

# **Annual Report 2021**

(1 January – 31 December 2021)

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## IKB Group key figures

<b>Income statement (in € million)</b>	<b>1 Jan. - 31 Dec. 2021</b>	<b>1 Apr. - 31 Dec. 2020</b>
Net interest income	221	165
Net fee and commission income	26	20
Gross income	247	186
Administrative expenses	-135	-104
Operating profit before risk provisions	113	82
Net risk provisioning	-12	-20
Net other income	4	1
Earnings before tax	104	63
Tax expense/income	-18	10
Net profit after tax	86	73
Interest margin on loan book (%)	1.78	1.93
Risk costs of loan book (%)	0.12	0.27
Return on equity (%)	8.3	8.3
Cost/income ratio (%)	54.5	55.7

<b>Balance sheet (€ million)</b>	<b>31 Dec. 2021</b>	<b>31 Dec. 2020</b>
Own funds component CET 1 (fully phased)	1,361	1,273
Total assets	16,001	16,929
Loan book	9,340	9,417
Loan to deposit ratio (%)	70	70

<b>Regulatory key figures (%)<sup>1)</sup></b>	<b>31 Dec. 2021</b>	<b>31 Dec. 2020</b>
Risk-weighted assets (€ billion, fully phased)	8.2	8.9
CET 1 ratio (fully phased)	16.6	14.3
Tier 1 ratio (fully phased)	16.6	14.3
Own funds ratio (fully phased)	23.8	21.4
CET 1 ratio IKB Group Basel IV (fully phased)	17.5	15.3
NPL ratio in accordance with EBA definition	1.9	1.6
Capital ratios (fully phased)	8.1	7.4
Liquidity coverage ratio	274	271

<b>Employees</b>	<b>31 Dec. 2021</b>	<b>31 Dec. 2020</b>
Full-time employees (FTE) on the reporting date	548	581

<b>Ratings</b>	<b>Moody's (22 Nov. 2021)</b>	<b>Fitch (24 Dec. 2021)</b>
Issuer rating (long term)	Baa1 (outlook: stable)	BBB (outlook: stable)

Any differences in totals are due to rounding effects.

- 1) Figures take account of the CRR phase-in and phase-out provisions; the CET 1 ratios have been calculated in accordance with the current version of the CRR as of the respective reporting date and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.

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## **Letter from the Chairman of the Board of Managing Directors**

Ladies and Gentlemen,

in the challenging market environment presented by the 2021 financial year, our medium-sized corporate customers could continue to rely on the expertise and solutions provided by IKB. Most of our customers have to a large extent successfully managed the adverse impact of the coronavirus pandemic and we could again systematically drive our business in corporate loans, structuring advice and capital market products with our customers. Tailored financing, quick lending decisions and intensive support and assistance are the hallmarks of our high-quality advisory services. The Climate Action Programme of the German government and many other changes in public programme loans offered further opportunities for growth, thus making us an attractive financing partner to German medium-sized corporates.

The audited figures presented in this Annual Report do not deviate from the preliminary figures published on 11 March 2022. We generated consolidated net income before tax of €104 million and exceeded thus the prior-year figure of €63 million for the 2020 financial stub year, which comprised only nine months. In contrast to earlier years, going forward we will forecast net income before taxes instead of after taxes to better reflect the Bank's underlying business performance. Group administrative expenses amounted to €135 million in the reporting period; however, due to extraordinary effects, this was slightly above planned expenses of €130 million. By continuing cost-cutting and optimisation measures, we plan to bring administrative expenses down to slightly under €130 million for the 2022 financial year. The cost/income ratio remained stable at 55%. We expect a slight improvement in the cost/income ratio for 2022. Return on equity after taxes was 8.3% for the reporting period. We expect this figure reach just under 9% for 2022. In the 2022 financial year, due to the high level of volatility on the capital markets and the global tensions in general resulting from the war in Ukraine, we anticipate net income for the IKB Group of approximately €85 million.

In the reporting year, risk provisions amounted to €12 million following €20 million in the 2020 financial stub year. Despite the effects of the coronavirus pandemic, the proportion of non-performing assets remains low with an NPL ratio of 1.9%. This was primarily due to the resilient loan book of IKB, which, at €144 million, featured a low proportion of borrowers in sectors particularly affected by the coronavirus pandemic. IKB does not have any direct exposure to Russia, Belarus and Ukraine. IKB consistently implements its high lending standards in the current situation and refines and adapts its risk structure. From the experiences of the prior financial year and the intensive support of our customers, the Bank expects risk provisions for the 2022 financial year of up to €25 million.

In the second and third quarter of 2021, a regular BaFin audit was carried out in accordance with section 44 (1) of the German Banking Act (*Kreditwesengesetz – KWG*), based on a reference date of 31 March 2021. The results of the audit were made available to us in November 2021. The audit concentrated on credit risk management and the calculation of risk-bearing capacity. In addition, the adequacy of loan loss provisioning was also reviewed and the results were already incorporated into the figures as of 31 December 2021. Further audit findings resulted in adjustments to the risk management process as well as to the methodology for calculating risk-bearing capacity. The methodological adjustments relate to both the calculation of risk coverage potential and the quantification of the risk position. They were implemented with the utmost priority in the first five months of the 2022 financial year and applied retroactively to the figures as of 31 December 2021.

New business volumes amounted approximately €3 billion, in comparison to only €1.5 billion in the nine months of the prior financial stub year. This increase is attributable to our close relationships with customers. At 66%, the proportion of internally funded business in the total volume normalised compared to the previous year. For 2022, we anticipate stable new lending business of around €3 billion. As part of its joint venture with Hypoport SE, IKB established a separate sales force for the platform and, since 1 January 2022, has been acting as a broker for financing projects of customers in the target segment between €10 million and €100 million in annual revenue with various financing banks.

For public programme loans, the emphasis will be on funding programmes that focus on energy and resource efficiency as well as decarbonisation. Since November 2021, not only energy efficiency measures, but also resource-conserving measures at production facilities have been refinanced which enable additional repayment subsidies. For these specific customer needs, IKB has established a certified green loan framework, in particular for loans refinanced via the KfW environmental and energy efficiency programmes. This allows IKB to provide green loan certificates to its loan customers, supporting their specific public funding programmes.

As of 31 December 2021, IKB's CET 1 ratio (fully phased) was 16.6%, significantly exceeding the prior-year figure of 14.3%, significantly above the regulatory minimum requirements of 8.1% within the framework of the supervisory review and evaluation process. Under the Basel IV regulations, the pro forma CET 1 ratio increased to 17.5%. In light of the high degree of volatility on the capital markets, IKB is planning to reduce market price risks to improve its risk-bearing capacity. We also expect increasing risk-weighted assets from our planned new business. We therefore anticipate a reduced CET 1 ratio of approximately 13% as of 31 December 2022.

The overall economic environment remains volatile. Although most IKB customers have largely withstood the impact of the coronavirus crisis, new challenges are arising from the continued high levels of inflation, in particular with regard to costs for energy and raw materials. The situation around supply chains also remains difficult. In addition to that, the war in Ukraine is causing additional uncertainty with regard to the economic outlook and is further driving inflationary tendencies in the short term. Central banks around the world are thus tightening their monetary policies and are increasingly willing to accept an economic slow-down to reduce inflationary pressures. IKB will continue to support its customers in this challenging economic environment.

Our employees have made extraordinary achievements since the beginning of the coronavirus pandemic and overcome a wide array of challenges. I would like to extend my heartfelt thanks to our employees for their extraordinary efforts and their high level of motivation. We took this time of upheaval as an opportunity to redesign our working environment for mobile working concepts even beyond the duration of the coronavirus pandemic. The bank's business operations remained stable, and we consider ourselves well prepared for the coming challenges. After having scaled back the coronavirus protective measures, we appreciate again the value of personal exchange in the office and the corresponding return to a new normal is important to us.

Düsseldorf, May 2022



Dr Michael H. Wiedmann

## **Report of the Supervisory Board**

In the financial year 2021, the Supervisory Board fulfilled the duties and obligations incumbent upon it in accordance with law, regulations, Articles of Association, and its by-laws. The Supervisory Board supervised management by the Board of Managing Directors and advised it on the management of the company. The Supervisory Board was involved in all decisions of fundamental importance to the bank.

### **Overview**

In its supervisory and advisory activities, the Supervisory Board received regular, timely, and on specific occasions comprehensive reports, from the Board of Managing Directors, in both oral and written form. The Board of Managing Directors informed the Supervisory Board continuously of the business operations and the economic and financial development of the IKB Group and IKB AG. Other focal points of regular reporting were the general development of IKB, the development of the Group's risk situation and the special audit conducted by the Bundesbank pursuant to Section 44 (1) of the German Banking Act (KWG) and the resulting implications for the Bank. Furthermore, the Supervisory Board addressed Group planning and the actual development of business in the financial year 2021. The Chairmen of the Supervisory Board and the Board of Managing Directors also consulted regularly on key developments and decisions.

Reports by the Board of Managing Directors on the business situation and on specific issues were supplemented by written presentations and documentation which each member of the Supervisory Board received for preparation purposes prior to the meeting. The members of the Supervisory Board were also provided with the annual financial statements and consolidated financial statements, the combined management report, the dependent company report, and the auditors' reports in due time prior to the meeting convened to review the annual financial statements. The members of the Risk and Audit Committee and the Supervisory Board plenary meeting also received the half yearly financial report and quarterly reports in due time for preparation purposes.

A total of 31 meetings of the Supervisory Board and its committees were held. Where necessary, individual resolutions were passed by circular between meetings. If members of the Supervisory Board were unable to attend the meetings, they were absent with valid excuse.

### **Topics of the Supervisory Board plenary meeting**

The Supervisory Board held six meetings in the financial year 2021. The four regular meetings were held in March, May, August and November. One of meetings of the Supervisory Board in March took place as constitutive meeting after the Annual General Meeting for the short financial year 2020. In January 2021, the Supervisory Board also held an extraordinary meeting.

Throughout the financial year, the Board of Management kept the Supervisory Board continuously informed about the Bank's current business performance and overall bank management in the wake of the ongoing coronavirus pandemic and, in particular, presented and explained in detail the Bank's liquidity, risk, and earnings position. This included, in particular, capital planning, taking into account supervisory recommendations for an appropriate distribution policy in line with the general economic risks arising from the Corona crisis. The Board of Managing Directors was also in close contact with the Chairman of the Supervisory Board on specific occasions.

At all regular Supervisory Board meetings in the financial year 2021, the Supervisory Board was able to form a detailed opinion on the general development of the bank based on written and oral reporting by the Board of Managing Directors. In this respect, the Board of Managing Directors also provided the Supervisory Board with explanations concerning



the development of business volume and result of the Group. Furthermore, the Board of Managing Directors examined in detail the development in the individual business segments and reported on the capital position, financial situation including taxes and Group risk. The Supervisory Board was continuously informed by the Board of Managing Directors about the regulatory capital position of the IKB Group and the status of material legal disputes.

In an extraordinary meeting in January 2021, the Supervisory Board appointed two new members of the Board of Managing Directors at the suggestion of the Nomination Committee and set the corresponding targets for the members of the Board of Managing Directors. The subject of this meeting was also the discussion of the Group planning for 2021.

At its meeting convened to review the annual financial statements in March 2021, the Supervisory Board examined inter alia the annual financial statements and consolidated financial statements, the combined management report and the dependent company report prepared by the Board of Managing Directors for the past short financial year 2020. The Board of Managing Directors also gave a comprehensive written and oral explanation of the risk situation of the IKB Group including the recovery indicators defined in the recovery plan. Group Internal Audit gave its annual report for the financial year 2020. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft ("EY"), Stuttgart, reported on the audit findings, and the Chairman of the Risk and Audit Committee on preparations for the auditing of the annual financial statements and consolidated financial statements as of 31 December 2020 with the combined management report and dependent company report for the short financial year 2020. The annual financial statements and consolidated financial statements were adopted resp. approved by the Supervisory Board. No objections were raised to the declaration of the Board of Managing Directors in the closing statement of the dependent company report. The Supervisory Board also examined the proposal for the appropriation of profits and, also taking into account any burdens due to the Corona pandemic, concurred with the Board of Managing Directors' proposal for the appropriation of profits. The report of the Supervisory Board for the short financial year 2020 was also approved. The agenda also included the verification of the target achievement and corresponding determination of the variable remuneration for the individual members of the Board of Managing Directors for the financial year 2020, as well as the verification and decision on the granting of the retained variable remuneration for the members of the Board of Managing Directors for past financial years. The Supervisory Board approved the determination of the total amount of variable remuneration for the financial year 2020, taking into account the requirements of Section 7 of the InstitutsVergV.

The members of the Supervisory Board also dealt with and examined the combined separate non-financial report for the short financial year 2020 prepared by the Board of Managing Directors. Following the final result of the Supervisory Board's own review of the combined separate non-financial report for the short financial year 2020, no objections were raised. The report was published on IKB's website on 29 April 2021.

At its following meetings in May, August and November 2021, the Supervisory Board deliberated respectively on the business development and Group risk including the recovery indicators stipulated in the recovery plan and also addressed in this context the regulatory capital position, especially with respect to the further supervisory requirements. The meetings in each case also addressed the quarterly Internal Audit report. The Board of Managing Directors informed the Supervisory Board on all these topics both in written and oral form.

The Board of Managing Directors provided timely comprehensive information to the Supervisory Board in written and oral form on the business policy and fundamental management questions including the strategic further development of IKB. This also included the discussion of the business and risk strategy with the IT strategy consistent with it. From the beginning, the Board of Managing Directors informed the Supervisory Board continuously and comprehensively about the current status of the audit ordered by BaFin in accordance with Section 44 (1) of the German Banking Act (KWG) as of the reporting date of 31 March 2021. The Chairman of the Supervisory Board was in close, regular contact with the Board of Managing Directors to discuss the procedure for the stringent and structured processing of the

findings resulting from the audit and with regard to the order to comply with additional equity requirements intended by BaFin and issued in the meantime.

The Supervisory Board took note of the Report of the Remuneration Officer and dealt with the remuneration systems of the Bank. It had the personnel development as well as the quantitative and qualitative medium-term personnel planning explained to it. Topics of the initiated project to optimise pension liabilities were also the subject of discussion and resolution in the Supervisory Board.

In addition, the Supervisory Board dealt with the Annual General Meeting of IKB in March 2021 and an Extraordinary Annual General Meeting in November 2021 and adopted the respective resolution proposals of the Supervisory Board to the Annual General Meeting. It dealt, among other topics, with the proposed resolutions for the forthcoming elections to the Supervisory Board and the amendment to the Articles of Association required for the conversion from bearer shares to registered shares.

In order to strengthen the institution's own governance, the Supervisory Board adopted a separate guideline on suitability and diversity as well as on the introduction/onboarding and training of the members of the Supervisory Board and the Board of Managing Directors in implementation of the requirements from the BaFin bulletins on managing directors and members of administrative and supervisory bodies. The rules of procedure for the Board of Managing Directors and the Supervisory Board on dealing with conflicts of interest were also amended accordingly. The Supervisory Board also dealt with succession planning for the Board of Managing Directors and the Supervisory Board.

IKB's Advisory Board, which was formed to provide business advice and a close exchange of views on economic and business policy issues, was newly appointed or reappointed until the end of the financial year 2024.

The Supervisory Board also dealt with the non-financial statement to be submitted by the Board of Managing Directors for the financial year 2021 and decided again not to have a voluntary external audit of the combined non-financial report for the financial year 2021 carried out. For the preparation of the non-financial statement 2021 in accordance with the regulations, the Supervisory Board has proposed the mandating of a specialised auditing company to provide advice. The Board of Managing Directors has received appropriate advice.

### **Activities of the Committees**

To ensure that the Supervisory Board exercises its functions efficiently, the Supervisory Board has set up different committees: The Supervisory Board Executive Committee, the Risk and Audit Committee, the Remuneration Control Committee and the Nomination Committee. The Committees prepare the deliberations and resolutions for approval in the plenary meeting. Furthermore, the authority to approve resolutions has also been delegated to the Committees themselves. The Supervisory Board Executive Committee held thirteen meetings, and the Risk and Audit Committee held ten meetings, five of which took place as joint meetings in each case. The Remuneration Control Committee held five meetings, and the Nomination Committee held four meetings in the financial year 2021, two of which were held as joint meetings in each case.

The Supervisory Board Executive Committee essentially prepared the meetings of the Supervisory and, among other topics, dealt with the business and risk strategy, and the Ordinary and Extraordinary Annual General Meeting. The Supervisory Board Executive Committee met several times this year together with the Risk and Audit Committee to discuss issues of capital planning and risk structure within the framework of overall bank management as well as the procedure for processing findings from the audit ordered by BaFin pursuant to Section 44 (1) of the German Banking Act (KWG) and the resulting implications. Other management measures requiring the approval of the Supervisory Board, such as various large exposure and corporate loan resolutions, were also the subject of consultations and resolutions by the Supervisory Board Executive Committee.

In addition to the above-mentioned close monitoring of the processing of findings from the audit pursuant to section 44 of the German Banking Act, the work of the Risk and Audit Committee focused on monitoring accounting procedures, the efficiency of the internal control system, risk management, the internal audit system, risk strategy and compliance as well as the audit of the financial statements. The Committee deliberated extensively on the preparation of the annual financial statements and the consolidated financial statements and the appointment of the auditor. The Risk and Audit Committee commissioned the auditor to carry out the audit and concluded the fee agreement with him. One focus was on reviewing the independence of the auditor in the course of which the Committee reviewed the audit fees and decided again on a catalogue of permissible non-audit services (pre-approval catalogue), the provision of which by the auditor is possible without the further prior consent of the Risk and Audit Committee. The Compliance Officer explained his annual report for the financial year 2020, which was presented to all members of the Supervisory Board. The annual report of Internal Audit for the financial year 2020 was also explained in the Risk and Audit Committee.

The Remuneration Control Committee addressed the bank's remuneration systems, especially the remuneration system of the Board of Managing Directors and reviewed their principles for adequacy. The Remuneration Control Committee also prepared the resolutions of the Supervisory Board relating to remuneration. It also had the Remuneration Control Report explained and dealt with the reappointment of the Deputy Remuneration Officer.

The Nomination Committee discussed the proposals to the Supervisory Board regarding the election of Supervisory Board members by the Annual General Meeting on 18 March 2021. The Nomination Committee furthermore fulfilled the duties incumbent upon it according to Section 25 d (11) KWG and dealt in particular with the regular efficiency review of the Board of Managing Directors and the Supervisory Board.

The members of the Committees engaged in deliberations among themselves outside the meetings as well and maintained contact with the Board of Managing Directors.

The plenary meetings were regularly provided with accounts of the activities of the Committees.

### **Audit of the annual financial statements and consolidated financial statements**

Acting on the proposal of the Supervisory Board, the Annual General Meeting appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditors for the annual financial statements for the financial year 2021 and the consolidated financial statements and for any reviews or any audits of all other interim financial statements resp. interim consolidated financial statements and interim management reports resp. interim Group management reports which are prepared prior to the Annual General Meeting for the financial year 2022. EY audited the annual financial statements of IKB AG and the Group and the combined management report for IKB AG and the Group and issued unqualified audit opinions. As part of the audit of the annual financial statements, EY assessed the implementation of the measures defined by the bank to address the findings from the audit in accordance with Section 44 (1) of the German Banking Act (KWG). Examination of and deliberation on the annual financial statements, the consolidated financial statements and the relevant combined management report and the related written audit reports of EY for the financial year 2021 by the Risk and Audit Committee and the plenary meeting of the Supervisory Board took place on 1 June 2022. The auditors participated in these deliberations. At the meeting of the Supervisory Board on 2 June 2022, they reported on the key findings of their audit, including findings in respect of the internal control and risk management system relating to the accounting process of the bank, answered questions, and provided additional information. There were no circumstances which gave reason to doubt the impartiality of the auditors. The auditors furthermore informed the Supervisory Board of all additional services provided by them in connection with the audit.

The Supervisory Board approved the result of the audit of the financial statements at its meeting held on 2 June 2022. According to the result of the Supervisory Board's own reviews of the annual financial statements and the consolidated financial statements and the combined management report, no objections were raised. The Supervisory Board approved the annual financial statements and the consolidated financial statements of 18 May 2022, prepared by the Board of Managing Directors, at its meeting on 2 June 2022. The annual financial statements for the financial year 2021 have, therefore, been adopted.

The Supervisory Board also examined the proposal of the Board of Managing Directors for the appropriation of profits. In this context, the Supervisory Board assessed in particular the situation of the company, also taking into account the measures resulting from the processing of findings of the audit pursuant to Section 44 para. 1 of the German Banking Act (KWG) as well as the overall political and economic uncertainties caused by the war in Ukraine. After the final result of the audit, no objections are to be raised.

### **Review and approval of the dependent company report**

The report on business relationships with affiliated companies for the financial year 2021 (dependent company report) which was presented by the Board of Managing Directors was also examined by the auditors. The dependent company report was issued with the following unqualified audit opinion: "Having duly examined and assessed this report, we confirm that the factual statements made in the report are correct, the company's consideration with respect to the legal transactions listed in the report was not inappropriately high, and there are no circumstances that indicate a materially different assessment of the measures listed in the report from that given by the Board of Managing Directors."

At the meetings held on 1 and 2 June 2022, first the Risk and Audit Committee and then the Supervisory Board also deliberated on and reviewed the dependent company report. The members of the Supervisory Board resp. Committees received both the dependent company report and the related audit report of the auditors in good time before the respective meeting, enabling them to address the respective contents intensively. The auditors also participated in the deliberations on the dependent company report of the Supervisory Board and the Risk and Audit Committee. At the meeting of the Supervisory Board on 2 June 2022, they reported on the result of their audit and were available to answer questions. The Supervisory Board approved the result of the dependent company report at its meeting on 2 June 2022.

In accordance with the result of its own review by the Supervisory Board, no objections were raised against the declaration of the Board of Managing Directors at the end of the dependent company report for the financial year 2021.

### **Review of the combined separate non-financial report**

The members of the Risk and Audit Committee and the Supervisory Board also dealt with and examined the combined separate non-financial report for the financial year 2021 prepared by the Board of Managing Directors. After the final result of the Supervisory Board's own review of the combined separate non-financial report for the financial year 2021, no objections were raised. The report was published on IKB's website on 29 April 2022.

