates against a difficult economic backdrop. "We achieved a satisfactory result last year. Despite the economic uncertainties, we project consolidated net income before taxes of around €70 million in 2024. We support our customers closely in their financing projects. At the same time, we mitigate risk through selective new lending," explained Dr Michael Wiedmann, the Chairman of IKB's Board of Managing Directors.

Profitable new business and stable earnings

As forecast, new business was valued at €2.7 billion in 2023. Consequently, the previous year's level was maintained on the basis of continued selective lending, with priority given to good credit ratings. 85% of new business is investment grade. The proportion of internally funded new business stood at 57% (previous year: 62%).

Net interest income increased by 20% to €224 million (previous year: €188 million). Higher interest rates caused by market-related factors led to an increase in interest income from lending business. Net commission income came to €20 million (previous year: €23 million) and is attributable to lower capital market business.

Administration expenses reached €147 million in 2023, thus slightly exceeding the previous year in line with the forecast (previous year: €145 million). Adjusted for extraordinary effects on pension plan expenses and one-time operating expenses, especially for projects in connection with regulatory requirements, they came to €128 million. Personnel expenses stood at €83 million (previous year: €84 million) and, in line with the forecast, came under pressure from extraordinary effects on pension plan expenses of €10 million (previous year: €13 million), especially due to further inflation-related adjustments made to pensions. Other administration expenses as well as depreciation, amortisation and impairments came to €63 million (previous year: €60 million) at the level of the Group.

Despite a challenging environment in the 2023 financial year, net risk provisioning amounted to an expense of € 34 million (previous year: expense of € 19 million) and includes an additional general loan loss provision of € 6 million for increased latent risks. This corresponds to risk costs of 37 basis points in relation to the loan book. Net risk provisioning was therefore slightly better than the forecast figure of € 35 million. Net risk provisioning also reflects the active portfolio and risk management, which also includes the early sale of exposures. The proportion of non-performing assets remained at a very low level with an NPL ratio of 2.0% (previous year: 1.9%). Total non-performing assets remained virtually stable at €172 million (previous year: €167 million).

At the Group level, net other income came to €0 million (previous year: €13 million in income). This is primarily due to the balanced income and expenses from securities and hedging.

The cost/income ratio equalled 60.1% for the Group in 2023 (previous year: 68.5%). The return on equity came to 7.3% (previous year: 6.3%). The improvement compared with the forecast is due to the increase in the net interest margin on the loan book from 1.8% to 2.2% as a result of higher market interest rates.

Resilient loan book with solid customer base

The loan book contracted slightly from €9.3 billion to €9.0 billion due to a decline in acquisition and real estate loans in internally funded business (Corporate Bank). Public programme loans amounted to €5.0 billion, or 56%, of the loan book, and are maturity match-funded by the KfW banking group and other development banks of which a significant proportion is sustainable financing. Corporate loans, which are mainly financed by deposits, are subject to variable interest rates for the most part. Many of the IKB's long-standing customers have an excellent market position and international footprint, a good equity and liquidity base and a high degree of diversification across sectors and regions.

Comfortable capital resources and adequate liquidity situation

The CET1 ratio (fully phased) stood at 16.8% for the IKB Group as of 31 December 2023. Consequently, IKB substantially exceeded the forecast of 13 – 14% for the CET1 capital ratio for the group of institutions. This is because the negative rating migrations in the loan portfolio that had been anticipated by the Bank for macroeconomic reasons were less pronounced than expected. Accordingly, the expected impact on risk-weighted assets did not materialise. A further reason for the moderate trend in risk-weighted assets was the improved rating structure of IKB's new business. Business and retail deposits were valued at €3.8 billion in the period under review (31 December 2022: €4.1 billion). 87% of the deposits are protected either by the statutory deposit guarantee scheme (EDB) or the deposit protection fund (ESF). With a free available liquidity reserve of €1.4 billion, IKB has ample liquidity.

As of 31 December 2023, the net stable funding ratio, which tracks medium to long-term liquidity, was 116% for the IKB Group, thus consistently exceeding the statutory minimum of 100%. IKB had a leverage ratio of 7.2% in 2023. The minimum statutory ratio is thus substantially exceeded.

Outlook

In a challenging market environment characterised by muted economic growth, high inflation rates and monetary tightening, the macroeconomic environment will continue to be impacted by high economic and geopolitical uncertainty in 2024. IKB is addressing this situation by means of active and pre-emptive risk management. It sees business potential in the German corporate sector's sustainability transformation. IKB has been one of the leader's in financing solutions for climate protection with KfW energy efficiency and environmental programmes for many years. IKB is supporting its customers by offering them sustainable loans and advice and will gradually expand its range of products and services in this area. In this way, the Bank is making an important contribution to financing the green transformation. At the same time, IKB believes that it has the opportunity to generate increases in net income thanks to the growth in its profitable new business, driven by transformation finance among other things, and lower administrative costs.

Turning to 2024, IKB forecasts stable to slightly higher net interest and commission income compared to the previous year.

Given the ongoing macroeconomic uncertainties, IKB is budgeting net risk provisioning of around €-35 million in its lending business for 2024, as in the previous year.

IKB assumes that future inflation-related pension adjustments have now been largely factored into profit and loss. All in all, the Bank expects a moderate decline in administration expenses in 2024 compared with 2023. IKB assumes that the cost/income ratio for 2024 will improve over 2023 to slightly below 60%. IKB considers an improvement in cost efficiency to be a material determinant of its success. In the medium term, the Bank plans to achieve a cost/income ratio of roughly 40% by lowering administration expenses and through a moderate increase in income in tandem with a normalisation of risk provisioning.

For 2024, IKB expects the Common Equity Tier 1 CET1) in the Group to stabilise at the level of the previous year. At the same time, IKB will satisfy the applicable minimum requirements on the basis of the changed institution-specific regulatory capital requirements.

For 2024, IKB projects net income before taxes of around €70 million. Uncertainties surrounding the further course of the wars in Ukraine and the Middle East, the capital and commodity markets and the further development of regulatory requirements are key factors that may impact IKB's performance in the coming year.

Table: IKB income statement for the 2023 financial year (Group, in accordance with German commercial law)

in € million	1 Jan. 2023 – 31 Dec. 2023	1 Jan. 2022 – 31 Dec. 2022
Net interest income	224	188
Net fee and commission income	20	23
Gross income	**244**	**211**
Administrative expenses	-147	-145
Personnel expenses	*-83*	*-84*
Other administrative expenses	*-63*	*-60*
Operating profit before risk provisions	**97**	**66**
Net risk provisioning	-34	-19
Operating profit	**63**	**48**
Net other income	0	13
Income before taxes	**63**	**61**
Tax expense/income	3	0
Consolidated net result	**65**	**61**

Any differences in totals are due to rounding effects.

Further details on the business performance in the 2023 financial year can be found in the 2023 Annual Report and the investor presentation at https://www.ikb.de/en/investor-relations/reports-and-presentations.

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