**Personalia – Supervisory Board**

On the side of the shareholders, Dr Claus Nolting and Benjamin Dickgießer, whose terms of office each ended at the close of the Ordinary Annual General Meeting on 18 March 2021 were re-elected to the Supervisory Board by resolutions of the Annual General Meeting on 18 March 2021. At the constitutive meeting of the Supervisory Board following the Ordinary Annual General Meeting, Dr Nolting was re-elected as Deputy Chairman of the Supervisory Board and as a member of the Risk and Audit Committee. Mr Dickgießer was re-elected as a member of the Supervisory Board Executive Committee, the Risk and Audit Committee, the Nomination Committee and the Remuneration Control Committee. The members of the Risk and Audit Committee re-elected Dr Nolting as Chairman of the Risk and Audit Committee at its constitutive meeting.

On the employee side, Ms Susanne Eger was elected for the first time, Mr Sven Boysen, whose term of office as employee representative on the Supervisory Board also ended at the end of the Ordinary Annual General Meeting on 18 March 2021, was re-elected in the course of the election of employee representatives. Mr Walde resigned from the Bank's Supervisory Board at the same time. In the constitutive meeting of the Supervisory Board following the Ordinary Annual General Meeting, Ms Eger was elected as a member of the Supervisory Board Executive Committee and Remuneration Control Committee. Mr Boysen was elected as a member of the Risk and Audit Committee.

**Personalia – Board of Managing Directors**

Dr Ralph Müller and Dr Patrick Alfred Trutwein were appointed as additional members of the Board of Managing Directors as of 1 February 2021, expanding the Board of Managing Directors from two to four members. At the end of the financial year on 31 December 2021, the previous Chief Sales Officer Claus Momburg retired after many years of service to the Bank. As of 1 January 2022, Mr Steffen Zeise, who had already been working for IKB as a general representative since May 2021, took over the Sales Unit in his place.

On behalf of the Bank, the Supervisory Board thanked Mr Momburg for his many years of service to IKB and for his extraordinarily successful work.

The appointment of Dr Ralph Müller was terminated at Dr Müller's request and by mutual agreement with effect from 15 February 2022. The Supervisory Board thanks Mr Müller for his work on the Board of Managing Directors of IKB. The Board of Managing Directors now consists of Dr Michael Wiedmann as CEO and CFO, Patrick Alfred Trutwein as Chief Risk Officer (CRO) and the Board member responsible for Operations and IT, and Steffen Zeise as Chief Sales Officer.

The Supervisory Board thanked the members of the Board of Managing Directors and all employees of the IKB Group for their personal commitment and contributions in the past financial year.

Düsseldorf, 2 June 2022

The Supervisory Board



Dr Karl-Gerhard Eick

Chairman

## Combined management report for the 2021 financial year

## **Business highlights**

*Note:*

*Due to the conversion of the financial year to match the calendar year with effect from 31 December 2020 and, as a result of this, the insertion of a stub nine-month financial year (1 April - 31 December 2020), the results of operations presented in the financial statements for the financial year (1 January - 31 December 2021) in particular is not fully comparable with the previous stub financial year.*

- Consolidated net income before tax of €104 million
- Return on equity (ROE) after tax of 8.3%
- Administrative costs of €135 million, cost/income ratio of 55%
- Risk provisions of €12 million and NPL ratio (EBA definition) of 1.9% at a low level
- No direct engagement with Ukraine, Russia or Belarus
- CET 1 ratio (fully phased in) of 16.6%, pro-forma CET 1 ratio (Basel IV) of 17.5%
- Increase in leverage ratio to 8.1%

## **1. Basic information on the Group**

The business model of IKB Deutsche Industriebank AG (IKB is used as a synonym for the Group and IKB AG for the individual company) is focused on the German upper midmarket, mainly comprising companies with annual revenues of more than €100 million. IKB has access to 2,900 focus customers including 500 existing customers. German corporate customers in the upper midmarket are among IKB's preferred target groups due to what in some cases are their outstanding market position, their strong equity base and liquidity resources and, resulting from this, their particularly low default rates. The Bank is characterised by long-standing and stable customer relationships and a pronounced understanding of the concerns of mid-cap companies. Thanks to its own mid-cap structures, IKB meets its customers at eye level and understands their needs. Competence and mutual trust are fundamental values underpinning customer relations. IKB's structures also enable quick processes and short decision-making for financing solutions. The corporate values – "professional, committed and reliable" – are the values by which IKB measures itself.

IKB concentrates on its strengths, adopting lean structures at an early stage and has reduced its costs since 2015, driven its digital transformation forward and clearly defined its business segments. The Public Programme Loans segment includes income and expenses from public programme loans granted to mid-cap customers as well as advisory services for obtaining and applying for public programme loans. The Corporate Bank segment comprises the services related to internally financed corporate banking business. In addition to financing and advisory services in traditional lending business, this also includes supporting customers in their capital market activities. The income and expense items from Funding & Asset Liability Management and the investment portfolio are reported in the Corporate Centre.

Since it was founded in 1924, IKB has been an independent private bank with close relationships to German companies and entrepreneurs, specialising primarily in long-term corporate and project finance. As of 31 December 2021, IKB employed around 548 employees (full time equivalents) and, with six locations, has a sales network covering all regions of Germany. Its integrated business approach comprising regional sales, industry groups and product groups aims to ensure solution-oriented, high-quality support for customers. IKB's customer business focuses on lending and structuring advice (including capital market products). The key factors here are a disciplined loan pricing policy and an appropriate risk-return profile. Each loan must be profitable in its own right. The Bank also arranges financing solutions for its customers outside its own balance sheet. This includes assisting companies in accessing the capital market, for example the issuance of promissory note loans or bonds. As a specialist, IKB offers its customers access to public loan programmes. Every corporate customer advisor has the knowledge needed to provide professional advice to companies in the upper midmarket concerning appropriate public programme loan solutions, supported by a highly specialised development loan product team.

As of 31 December 2021, IKB had a share of 3.1% in the market for long-term corporate loans to the German manufacturing sector. At the same time, its share of the market for loans under the development loan programmes offered by KfW Bankengruppe (KfW) relevant for IKB stood at 8.1%. IKB's competitors are large universal banks as well as a number of larger institutions from the public-sector banking sector.

IKB is an institution with a solid Tier 1 capital base. It is able to draw on a stable and diversified deposit base for funding its operations. Private investors (via pure online banking) and corporate customers are offered investment opportunities that contribute to the financing of Germany's mid-cap sector. This is supplemented by the use of public loan programmes for mid-cap companies, which do not require any further funding on the part of IKB. Exposure to the capital market is low. As part of a joint venture with Hypoport SE, IKB acquired a 30% share of FUNDINGPORT GmbH and established its own IKB sales platform. Since 1 January 2022, this platform has been arranging finance projects between customers with annual revenues of €10 million to €100 million and banks via the FUNDINGPORT GmbH platform.



IKB is subject to supervision by the German regulatory authorities, i.e. the German Federal Financial Supervisory Authority (BaFin) and the German Bundesbank. IKB is currently not classified as a systemically relevant institution.

Regulatory law gives rise to a framework that can also influence the business model. One burden arises from the continuously changing conditions for integrated bank management that have evolved and will continue to do so as a result of the various regulatory requirements. These regulatory requirements now touch upon almost all areas and processes and are woven into the entire organisational and operational structure. For this reason, a high level of cost discipline, particularly also in the implementation of regulatory requirements, close management of risk-weighted assets and anticipation of possible future regulatory requirements remain highly relevant for the business model. In addition, IT security together with the need to establish an IT architecture that efficiently ensures flexible and timely reporting is growing in importance.

## 2. Economic report

### Macroeconomic and industry-specific conditions

Macroeconomic conditions in 2021 were again heavily influenced by the coronavirus pandemic and the measures taken to contain it. Despite the ongoing pandemic, which progressed very disparately depending on the season, and mounting supply chain constraints, many economies were able to recover from the slump that had emerged in 2020.

In Europe, economic output rose sharply in the summer half-year in particular, before slowing in the final quarter of the year in the wake of the spread of the Omicron coronavirus variant. All in all, the Eurozone economy grew by 5.5% in 2021. By contrast, the US economy lost momentum in the third quarter, after which it picked up speed again. Over the year as a whole, gross domestic product (GDP) expanded by 5.7%. In China, the economic recovery continued in 2021, with GDP growing by 8.1%, although this performance was doubtless dampened by the strict no-Covid strategy. Moreover, pressure came from the downturn in the country's real estate sector and the decline in construction spending due to stricter lending rules.

After the severe slump in spring 2020, global industry recovered quickly, with strong demand for goods causing supply-side bottlenecks. In addition, there was a shortage of transportation capacity. Both factors – excess demand and supply-side problems – led to sharp increases in the prices of commodities, intermediate products and finished goods. At the same time, the bottlenecks and shortages and, hence, the upside pressure on prices were more protracted than originally expected.

In Germany, the pandemic also continued to leave traces on the economy. With the containment measures weighing on the economy at the beginning of the year, the recovery continued in the summer half-year but came to a renewed halt in the fourth quarter due to the growing spread of the Omicron variant. Over the year as a whole, GDP growth of 2.7% was achieved. The economy performed very disparately. The consumer-related services sector came under seasonal pressure at the beginning and the end of the year as a result of the pandemic and the measures taken to contain it but rebounded in the summer when these restrictions were eased. By contrast, industry slipped into a recession from the beginning of the year despite the full order books. Material and transport bottlenecks impeded the recovery of the industrial segment, increasingly also leaving traces on construction and commerce.

In this environment, spending on capital goods remained volatile, growing by 3.2% over the year as a whole. Consequently, lending to the corporate sector also remained quite volatile, with substantial growth only registered at the

beginning and the end of the year. By contrast, long-term loans to the manufacturing sector declined from the second quarter of 2021.

The number of corporate insolvencies continued to drop in 2021, declining by around 12% over the previous year due to the extraordinary and extensive measures taken by policymakers. These particularly included fiscal support measures as well as the temporary suspension of compulsory insolvency filing requirements, which was extended several times during the crisis (most recently until the end of April 2021), to permit the disbursement of financial assistance under the government coronavirus assistance programmes and to give them time to unleash their effect. In addition to the fiscal measures, German companies' solid equity and liquidity resources helped to prevent an increase in insolvencies.

As a result, there were no negative changes in the volume of non-performing loans held by German banks. In any case, the banks were well prepared. For one thing, they had increased their capital buffers substantially and, for another, had set aside greater risk provisions to accommodate possible loan defaults. As well as this, many banks were able to scale back risk provisions for loan losses compared with the previous year. Although bank earnings are likely to have improved somewhat in 2021, the low interest rates placed strain on conventional interest-earning business, exerting pressure on additional sources of income as well as cost-cutting. As well as this, continued spending on digitisation is necessary.

Monetary policy remained accommodative in the United States and the Eurozone in 2021. However, given the high inflation rates at the end of the year and the increasingly tight situation in the US employment market due to labour shortages, the Fed signalled at its December meeting that it would be reining in money supply. In November, it had already started "tapering" its monthly bond-buying programme. In response to high inflation, the Bank of England raised its key interest rate from 0.1% to 0.25% in December. By contrast, the ECB maintained its monetary policy but announced in November 2021 a reduction in net asset purchasing and plans to terminate its Pandemic Emergency Purchase Programme (PEPP) in spring 2022.

### Important events during the reporting period

#### *Changes in the Group*

IKB's investment portfolio was partially supplemented and partially streamlined as a result of the following changes:

- Following the approval granted by the supervisory authorities at the beginning of March 2021, the IKB Group acquired 30% of the capital of FUNDINGPORT GmbH on 10 March 2021 via IKB Beteiligungsgesellschaft 3 mbH. FUNDINGPORT GmbH is a joint venture between IKB AG and the Hypoport Group for providing certain types of corporate financing via a digital B2B tender platform.
- During the reporting period, HIMERA Grundstücks-Vermietungsgesellschaft mbH was sold in a share deal. In connection with the sale, the loans granted to HIMERA Grundstücks-Vermietungsgesellschaft mbH by IKB as the principal lender were discharged and the company deconsolidated with effect from 31 May 2021.
- The liquidation of equiNotes Management GmbH i.L. was completed with the deletion of the company from the commercial register on 21 June 2021.
- In June 2021, forfeited receivables and other financial assets held by IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf, were sold. One receivable was sold by IKB Beteiligungsgesellschaft 5 mbH to IKB AG. As the corresponding funding amounts and free capital reserve were largely repaid following the sale, IKB Beteiligungsgesellschaft 5 mbH was deconsolidated with effect from 30 June 2021 due to its minor significance for the net assets, financial position and results of operations of the Group.

- Effective 30 June 2021, IKB Beteiligungsgesellschaft 2 mbH sold all of its shares in IKB Real Estate GmbH to IKB Invest GmbH.
- During the period under review, the financial year of IKB Beteiligungen GmbH was altered to match the calendar year. The period from 1 April 2021 to 31 December 2021 is a stub financial year. The amendments to the articles of association in connection with the change of financial year were entered in the commercial register on 30 June 2021.
- With effect from 1 September 2021, IKB Beteiligungsgesellschaft 3 mbH sold all of its shares in IKB NewCo 3 GmbH to IKB Deutsche Industriebank AG.
- During the reporting period, the silent partnerships with the two special purpose vehicles Capital Raising GmbH and Hybrid Raising GmbH were redeemed and the collateral discharged. Both entities were deconsolidated with effect from 31 October 2021.
- IKB AG, acting through its branch in Luxembourg, incorporated a new subsidiary known as IKB Lux Investment S.à r.l. with registered offices in Luxembourg on 10 December 2021.
- IKB Struktur GmbH was merged with IKB Beteiligungen GmbH with effect from 16 December 2021.
- Aleanta GmbH was dissolved by a shareholder resolution of 22 December 2021 and was placed under liquidation at the end of the day on 31 December 2021.

### ***Legally relevant events***

#### **Agreement on carrying profits forward**

In accordance with a contractual agreement entered into in March 2021, IKB and LSF6 Europe Financial Holdings, L.P. (“LSF6”) declared their intention to hold another (extraordinary) shareholder meeting in the course of the 2021 financial year or in 2022 up to the adoption of the annual financial statements for the 2021 financial year in order to pass a resolution on further profit distributions. In this connection, LSF6 has undertaken towards IKB to pass a resolution to distribute a dividend only if this is not in conflict with the regulatory recommendations issued by BaFin (German Federal Financial Supervisory Authority) or the ECB concerning the distribution of dividends during the coronavirus pandemic. No resolution concerning the distribution of profits other than the one passed at the Annual General Meeting on 18 March 2021 was adopted in the 2021 financial year, nor is one planned without prior regulatory approval until further notice.

#### **Conclusion of a contract for the sale and transfer of a portfolio of non-performing loans**

On 6 July 2021, IKB AG and LSF6 Rio (Ireland) DAC entered into a contract for the remunerated termination of the subparticipation held by LSF6 Rio (Ireland) DAC in a portfolio of non-performing loans. The portfolio consists of 25 exposures, all of which are already being serviced by IKB AG. The termination took effect on 20 August 2021.

#### **Conclusion of a contingent contract for the purchase of lawsuit proceeds**

On 6 July 2021, IKB AG and LSF Aggregated Lendings S.à.r.l. entered into a contingent contract for the purchase of a 20-percent share in potential proceeds from lawsuits pending in the United States against arrangers and trustees of structured credit products. The price had been determined by independent experts on the basis of external information. IKB AG already holds 80% of the claims to the proceeds.

### **Conversion of bearer shares into registered shares**

The shares in IKB Deutsche Industriebank AG were converted from bearer shares to registered shares in accordance with the current market standard for unlisted companies. The corresponding amendment to the Articles of Association was entered in the Commercial Register on 16 November 2021, upon which the conversion became legally effective.

### **Restructuring of pension obligations**

All pension entitlements under direct commitments VO79 and 94 (now referred to as VO21) as well as VO2006 already in existence as of 30 September 2021 were converted into a pension scheme commitment by the Metzler Pension Fund with effect from 30 November 2021.

In addition, the revised pension obligations give employees with pension entitlements under the VO79 and VO94 greater scope for structuring their pension benefits by opting for a lump-sum payout. A corresponding company agreement was entered into for this purpose.

### ***Personnel changes***

#### **Supervisory Board**

Mr Benjamin Dickgießer and Dr Claus Nolting were re-elected to the Supervisory Board as shareholder representatives in resolutions passed at the Annual General Meeting on 18 March 2021. With effect from the end of the Annual General Meeting held on 18 March 2021, the following changes arose with regard to the employee representatives: Mr Sven Boysen was re-elected and Ms Susanne Eger elected for the first time to the Supervisory Board. Mr Jörn Walde stepped down from the Company's Supervisory Board as of the same date.

In the constituent meetings following this Annual General Meeting, Dr Nolting was re-elected Deputy Chairman of the Supervisory Board and Chairman of the Risk and Audit Committee. In addition, elections were held to fill or refill vacant positions on the committees: the Supervisory Board Executive Committee (Ms Eger and Mr Dickgießer), the Risk and Audit Committee (Mr Boysen, Mr Dickgießer and Dr Nolting), the Nomination Committee (Mr Dickgießer) and the Remuneration Control Committee (Ms Eger and Mr Dickgießer).

#### **Board of Managing Directors**

IKB's Supervisory Board appointed Dr Patrick Trutwein and Dr Ralph Müller to the Board of Managing Directors on 27 January 2021 with effect from 1 February 2021. This expands the IKB Board of Managing Directors from two members to four. Dr Trutwein assumed responsibility for risk management and internal auditing as chief risk officer (CRO). Dr Müller assumed responsibility for strategy, digitisation and operations as chief digital officer (CDO)/chief operating officer (COO).

Mr Steffen Zeise was appointed to the Board of Managing Directors by IKB's Supervisory Board on 4 November 2021 with effect from 1 January 2022 to replace Claus Momburg, who had retired. Mr Zeise had been general manager at IKB since 2021 and is now responsible on the Board of Managing Directors for sales.

Dr Müller's appointment was terminated at his request and by mutual agreement with effect from the end of the day on 15 February 2022. The Board of Managing Directors is now composed of Dr Michael Wiedmann as CEO and CFO, Dr Patrick Trutwein as Chief Risk Officer (CRO) and with responsibility for operations and IT and Mr Steffen Zeise as Chief Sales Officer.

### ***Investment-grade rating from Moody's and Fitch***

IKB received an investment-grade rating from rating agencies Moody's (15 January 2021) and Fitch (14 January 2021). In 2021, Moody's confirmed the Baa1 deposit and issuer rating with a stable outlook. Due to the stable quality of IKB's

credit portfolio, Fitch confirmed its BBB deposit and issuer rating and upgraded the outlook from negative to stable. These ratings fulfil the requirements of many business partners and investors.

### Results of operations, asset position and financial situation

Unless indicated otherwise, the following statements apply to both the Group management report (Group) and the management report of IKB AG (IKB AG). The twelve-month 2021 financial year (1 January to 31 December 2021) is not fully comparable with the previous year (stub nine-month financial year from 1 April to 31 December 2020). This particularly applies to the results of operation.

#### Business performance

New business was at €3.0 billion in the 2021 financial year (9 months of the previous year: €1.5 billion), thus exceeding the forecast of €2.5 billion included in the 2020 Annual Report despite the persistently difficult economic environment and the ongoing coronavirus pandemic. The proportion of internally funded business in the total volume widened by 40 percentage points over the previous year to 66%.

#### Results of operations

The Group achieved earnings before taxes of €104 million in the 2021 financial year (1 January to 31 December 2021) (9 months of the previous year: €63 million). At €86 million (9 months of the previous year: €73 million), consolidated net income was lower than the forecast due to higher tax expenses and higher administrative expenses in tandem with lower risk provisions. The Public Programme Loans segment contributed earnings of €44 million (9 months of the previous year: €29 million), the Corporate Bank segment €43 million (9 months of the previous year: €35 million) and the Corporate Centre segment €0 million (9 months of the previous year: €9 million).

At the level of IKB AG, the net income for the 2021 financial year of €77 million (9 months of the previous year: €164 million) likewise was lower than the forecast due to higher tax and administrative expenses in tandem with lower risk provisions.

in € million	Group		IKB AG	
	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020
<b>Net interest income</b>	<b>221</b>	<b>165</b>	<b>227</b>	<b>216</b>
<b>Net fee and commission income</b>	<b>26</b>	<b>20</b>	<b>27</b>	<b>21</b>
<b>Gross income</b>	<b>247</b>	<b>186</b>	<b>254</b>	<b>237</b>
<b>Administrative expenses</b>	<b>-135</b>	<b>-104</b>	<b>-134</b>	<b>-103</b>
Personnel expenses	-78	-65	-78	-65
Other administrative expenses	-57	-39	-56	-38
<b>Operating profit before risk provisions</b>	<b>113</b>	<b>82</b>	<b>120</b>	<b>134</b>
<b>Net risk provisioning</b>	<b>-12</b>	<b>-20</b>	<b>-12</b>	<b>-20</b>
<b>Operating profit</b>	<b>101</b>	<b>63</b>	<b>108</b>	<b>115</b>
<b>Net other income</b>	<b>4</b>	<b>1</b>	<b>-12</b>	<b>39</b>
<b>Earnings before tax</b>	<b>104</b>	<b>63</b>	<b>95</b>	<b>153</b>
<b>Tax expense/income</b>	<b>-18</b>	<b>10</b>	<b>-18</b>	<b>11</b>
<b>Net profit after tax</b>	<b>86</b>	<b>73</b>	<b>77</b>	<b>164</b>

Any differences in totals are due to rounding effects.

Other key figures	Group	
	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020
<b>New business (€ billion)</b>	<b>3.0</b>	<b>1.5</b>
of which corporate loans	2.0	0.4
of which public programme loans business	1.0	1.1
<b>Interest margin on loan book (%)</b>	<b>1.78</b>	<b>1.93</b>
<b>Risk costs of loan book (%)</b>	<b>0.12</b>	<b>0.27</b>
<b>Cost/income ratio (%)</b>	<b>54.5</b>	<b>55.7</b>
<b>Return on equity (%)</b>	<b>8.3</b>	<b>8.3</b>

The interest margin equals the quotient of net interest income and net risk costs from net risk provisioning in the Public Programme Loans and Corporate Bank segments relative to the corresponding volumes of the loan book. The cost/income ratio is calculated as the quotient of administrative expenses and gross income (net interest income and net fee and commission income). The return on equity is calculated as the ratio of net income to average allocated equity derived from a 12-percent imputed capital charge for risk-weighted assets in accordance with the CRR. The figures for the stub financial year were extrapolated to twelve months to calculate the key performance indicators.

### **Net interest and commission income**

Net interest income includes interest income and expenses, current income from equities and other non-fixed income securities, investments and shares in affiliated companies, income from profit pooling, profit-transfer agreements and partial profit-transfer agreements. Net commission is defined as commission income net of commission expenses.

Net interest income in the year under review came to €221 million (9 months of the previous year: €165 million) at the level of the Group, with the Public Programme Loans segment accounting for €85 million (9 months of the previous year: €64 million), the Corporate Bank segment €88 million (9 months of the previous year: €78 million) and the Corporate Centre for €48 million (9 months of the previous year: €23 million). The Group generated interest income from lending business of €180 million (9 months of the previous year: €146 million) and interest income from securities and recurring income from equities and other non-fixed income securities of €78 million (9 months of the previous year: €79 million). Recurring income from equities and other non-fixed income securities is composed of income from fund units, which mainly comprises income from bonds. On the other hand, interest expenses for funding came to €35 million (9 months of the previous year: €55 million). The decline is particularly due to bonuses under the ECB's TLTRO III programme. Net interest expenses for derivatives stood at €3 million (9 months of the previous year: expenses of €5 million), comprising interest expenses of €17 million (9 months of the previous year: €34 million) and interest income of €14 million (9 months of the previous year: €29 million). In addition, income of €2 million was received under a profit and loss transfer agreement with a subsidiary that has since been deconsolidated (9 months of the previous year: €0 million).

At the level of IKB AG, interest income from lending business stood at €184 million in the 2021 financial year (9 months of the previous year: €148 million), with interest income on securities and recurring income from equities and other non-fixed-income securities and investments and shares in affiliated companies coming to €35 million (9 months of the previous year: €28 million) and interest expenses on funding operations equalling €36 million (9 months of the previous year: €56 million). Net interest expenses for derivatives stood at €3 million (9 months of the previous year: expenses of €5 million), comprising interest expenses of €17 million (9 months of the previous year: €34 million) and interest income of €14 million (9 months of the previous year: €29 million). In addition, income from profit transfer agreements came to €47 (9 months of the previous year: €102 million). This decline was primarily due to lower distributions on the investment fund units held by subsidiaries. Net interest income at the level of IKB AG thus came to €227 million (9 months of the previous year: €216 million).

In the 12 months of the 2021 financial year, net fee and commission income amounted to €26 million (9 months of the previous year: €20 million) at the level of the Group and €27 million (9 months of the previous year: €21 million) at the level of IKB AG. At the level of the Group, the Public Programme Loans segment contributed net commission income of €5 million (9 months of the previous year: €3 million), the Corporate Bank segment €15 million (9 months of the previous year: €13 million) and the Corporate Centre €6 million (9 months of the previous year: €4 million).

Cumulative net interest and commission income came to €247 million (9 months of the previous year: €186 million) at the level of the Group and €254 million (9 months of the previous year: €237 million) at the level of IKB AG, thus matching the forecast.

### **Administrative expenses**

Administrative expenses comprise personnel expenses and other administrative expenses as well as depreciation, amortisation and impairments.

As a result of the ongoing cost-cutting and optimisation measures, administrative expenses in the 12-month period of the 2021 financial year came to €135 million (9 months of the previous year: €104 million) at the level of the Group and €134 million (9 months of the previous year: €103 million) at the level of IKB AG, thus slightly exceeding the forecast. At the level of the Group, the Public Programme Loans segment accounted for administrative expenses of €43 million (9 months of the previous year: €32 million), the Corporate Bank segment €40 million (9 months of the previous year: €31 million) and the Corporate Centre €52 million (9 months of the previous year: €40 million).

Personnel expenses equalled €78 million (9 months of the previous year: €65 million) for both the Group and IKB AG. Other administrative expenses as well as depreciation, amortisation and impairments came to €56 million (9 months of the previous year: €39 million) at the level of the Group and also €56 million (9 months of the previous year: €38 million) at the level of IKB AG.

Personnel expenses for both the Group and IKB AG include reduced expenses of €5 million resulting from the remeasurement of pension provisions following the introduction of a new pension plan. Increased inflation expectations and the performance of the assets transferred under contractual trust arrangements (CTA) led to an increase in pension obligations, thus causing additional personnel expenses of a total of €5 million.

Other administrative expenses are influenced by continued reductions in IT and office space expenses as well as increases in the contributions to the statutory deposit guarantee scheme and the EU bank levy. The expenses arising at the beginning of the calendar year for the EU bank levy (€9 million) are not included in the previous year's figures (1 April to 31 December 2020).

### **Net other income**

Net other income comprises other operating and extraordinary income and expenses, loss absorption expenses and impairments and reversals of impairments of equity investments, shares in affiliated companies and securities held as fixed assets.

In the 12 months of the 2021 financial year, net other income comprised income of €4 million (9 months of the previous year: income of €1 million) at the level of the Group and expenses of €12 million (9 months of the previous year: income of €39 million) at the level of IKB AG. This is due to the following main factors:

- Securities held as fixed assets generated net income of €90 million (IKB AG: net income of €90 million) particularly from the sale of fixed-income securities, compared with net income of €214 million (IKB AG: net income of €217 million) in the nine months of the previous year.

- The derivative positions in the banking book resulted in net expenses of €42 million (IKB AG: net expenses of €42 million), compared with expenses of €173 million (IKB AG: net expenses of €173 million) in the 9 months of the previous year.
- The discount factor unwind on pension obligations resulted in expense of €30 million (IKB AG: €30 million) in the 2021 financial year, compared with expense of €23 million (IKB AG: €23 million) in the 9 months of the previous year.
- The performance of the assets transferred under contractual trust arrangements (CTAs) resulted in net income of €0 million (IKB AG: income of €0 million) in the 12-month period under review, compared with net income of €21 million (IKB AG: net income of €21 million) in the 9 months of the previous year.
- At the level of both the Group and IKB AG, net other income includes income of €4 million (9 months of the previous year: €0 million) from the remeasurement of pension provisions following the introduction of a new pension plan.
- In addition, net other income includes expenses of €11 million (9 months of the previous year: €39 million) at the level of the Group and €2 million (9 months of the previous year: €2 million) at the level of IKB AG to hedge business risks. The loss absorption expenses of €11 million (9 months of the previous year: €0 million) also chiefly relate to activities for hedging business risks within the Group.
- In addition, net other income includes legal and project costs of €7 million at the level of the Group and IKB AG (9 months of the previous year: Group and IKB AG €7 million).
- At the level of IKB AG, it includes expenses of €14 million (9 months of the previous year: €0 million) from the impairment of an intra-group sub-participation in settlement payments expected under pending lawsuits.

### Net risk provisioning

Net risk provisioning comprises adjustments and impairments of receivables and certain securities and additions to loan loss provisions. In the 2021 financial year, net risk provisioning was composed of expense of €12 million (9 months of the previous year: expense of €20 million) at the level of the Group and expense of €12 million (9 months of the previous year: expense of €20 million) at the level of IKB AG, thus lower than the forecast included in the 2020 Annual Report. This decline reflects the reversal of portfolio loan loss allowances. At the level of the Group, the Public Programme Loans segment accounted for income of €3 million (9 months of the previous year: expense of €2 million) and the Corporate Bank segment for expense of €15 million (9 months of the previous year: expense of €17 million).

Net risk provisioning is composed of net expenses from depreciation and single loan loss allowances on receivables and certain securities as well as provisions in lending business of €43 million (9 months of the previous year: €35 million) at the level of the Group and of €43 million (9 months of the previous year: €36 million) at the level of IKB AG and net income from the reversal of portfolio loan loss allowances of €31 million (9 months of the previous year: €16 million) at the level of the Group and €30 million (9 months of the previous year: net expense of €16 million from allocations) at the level of IKB AG. The net reversal of portfolio loan loss allowances includes €7 million from reductions in portfolio loan loss allowances due to the initial application of IDW RS BFA 7 at the level of both the Group and IKB AG. Additional information on risk provisioning can be found in "Section 3. Risk report" in the table on risk provisions.

### Taxes

Tax expense in the reporting period came to €18 million (IKB AG: €18 million) after tax income of €10 million (IKB AG: €11 million) in the 9 months of the previous year. Expense of €8 million arose at the level of both the Group and IKB AG due to the depreciation of deferred tax assets as a result of the reduction in the future expected consolidated net income and annual net income. Both current and deferred tax expenses were higher than expected.



### **Net income**

In the 2021 financial year, earnings before taxes of €104 million (9 months of the previous year: €63 million) were achieved at the level of the Group and €95 million (9 months of the previous year: €153 million) at the level of IKB AG. Consolidated net income came to €86 million in the 2021 financial year (9 months of the previous year: consolidated net income of €73 million), thus lower than the forecast particularly as a result of higher tax expenses as well as higher administrative expenses in tandem with lower risk provisions. At the level of IKB AG, the net income of €77 million (9 months of the previous year: net income of €164 million) likewise fell short of the forecast due to higher tax and administrative expenses in tandem with lower risk provisions.

### **Asset position**

The Group's total assets declined by €0.9 billion to €16.0 billion in the reporting period (IKB AG: decline of €1.1 billion to €16.2 billion).

The Group's gross credit volume, which also includes off-balance-sheet business (see also "Chapter 3. Risk Report"), dropped from €18.7 billion to €17.5 billion as of the reporting date (IKB AG: decrease from €18.9 billion to €17.6 billion) and mainly comprises medium- and long-term loans to banks, loans to customers, bonds, the positive market values of the derivatives held in the non-trading book and guarantees.

### **Assets**

The cash reserve in the account held with the ECB declined by €2.1 billion to €0.2 billion at the level of the Group (IKB AG: by €2.1 billion to €0.2 billion) as of the reporting date due to short-term liquidity investments under the deposit facility. At the same time, receivables from banks rose by €1.0 billion to €3.0 billion at the level of the Group (IKB AG: from €2.0 billion to €3.0 billion).

Receivables from customers came to €8.8 billion at the level of the Group and to €9.1 billion at the level of IKB AG and were thus on a par with the previous year (€8.8 billion at the level of the Group and €9.2 billion at the level of IKB AG) in line with the forecast.

The portfolio of bonds and other fixed-income securities fell from €3.2 billion to €3.0 billion at the level of the Group (IKB AG: from €3.2 billion to €3.1 billion) as a result of ongoing portfolio management, whereas the portfolio of shares and other non-fixed-income securities increased from €0.3 billion to €0.6 billion at the level of the Group (IKB AG: from €0.0 billion to €0.3 billion) due to the non-cash contribution of bonds at their carrying amount in return for fund units, meaning that the forecast contained in the 2020 Annual Report was duly met.

### **Equity and liabilities**

Liabilities to banks increased by €0.1 billion to €8.6 billion (IKB AG: by €0.1 billion to €8.6 billion).

Liabilities to customers fell by €1.0 billion to €4.8 billion (IKB AG: by €1.1 billion to €4.9 billion) primarily due to lower deposits from business and retail customers.

The Group's portfolio of securitised liabilities declined by €0.1 billion over the previous year to €0.1 billion. At IKB AG, the portfolio declined by €0.2 billion to €0.1 billion.

At €0.8 billion, the Group's subordinated liabilities were on a par with the previous year at the level of the Group and also at the level of IKB AG.

The fund for general banking risks is unchanged over the previous year at €0.6 billion.

### Own funds

As a result of the net income for the year minus the distribution to the shareholder (€12 million), own funds increased from €862 million to €940 million at the level of the Group and from €915 million to €980 million at the level of IKB AG. With respect to profit allocation, a part of the net income for the year of €39 million was retained to bolster Common Equity Tier 1 capital at both the level of the Group and IKB AG. As a result, the forecast payout ratio of 60% to 80% of net income was not reached. When calculating regulatory capital, the fund for general banking risks of €0.6 billion must be taken into account as Common Equity Tier 1 capital.

Unrealised gains and losses arose on financial instruments in the non-trading book in the form of securities, derivatives and from funding the loan book without matching maturities in the reporting period and in earlier financial years as a result of changes in market interest rates, exchange rates and credit ratings. In future financial years, the recognition of unrealised losses could exert pressure on net other income and net interest income. The measurement of the banking book at the lower of cost or market in accordance with the IDW RS BFA 3 accounting guidance did not result in any provisioning requirements as of 31 December 2021.

### Financial position

IKB's funding mix means that its liquidity position is stable and funding can generally be obtained at more favourable conditions than in the previous periods. In addition to purpose-tied and other secured funding operations, IKB accepts revolving deposits from corporate and retail customers and engages in new lending business selectively.

The maturities of liabilities are shown in the breakdown of remaining maturities in the notes. Please refer to "Section 3. Risk report" for further details concerning the liquidity and financing situation

### Overall assessment

Both the Group and IKB AG generated positive earnings in the 2021 financial year. Group and bank net income for the year were lower than the forecast particularly as a result of higher tax expenses as well as higher administrative expenses in tandem with lower risk provisions.

Given that the economic environment remained challenging in 2021 and was impacted by the ongoing effects of the coronavirus pandemic, the Bank is nonetheless generally pleased with its business performance. Cash flows and the financial position are orderly.

### Financial and non-financial performance indicators

Non-financial performance indicators are of minor importance for management purposes at IKB. In addition to a large number of management-related sub-indicators, IKB uses the following financial indicators as key performance indicators for management purposes.

### Regulatory Tier 1 ratio

The regulatory Common Equity Tier 1 ratio (CET 1 ratio) is calculated as the ratio of regulatory Common Equity Tier 1 capital (CET 1) to regulatory risk-weighted assets. Details of the reconciliation of regulatory CET 1 and risk-weighted assets can be found in the information on the regulatory capital situation in "Section 3. Risk report".

As of 31 December 2021, the CET 1 ratio (fully phased) was 16.6% for the IKB Group and 16.9% for IKB AG (see Section "3. Risk report" for details). This means that IKB substantially exceeded the forecast of over 13% (IKB AG: over 14%). This was due to the changes in the Bank's dividend-distribution policy in tandem with a reinforcement of its CET 1 capital and a simultaneous reduction in risk-weighted assets.

**Leverage ratio**

The leverage ratio measures the largely unweighted sum of on-balance-sheet and off-balance-sheet transactions relative to regulatory Common Equity Tier 1 capital and is a binding minimum requirement as of 28 June 2021 in accordance with CRR II.

The following table provides an overview of the leverage ratio in accordance with Article 429 of the CRR II/CRR.

in %	IKB Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
<b>Leverage ratio (transitional)</b>	<b>8.2</b>	<b>7.5</b>	<b>8.4</b>	<b>7.7</b>
<b>Leverage ratio (fully phased)</b>	<b>8.1</b>	<b>7.4</b>	<b>8.4</b>	<b>7.7</b>

This significantly exceeds the statutory minimum ratio and the forecast contained in the 2020 Annual Report of a leverage ratio of over 7% for the IKB Group.

**Net income after taxes**

Net income was lower than the forecast included in the 2020 Annual Report at the level of both the Group and IKB AG particularly as a result of higher tax expenses as well as higher administrative expenses in tandem with lower risk provisions. In order to reflect the Bank's business performance more accurately, earnings before taxes will be used as a performance indicator in the future instead of earnings after taxes.

**Cost/income ratio and return on equity**

The cost/income ratio expresses the ratio of administrative expenses to the sum of net interest, fee and commission income; the ratio was 54.5% for the Group in the 2021 financial year, compared with 55.7% in the stub financial year in 2020, and thus greater than expected particularly as a result of higher administrative expenses.

The return on equity as the ratio of net income to average allocated equity derived from a 12-percent imputed capital charge for risk-weighted assets in accordance with the CRR was 8.3% for the Group in the 2021 financial year and thus below the forecast of 9% due to higher tax and administrative expenses in tandem with lower risk provisions.

**Liquidity coverage ratio**

The liquidity coverage ratio (LCR) is the ratio of highly liquid assets (liquidity buffer) to short-term net liquidity requirements, quantified as the net amount of all weighted cash inflows and outflows in the next 30 calendar days.

The following table provides an overview of the LCR compared with 31 December 2020.

in %	IKB Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
<b>Liquidity coverage ratio</b>	<b>274</b>	<b>271</b>	<b>259</b>	<b>244</b>

As forecast, the ratio was thus consistently above the minimum target of 100% defined in the Annual Report for the year ending 31 December 2020 during the entire 2021 financial year.

**Net stable funding ratio**

As of 31 December 2021, the net stable funding ratio (NSFR), which tracks medium to long-term liquidity stood at 117% for the IKB Group (IKB AG: 117%), thus consistently exceeding the statutory minimum of 100% in line with the forecast.

### *Combined separate non-financial report*

The non-financial Group report for the 2021 financial year pursuant to section 340i (5) of the German Commercial Code (HGB) in conjunction with section 315b of the German Commercial Code (HGB), which is combined with the parent company's non-financial report pursuant to section 340a (1a) of the German Commercial Code (HGB) in conjunction with section 289 of the German Commercial Code (HGB), has been published on the Company's website at <https://www.ikb.de/en/investor-relations/reports-and-presentations> as a combined separate non-financial report.

### 3. Risk report

In the 2nd and 3rd quarter of 2021, a regular BaFin audit was carried out in accordance with section 44 (1) of the German Banking Act (KWG) with a reference date of 31 March 2021. The audit concentrated on credit risk management and the calculation of risk bearing capacity. In addition, the appropriateness of loan loss provisioning was also reviewed (PaaR audit). The results of the PaaR audit are included in the figures for 31 December 2021. The other audit findings resulted in adjustments to the risk management process as well as to the methodology for calculating risk-bearing capacity. The methodological adjustments relate to both the calculation of risk coverage potential and the quantification of the risk position, which partially resulted in significant quantitative adjustments. They were implemented in the first five months of 2022 financial year and applied retroactively to the figures as of 31 December 2021. As a result of the findings, BaFin ordered on 16 February 2022 that IKB has to meet temporary capital add-ons in accordance with section 10 (3), sentence 1, in conjunction with sentence 2, no. 2, KWG.

#### **Risk management organisation**

The Bank operates a risk management system covering the entire Group and the risk types of all the segments in accordance with the Minimum Requirements for Risk Management (MaRisk) and other applicable pronouncements by regulatory authorities. The Bank performs an annual risk inventory to gain an overview of the risk situation of the Bank, all subsidiaries and any significant outsourcing activities and assesses concentrations of risk and income, also taking sustainability risks into account. The risk management system, including its tasks and areas of responsibility, is documented in the Bank's written rules.

The business and risk strategy and the measures derived from it are set out in the business and risk strategy.

The Board of Managing Directors of IKB AG is responsible for risk management. Based on the strategic business focus and risk-bearing capacity, it defines the principles for risk management policy which, together with the limit structure, are reflected in the business and risk strategy and in the limit book. Special committees assist the Board of Managing Directors in managing risks and making decisions. The Board of Managing Directors discusses the risk situation and the Bank's risk management at quarterly meetings with the Supervisory Board. In addition, the business and risk strategy is discussed with the Supervisory Board at least once a year after regular updating and, additionally, on an ad-hoc basis, e.g. in the event of any adjustments made during the year.

IKB's risk management is based on the "three lines of defence" principle, with each individual unit (front office, back office, as well as central divisions and staff departments) forming the first line of defence as part of its operational responsibility.

The second line of defence controls and monitors the risk management functions of the first line of defence. This includes defining risk management methods and procedures as well as monitoring identified material risks and reporting to the Board of Managing Directors. The second line of defence comprises the tasks assigned to risk controlling and management, information risk and security management and the data protection officer. It also includes the compliance functions in accordance with MaComp and MaRisk, the officer for the protection of customers' financial instruments and funds as well as the anti-money laundering function/central office. At the level of the Board of Managing Directors, Dr Trutwein is responsible for the independent portfolio-related monitoring by Risk Controlling of counterparty default, market price and liquidity risks as well as non-financial risks. Dr Wiedmann is responsible for monitoring profit/loss management and capital resources as well as the compliance functions. The Board of Managing Directors as a whole is responsible for managing risks associated with the business strategy and reputation risks.

The third line of defence in IKB's risk management is Internal Audit, which is a separate, process-independent and neutral monitoring unit within the IKB Group. It works on behalf of the entire Board of Managing Directors, is not bound by any instructions and reports directly to the Board of Managing Directors. Dr Trutwein is responsible at the level of the Board of Managing Directors for internal auditing. All relevant activities and processes throughout the Group and the functionality of the internal control system (ICS) are reviewed on the basis of risk-oriented process audits. The processes and activities outsourced by IKB to other service providers are monitored as part of continuous outsourcing controlling and the independent audit activities performed by Internal Audit at the outsourcing companies. In quarterly reports and an annual report, Internal Audit summarises for the Board of Managing Directors and the Supervisory Board significant and serious audit findings, the agreed measures and their processing status and, specifically, the audits conducted and compliance with the audit plan. In addition, the Board of Managing Directors is kept continuously informed of the audit results in detail on the basis of the reports prepared for all audits. Regardless of this, the Chairman of the Supervisory Board can request information directly from the head of Internal Audit subject to consultation with the Chairman of the Board of Managing Directors and the Chairman of the Risk and Audit Committee.

### **Regulatory capital resources and risk-bearing capacity**

#### ***Regulatory capital***

The Bank calculates its regulatory capital resources in accordance with the requirements of the CRR. It has received approval to apply the IRB approach for counterparty default risk. The Bank uses the standardised approach to calculate the credit valuation adjustment charge, the base indicator approach for operational risk and the prescribed standard method for market price risk. The Bank continues to use the regulatory netting approach to determine the net basis of measurement for derivatives, taking existing netting agreements into account. The following tables provide an overview of the regulatory risk assets, the Bank's own funds base and ratios as they take effect when the balance sheet is adopted (transitional and fully phased). The Capital Requirements Regulation (CRR) includes various provisions which are being fully phased over time. The term "transitional" refers to the situation in the light of the requirements prevailing as of the relevant reporting date, while the term "fully phased in" refers to the situation in which the rules apply in their final form.

Table: Regulatory capital situation of the IKB Group in accordance with CRR/CRR II<sup>1)2)</sup>

Figures in € million	31 Dec. 2021 <sup>3)</sup>		31 Dec. 2020	
	transitional	fully phased	transitional	fully phased
Counterparty default risk (including CVA charge)	7,421	7,591	8,093	8,230
Market risk equivalent	156	156	170	170
Operational risk	448	448	515	515
<b>Total risk-weighted assets (RWA)</b>	<b>8,025</b>	<b>8,194</b>	<b>8,779</b>	<b>8,916</b>
<b>Common Equity Tier 1 (CET 1)</b>	<b>1,361</b>	<b>1,361</b>	<b>1,277</b>	<b>1,273</b>
Additional tier 1 (AT 1)	8	0	15	0
<b>Total tier 1 (T 1)</b>	<b>1,368</b>	<b>1,361</b>	<b>1,292</b>	<b>1,273</b>
Tier 2 (T 2)	586	590	625	635
<b>Own funds</b>	<b>1,954</b>	<b>1,951</b>	<b>1,917</b>	<b>1,907</b>
<b>CET 1 ratio (%)</b>	<b>17.0</b>	<b>16.6</b>	<b>14.5</b>	<b>14.3</b>
T1 ratio (%)	17.0	16.6	14.7	14.3
Own funds ratio (%)	24.4	23.8	21.8	21.4

Any differences in totals are due to rounding effects.

- 1) Figures taking account of the phase-in and phase-out provisions of the CRR; the CET 1 ratios have been calculated in accordance with the current version of the CRR as of 31 December 2021 and 31 December 2020 respectively and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.
- 2) IKB has already factored in the planned payout equalling IKB AG's net income for the 2020 financial year in its regulatory capital by recognising a correction item.
- 3) Application of CRR II

Table: Regulatory capital situation at individual bank level in accordance with CRR/CRR II<sup>1)2)</sup>

Figures in € million	31 Dec. 2021 <sup>3)</sup>		31 Dec. 2020	
	transitional	fully phased in	transitional	fully phased in
Counterparty default risk (including CVA charge)	7,579	7,746	8,105	8,242
Market risk equivalent	148	148	0	0
Operational risk	384	384	425	425
<b>Total risk-weighted assets (RWA)</b>	<b>8,111</b>	<b>8,278</b>	<b>8,530</b>	<b>8,667</b>
<b>Common Equity Tier 1 (CET 1)</b>	<b>1,400</b>	<b>1,400</b>	<b>1,329</b>	<b>1,326</b>
Additional tier 1 (AT 1)	0	0	0	0
<b>Total tier 1 (T 1)</b>	<b>1,400</b>	<b>1,400</b>	<b>1,329</b>	<b>1,326</b>
Tier 2 (T 2)	518	515	565	559
<b>Own funds</b>	<b>1,919</b>	<b>1,915</b>	<b>1,894</b>	<b>1,886</b>
<b>CET 1 ratio (%)</b>	<b>17.3</b>	<b>16.9</b>	<b>15.6</b>	<b>15.3</b>
T1 ratio (%)	17.3	16.9	15.6	15.3
Own funds ratio (%)	23.7	23.1	22.2	21.8

Any differences in totals are due to rounding effects.

- 1) Figures taking account of the phase-in and phase-out provisions of the CRR; the CET 1 ratios have been calculated in accordance with the current version of the CRR as of 31 December 2021 and 31 December 2020 respectively and the interpretations published by the regulatory authorities. The possibility that future EBA/ECB standards and interpretations or other supervisory actions will lead to a retrospective change in the CET 1 ratio cannot be ruled out.
- 2) IKB has already factored in the planned payout equalling IKB AG's net income for the 2020 financial year in its regulatory capital by recognising a correction item.
- 3) Application of CRR II

At 16.6% for the Group and 16.9% for the Bank, IKB's CET 1 ratios (fully phased) are above the statutory minimum for CET 1, including the capital conservation buffer, countercyclical capital buffer and the SREP capital requirements set by

the German Federal Financial Supervisory Authority (BaFin) in the banking supervisory review and evaluation process (SREP).

The following table provides an overview of the capital requirements imposed on IKB at the level of the individual Bank and at the Group level. In addition, IKB received a decision of BaFin on temporary capital add-ons in accordance with section 10 (3), sentence 1, KWG on 16 February 2022. This is taken into account for informational purposes.

*Table: Regulatory capital requirements*

Ratios (%)	31 Dec. 2021		
	Common Equity Tier 1 capital	Tier 1 capital	Total capital
<b>Capital requirement</b>			
Pillar I requirements (Art. 92 CRR)	4.50	6.00	8.00
Pillar II requirements (SREP)	1.13	1.50	2.00
Capital conservation buffer (CCB)	2.50	2.50	2.50
Countercyclical capital buffer (CCyB)	0.02	0.02	0.02
<b>Total</b>	<b>8.15</b>	<b>10.02</b>	<b>12.52</b>
For information purposes:			
Capital markup in accordance with section 10 (3) sentence 1 of the German Banking Act (KWG) as of 16 February 2022	2.25	3.00	4.00
For information purposes: Net own funds target ratio	0.90	0.90	0.90
<b>Capital ratios – IKB AG</b>			
Current capital ratio (transitional)	17.26	17.26	23.65
MDA surplus	911 bps	724 bps	1,113 bps
<b>Capital ratios – IKB Group</b>			
Current capital ratio (transitional)	16.95	17.05	24.35
MDA surplus	880 bps	703 bps	1,183 bps

The MDA (maximum distributable amount) surplus is therefore 703 bps in the IKB Group's Core Tier 1 capital in the relevant perspective.

#### **Minimum requirements for eligible liabilities (MREL)**

IKB is not required by BaFin to comply with any requirements relating to an MREL ratio beyond the existing pillar 1 requirements, i.e. no recapitalisation amount within the meaning of Article 2 of the Delegated Regulation (EU) 2016/1450 has been stipulated.

#### **Risk-bearing capacity**

In order to safeguard its risk-bearing capacity, the Bank considers two perspectives in line with the guidelines for the regulatory assessment of internal risk-bearing capacity concepts, which are intended to ensure the Bank's going concern status and to protect creditors: a normative perspective and an economic perspective.

The purpose of the normative perspective is to ensure compliance with the regulatory and supervisory minimum requirements during the annual multi-year planning process. In particular, this includes the increased capital requirements in accordance with section 10 (3) or (4) of the German Banking Act (KWG) and the combined capital requirement in accordance with section 10i (1) of the German Banking Act (KWG) including allowance for the increase in the anticyclical capital buffer from 1 February 2023. All structural requirements must also be met.

In addition to the plan scenario, bank planning must include an adverse scenario to ensure compliance with the increased capital requirements in accordance with section 10 (3) or (4) of the German Banking Act (KWG).

The IKB scenario of a “severe economic downturn” with its consequences for capital planning has been defined as an adverse scenario for the normative perspective and can be regarded as an extreme stress scenario with a low probability of occurrence with respect to economic growth.

All regulatory requirements for the normative perspective are met in both the plan scenario and this adverse scenario throughout the entire planning period.

In addition to the normative perspective, the Bank also analyses its overall risk position and risk coverage potential from an economic perspective and monitors it on a monthly basis.

Risk coverage potential in the economic perspective is derived from all capital components used by the Bank including the fund for general banking risks (section 340g of the German Commercial Code (HGB)) and subordinate capital available within the risk horizon less deferred tax assets and intangible assets. At the same time, hidden liabilities/reserves from loans, securities, derivatives and pensions obligations are taken into account.

The following table compares the capital requirements in the economic perspective that could arise mathematically in a year to cover unexpected losses at a confidence level of 99.9% (value at risk) with the risk cover that will be available in the next twelve months. As a result of the implementation of the findings of the regular BaFin audit performed in accordance with section 44 (1) of the German Banking Act (KWG), a number of methodological adjustments to the quantification of the risk position<sup>1</sup> and the calculation of risk coverage potential<sup>2</sup> were made compared with the previous year and applied with retroactive effect to the figures as of 31 December 2021.

Table: Capital requirements – economic perspective

	31 Dec. 2021	31 Dec. 2021	31 Dec. 2020	31 Dec. 2020
	in € million	in %	in € million	in %
Counterparty default risk	639	55	529	45
Market price risk	401	34	524	44
Operational risk	117	10	59	5
Refinancing cost risk	8	1		
Business risk			69	6
<b>Total</b>	<b>1,165</b>	<b>100</b>	<b>1,181</b>	<b>100</b>
less diversification effects	-136		-136	
<b>Overall risk position</b>	<b>1,029</b>		<b>1,045</b>	
<b>Risk coverage potential</b>	<b>1,415</b>		<b>1,767</b>	

Any differences in totals are due to rounding effects. Figures as of 31 December 2021 retroactively adjusted to include the implementation of the audit findings of BaFin.

The increase in individual risks and the overall risk position as well as the decline in risk coverage potential over the previous year was particularly caused by the aforementioned retroactive methodological adjustments (decline of €134

<sup>1</sup> The methodological adjustments to the quantification of the risk position particularly entail revisions to the methodology for determining market price risk, the migration risk within counterparty risk and operational risk and the inclusion of the refinancing cost risk while eliminating the business risk.

<sup>2</sup> The methodological adjustments for determining risk coverage potential particularly concern revisions to the methodology for calculating the present value of administrative expenses.



million in risk coverage potential, increase of €385 million in individual risks compared to the previous methodology) and was partially offset by the measures taken to reduce market price risk during the year under review.

The risk-bearing capacity over the next twelve months is intact.

### **Forecast calculations and stress tests**

To allow for macroeconomic and regulatory developments, the Bank prepares different forecasts to calculate the expected utilisation of the risk-bearing capacity for the next two financial years in the economic perspective and for the next five financial years in the normative perspective. These forecasts are based on the Bank's plan scenario with current expectations with respect to the macroeconomic effects of the coronavirus pandemic. In addition, the Bank conducts various stress tests with different levels of severity on a quarterly and ad hoc basis. In this connection, macroeconomic and historical stress scenarios covering multiple risk types as well as specific stress events are analysed. This means that under the plan scenario all regulatory requirements are complied with in the normative perspective and risk coverage potential exceeds the capital requirements for unexpected risks in the economic perspective, whereas in individual stress scenarios and stress events risk coverage potential would not be sufficient in a static view to fully compensate for the corresponding overall risk position in the absence of any countermeasures.<sup>3</sup>

The results of the stress test are presented to the Board of Managing Directors and the Supervisory Board and the resulting recommendations for action are discussed.

### **Risk strategy**

The overall risk strategy is a component of the integrated business and risk strategy and covers all key risk types (counterparty default risks, market price risks, liquidity risks, non-financial risks in various forms, business risks and strategic risks) and risk concentrations to which the Bank is exposed. Further detail is added to the overall risk strategy for the key risk types, and it also defines the risk strategy guidelines for IKB's business activities. In the 2021 financial year, all segments were reviewed and revised to reflect the current business focus and the economic situation as required.

#### **Counterparty risk strategy (credit risk strategy)**

In its lending business, the Bank seeks to limit overall risk exposure and provisioning requirements. In addition to restricting new business to borrowers with good credit ratings in order to improve or stabilise the average credit rating over time, this also includes limiting concentration risks at the level of individual borrowers and borrower groups.

IKB's core business means that the regional focus of its corporate financing business will remain on Germany in the future. The risk concentration that this entails is accepted in pursuing the Bank's business objectives.

With regard to its target customers in the upper midmarket segment, industry diversification is also significant. In setting its limits, the Bank is guided both by the significance of the industry for the German economy and an analysis of the expected outlook for the industry. Environmental, climate, social and governance (ESG) aspects are explicitly taken into account in the sector analyses and for the purpose of specific lending decisions. IKB does not fundamentally exclude any sectors from its lending business. Rather, it adopts a "best-in-class" approach and focuses on (potential) borrowers in a sector with solid business foundations and a sustainable and future-oriented strategic alignment.

The portion of the loan portfolio attributable to foreign risks primarily relates to bonds and protection seller credit default swaps in the financial and public sectors, which the Bank holds in its investment portfolio for diversification purposes and as cash investments.

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<sup>3</sup> As these stress scenarios are based on extreme assumptions, they are currently considered to have only a "minor" probability of occurrence.

### ***Market price risk strategy***

The market price risk strategy describes the risk profile that IKB accepts when assuming market price risks and the measures taken to avoid unwanted risks. The main risk drivers are credit spread and interest rate risks.

In the dichotomy between achieving stable and adequate net interest income, on the one hand, and the willingness to accept market price risks, on the other, the Bank needs to accept market price risks to a reasonable degree in the light of its risk-bearing capacity. Rising inflation after the reporting date as well as geopolitical tensions in the wake of the war in Ukraine and the resultant uncertainty are reflected in greater volatility in the money, capital and commodity markets. For this reason, exposure to market price risk is to be strategically reduced to a significant extent in the 2022 financial year.

### ***Liquidity strategy***

In addition to the refinancing of development banks with matching maturities, the current liquidity position is primarily underpinned by customer deposits guaranteed by the Deposit Protection Fund, secured borrowing on the interbank market and funding via the ECB. In addition to ensuring the Bank's solvency at all times, the aim of liquidity management is to secure access to inexpensive and sufficiently diversified funding options at all times. A diversified portfolio of ECB-eligible liquid securities serves as a liquidity reserve.

### ***Strategy for non-financial risks***

The purpose of managing non-financial risks is to achieve a balance between risk acceptance and the costs associated with mitigating and avoiding risk and to mitigate losses resulting from non-financial loss events. Business-continuity plans are developed on the basis of data derived from the business impact analysis for all processes defined as critical in the light of the applicable risks.

### ***Strategy for sustainability risks***

As a supra-regional credit institution, IKB shares responsibility for combating climate change and, with its financing solutions, is helping to promote the transition to a low-carbon economy and a more socially responsible society. The Bank therefore considers environmental and social factors to form part of responsible corporate conduct and systematically incorporates them in the development of conventional financing solutions in connection with its lending and investment decisions, as well as in risk management.

### ***Counterparty default risks***

Within counterparty default risk, IKB distinguishes between credit risk and counterparty risk in accordance with the requirements of the Capital Requirements Regulation (Article 5 of the CRR) and the Minimum Requirements for Risk Management (MaRisk, AT 2.3). Accordingly, risks from equity investments and derivatives as well as country risks form part of the counterparty default risk provided that they can be assigned to individual loans or counterparties. Migration risks are also taken into account in risk bearing capacity. They are reconciled in the chapter entitled "Structure of the counterparty default risk".

### ***Credit approval process and individual exposure monitoring***

Key tasks in the credit approval process (credit analysis, cash flow analysis, loan approval independent of the front office) and exposure monitoring (including intensive support, problem exposure processing) are handled by the Credit Risk and Contract Management division, which is segregated from the front office, and thus separately from the front-office functions (acquisition and business initiation) in accordance with regulatory requirements.

Loan and collateral agreements and subsequent adjustments are prepared by lawyers from the same division. Collateral agreements are drawn up on the basis of standard contract templates by Operations, Program and Transformation Management employees, who act independently of the front office, with the involvement of lawyers in the Credit Risk and Contract Management division in more complex individual cases. Every credit decision is preceded by a risk-oriented credit analysis that analyses the information necessary for the decision, evaluates it and documents it in a loan approval form. The assessment of buy-side and sell-side markets, the borrower's position in the relevant market, its future prospects, including sustainability considerations, and an exit scenario are of material importance in the credit analysis in addition to an analysis of the borrower's financial situation and particularly also of capital service capabilities based on annual financial statements, budgeted figures and liquidity planning. At the same time, importance is attached to ensuring that loans can be syndicated and transferred.

Existing credit exposures are reviewed by Credit Risk Management every twelve months using the applicable processes and approval procedures. In addition, the risk situation of the individual sub-portfolios and key individual exposures are analysed and exposure strategies defined on an annual basis.

### ***Rating process and systems***

IKB uses rating systems tailored to the respective customer segment or the specific type of finance to carry out credit assessments. The development, maintenance and operation of some of these rating systems have been outsourced to external service providers. The individual rating classes are assigned probabilities of default based on historical default data. Since 21 March 2019, the "Corporate Rating" rating system has been approved for the internal ratings-based approach ("IRB approach"). The bank rating was approved after the reporting date.

### ***Quantifying credit risk***

Counterparty default risk is quantified on the basis of a default-based credit portfolio model using a simulation approach. In addition to the individual loan/investment information (loan/investment amount, collateralisation, maturity, sector, group affiliation), this model incorporates a large number of statistical variables, such as probabilities of default, spreads in statistical default probability, collateral recovery rates, and industry/asset correlations based on the Bank's experience or external reference sources.

IKB uses a simulation approach to quantify the present value of risks arising from rating migrations, incorporating in particular expected and simulated lifetime expected credit losses<sup>4</sup>. In addition to information on individual transactions, this also takes account of default and migration probabilities as well as industry/asset correlations.

As part of the validation and benchmarking processes, the internal credit assessment systems and risk models as well as the approval, monitoring and control processes in lending business are tested once a year.

### ***Portfolio monitoring and control***

Portfolio monitoring focuses on the entire loan portfolio. Sector and market changes are monitored by back-office units specialising in sector risks with the assistance of front-office experts to supplement the overall analysis for portfolio management purposes. The aim is to identify and limit sector risks in lending business in the light of expected developments.

### ***Structure of the counterparty default risk***

The credit volume as of 31 December 2021 breaks down as follows:

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<sup>4</sup> Expected losses of present value over the remaining term of the exposures.

Table: Credit volume

in € million	Group			IKB AG		
	31 Dec. 2021	31 Dec. 2020	Change	31 Dec. 2021	31 Dec. 2020	Change
Balances with central banks	228	2,313	-2,085	228	2,313	-2,085
Receivables from banks	2,999	2,044	955	2,996	2,042	954
Receivables from customers	8,847	8,774	73	9,132	9,163	-31
Bonds and other fixed-income securities not including own issues	3,039	3,187	-148	3,046	3,195	-149
Equities and other non-fixed-income securities	630	304	326	326	-	326
Equity investments <sup>1)</sup>	1	0	1	-	-	-
<b>Subtotal: Assets recognised on the balance sheet</b>	<b>15,744</b>	<b>16,622</b>	<b>-878</b>	<b>15,728</b>	<b>16,713</b>	<b>-985</b>
Contingent liabilities <sup>2)</sup>	1,300	1,488	-188	1,376	1,565	-189
Positive fair values of derivatives in the non-trading book <sup>3)</sup>	302	445	-143	302	445	-143
Write-downs	149	164	-15	147	163	-16
<b>Gross credit volume</b>	<b>17,495</b>	<b>18,719</b>	<b>-1,224</b>	<b>17,553</b>	<b>18,886</b>	<b>-1,333</b>
For information purposes: other significant counterparty default risks outside the gross credit volume						
Irrevocable loan commitments	910	940	-30	944	1,080	-136
Shares in associated and affiliated companies <sup>4)</sup>	3	1	2	118	128	-10

- 1) Equity interests form part of the gross credit volume after consolidation at the level of the Group and are excluded from the gross credit volume at the level of IKB AG
- 2) Before deducting risk provisions
- 3) Including €25 million (31 December 2020: €35 million) in positive fair values from protection seller CDSs whose nominals are treated as contingent liabilities for accounting purposes.
- 4) IKB AG: including equity investments

Overall, the IKB Group's gross credit volume declined as of 31 December 2021 compared with 31 December 2020. The change is mainly the result of the reduction in on-demand balances held with the Bundesbank due to refinancing via the ECB (TLTRO III) with a simultaneous increase in receivables from banks. The reduction in contingent liabilities is due to maturities of protection seller credit default swaps (CDSs).

The increase in shares and other non-fixed-income securities and the decline in bonds at the level of IKB AG and, hence, within the IKB Group is primarily due to the non-cash contribution by IKB AG of bonds at their carrying amounts in return for fund units. Despite continued difficult market conditions in the second year of the coronavirus pandemic, receivables from customers rose slightly in 2021. In contrast to the Group, IKB AG registered a small decline in receivables from customers and the irrevocable loan commitments at IKB AG due to lower intra-group loans. With respect to the other items, IKB AG was comparable to the IKB Group.

**Segment structure**

Table: Credit volume by sector – Group

	31 Dec. 2021		31 Dec. 2020	
	in € million	in %	in € million	in %
<b>Loan book</b>	<b>9,340</b>	<b>53</b>	<b>9,417</b>	<b>50</b>
of which Corporate Bank	4,199	24	4,013	21
of which public programme loans	5,141	29	5,404	29
<b>Corporate Centre</b>	<b>8,155</b>	<b>47</b>	<b>9,302</b>	<b>50</b>
of which liquidity book <sup>1)</sup>	3,498	20	3,342	18
of which protection seller CDSs <sup>2)</sup>	1,009	6	1,114	6
of which money market products <sup>3)</sup>	3,648	21	4,846	26
of which balances with central banks	1,728	10	2,313	12
<b>Total</b>	<b>17,495</b>	<b>100</b>	<b>18,719</b>	<b>100</b>

- 1) Bonds and other fixed-income securities as well as equities and other non-fixed-income securities excluding own bonds and securities in the loan book
- 2) Without protection seller CDSs in the loan book
- 3) Including call accounts, loan deposits and derivatives with positive fair values, adjustments

The loan book declined mainly by the lower public programme loan business as a part of the corporate business. In corporate loan business (Corporate Bank), receivables from customers rose, although this effect was partly offset by maturing protection seller CDSs and a reduction in leasing business. The credit volume within the Corporate Center declined due to lower holdings of money market products.

**Size category structure**

Table: Credit volume by size – Group

	31 Dec. 2021					31 Dec. 2020				
	in € million	in %	Number <sup>1)</sup>	in € million of which Loan book	in % of which loan book	in € million	in %	Number <sup>1)</sup>	in € million of which Loan book	in % of which Loan book
Under €5 million	367	2	265	330	4	474	3	1,363	439	5
Between €5 million and €10 million	814	5	112	809	9	796	4	111	783	8
Between €10 million and €20 million	2,009	11	140	1,960	21	2,168	12	156	2,161	23
Between €20 million and €50 million	3,706	21	123	3,416	37	3,805	20	134	3,408	36
Over €50 million	9,614	55	54	1,840	20	10,589	57	57	1,740	18
<b>Subtotal</b>	<b>16,510</b>	<b>94</b>	<b>694</b>	<b>8,355</b>	<b>89</b>	<b>17,832</b>	<b>95</b>	<b>1,821</b>	<b>8,530</b>	<b>91</b>
Risk transferred to third parties <sup>2)</sup>	985	6	-	985	11	887	5	-	887	9
<b>Total</b>	<b>17,495</b>	<b>100</b>	<b>694</b>	<b>9,340</b>	<b>100</b>	<b>18,719</b>	<b>100</b>	<b>1,821</b>	<b>9,417</b>	<b>100</b>

- 1) Borrower groups in accordance with Section 19 of the German Banking Act
- 2) Hermes guarantees, indemnifications, risks transferred

With the overall structure largely unchanged, the reduction in the credit volume is evident in nearly all size categories. In this connection, the reduction in the balance held with the Bundesbank by approximately €0.6 billion is noticeable in the “€50 million and above” size category.

The size categories below €50 million are very predominantly held in the loan book, which is also largely unchanged in its overall structure.

IKB AG’s size category structure is not materially different from that of the Group.

### Collateral, risk transfer and securitisation

Table: Credit volume by type of collateral – Group

	31 Dec. 2021				31 Dec. 2020			
	in € mil- lion	in %	in € mil- lion of which Loan book	in % of which loan book	in € mil- lion	in %	in € mil- lion of which Loan book	in % of which loan book
Property liens and charges <sup>1)</sup>	2,216	13	2,216	24	2,270	12	2,270	24
Transfer of ownership <sup>1)</sup>	455	3	455	5	558	3	558	6
Other collateral <sup>1) 2)</sup>	3,500	20	3,500	37	3,648	19	3,648	39
Collateralised <sup>1)</sup>	271	2	5	0	392	2	10	0
<b>Secured credit volume</b>	<b>6,442</b>	<b>37</b>	<b>6,175</b>	<b>66</b>	<b>6,868</b>	<b>37</b>	<b>6,487</b>	<b>69</b>
Without collateral <sup>3)</sup>	10,068	58	2,180	23	10,964	59	2,044	22
<b>Subtotal</b>	<b>16,510</b>	<b>94</b>	<b>8,355</b>	<b>89</b>	<b>17,832</b>	<b>95</b>	<b>8,530</b>	<b>91</b>
Risk transferred to third parties <sup>4)</sup>	985	6	985	11	887	5	887	9
<b>Total</b>	<b>17,495</b>	<b>100</b>	<b>9,340</b>	<b>100</b>	<b>18,719</b>	<b>100</b>	<b>9,417</b>	<b>100</b>

1) Including credit portions beyond collateral value

2) E.g. assignment of receivables, participation rights, assignment of shares, ownership rights, subordinations, positive/negative pledges

3) Including collateral provided by the Bank on the interbank market in the form of term money and call money for derivatives and bonds (including Pfandbriefe)

4) Hermes guarantees, indemnifications, risks transferred

IKB takes into account conventional collateral (property liens, transfers of ownership and other collateral) in its lending business. The share of the credit volume secured in this way amounts to 35% of the total and 66% of the loan book (31 December 2020: 35% and 69%, respectively). Loans without collateral are mainly attributable to the Corporate Centre (€7.9 billion, 31 December 2020: €9.0 billion). Where the Bank provides collateral for derivatives in the interbank market in the form of overnight and term deposits, these are also reported under “Without collateral”.

Risk transfers increased as a result of public-sector collateral in connection with the coronavirus pandemic, particularly in connection with KfW funding under the special COVID-19 programme. This means that 86% (31 December 2020: 77%) of risk transfers are attributable to liability sub-participations by banks and 14% (31 December 2020: 23%) to public guarantees (mainly Hermes cover).

IKB AG’s collateralisation structure is comparable to that of the Group.

**Geographical structure**

Table: Credit volume by region – Group

	31 Dec. 2021				31 Dec. 2020			
	in € million	in %	in € million of which Loan book	in % of which loan book	in € million	in %	in € million of which Loan book	in % of which loan book
Germany	12,391	71	7,356	79	12,802	68	6,980	74
Outside Germany	4,119	24	998	11	5,030	27	1,550	16
Western Europe	2,964	17	802	9	3,614	19	1,190	13
of which France	747	4	124	1	762	4	201	2
of which EU <sup>1)</sup>	510	3	0	0	399	2	0	0
of which Spain	326	2	47	1	355	2	83	1
of which Belgium	312	2	19	0	318	2	42	0
of which the Netherlands	259	1	122	1	290	2	163	2
Eastern Europe	482	3	61	1	621	3	138	1
of which Poland	189	1	46	0	217	1	39	0
of which Romania	154	1	0	0	103	1	0	0
of which Hungary	100	1	0	0	143	1	43	0
North America	617	4	123	1	705	4	194	2
Other countries	56	0	12	0	90	0	28	0
<b>Subtotal</b>	<b>16,510</b>	<b>94</b>	<b>8,355</b>	<b>89</b>	<b>17,832</b>	<b>95</b>	<b>8,530</b>	<b>91</b>
Risk transferred to third parties <sup>2)</sup>	985	6	985	11	887	5	887	9
<b>Total</b>	<b>17,495</b>	<b>100</b>	<b>9,340</b>	<b>100</b>	<b>18,719</b>	<b>100</b>	<b>9,417</b>	<b>100</b>

1) European Commission, ESM, Council of Europe Development and European Investment Bank

2) Hermes guarantees, indemnifications, risks transfers

Overall, credit volumes were lower across all regions. In Germany, this was mainly due to lower deposits with banks, whereas in Western Europe receivables from customers also declined.

As of 31 December 2021, there were no credit volumes in the public sector of the “GIIPS” countries (Greece, Ireland, Italy, Portugal and Spain; as of 31 December 2020: €59 million in Ireland).

The share of loans outside Germany in the loan book shrank again from 16% to 11%. Developments at IKB AG were the same.

**Sector structure**

Table: Credit volume by sector – Group

	31 Dec. 2021				31 Dec. 2020			
	in € million	in %	in € million of which Loan book	in % of which loan book	in € million	in %	in € million of which Loan book	in % of which loan book
Industrial sectors	7,616	44	7,555	81	7,871	42	7,779	83
Energy supply	662	4	660	7	676	4	673	7
Automotive	646	4	646	7	690	4	690	7
Chemical and pharmaceutical industry	567	3	541	6	722	4	677	7
Food industry	527	3	526	6	574	3	570	6
Paper industry	475	3	475	5	396	2	396	4
Mechanical engineering	449	3	445	5	564	3	557	6
Retailers (excluding automotive, filling stations)	449	3	442	5	248	1	238	3
Medical, measurement, control and regulation technology, optics	380	2	377	4	232	1	229	2
Metal production and processing	366	2	366	4	424	2	424	4
Wholesale (excluding motor vehicles)	366	2	364	4	338	2	335	4
Other industrial sectors	2,729	16	2,712	29	3,006	16	2,989	32
Real estate	704	4	694	7	611	3	596	6
Financial sector	391	2	94	1	500	3	138	1
Banks	4,791	27	8	0	6,027	32	13	0
Public sector	3,008	17	4	0	2,823	15	5	0
<b>Subtotal</b>	<b>16,510</b>	<b>94</b>	<b>8,355</b>	<b>89</b>	<b>17,832</b>	<b>95</b>	<b>8,530</b>	<b>91</b>
Risk transferred to third parties <sup>1)</sup>	985	6	985	11	887	5	887	9
<b>Total</b>	<b>17,495</b>	<b>100</b>	<b>9,340</b>	<b>100</b>	<b>18,719</b>	<b>100</b>	<b>9,417</b>	<b>100</b>

1) Hermes guarantees, indemnifications, risks transfers

The degree of diversification in the industrial sectors remains high – no single industrial sector accounts for more than 4% of the portfolio. The other industrial sectors are composed of 26 other industry clusters. IKB has only minor exposure totalling €144 million (31 December 2020: €183 million) to sectors particularly affected by the pandemic, e.g. culture, sports and entertainment, textiles and clothing, hospitality, shipping and aviation. This exposure is continuing to decline.

The loan portfolio is also being monitored in the light of special economic circumstances such as the semiconductor crisis in the automotive sector, the substantial increase in commodity and energy prices and the impact of the war in Ukraine. Recent assessments indicate that the semiconductor crisis does not have any material impact on IKB's loan portfolio. IKB does not have any exposure to Russia, Belarus and Ukraine. The Bank currently sees secondary effects in connection with the Ukraine war in the automotive sector in particular. The Bank assumes that most of its clients are still largely able to pass on the higher commodity and energy prices by increasing their prices.



**Credit rating structure**

The credit volume breaks down by internal rating class as follows:

Table: Credit volume by credit rating structure<sup>1)</sup> – Group

	31 Dec. 2021				31 Dec. 2020			
	in € million	in %	in € million of which Loan book	in % of which loan book	in € million	in %	in € million of which Loan book	in % of which loan book
1-4	8,188	47	1,227	13	8,929	48	908	10
5-7	4,496	26	3,487	37	4,194	22	3,150	33
8-10	2,758	16	2,577	28	3,124	17	2,894	31
11-13	709	4	705	8	1,151	6	1,146	12
14-15	180	1	180	2	290	2	287	3
Non-performing assets <sup>2)</sup>	179	1	179	2	144	1	144	2
<b>Subtotal</b>	<b>16,510</b>	<b>94</b>	<b>8,355</b>	<b>89</b>	<b>17,832</b>	<b>95</b>	<b>8,530</b>	<b>91</b>
Risk transferred to third parties <sup>3)</sup>	985	6	985	11	887	5	887	9
<b>Total</b>	<b>17,495</b>	<b>100</b>	<b>9,340</b>	<b>100</b>	<b>18,719</b>	<b>100</b>	<b>9,417</b>	<b>100</b>

1) Higher rating classes reflect lower creditworthiness

2) Before single loan loss allowances and provisions

3) Hermes guarantees, indemnifications, risks transferred

In the loan book, the volume and proportion of very good and good credit ratings (1-7) increased to 50%. The share and volume of exposures in the middle (8-10) and lower (11-15) credit rating segments are predominantly in the loan book and declined in the year under review. At the level of the Group, the very good credit ratings (1-4) dropped as a result of the reduced balance held with the Bundesbank.

**Non-performing assets**

Non-performing assets are defined as exposures to borrowers who have defaulted on their loans in accordance with Article 178 of the Capital Requirements Regulation (CRR). A default occurs when insolvency proceedings have been commenced, payments of interest or principal are overdue by more than 90 consecutive days, a single loan loss allowance has been recognised or there are other clear indications that the borrower will not be able to meet its contractual obligations. Securities are classified as non-performing assets if the Bank considers permanent impairment to be probable.

Non-defaulting exposures that are managed by the Bank's units specialising in restructuring are not classified as non-performing assets but are subject to close monitoring together with the non-performing assets. Overall, the portfolio of non-performing assets and other exposures managed by the restructuring units amounted to €0.5 billion as of the reporting date 31 December 2021 (31 December 2020: €0.5 billion).

Table: Non-performing assets<sup>1)</sup> – Group

	31 Dec. 2021 in € million	31 Dec. 2020 in € million	Change in € million	Change in %
Assets with single loan loss allowances	170	122	48	39
Non-impaired	9	22	-13	-59
<b>Total</b>	<b>179</b>	<b>144</b>	<b>35</b>	<b>24</b>
Percentage of total loans	1.0	0.8		
Percentage of total loans to companies	1.9	1.5		
For information purposes: NPL ratio in accordance with EBA definition <sup>2)</sup>	1.9	1.6		

1) Before single loan loss allowances and provisions, before write-downs of securities to the lower of cost or market.

Non-performing assets do not include:

- €7 million (31 December 2020: €9 million) in risks transferred to third parties for non-performing assets that have been assumed by other banks, public sector entities or via collateralised loan obligations (CLOs) and hence are assigned to the party assuming liability (change in credit rating).
- €2 million (31 December 2020: €2 million) in unutilised commitments for borrowers whose residual exposure is classified as a non-performing asset.

2) Receivables classified as non-performing/total receivables in accordance with Annex V of Commission Implementing Regulation (EU) 680/2014

In a macroeconomic environment that remains difficult due to the coronavirus pandemic, disrupted supply chains and price increases, non-performing assets have increased slightly as of the reporting date but remain at a low level.

The coverage ratio of non-performing assets subject to single loan loss allowances, provisions and portfolio loan loss allowances attributable to non-performing assets stands at 47% (31 December 2020: 47%).

#### **Provisions for possible loan losses**

If the Bank's individual analyses establish that the respective contractual obligations are highly unlikely to be fulfilled through later payment or the liquidation of collateral, the receivable is classified as permanently impaired and single loan loss allowances in the form of a provision or specific risk provisions are recognised. In determining the amount of the single loan loss allowance, IKB takes the liquidation value of the available collateral into account in addition to possible future debt service payments by borrowers.

In the event of an acute risk of default, risk provisions are recognised for possible loan losses in the form of single loan loss allowances. A provision is recognised for contingent liabilities in the event of imminent utilisation. Risk provisions are also recognised in the form of a provision for permanently impaired CDSs. See also the explanations in Note (6) "Provisions for possible loan losses".

Table: Provisions for possible loan losses – Group

	31 Dec. 2021 in € million	31 Dec. 2020 in € million	Change in %
<b>Development of single loan loss allowances/provisions<sup>1)</sup></b>			
Opening balance	65.6	65.7	0
Utilisation	-31.6	-35.9	-12
Reversal	-3.2	-6.9	-53
Unwinding	-1.2	-1.2	0
Additions to single loan loss allowances/provisions	52.3	44.0	5
Effect of changes in exchange rates	0.1	-0.1	
<b>Total single loan loss valuation allowances/provisions</b>	<b>82.0</b>	<b>65.6</b>	<b>25</b>
<b>Portfolio loan loss allowances<sup>2)</sup></b>			
Opening balance	103.0	118.8	-13
Addition/reversal	-30.7	-15.8	94
<b>Total portfolio loan loss allowances</b>	<b>72.3</b>	<b>103.0</b>	<b>-30</b>
<b>Total provisions for possible loan losses (including provisions)</b>	<b>154.3</b>	<b>168.6</b>	<b>-8</b>

1) Not including portfolio loan loss allowances for contingent liabilities recognised as provisions

2) Including general valuation allowance for contingent liabilities recognised as provisions

Single loan loss allowances and provisions increased over 31 December 2020 due to higher allocations in tandem with lower reversals and utilisation.

As of 31 December 2021, the portfolio loan loss allowances were calculated for the first time using the simplified approach specified in the accounting guidance issued by Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) in RS BFA 7. On the other hand, the additional portfolio loan loss allowances previously recognised for above-average risks of loss under acquisition finance and above-average risks of loss in corporate finance business in connection with the coronavirus pandemic were reversed. See also Note (6) for details of the accounting and measurement methods applied to risk provisions.

Portfolio loan loss allowances including country risk provisions for receivables from customers, receivables from banks, contingent liabilities and irrevocable loan commitments amounted to €72.3 million at the level of the Group and at the level of IKB AG (31 December 2020: €103.0 million; IKB AG €102.6 million). As a result of the implementation of IDW RS BFA 7, the portfolio loan loss allowances for securities were reversed in accordance with the accounting guidance (as of 31 December 2020 they were calculated at €1.4 million at the level of the Group and €1.2 million at the level of IKB AG).

Portfolio loan loss allowances declined by €30.7 million in the year under review. This was mainly due to the decline in exposures with low and medium credit ratings as well as a net reversal effect of €6.8 million as of 31 December 2021 due to the adoption of a new calculation method.

Net risk provisioning as a portion of the loan book stood at 12 basis points in the year under review (stub 2020 financial year: 27 basis points).

### Liquidity book by asset structure

Table: Volume by assets – Group

	31 Dec. 2021 in € million	31 Dec. 2021 in %	31 Dec. 2020 in € million	31 Dec. 2020 in %
Sovereign bonds	2,220	63	2,181	65
Covered bonds	202	6	251	8
Financial senior unsecured bonds	297	8	207	6
EU and supras	510	15	399	12
Corporate bonds	112	3	146	4
Agencies and government-guaranteed bonds	158	5	158	5
<b>Total</b>	<b>3,498</b>	<b>100</b>	<b>3,342</b>	<b>100</b>

### Liquidity book by geographical structure

Table: Volume by countries – Group

	31 Dec. 2021 in € million	31 Dec. 2021 in %	31 Dec. 2020 in € million	31 Dec. 2020 in %
Germany	1,569	45	1,288	39
EU <sup>1)</sup>	510	15	399	12
France	296	8	248	7
Belgium	249	7	235	7
Romania	154	4	103	3
Other countries	721	21	1,069	32
<b>Total</b>	<b>3,498</b>	<b>100</b>	<b>3,342</b>	<b>100</b>

1) European Commission, ESM, Council of Europe Development and European Investment Bank

As of 31 December 2021, the share and volume of the five largest regions in the liquidity book increased. This was particularly the case with German assets. There were no significant changes in the asset and credit-rating structure of the liquidity book.

### Liquidity book by credit rating structure

Table: Volume by credit ratings – Group

	31 Dec. 2021 in € million	31 Dec. 2021 in %	31 Dec. 2020 in € million	31 Dec. 2020 in %
1-4	3,059	87	2,953	88
5-7	285	8	179	5
8-10	154	4	210	6
11-13	0	0	0	0
14-15	0	0	0	0
Non-performing assets	0	0	0	0
<b>Total</b>	<b>3,498</b>	<b>100</b>	<b>3,342</b>	<b>100</b>

### Risk reporting

Risk Controlling prepares all relevant information from lending business in detail in quarterly Group credit risk reports and presents these to the Board of Managing Directors with explanations. In addition, the Board of Managing Directors

is informed of customer credit risk matters on a monthly basis by means of monitoring and reporting to ensure a swift response under active risk management. The Supervisory Board and the regulatory authorities receive a risk report every quarter containing all key information on the overall risk position in the Group.

### **Liquidity risk**

IKB defines liquidity risk as including refinancing cost risk and insolvency risk.

Liquidity risk relevant for insolvency risk is identified and analysed on the basis of the expected deterministic cash flows from transactions that have already been contracted, supplemented by stochastic modelling of cash flows, the planning of liquidity measures and new business and the liquidity reserve (scope for raising funds from the ECB and cash on hand). The future liquidity balances calculated in this manner are reduced via additional stress modelling. Limits are imposed on the stresstested balances. The aim of the limit is to ensure that the Bank has sufficient liquidity reserves to withstand the negative effects on liquidity of a combined stress scenario over a defined 3-month period. IKB supplements liquidity risk monitoring with an early warning system based on leading indicators which are intended to track at an early stage any developments that are likely to have an adverse effect on liquidity.

Treasury is responsible for the operational management of liquidity risks within the limit proposed by Risk Management and approved by the Board of Managing Directors. In addition, the Bank's Asset Liability Committee is regularly updated on the liquidity situation.

### **Liquidity situation**

Depending on its new business and taking into account credit facilities and liquidity commitments not yet utilised by customers, the Bank expects its liquidity requirements to amount to around €1.1 billion (previous year: €1.1 billion) over the next twelve months.

Liquidity planning is based on a number of assumptions regarding the aforementioned and other liquidity determinants on the assets side and the liabilities side. If a number of these assumptions cumulatively do not materialise, this may result in liquidity shortfalls. For example, this may include market developments that do not or do not sufficiently permit the prolongation of liabilities guaranteed by the Deposit Protection Fund. IKB has a liquidity contingency plan for this eventuality, which describes a package of measures and a defined procedure for responding to a liquidity bottleneck.

As of 31 December 2021, the minimum liquidity balance was roughly €1.0 billion (previous year: €1.3 billion) above the liquidity limit. Taking into account the legal maturities of the Bank's asset and liability positions, its scope for raising funds from the central bank and on the secured interbank market and excluding planned new lending business, the Bank is fully financed for a period of 11 months (previous year: 13 months) and has a free liquidity reserve of €1.8 billion (previous year: €2.7 billion), all other things being equal (assuming unchanged market values).

The minimum requirements with respect to the liquidity coverage ratio and the net stable funding ratio (NSFR) are 100%. The minimum requirements were complied with at all times in the 2021 financial year. The LCR stood at 274% for the IKB Group (previous year: 271%) and 259% for IKB AG (previous year: 244%) as of 31 December 2021. The NSFR stood at 117% for the IKB Group as of 31 December 2021 (IKB AG: 117%).

### **Funding situation**

The key elements of IKB's funding operations include secured financing on the interbank market (Eurex Repo/bilateral repo transactions), funding via the ECB, and business with corporate customers, retail customers and institutional investors involving deposits and promissory note loans covered by the Deposit Protection Fund. With a ratio of 70% as of 31 December 2021, IKB has a solid 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 – (31 December 2020: 70%). The calculation of the LtD ratio was updated in connection with the first-time preparation of a segment report. The figure for the previous year was restated accordingly.

In its funding mix, the Bank also actively utilises programme loans from public-sector development banks for its customer lending business.

Details are shown in the following table:

Funding source (HGB book values including deferred interest)	31 Dec. 2021 in € million	31 Dec. 2020 in € million
<b>Customer deposits</b>	<b>4,398</b>	<b>5,316</b>
Retail customer deposits	2,592	2,785
Business customer deposits	1,806	2,531
<b>Secured funding</b>	<b>8,605</b>	<b>8,499</b>
Development loans	5,153	5,407
Interbank market	0	100
of which Eurex	0	100
of which other	0	0
ECB	3,452	2,992
of which TLTRO	3,452	2,992
of which open market	0	0
<b>Unsecured funding</b>	<b>389</b>	<b>550</b>
of which bearer bonds (including buybacks)	56	139
of which senior preferred	-	-
of which senior non-preferred	56	139
of which promissory note loans	332	412
of which senior preferred	-	-
of which senior non-preferred	332	412
of which other	0	0
<b>Subordinated/hybrid funding</b>	<b>783</b>	<b>807</b>
of which subordinated	708	732
of which hybrid (funding trust)	75	75
<b>Own funds</b>	<b>1,525</b>	<b>1,447</b>
of which own funds	940	862
of which fund for general banking risks	585	585

### Market price risk

IKB's market price exposure arises from risk factors such as interest rates, credit spreads, FX (foreign exchange) rates, gold, stock market indices and related volatilities. As IKB does not have a trading book, all market price risks relate solely to non-trading book positions.

IKB is exposed to interest rate risks in the form of interest-adjustment and structure risks. IKB's credit spread risk, which is identified and quantified on the basis of market price risk, arises from securities and credit derivatives.

IKB's credit spread risk, which is identified and quantified on the basis of market price risk, arises from securities and credit derivatives as well as loans to borrowers and promissory note loans the borrowers for which have issued securities in the capital market. The credit spread risks arising from securities are managed/hedged selectively on the basis of the prevailing market conditions by specifically running off positions or taking out risk-mitigating derivatives.

IKB's foreign-currency positions are mainly denominated in USD.

### ***Quantification and assessment of market price risks***

Market price risks are measured daily using a value-at-risk (VAR) approach for all portfolios. VAR is determined on the basis of a historical simulation that applies a full valuation approach incorporating all relevant risk factors, i.e. interest rates, credit spreads, FX rates, gold, equity indices and related volatilities.

In addition, components of the market price risk that are not fully factored into the model are addressed by means of a risk buffer in the economic perspective.

With respect to the economic perspective of risk-bearing capacity, market price risk is calculated with a risk horizon of one year and a confidence level of 99.9%. A mathematical method is used to generate a 1-year market price risk distribution from the 1-day observations in the historical simulation. Market price risks for the pension obligations are integrated in the economic perspective.

As of the reporting date, IKB made methodological adjustments to the measurement of market price risks in the economic perspective. The approach was enhanced and takes into account the last 250 rolling trading days as well as a second period made up of an additional 250 trading days representing a “turbulent market phase” with retroactive effect from 31 December 2021. The 1-day observations from the coronavirus period are currently being applied as the “turbulent market phase”.

In addition to VAR in the economic perspective, IKB applies an operating VAR with a risk horizon of one day and a confidence level of 99% for operational fine-tuning of the portfolio. As well as this, IKB uses stress tests and scenario analyses to assess its market price risks. For this purpose, historical, hypothetical and macroeconomic stress tests are used.

The models used are validated annually. Any shortcomings identified in the models or their materiality are reported to the Board of Managing Directors as part of validation activities. Validation is based on daily backtesting of the VAR forecasts. In addition, the backtesting results are analysed at the risk factor level among other things.

### ***Market price risk management and hedging***

The main task of market price risk management is to manage the market price-sensitive positions entered into by the individual segments. To manage market price risks, IKB uses a combination of risk indicators, earnings indicators and other indicators such as interest rate and credit spread sensitivities.

Daily risk reporting to the Board of Managing Directors and Treasury comprises the evaluation of all positions, market price risk, net interest income and limit utilisation. In addition, the Board of Managing Directors is provided on a monthly, quarterly and ad-hoc basis with information on relevant market developments, changes in the portfolio, measurement of the portfolio, earnings performance and the market risk profile. The Supervisory Board is informed of market price risks on a quarterly basis as part of overall risk reporting.

### ***Year-on-year comparison of market price risk profile***

The following table shows the year-on-year development of the market risk profile at the level of the risk consolidation group in terms of the interest rate basis point value, the credit spread basis point value and value at risk in the economic perspective at a 99.9% confidence level and applying a holding period of one year. The results as of 31 December 2021 include the effects of the methodological adjustments applied to the economic perspective.

Table: Market price risk profile

in € million	Value at 31 Dec. 2021	Value at 31 Dec. 2020
<b>Interest rate basis point value (BPV)</b>	<b>-0.3</b>	<b>-1.1</b>
<b>Credit spread BPV</b>	<b>-6.1</b>	<b>-8.9</b>
VaR – interest rate and volatility	-191	-251
VaR – credit spread	-273	-306
VaR – FX and volatility	-29	-53
VaR – other	-39	-89
Correlation effect	+180	+225
Risk buffer	-50	-50
<b>Total VaR</b>	<b>-401</b>	<b>-524</b>

Any differences in totals are due to rounding effects.

In addition to portfolio changes resulting in a reduction in market price risk, the change in market price risk in 2021 is attributable to two opposing effects. Together with the portfolio changes, the elimination of the scenarios caused by the coronavirus pandemic from the time window of the rolling year-on-year historical simulation after March 2020 led to a reduction of around €265 million in market price risk. The inclusion of a further “turbulent market phase” in the observation period for the historical simulation together with the inclusion of credit spread risks for borrowers with meaningful market information caused an increase of €142 million in risk as of 31 December 2021, thus offsetting the effects of this relief.

## Non-financial risks<sup>5</sup>

### Operational risks

Operational risk is the risk of loss resulting from a deficiency in or failure of internal processes, people and systems or from external events beyond the Bank’s control.

Operational risks are quantified using a model based on statistically calculated loss frequencies and amounts as well as in the light of expert opinions. The associated economic capital is incorporated in the regular calculation of the Bank’s risk-bearing capacity.

In response to the scope for improvement identified by the Bundesbank audit, the recognition and validation of legal risks were revised and the quantification model adjusted. Further adjustments were made with regard to risk and loss recognition. The methodological adjustments led to an increase of €58 million in operational risk in the economic perspective for risk-bearing capacity.

In addition to analysing and identifying weaknesses and approaches to optimising business processes, another key task is therefore to enhance the security organisation and to adapt the underlying processes in order to derive impulses for risk management.

All significant loss events that occur or almost occur are consolidated in a central loss database and examined for how they were caused and the impact they had (e.g. impact on the Bank’s reputation). The Board of Managing Directors is informed of operational risks in addition to individual losses and their distribution across the individual business units

<sup>5</sup> IKB defines “non-financial risks” as all risks inherent in its business operations that do not primarily serve the purpose of generating income and are therefore not credit, market and liquidity risks. In addition to operating risks, examples include but are not limited to reputation, legal and IT risks. They do not include strategic and business risks. Non-financial risks within risk-bearing capacity are quantified jointly as operational risk.



on a quarterly basis. In the event of risks or material losses, an ad-hoc report is submitted to the Chief Risk Officer and, if necessary, to the members of the Board of Managing Directors responsible for the departments that are also affected.

The gross loss volume identified in the year under review amounted to a total of €1.5 million at the level of the Group as well as IKB AG (previous year: €2.0 million<sup>6</sup>). In individual cases, the loss amounts are based on estimates, and in some cases it may not be possible to obtain accurate figures on the basis of updated information for these until later.

There are no specific loss reports of a significant amount due to the current coronavirus pandemic.

### **Legal risks**

Legal risk is also included in non-financial risk and constitutes the risk of losses incurred through the violation of general statutory requirements, new statutory requirements or changes to or interpretations of existing statutory requirements (e.g. high court decisions) which are detrimental for the Bank. Liability risks resulting from contractual agreements also form part of legal risk.

The management of legal risks is the responsibility of the Legal department. The management of tax law risks is the responsibility of the Taxes team in the Finance division. If necessary, external law firms are called in to assist.

Contract templates and standardised texts are used in lending and related business to some extent. Deviations from these standard texts/templates and individually worded agreements and transactions are reviewed and approved using the central legal resources of the Legal department or the decentralised legal resources in the Credit Risk and Contract Management division, which come within general council's responsibility. All contract templates are continuously reviewed to determine whether modifications are required to allow for legislative changes or court rulings. When new business is commenced, the legal structure and assessment of the new products is overseen by the Legal department itself or under its responsibility as part of the new business process.

Legal developments which are of significance to the Bank's business are monitored partially by means of collaboration in the internal and external executive bodies and committees of the regulatory authorities and the Association of German Banks.

As an additional measure, the Legal department coordinates the Legal Development taskforce to identify regulatory and banking supervisory developments in order to determine their impact and coordinate the resulting implementation requirements for the Bank.

In legal proceedings, the Legal department protects the legal positions of IKB AG and the Group.

With regard to issues under tax law, the Taxes team ensures the legally compliant declaration and defence of the Group's tax positions towards the tax authorities. External tax or legal advisors are consulted if necessary. At the level of IKB AG or its subsidiaries, additional tax expenses may arise from assessment periods that have not yet been audited. In the 2021 financial year, the outstanding issues were clarified at the subsidiaries, as a result of which the audit for the assessment period from 2007 until and including 2011 (value added tax for the period from 2006 up to and including 2010) was completed. Final tax assessment notices have been issued for IKB AG and the subsidiaries. IKB is subject to constant follow-up tax audits.

IKB and Group companies are involved in legal proceedings. The following section contains a summary of the pending proceedings against IKB or Group companies that have a value in dispute of more than €15 million or are of material importance for IKB for other reasons. The Bank generally also recognises provisions for risks identified in connection with legal disputes.

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<sup>6</sup> Figure for the previous year restated to reflect updated information.

### **Derivatives trading**

In individual cases, customers complained about the advisory services provided by the Bank in connection with certain swap products. Two lawsuits are pending.

### **Disputes relating to subordinated securities**

In order to create regulatory Tier 2 capital, IKB AG issued a total of eight profit participation certificates with loss participation in the years from 1997. These had not yet expired at the time of the crisis in 2007.

Since July 2016, investors have threatened legal action and, in some cases, asserted claims for information that have been rejected by IKB. At one stage, 50 lawsuits worth a total of €117 million were pending. In some individual cases, agreements to avoid measures suspending time-bars have been signed without prejudice.

As of the end of April 2022, a lawsuit with an aggregate amount in dispute of around €17 million is still pending before the Berlin Regional Court. All other lawsuits have either become final following rulings in IKB's favour or dismissal of the appeal or have been withdrawn. IKB considers the claims that have been asserted to be without merit and assumes that the remaining pending lawsuits will be dismissed. This assessment was confirmed in IKB's favour in three second-instance judgments of the Düsseldorf Higher Regional Court and the subsequent rejection by the Federal Court of Justice of the appeals against non-admission in April 2022. Some of the lawsuits were inadmissible and all the other lawsuits were completely dismissed. On the basis of the present judgements, IKB expects the legal disputes to be concluded successfully in 2022.

### **Litigation in the United States**

IKB has initiated several lawsuits in the United States in connection with structured credit products. Two of these pending lawsuits have been settled. In a further lawsuit, a fundamental agreement has been reached on a settlement.

### **Differing opinion of the tax authorities no longer upheld**

In view of the comparable case underlying the judgement of the Federal Finance Court of 17 November 2020 (merger of a profit-making entity with a loss-making entity), it was not possible to complete the external tax audit at Aleanta GmbH. The previous risk has now been eliminated in full.

### **Information risks**

Activities for addressing information risks concentrate not only on IT services, products and projects but also on measures in the area of information security management. IKB's information security is based on the international ISO 27001 standard. Protection requirements for all processes at IKB are determined annually on this basis.

The existing Information Security Management System (ISMS) is operated under the responsibility of the Chief Information Security Officer (CISO) (second line of defence). ISMS risk management addresses the information security risks arising from the ISO 27001 controls.

IT Security Management is responsible for the Bank's operational IT security within the IT division as an element of the first line of defence. It works with other relevant areas to establish measures and support their implementation, continuous improvement and adaptation in the light of current and future IT security and compliance requirements. In this context, system and network security is updated on the basis of contractual agreements to address changing threats in cooperation with external service providers. The agreements provide for the use of the latest hardware and software technologies and therefore require service providers for systematic patch management. Infrastructure availability risks are minimised by segregating the data centres across two separate locations. The ISMS takes account of the risk involved in outsourcing key IT services. Measures for addressing this risk are verified through audits led by the CISO and emergency drills organised by central Operational Risk Management.

### ***Compliance risks***

As its business activities give rise to legal obligations for the handling of compliance-relevant information for trading in financial instruments and providing investment and related services, IKB is subject to a wide range of statutory and regulatory requirements, observance of which is ensured through the measures taken by the compliance functions established for this purpose. The corresponding mandatory conduct requirements and process instructions are set out in the Bank's written rules. In addition, the principles and values prescribed by IKB's Code of Conduct include requirements for the conduct of all employees at all of the Group's locations. Regular training is provided to ensure that employees are fully aware of all requirements and regulatory developments. Compliance-related technical advisory services and support for the divisions and the implementation of monitoring measures are organised on a preventive and process-concomitant basis by (1) the compliance function in accordance with the Minimum Requirements for the Compliance Function (MaComp), (2) the MaRisk compliance function and (3) the officer for the protection of financial instruments and customer funds.

Reporting by the compliance officer in accordance with the German Securities Trading Act (WpHG – Wertpapierhandelsgesetz)/MaComp and KWG/MaRisk, by the officer for the protection of financial instruments and customer funds and by the anti-money laundering officer/central office to the Board of Managing Directors and, in the case of the MaComp and MaRisk compliance functions as well as the officer for the protection of financial instruments and customer funds, to the Supervisory Board is organised on an annual and also ad-hoc basis.

The MaComp and MaRisk compliance functions as well as the officer for the protection of financial instruments and customer funds perform a regular, Group-wide risk analysis (at least once a year).

IKB AG has adopted internal principles, procedures and controls for meeting the requirements for preventing money laundering/terrorist financing and other illegal acts and for ensuring compliance with financial sanctions. Employees receive regular training at 2-year intervals or on an ad-hoc basis in typologies and current methods of money laundering and terrorist financing as well as criminal offences and financial sanctions.

The money laundering officer/central office prepares a Group-wide risk analysis on the prevention of money laundering/terrorist financing, other illegal acts and compliance with financial sanctions annually or, if necessary, more frequently. The risk of money laundering and the risk from other illegal acts and financial sanctions are assessed on the basis of this risk analysis, taking the preventive measures defined into account. The security measures derived from the risk analysis are assessed at least once a year for effectiveness and revised if necessary. The current situation in Ukraine and the related financial sanctions on Russia/Belarus are being closely monitored. Various safeguards have been implemented to ensure compliance with the relevant sanctions (including screening of the client base and real-time screening of payment transactions against sanctions lists, monitoring of sanctions-related requirements).

In connection with the measures taken to combat the coronavirus pandemic, no further material risks of relevance for the MaComp and MaRisk compliance functions, the anti-money laundering officer/central office (e. g. subsidy fraud, CEO fraud, identity fraud) or the officer for the protection of customers' financial instruments and funds have been identified.

### ***Personnel risks***

The management of personnel risks is the responsibility of the individual central and back-office divisions and front-office units in collaboration with the Human Resources department. This includes maintaining the level of knowledge and experience employees need to carry out their duties and responsibilities. In the interests of high-level qualifications, IKB continuously invests in employee training and development management.

The number of resignations by employees does not currently represent an additional personnel risk, as these can be compensated for internally or temporarily through an external service provider, or the vacancies can be filled through

recruitment. Due to the coronavirus pandemic, the Group allowed employees to work from home as far as possible. In addition, greater flexibility was provided with regard to working hours, allowing staff to work outside core hours and employees with children to arrange for their care. Thanks to stable IT systems and modern ID facilities, all employees are able to perform their duties on a mobile basis. In addition, a company agreement was entered into with the employee representatives under which employees are able to work on a mobile basis for up to 50% of their working hours. In this way, it is possible to react flexibly to any changes in underlying conditions such as the coronavirus pandemic. IKB does not currently see elevated personnel risks in this respect. There is no increased danger of staff leaving.

For information on IKB's remuneration system, please refer to the Disclosure Report for the financial year 2021.

### **Reputation risks**

Reputation risk is the risk of a negative perception of IKB by its stakeholders (e.g. customers, investors, regulatory authorities) that could affect the Bank's income, capital or liquidity by, for example, adversely influencing its ability to engage in existing or new business, maintain customer relationships or utilise funding sources either now or in future. It is generally not possible to quantify the probability and the consequences of the occurrence of a reputation risk.

Reputation risks at IKB are managed by the Board of Managing Directors. The methodology is largely the same as for non-financial risks. Responsible communication with all stakeholders is given high priority in the management of reputation risks. Reputation risks frequently arise from other operational risks and are measured and monitored within these.

### **Strategic risks**

Strategic risks relate to threats to long-term corporate goals and the Bank's sustainable success as a result of unexpected developments. These may arise as a result of changes in the legal, regulatory or social environment and as a result of changes in market, competition and funding conditions. It is currently not possible to tell what long-term effects the coronavirus pandemic and the war in Ukraine will have on strategic risks. Potential risks to the Bank's long-term profit/loss positions are being observed and monitored.

As strategic risks do not follow any defined patterns, it is difficult to track them quantitatively as special risks in an integrated system and they are therefore assessed qualitatively. Consequently, they are monitored continuously by the Board of Managing Directors. This includes an annual and ad hoc review of the business strategy by the Board of Managing Directors, taking into account the implications for the strategic and operational planning process.

The business strategy targets, measures and risks are reviewed on an ongoing basis by the Strategy and Risk Committee and at the meetings of the Board of Managing Directors in addition to the annual and ad-hoc review of the business strategy. This gives rise to strategic initiatives and optimisation measures.

### **Business risks**

The Bank defines business risk as unexpected negative deviations from budgets for interest and fee/commission income and for operating expenses as a consequence of deteriorating market conditions, changes in the competitive position or customer preferences or as a result of changes in economic or statutory conditions.

Business risk is quantified using a model based on statistically calculated cost and income volatilities, which determines historical deviations in actual fee/commission and interest income and operating expenses based on the projected figures. The associated economic capital is incorporated in the regular calculation of the Bank's risk-bearing capacity.

The operational management of business risk – i.e. reducing the risk of a negative change in earnings performance within the business strategy agreed with the Board of Managing Directors - is the responsibility of each individual segment, central division and subsidiary. The Finance division prepares monthly performance analyses for existing and new business as part of profit/loss controlling and submits to the Board of Managing Directors weekly management reports which identify and analyse any budget deviations in income and assets. Thus, the Board of Managing Directors sees itself as being able to initiate risk-mitigating measures.

### Participation risks

Participation risk (i.e. dividend omissions, impairments of carrying amounts, losses on disposal and reductions in hidden reserves) is not classified as a material risk type in its own right because the main individual counterparty default, market price, liquidity, business and non-financial risks in the investment portfolio are already taken into account with respect to the individual risk types

### Overall assessment of risk situation

Measured in terms of its regulatory capital and liquidity ratios, IKB generally continued to have sufficient resources. As of 31 December 2021, all capital ratios are in excess of the capital requirements resulting from the banking supervisory review and evaluation process (SREP) on the basis of the normative perspective of risk-bearing capacity, meaning IKB has sufficient scope for pursuing its business activities as planned. This also applies in the light of the additional temporary capital add-ons requirements in accordance with section 10 (3) sentence 1 of the KWG that came into effect after the end of the year under review.

Given the increase in the utilisation of risk coverage potential as a result of the methodological adjustments, risk-bearing capacity remains in the economic perspective not only over the next 12 months, but, based on the Bank's planning, also for an additional period of at least two years.

Exposure to market prices risks, which was still affected by the impact of the coronavirus pandemic and substantially elevated at the beginning of the year under review, was reduced in the reporting year by means of risk-mitigating measures. This also applied in the light of the strain caused by the adjustments taken at the end of the year under review to the methodology for measuring risk. IKB expects market price risks to continue declining in the coming financial year as a result of the risk-mitigating measures. Given the shortage of raw materials and supply-chain constraints in the wake of the coronavirus pandemic as well as the additional strain arising from the war in Ukraine, the effects of which cannot yet be conclusively assessed, among other things, uncertainty over the macroeconomic outlook has risen significantly. Together with the uncertain outlook for inflation and the resultant response by the central banks and capital markets, strain has arisen since the reporting date from interest-induced declines in the market value of the investment portfolio.

The market conditions in the second year of the coronavirus pandemic continued to be difficult and characterised by uncertainty. Receivables from customers increased slightly in the year under review. At the same time, non-performing assets were up only slightly as of the end of the year under review, remaining at a low level. Despite the small increase in non-performing assets, net risk provisioning fell slightly short of the budgeted figure. IKB is maintaining its high lending standards in the market situation characterised by protracted uncertainty. In addition to the impact of the coronavirus pandemic on supply chains and the availability of raw materials, developments arising from the war in Ukraine with their unpredictable consequences for economic growth among other things may particularly also leave traces on the Bank's credit risks.

The non-financial risk has increased since the beginning of the financial year particularly as a result of the methodological adjustments. The future situation hinges decisively on the development of legal risks. The coronavirus pandemic has no negative impact on non-financial risk due to the stable arrangements under which employees are able to work from home.

Given these uncertainties, the Bank is tracking and analysing the related macroeconomic developments, the central banks' monetary response and market reactions. As part of its risk management, it is also analysing the effects of a change in the current environment of low interest rates and, on this basis, the various stress scenarios. In summary, the current macroeconomic uncertainty is an extreme situation which IKB is actively monitoring.

#### 4. Report on opportunities

IKB has focused its business model on services for the upper midmarket with extensive advisory and financing requirements. The coronavirus, which has been spreading rapidly since the beginning of 2020, is continuing to have negative consequences for many economies and will therefore also impact IKB's business performance. The Bank has been increasingly supporting its customers with the special loan programmes to combat the coronavirus pandemic, which have been granted by the KfW Banking Group since the end of March 2020 and have been extended until June 2022.

The outbreak of war in Ukraine in February 2022 marks a major global event. Complex sanctions, which also have long-term consequences for the global economy, were imposed on Russia. The impact of the war on underlying economic conditions is described in the forecast, while an appraisal of the risks can be found in the corresponding parts of the risk report.

According to the Bundesbank Lending Survey, a majority of banks have reported largely unchanged margins on corporate loans since the third quarter of 2021. IKB will be retaining its risk-oriented pricing. It also has various capital market solutions available for its customers.

The cost situation will continue to improve after the implementation of the current cost-cutting and optimisation measures.

IKB views the financing plans of companies in the upper midmarket for achieving climate and sustainability goals as an opportunity for growth. It is currently analysing strategic opportunities in the context of ESG objectives. Just under 50% of IKB's loan portfolio is based on KfW public programme loans. IKB is active in KfW's pass-through business and holds significant market shares in various complex public programme loans that also aim to reduce carbon dioxide emissions. In 2021, its share in total KfW new business stood at 8.1% in the programmes relevant to it (excluding COVID-19 programmes). This pronounced expertise in public programme loans is to play a material role in the Bank's ESG strategy, which is currently being developed. On the one hand, the ESG strategy is to include product solutions that support IKB's clients in financing the green transition; on the other hand, the Bank's internal sustainability transition is also to be stepped up. In order to manage its ESG activities, IKB has formed a project team responsible for ensuring compliance with the applicable regulatory standards and developing the aspirations and tapping the possible strategic potential for sustainability within the strategic framework. The project team includes representatives from Corporate Development, Investor Relations/M&A, Risk Controlling, Finance and Sales.

Overall, IKB believes that it has the opportunity to generate increases in net profit thanks to the growth in its profitable new business, reduced funding costs and lower administrative costs. The improved perception of the Bank's credit standing as a result of this could generate further impetus for its business activities as a whole.

IKB expects the provisions contained in the draft version of CRR III tabled on 27 October 2021 for implementing the Basel IV rules to offer an opportunity for easing the strain caused by RWAs in lending business. This will arise from the planned changes to the regulatory standard parameters in the basic IRB approach.

The Bank has therefore additionally calculated its capital ratios for the Group as a whole in a pro-forma analysis in accordance with the Basel IV rules, i.e. on the basis of the new rules of the Basel Committee on Banking Supervision (BCBS), and plans to convert these calculations to comply with the provisions of the CRR III draft in the future. In so doing, it has taken the following standards into consideration<sup>7</sup>:

- Revised standardised approach for credit risk
- Revised IRB approach for credit risk
- Revised operational risk framework
- Revised CVA framework
- Revised market risk framework
- Output floor.

This pro-forma analysis resulted in the following figures:

<b>Capital ratios as of 31 Dec. 2021 (IKB Group), fully phased</b>	<b>Forecast figures (Basel IV)</b>	<b>Comparative figures in accordance with CRR II</b>
<b>CET 1 ratio (%)</b>	17.54	16.60
T1 ratio (%)	17.54	16.60
Own funds ratio (%)	24.18	23.81
<b>Total risk-weighted assets (RWA in € bn)</b>	7.76	8.19

The expected positive impact compared to the current regulations results largely from the "Revised IRB approach for credit risk" caused by a reduction of the standard LGD (loss given default) from 45% to 40% in the foundation IRB approach and the reduction of the scaling factor in the formula for calculating the RWA in the IRB approach from 1.06 to 1.0. The current draft of CRR III stipulates that the new rules are to be applied from 1 January 2025.

In December 2020, IKB received regulatory approval for the requested model change for the IRBA "Corporate Rating" system. This approval was subject to the inclusion of a PD markup. IKB expects the potential reduction in this PD markup to offer further potential for lowering RWAs in future years.

In a letter dated 25 March 2022, the Bank additionally received approval from BaFin for its bank rating model for the IRB basic approach. On the other hand, the approval which had also been requested for the rating model for country and transfer risks was deferred due to the pending completion of a basic assessment by the European Central Bank of the suitability of this rating model in a pilot test at another institution, over which IKB has no influence.

<sup>7</sup> Simplified calculation, in some cases ignoring details of regulations that do not have a significant impact on the result.

A possible sale of IKB by Lone Star may have a positive effect on the Company's future business. IKB's Board of Managing Directors remains open to supporting this project. This also involves gaining further investors.

## **5. Outlook**

### **Future general economic conditions**

The Ukraine-Russia war is casting a pall over the outlook for the global economy, triggering great political uncertainty. Some EU countries in particular are exposed to considerable risk due to their heavy dependence on Russian energy imports. Moreover, the coronavirus pandemic is continuing to leave traces on the global economy. Against this backdrop, the German Council of Experts (SVR) in March 2022 revised its economic outlook downwards compared with its 2021/22 annual report, lifting its forecast for inflation. In doing so, it assumes that the economic impact of the coronavirus pandemic will continue to recede and that there is no further escalation of the war between now and the end of 2023. The sanctions will remain in place in their current form and there will be no interruption to Russian gas and oil supplies.

The SVR assumes that the global economy is in solid shape despite the war but that there will be a temporary dip in growth. The protracted constraints in supply and production chains are likely to have worsened in view of the war, something which is set to exert strain on global trade in goods. All in all, the SVR expects global economic growth to slow by 1.1 percentage points to 3.3% in 2022. The forecast for global trade has been scaled back by 2.8 percentage points to 1.8%.

In the United States, the direct impact of the war is likely to be limited in view of the minor trade ties with Russia and independence from energy imports. The United States has since become a net exporter of energy. However, the higher fuel prices and, hence, rising inflation are taking their toll on consumer spending power. The SVR expects GDP growth of 3.3% for the US economy. The forecast for the Chinese economy has been adjusted only slightly and is now 0.3 percentage points lower.

By contrast, the economic fallout from the Ukraine-Russia war is likely to be more pronounced in the Eurozone and in other EU member states. The SVR projects economic growth of 2.9% in the Eurozone in 2022. This marks a downward adjustment of 1.4 percentage points over the annual report. Above-average growth is projected for Spain (5.2%), France (3.4%) and Italy (3.1%), whereas the German economy is expected to expand at a substantially slower rate (1.9%). As Germany, Finland and the Eastern European countries have above-average trade ties and energy supply relationships with Russia and Ukraine, they are likely to be hit the most heavily by the impact of the war and sanctions.

Accordingly, the SVR has already scaled back its GDP forecast for the German economy by 2.8 percentage points to 1.9%. The Ukraine-Russia war is dampening economic activity in Germany in many ways. Industrial production is likely to be impaired by renewed disruptions to production chains. In addition, heightened geopolitical uncertainty looks set to place a damper on corporate capital spending, while the sharp rise in energy prices will weigh on consumer demand.

The SVR itself assumes that its forecasts are subject to very high uncertainty. The downside risks, which primarily come from a protracted war or a deterioration in the conflict between the West and Russia, are dominating. Germany's heavy dependence on Russian energy supplies harbours a considerable risk of slower economic growth, culminating in a recession in tandem with substantially higher inflation rates, particularly in the event of a delivery stop.



The war in Ukraine could likewise impact the German financial system. That said, the direct financial risks for the German financial system from Russia are manageable. In particular, direct loans by German banks to Russian borrowers are limited. Indirect effects of the war on the German economy are possible but currently highly uncertain.

Up until the end of last year, German banks assumed that corporate credit demand would rise. Generally speaking, Germany faces high investment requirements in view of the economic transformation resulting from digitisation, climate protection and demographic trends. Indeed, these requirements will continue to grow in order to reduce dependence on fossil sources of energy. However, in its current forecast for 2022, the SVR assumes that due to bottlenecks and the heightened uncertainty over the economic outlook there will be only a slight increase in corporate spending on capital goods. Consequently, lending demand is likely to be subdued in 2022 as well.

Burdens on companies as a result of the war in Ukraine and, hence, higher credit losses for banks cannot be ruled out. For this reason, the German government has launched a package of measures aimed at supporting companies and including a new KfW loan programme and guarantees. These could alleviate the pressure on companies and stimulate lending.

Faced with rising inflation rates and robust employment markets, central banks in advanced economies have begun to rein in money supply. Since December 2021, the Bank of England has raised its key interest rate by a total of 65 basis points to 0.75%. In March 2022, the US Federal Reserve Bank (Fed) also responded by raising the Federal Funds rate by 25 basis points for the first time to a range of 0.25% to 0.5% and is likely to follow through on this with a further six steps this year. On the other hand, the ECB is not likely to increase its key rates in the Eurozone until it has terminated its bond-purchasing operations. According to the ECB, no rate hikes are planned before the end of net purchasing. A Bloomberg survey shows that most financial institutions expect the ECB to raise its deposit rate by the end of 2022.

However, if the sharp rise in inflation continues or gains further momentum, the central banks will be forced to tighten monetary policy more sharply and swiftly. Although higher interest rates offer banks an advantage in that their lending margins would presumably widen as a result, their credit risks would rise if companies were unable to service their loans due to a higher interest burden. Similarly, interest rate hikes would also trigger price adjustments on fixed income securities and in the real estate sector. At the same time, some banks may have accepted greater exposure to interest rate risks through longer-dated assets and shorter-dated liabilities. Rising interest rates and declining assets in bank balance sheets could put pressure on banks and thus significantly worsen the currently favourable financing conditions for companies and consumers.

### General information on forecast

The following forecasts are based on a forward-looking horizon of one financial year. In addition, medium-term targets are stated for selected key figures, which are assumed to be achievable within the next five financial years. As the key figures and performance indicators mentioned in the forecast are the same for the IKB Group and IKB AG, the following statements generally refer to the IKB Group. Where there are significant differences, the figures for IKB AG are shown in brackets.

### Asset position

Compared with the end of the 2021 financial year, IKB expects a decline in the CET 1 ratio for the 2022 financial year to around 13% (IKB AG: over 13.5%) as of 31 December 2022. In view of the high volatility on the capital markets, it plans to reduce its exposure to market price risks in order to improve its risk-bearing capacity. As individual securities which IKB no longer plans to hold until maturity have been reclassified, fair value losses will be recognised in profit or

loss in the current financial year. IKB intends to cover all or part of this expense by releasing part of economically opposing reserves as well as reserves held in the fund for general banking risks. The decline in the CET 1 ratio will be primarily attributable to this extraordinary effect as well as increased risk-weighted assets from the planned new business. IKB will also reach the changed minimum institution-specific regulatory capital requirements.

The Bank projects new lending business of around €3 billion in the 2022 financial year. With repayments coming to a similar amount, it assumes that receivables from customers outside the Group will remain at the previous year's level. Holdings of bonds as well as equities and other non-fixed-income securities will be significantly lower than in the previous year due to the planned restructuring of the securities portfolio.

The prevailing global tensions caused by the war in Ukraine, uncertainty over the resultant impact, continued limited forward visibility with regard to the trailing effects of the supply chain friction caused by the coronavirus pandemic as well as the uncertainties with regard to the ECB's monetary policy could have an adverse effect on credit demand and, thus, result in lower-than-expected new business. On the other hand, IKB's good position in the market for public programme loans continues to offer potential for new business. Due to numerous changes in development loan programmes, IKB can harness added value by offering customers its skills and advisory capabilities in this area. Further details on the expected underlying economic conditions can be found in the section entitled "Future general economic conditions" in Chapter 5.

### Financial position

The main components of IKB's funding operations are deposit business with retail customers, corporate customers and institutional investors as well as collateralised borrowing. In addition, IKB continues to actively use the public programme loans and global loans offered by the public-sector development banks for its customers. As in the previous year, liabilities will therefore be characterised by a diversified funding mix to refinance the assets in the forecast period. The Bank is also able to issue bearer bonds, subordinate capital and CET 1 instruments.

Funds are raised to refinance liabilities that are due for payment as well as for new business. The future liquidity situation also depends on the state of new business, customer drawdowns under existing loan commitments, the future development of deposit guarantee schemes and changes in the market value of collateral and derivatives. In addition, the ECB's monetary policy may have an impact on the investment preferences of deposit customers and the scope for raising funds in the interbank market and with the ECB.

The Bank's business planning and all related measures depend on the market environment. Significant unexpected losses, stress-like market disruptions and additional regulatory requirements as well as other government interventions may have a negative impact on IKB's financial position.

IKB has sufficient liquidity even in stress scenarios. The liquidity ratios will be maintained at all times with a buffer during the forecast period. IKB's regulatory liquidity management is based on the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The Bank projects an LCR of consistently over 100% for the 2022 financial year and thus full compliance with the statutory minimum. The NSFR for tracking medium- to long-term liquidity will also remain consistently above 100% in the coming financial year and, thus, above the statutory minimum. IKB projects a leverage ratio for the Group of significantly over 7% in the 2022 financial year.

### Results of operations

An analysis indicates that the war in Ukraine will have only a minor direct impact on IKB's results of operations. Future indirect effects on the credit portfolio, for example as a result of increased energy and commodity prices or a shortage

of energy and commodities, as well as possibly persistently high inflation, are currently subject to a high degree of uncertainty, both in terms of probability and extent. Accordingly, it is difficult to forecast the impact that such indirect effects will have on the Bank's results of operations. Further details on the expected underlying economic conditions can be found in the section entitled "Future general economic conditions" in Chapter 5.

The forecasts are based on the assumption that higher energy and commodity prices as well as the further effects of the Ukraine war will not have any material impact on IKB's results of operations and that the Ukraine war does not escalate any further. For individual items of the income statement, the Bank is able to make the following forecasts based on its performance in the financial year to date and future expectations:

IKB forecasts a slight decline in net interest and commission income over the previous year in the 2022 financial year. This will be due, on the one hand, to lower income from the ECB's targeted longer-term refinancing operations and, on the other, from the expiry of non-strategic credit portfolios.

IKB has no direct engagement with Ukraine, Russia or Belarus. As of the date on which the annual financial statements were prepared, the war in Ukraine had only a minor indirect impact on risk provisioning in lending business. In the light of past experience and on the basis of close monitoring of its customers as well as the package of measures adopted by the German federal government to support companies, IKB projects net risk provisioning in lending business of around €-25 million in the 2022 financial year.

Due to the rise in interest rates as a result of the indirect effects of the conflict, as well as possibly persistently high inflation, IKB has abandoned its intention to hold selected securities until maturity in the current financial year and, accordingly, has transferred these securities from fixed assets to the liquidity reserve. The valuation loss arising from this reclassification is expected to be covered in the further course of the year by partially releasing economically opposing reserves as well as reserves held in the fund for general banking risks. The measurement loss is offset by largely economically opposing effects in off-balance-sheet transactions.

The Group's administrative costs, which have already been continuously reduced in recent years, are to be additionally lowered by means of ongoing cost-cutting and optimisation measures. As a result, the Bank anticipates administrative costs of slightly under €130 million for the 2022 financial year. IKB assumes that the cost/income ratio, which is the ratio of administrative expenses to the sum of net interest income and net fee and commission income, will improve slightly over the previous year. In IKB's view, improving cost efficiency is a key success factor. Accordingly, its medium-term target is to additionally reduce administrative expenses to around €105 million and thus achieve a cost/income ratio of roughly 40%.

In addition to cost efficiency, the return on equity ("ROE") is also important for the Bank's further development (a definition of ROE can be found in the business report). IKB expects an ROE of nearly 9% after taxes for the 2022 financial year. In the medium term, it is aiming for an ROE of above 10%. This goal will be mainly achieved by reducing administrative and funding costs.

As the Bank is concentrating on restructuring its portfolio, the Board of Managing Directors will be proposing the omission of dividend payments for the 2021 financial year. IKB plans to omit a dividend distribution to the owner in the 2022 financial year as well. It still plans to distribute regular dividends of 60% to 80% of the Group's consolidated net income after taxes to the owner in the medium term.

### Overall assessment

Taking into account the release of reserves from the fund for general banking risks to offset the possible recognition of previously unrealised losses in the income statement as well as valuation effects, the Bank expects net income before

taxes of around €85 million at the level of the IKB Group (IKB AG: roughly €60 million) for the 2022 financial year. The measurement loss is offset by largely economically opposing effects in off-balance-sheet transactions. In contrast to earlier years, IKB will now be forecasting net income before taxes instead of after taxes to more accurately reflect the Bank's business performance.

In the event that the risks and uncertainties described above, which cannot be conclusively assessed, with regard to the further course of the war in Ukraine, developments in raw material prices and availability, inflation and interest rates as well as macroeconomic conditions cause any unplanned negative effects, net income may be lower than expected in the coming financial year.

### **6. Disclosures in accordance with Section 312 of the German Stock Corporation Act**

IKB has prepared a dependent company report in accordance with section 312 of the German Stock Corporation Act (AktG – Aktiengesetz). The dependent company report will not be published. The closing statement of the Board of Managing Directors of the Bank in the dependent companies report is as follows: "With respect to the transactions and measures listed in the report on relationships with affiliated companies, our company received at least appropriate and hence in no case disadvantageous compensation for every transaction in the light of the circumstances known to us at the time in which the transactions were carried out or measures performed or omitted and has therefore not been disadvantaged by any measures performed or omitted."

### **7. Declaration on Corporate Governance**

In the declaration below, the Board of Managing Directors reports – also on behalf of the Supervisory Board – on the determination of target figures for the proportion of women and deadlines for their attainment on the Supervisory Board, the Board of Managing Directors and the top two management levels below the Board of Managing Directors in accordance with Section 289f (4) of the German Commercial Code (HGB).

At the end of the previous target achievement period expiring on 31 March 2022, the target of 11.1% defined for the Supervisory Board and of 0% for the Board of Managing Directors was duly achieved. At the end of the previous target achievement period expiring on 31 March 2022, the target of 5% for the first management level was exceeded with the share of female representation coming to 16%. At 8%, the target of 7% for the second management level was exceeded as of 31 March 2022.

At its meeting on 15 February 2022, the Supervisory Board of IKB set a target figure of 22.2% (rounded) for the proportion of women on the Supervisory Board and 0% on the Board of Managing Directors as of 1 September 2022. The Supervisory Board is aware that diversity is an essential criterion for the composition of the Board of Managing Directors and will therefore do its utmost to include candidates of the under-represented gender and of different ages and educational and geographical backgrounds in the selection process. However, it does not consider it necessary to define

a gender-representation target for the Board of Managing Directors in order to systematically pursue this goal. The Board of Managing Directors is to be composed solely on the basis of suitability and quality regardless of the gender of the candidates. In this way, vacant positions can be filled in the light of suitability, quality and availability in the Bank's best interests.

At its meeting on 8 March 2022, the Board of Managing Directors set target figures for the proportion of women on the next two management levels below the Board of Managing Directors. The target figure for the proportion of women on the first management level was fixed at  $\geq 20\%$  and on the second management level at  $\geq 15\%$ , as of 31 December 2026 in both cases.



# Combined Financial Statements and Consolidated Financial Statements of IKB Deutsche Industriebank AG for the 2021 Financial Year

Consolidated balance sheet as of 31 December 2021

in € million	31 Dec. 2021	31 Dec. 2020
<b>Assets</b>		
<b>Cash reserve</b>	<b>228.0</b>	<b>2,312.7</b>
a) Cash on hand	-	-
b) Balances with central banks	228.0	2,312.7
thereof: with Deutsche Bundesbank	228.0	2,312.7
c) Balances in postal giro accounts	-	-
<b>Debt instruments of public sector entities and bills of exchange eligible for refinancing at central banks</b>	<b>-</b>	<b>-</b>
<b>Receivables from banks</b>	<b>2,999.2</b>	<b>2,044.0</b>
a) Repayable on demand	2,216.6	1,066.7
b) Other receivables	782.6	977.3
<b>Receivables from customers</b>	<b>8,847.2</b>	<b>8,773.7</b>
thereof: mortgage loans	603.2	632.6
thereof: public sector loans	856.6	775.3
thereof: cash collateral	4.8	6.1
<b>Bonds and other fixed-income securities</b>	<b>3,048.8</b>	<b>3,202.2</b>
a) Money market securities	-	-
b) Bonds and notes	3,039.0	3,186.6
ba) Public sector issuers	2,348.9	2,481.4
thereof: eligible as collateral for Deutsche Bundesbank	2,348.9	2,481.4
bb) Other issuers	690.1	705.2
thereof: eligible as collateral for Deutsche Bundesbank	522.5	651.9
c) Own bonds	9.8	15.6
Nominal amount	9.7	15.4
<b>Equities and other non-fixed-income securities</b>	<b>630.0</b>	<b>304.0</b>
<b>Equity investments</b>	<b>0.6</b>	<b>0.3</b>
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
<b>Shares in affiliated companies</b>	<b>1.9</b>	<b>1.0</b>
thereof: banks	-	-
thereof: financial services institutions	-	-
<b>Intangible assets</b>	<b>1.0</b>	<b>0.6</b>
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial property rights and similar rights and assets and licences in such rights and assets	0.5	0.6
c) Goodwill	-	-
d) Advance payments made	0.5	0.1
<b>Tangible assets</b>	<b>2.8</b>	<b>3.9</b>
<b>Called unpaid capital</b>	<b>-</b>	<b>-</b>
<b>Other assets</b>	<b>60.5</b>	<b>82.1</b>
<b>Prepaid expenses</b>	<b>45.0</b>	<b>63.8</b>
<b>Deferred tax assets</b>	<b>129.0</b>	<b>136.0</b>
<b>Excess of plan assets over post-employment benefit liability</b>	<b>6.8</b>	<b>4.5</b>
<b>Total assets</b>	<b>16,000.8</b>	<b>16,928.8</b>



in € million	31 Dec. 2021	31 Dec. 2020
<b>Equity and liabilities</b>		
<b>Liabilities to banks</b>	<b>8,625.2</b>	<b>8,527.7</b>
a) Repayable on demand	14.9	16.6
b) With agreed term or notice period	8,610.3	8,511.2
<b>Liabilities to customers</b>	<b>4,758.2</b>	<b>5,757.6</b>
a) Savings deposits	-	-
b) Other liabilities	4,758.2	5,757.6
ba) Repayable on demand	1,262.5	1,145.4
bb) With agreed term or notice period	3,495.7	4,612.2
<b>Securitised liabilities</b>	<b>72.1</b>	<b>154.4</b>
a) Bonds issued	72.1	154.4
b) Other securitised liabilities	-	-
<b>Other liabilities</b>	<b>47.4</b>	<b>48.6</b>
<b>Deferred income</b>	<b>40.7</b>	<b>48.9</b>
<b>Deferred tax liabilities</b>	<b>-</b>	<b>-</b>
<b>Provisions</b>	<b>166.6</b>	<b>156.4</b>
a) Provisions for pensions and similar obligations	95.1	82.9
b) Tax provisions	27.0	19.9
c) Other provisions	44.5	53.7
<b>Subordinated liabilities</b>	<b>765.5</b>	<b>788.6</b>
thereof: due within two years	202.8	194.8
<b>Profit participation capital</b>	<b>-</b>	<b>-</b>
thereof: due within two years	-	-
<b>Fund for general banking risks</b>	<b>585.0</b>	<b>585.0</b>
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
<b>Equity</b>	<b>940.0</b>	<b>861.5</b>
a) Called-up capital	100.0	100.0
Subscribed capital	100.0	100.0
Less uncalled unpaid contributions	-	-
Contingent capital	-	-
b) Capital reserves	647.9	647.9
c) Revenue reserves	41.0	2.4
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Statutory reserves	-	-
cd) Other revenue reserves	38.6	0.0
d) Difference in equity from currency translation	-	-
e) Net retained profits/net accumulated losses	151.1	115.5
f) Non-controlling interests	-	-4.3
<b>Total equity and liabilities</b>	<b>16,000.8</b>	<b>16,928.8</b>
<b>Contingent liabilities</b>	<b>1,298.6</b>	<b>1,488.2</b>
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,298.6	1,488.2
c) Liability arising from the provision of collateral for third-party liabilities	-	-
<b>Other obligations</b>	<b>910.0</b>	<b>939.6</b>
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	910.0	939.6

Balance sheet of IKB Deutsche Industriebank AG as of 31 December 2021

in € million	31 Dec. 2021	31 Dec. 2020
<b>Assets</b>		
<b>Cash reserve</b>	<b>228.0</b>	<b>2,312.7</b>
a) Cash on hand	-	-
b) Balances with central banks	228.0	2,312.7
thereof: with Deutsche Bundesbank	228.0	2,312.7
c) Balances in postal giro accounts	-	-
<b>Debt instruments of public sector entities and bills of exchange eligible for refinancing at central banks</b>	<b>-</b>	<b>-</b>
<b>Receivables from banks</b>	<b>2,996.4</b>	<b>2,041.7</b>
a) Repayable on demand	2,213.8	1,064.4
b) Other receivables	782.6	977.3
<b>Receivables from customers</b>	<b>9,132.0</b>	<b>9,163.4</b>
thereof: mortgage loans	603.2	636.1
thereof: public sector loans	856.6	775.3
thereof: cash collateral	4.8	6.1
<b>Bonds and other fixed-income securities</b>	<b>3,055.7</b>	<b>3,210.7</b>
a) Money market securities	-	-
b) Bonds and notes	3,045.9	3,195.1
ba) Public sector issuers	2,349.4	2,482.0
thereof: eligible as collateral for Deutsche Bundesbank	2,349.4	2,482.0
bb) Other issuers	696.5	713.2
thereof: eligible as collateral for Deutsche Bundesbank	528.9	659.8
c) Own bonds	9.8	15.6
Nominal amount	9.7	15.4
<b>Equities and other non-fixed-income securities</b>	<b>325.8</b>	<b>0.0</b>
<b>Equity investments</b>	<b>0.2</b>	<b>0.2</b>
thereof: banks	0.2	0.2
thereof: financial services institutions	-	-
<b>Shares in affiliated companies</b>	<b>117.9</b>	<b>127.6</b>
thereof: banks	-	-
<b>Intangible assets</b>	<b>1.0</b>	<b>0.6</b>
a) Internally generated industrial and similar rights and assets	-	-
b) Purchased concessions, industrial property rights and similar rights and assets and licences in such rights and assets	0.5	0.6
c) Goodwill	-	-
d) Advance payments made	0.5	0.1
<b>Tangible assets</b>	<b>2.8</b>	<b>3.9</b>
<b>Other assets</b>	<b>129.6</b>	<b>209.9</b>
<b>Prepaid expenses</b>	<b>44.5</b>	<b>62.9</b>
<b>Deferred tax assets</b>	<b>129.0</b>	<b>137.0</b>
<b>Excess of plan assets over post-employment benefit liability</b>	<b>6.8</b>	<b>4.5</b>
<b>Total assets</b>	<b>16,169.8</b>	<b>17,275.2</b>

in € million	31 Dec. 2021	31 Dec. 2020
<b>Equity and liabilities</b>		
<b>Liabilities to banks</b>	<b>8,625.2</b>	<b>8,525.4</b>
a) Repayable on demand	14.9	16.3
b) With agreed term or notice period	8,610.3	8,509.0
<b>Liabilities to customers</b>	<b>4,878.7</b>	<b>5,979.2</b>
a) Savings deposits	-	-
b) Other liabilities	4,878.7	5,979.2
ba) Repayable on demand	1,265.9	1,223.0
bb) With agreed term or notice period	3,612.8	4,756.2
<b>Securitised liabilities</b>	<b>72.1</b>	<b>234.4</b>
a) Bonds issued	72.1	234.4
b) Other securitised liabilities	-	-
<b>Other liabilities</b>	<b>57.5</b>	<b>47.6</b>
<b>Deferred income</b>	<b>40.7</b>	<b>48.5</b>
<b>Deferred tax liabilities</b>	<b>-</b>	<b>-</b>
<b>Provisions</b>	<b>165.1</b>	<b>151.9</b>
a) Provisions for pensions and similar obligations	93.2	80.5
b) Tax provisions	27.0	19.7
c) Other provisions	44.9	51.7
<b>Subordinated liabilities</b>	<b>765.6</b>	<b>788.6</b>
thereof: due within two years	202.8	194.8
<b>Profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Fund for general banking risks</b>	<b>585.0</b>	<b>585.0</b>
thereof: trading-related special reserve according to section 340e (4) HGB	-	-
<b>Equity</b>	<b>979.8</b>	<b>914.6</b>
a) Called-up capital	100.0	100.0
Subscribed capital	100.0	100.0
Less uncalled unpaid contributions	-	-
Contingent capital	-	-
b) Capital reserves	647.9	647.9
c) Revenue reserves	41.0	2.4
ca) Legal reserve	2.4	2.4
cb) Reserve for shares in a parent or majority investor	-	-
cc) Reserves provided for by the articles of association	-	-
cd) Other revenue reserves	38.6	-
d) Net retained profits/net accumulated losses	190.9	164.3
<b>Total equity and liabilities</b>	<b>16,169.8</b>	<b>17,275.2</b>
<b>Contingent liabilities</b>	<b>1,373.7</b>	<b>1,563.3</b>
a) Contingent liabilities from rediscounted and settled bills of exchange	-	-
b) Liabilities from guarantees and indemnity agreements	1,373.7	1,563.3
c) Liability arising from the provision of collateral for third-party liabilities	-	-
<b>Other obligations</b>	<b>944.0</b>	<b>1,080.4</b>
a) Repurchase obligations from non-genuine repurchase agreements	-	-
b) Placement and underwriting obligations	-	-
c) Irrevocable loan commitments	944.0	1,080.4

**Consolidated income statement for the period from 1 January to  
31 December 2021**

in € million	2021	2020
<b>Expenses</b>		
<b>Interest expenses</b>	<b>-52.8</b>	<b>-88.8</b>
thereof: positive interest	63.0	19.2
<b>Commission expenses</b>	<b>-2.3</b>	<b>-2.4</b>
<b>Net trading result</b>	<b>-</b>	<b>-</b>
<b>General administrative expenses</b>	<b>-133.2</b>	<b>-102.3</b>
a) Personnel expenses	-78.5	-65.0
aa) Wages and salaries	-61.3	-49.1
ab) Social security, post-employment and other employee benefit costs	-17.1	-15.9
thereof: for pensions	-8.2	-9.0
b) Other administrative expenses	-54.7	-37.3
<b>Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets</b>	<b>-1.8</b>	<b>-1.2</b>
a) On lease assets	-	-
b) On intangible and tangible assets	-1.8	-1.2
<b>Other operating expenses</b>	<b>-183.5</b>	<b>-300.2</b>
<b>Write-downs of receivables and certain securities and additions to loan loss provisions</b>	<b>-11.9</b>	<b>-19.7</b>
<b>Write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets</b>	<b>-4.0</b>	<b>-3.9</b>
<b>Costs of loss absorption</b>	<b>0.0</b>	<b>0.0</b>
<b>Extraordinary expenses</b>	<b>-2.4</b>	<b>-7.0</b>
<b>Income taxes</b>	<b>-17.9</b>	<b>9.6</b>
<b>Other taxes not reported under "Other operating expenses"</b>	<b>-0.1</b>	<b>0.1</b>
<b>Net income for the financial year</b>	<b>-86.3</b>	<b>-73.0</b>
<b>Total expenses</b>	<b>-496.1</b>	<b>-589.0</b>

in € million	2021	2020
<b>Income</b>		
<b>Interest income from</b>	<b>225.5</b>	<b>205.2</b>
a) Lending and money market transactions	194.5	174.8
thereof: negative interest	-46.4	-23.1
b) Fixed-income securities and government-inscribed debts	31.0	30.3
thereof: negative interest	-	-
<b>Current income from</b>	<b>46.5</b>	<b>49.1</b>
a) Equities and other non-fixed-income securities	46.5	49.0
b) Equity investments	0.0	-
c) Shares in associated companies	-	-
d) Shares in affiliated companies	-	0.1
<b>Income from profit pooling, profit-transfer and partial profit-transfer agreements</b>	<b>1.9</b>	<b>0.0</b>
<b>Commission income</b>	<b>28.5</b>	<b>22.9</b>
<b>Net trading result</b>	<b>-</b>	<b>-</b>
<b>Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions</b>	<b>-</b>	<b>-</b>
<b>Income from reversals of write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets</b>	<b>94.3</b>	<b>218.9</b>
<b>Other operating income</b>	<b>99.3</b>	<b>92.9</b>
<b>Extraordinary income</b>	<b>-</b>	<b>-</b>
<b>Income from assumption of losses</b>	<b>-</b>	<b>-</b>
<b>Net loss for the year</b>	<b>-</b>	<b>-</b>
<b>Total income</b>	<b>496.1</b>	<b>589.0</b>
<b>Net income/loss for the year<sup>1)</sup></b>	<b>86.3</b>	<b>73.0</b>
<b>Non-controlling interests<sup>1)</sup></b>	<b>-0.1</b>	<b>1.7</b>
<b>Loss carryforward from the previous year<sup>2)</sup></b>	<b>103.5</b>	<b>40.8</b>
<b>Withdrawals from revenue reserves</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from capital reserves in accordance with section 272 (2) no. 1 to no. 3 HGB</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from capital reserves in accordance with section 272 (2) no. 4 HGB</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from silent partnership contributions</b>	<b>-</b>	<b>-</b>
<b>Allocations to revenue reserves</b>	<b>-38.6</b>	<b>-</b>
<b>Replenishment of profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Net retained profits/net accumulated losses</b>	<b>151.1</b>	<b>115.5</b>

1) Unlike in previous years, net income/loss for the year was reported after adjustments for non-controlling interests. Net profit/loss attributable to non-controlling interests is from now on presented with the sign reversed. This produces as a total the net income/loss for the year attributable to treasury shares.

2) Profit carried forward dropped to €103.5 million due to a dividend distribution of €12 million to the shareholders.

**Income statement of IKB Deutsche Industriebank AG for the period from 1 January to 31 December 2021**

in € million	2021	2020
<b>Expenses</b>		
<b>Interest expenses</b>	<b>-53.0</b>	<b>-90.3</b>
thereof: positive interest	63.4	19.4
<b>Commission expenses</b>	<b>-2.2</b>	<b>-2.3</b>
<b>Net trading result</b>	<b>-</b>	<b>-</b>
<b>General administrative expenses</b>	<b>-132.6</b>	<b>-101.7</b>
a) Personnel expenses	-78.4	-64.9
aa) Wages and salaries	-61.3	-49.1
ab) Social security, post-employment and other employee benefit costs	-17.0	-15.8
thereof: for pensions	-8.1	-8.9
b) Other administrative expenses	-54.2	-36.7
<b>Amortisation and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets</b>	<b>-1.8</b>	<b>-1.2</b>
<b>Other operating expenses</b>	<b>-186.2</b>	<b>-262.5</b>
<b>Write-downs of receivables and certain securities and additions to loan loss provisions</b>	<b>-11.7</b>	<b>-19.5</b>
<b>Write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets</b>	<b>-4.3</b>	<b>-3.9</b>
<b>Costs of loss absorption</b>	<b>-10.7</b>	<b>0.0</b>
<b>Extraordinary expenses</b>	<b>-2.1</b>	<b>-6.7</b>
<b>Income taxes</b>	<b>-18.1</b>	<b>10.9</b>
<b>Other taxes not reported under "Other operating expenses"</b>	<b>0.0</b>	<b>0.0</b>
<b>Profit transfer on the basis of profit pooling, profit-transfer and partial profit-transfer agreements</b>	<b>-</b>	<b>-</b>
<b>Net income for the financial year</b>	<b>-77.2</b>	<b>-164.3</b>
<b>Total expenses</b>	<b>-500.0</b>	<b>-641.5</b>

<b>in € million</b>	<b>2021</b>	<b>2020</b>
<b>Income</b>		
<b>Interest income from</b>	<b>227.8</b>	<b>204.7</b>
a) Lending and money market transactions	198.4	176.5
thereof: negative interest	-46.4	-23.1
b) Fixed-income securities and government-inscribed debts	29.4	28.1
thereof: negative interest	-	-
<b>Current income from</b>	<b>5.3</b>	<b>0.0</b>
a) Equities and other non-fixed-income securities	5.3	0.0
b) Equity investments	0.0	-
c) Shares in affiliated companies	-	-
<b>Income from profit pooling, profit-transfer and partial profit-transfer agreements</b>	<b>47.4</b>	<b>101.8</b>
<b>Commission income</b>	<b>28.7</b>	<b>23.0</b>
<b>Net trading result</b>	<b>-</b>	<b>-</b>
<b>Income from reversals of write-downs of receivables and certain securities and from the reversal of loan loss provisions</b>	<b>-</b>	<b>-</b>
<b>Income from reversals of write-downs of equity investments, shares in affiliated companies and securities treated as fixed assets</b>	<b>94.1</b>	<b>224.3</b>
<b>Other operating income</b>	<b>96.8</b>	<b>87.8</b>
<b>Extraordinary income</b>	<b>-</b>	<b>-</b>
<b>Income from assumption of losses</b>	<b>-</b>	<b>-</b>
<b>Net loss for the year</b>	<b>-</b>	<b>-</b>
<b>Total income</b>	<b>500.0</b>	<b>641.5</b>
<b>Net income/loss for the year</b>	<b>77.2</b>	<b>164.3</b>
<b>Loss carryforward from the previous year<sup>1)</sup></b>	<b>152.3</b>	<b>-</b>
<b>Withdrawals from revenue reserves</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from capital reserves in accordance with section 272 (2) no. 1 to no. 3 HGB</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from capital reserves in accordance with section 272 (2) no. 4 HGB</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Withdrawals from silent partnership contributions</b>	<b>-</b>	<b>-</b>
<b>Allocations to revenue reserves</b>	<b>-38.6</b>	<b>-</b>
<b>Replenishment of profit participation capital</b>	<b>-</b>	<b>-</b>
<b>Net retained profits/net accumulated losses</b>	<b>190.9</b>	<b>164.3</b>

1) IKB AG's profit carried forward dropped to €152.3 million due to a dividend distribution of €12 million.

## Consolidated cash flow statement

in € million	2021
<b>Net income for the period (consolidated net income/loss for the year including minority interest)</b>	<b>86.3</b>
+/- Amortisation/depreciation and write-downs of receivables and fixed assets and reversals thereof	18.6
+/- Increase/decrease in provisions	-1.1
+/- Other non-cash expenses/income	-2.6
-/+ Gain/loss on the disposal of fixed assets	-88.8
+/- Other adjustments (net)	-
+/- Increase/decrease in receivables from banks	-955.9
+/- Increase/decrease in receivables from customers	-93.6
+/- Increase/decrease in securities (other than long-term financial assets)	5.8
+/- Increase/decrease in other assets from operating activities	44.8
+/- Increase/decrease in liabilities to banks	137.0
+/- Increase/decrease in liabilities to customers	-996.8
+/- Increase/decrease in securitised liabilities	-81.6
+/- Increase/decrease in other liabilities from operating activities	-5.3
+/- Interest expenses/interest income	-221.2
+/- Expenses/income from extraordinary items	2.4
+/- Income tax expenses/income	17.9
+ Interest and dividends received	276.8
- Interest paid	-98.1
+ Extraordinary receipts	-
- Extraordinary payments	-2.3
+/- Income tax payments	-0.4
<b>Cash flow from operating activities</b>	<b>-1,958.1</b>
+ Receipts from the disposal of long-term financial assets	1,128.3
- Payments for the acquisition of long-term financial assets	-1,221.8
+ Receipts from the disposal of tangible assets	-
- Payments for the acquisition of tangible assets	-0.2
+ Receipts from the disposal of intangible assets	-
- Payments for the acquisition of intangible assets	-0.8
+ Receipts from disposals from consolidated group	-
- Payments for additions to consolidated group	-
+/- Change in cash funds from other investing activities (net)	-
+ Receipts from extraordinary items	-
- Payment for extraordinary items	-
<b>Cash flow from investing activities</b>	<b>-94.6</b>
+ Receipts from equity contributions by shareholders of the parent company	-
+ Receipts from equity contributions by other shareholders	-
- Payments for equity reductions to shareholders of the parent company	-
- Payments for equity reductions to other shareholders	-
+ Receipt from extraordinary items	-
- Payment for extraordinary items	-
- Dividends paid to shareholders of the parent company	-12.0
- Dividends paid to other shareholders	-
+/- Change in cash funds from other capital (net)	-20.0
<b>Cash flow from financing activities</b>	<b>-32.0</b>
Net change in cash funds	-2,084.8
+/- Effect on cash funds of changes in exchange rates and remeasurement	-
+/- Changes in cash funds due to consolidated group	-
+ Cash funds at beginning of period	2,312.7
<b>Cash funds at end of period</b>	<b>228.0</b>



## **Notes to the consolidated cash flow statement**

The consolidated cash flow statement was prepared in accordance with the requirements of German accounting standard no. 21 (GAS 21) on cash flow statements promulgated by the Federal Ministry of Justice and Consumer Protection. IKB makes use of the option provided under the GAS 21.22 not to disclose prior-year figures in the cash flow statement.

The IKB Group's cash funds equate to the "Cash reserve" balance sheet item plus the "Debt instruments of public sector entities and bills of exchange eligible for refinancing of central banks" balance sheet item. In the cash flow statement, the cash funds at the start of the year are reconciled with the cash funds available at the end of the year by showing the cash flows from

- operating activities,
- Investing activities and
- Financing activities.

In accordance with the requirements of GAS 21.A2.14, the cash flow from operating activities is defined by the bank's operating activities. It is determined using the indirect method by adjusting net income for the year for all non-cash income and expenses.

The cash flow from investing activities shows receipts and payments from items whose general purpose is long-term investment or use. For banks, this includes receipts and payments from the disposal and acquisition of financial and tangible assets in particular. Additions and disposals resulting from addition to and disposal from the consolidated group are also taken into account.

The cash flow from financing activities shows cash flows from transactions with the owners and other shareholders of consolidated subsidiaries and from other capital.

For IKB, the meaningfulness of the cash flow statement should be considered low. The cash flow statement replaces neither the liquidity nor the financial planning for the bank, nor is it used as a management instrument.

## Statement of changes in equity

Group:

in € million	1 Jan. 2021	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Currency translation	Other changes	Changes in the consolidated group	Consolidated net income/loss for the year	31 Dec. 2021
(Corrected) subscribed capital	100.0	-	-	-	-	-	-	-	-	-	-	100.0
Subscribed capital (ordinary shares)	100.0	-	-	-	-	-	-	-	-	-	-	100.0
Treasury shares (ordinary shares)	-	-	-	-	-	-	-	-	-	-	-	-
Uncalled unpaid contributions (ordinary shares)	-	-	-	-	-	-	-	-	-	-	-	-
Reserves	650.3	-	-	-	-	38.6	-	-	-	-	-	688.9
Capital reserves	647.9	-	-	-	-	-	-	-	-	-	-	647.9
in accordance with section 272 (2) no. 1 to 3 HGB	7.6	-	-	-	-	-	-	-	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	640.3	-	-	-	-	-	-	-	-	-	-	640.3
Revenue reserves	2.4	-	-	-	-	38.6	-	-	-	-	-	41.0
Legal reserves	2.4	-	-	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	0.0	-	-	-	-	38.6	-	-	-	-	-	38.6
Difference in equity from currency translation	-	-	-	-	-	-	-	-	-	-	-	-
Profit carried forward/loss carried forward	115.5	-	-	-	-	-38.6	-12.0	-	-	-	86.2	151.1
Equity of the parent company	865.8	-	-	-	-	-	-12.0	-	-	-	86.2	940.0
Non-controlling interests before currency translation and net profit/loss for the year	-4.3	-	-	-	-	-	-	-	-	4.3	-	-
Currency translation attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Net profit/loss for the year attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-0.1	0.1	-
Non-controlling interests	-4.3	-	-	-	-	-	-	-	-	4.2	0.1	-
Consolidated equity	861.5	-	-	-	-	-	-12.0	-	-	4.2	86.3	940.0

Group:

in € million	1 Apr. 2020	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Currency translation	Other changes	Changes in consolidated group	Consolidated net income/loss for the year	31 Dec. 2020
<b>(Corrected) subscribed capital</b>	<b>100.0</b>	-	-	-	-	-	-	-	-	-	-	<b>100.0</b>
<b>Subscribed capital (ordinary shares)</b>	<b>100.0</b>	-	-	-	-	-	-	-	-	-	-	<b>100.0</b>
<b>Treasury shares (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Uncalled unpaid contributions (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Reserves</b>	<b>650.6</b>	-	-	-	-	-	-	-	-	<b>-0.3</b>	-	<b>650.3</b>
<b>Capital reserves</b>	<b>647.9</b>	-	-	-	-	-	-	-	-	-	-	<b>647.9</b>
in accordance with section 272 (2) no. 1 to 3 HGB	7.6	-	-	-	-	-	-	-	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	640.3	-	-	-	-	-	-	-	-	-	-	640.3
<b>Revenue reserves</b>	<b>2.7</b>	-	-	-	-	-	-	-	-	<b>-0.3</b>	-	<b>2.7</b>
Legal reserves	2.4	-	-	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	0.3	-	-	-	-	-	-	-	-	-0.3	-	-
<b>Difference in equity from currency translation</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit carried forward/loss carried forward</b>	<b>40.8</b>	-	-	-	-	-	-	-	-	-	<b>74.7</b>	<b>115.5</b>
<b>Equity of the parent company</b>	<b>791.4</b>	-	-	-	-	-	-	-	-	<b>-0.3</b>	<b>74.7</b>	<b>865.8</b>
<b>Non-controlling interests before currency translation and net profit/loss for the year</b>	<b>-2.5</b>	-	-	-	-	-	-	-	-	-	-	<b>-2.5</b>
<b>Currency translation attributable to non-controlling interests</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net profit/loss for the year attributable to non-controlling interests</b>	-	-	-	-	-	-	-	-	-	-	<b>-1.7</b>	<b>-1.7</b>
<b>Non-controlling interests</b>	<b>-2.5</b>	-	-	-	-	-	-	-	-	-	<b>-1.7</b>	<b>-4.3</b>
<b>Consolidated equity</b>	<b>788.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.3</b>	<b>73.0</b>	<b>861.5</b>

In the previous year, the non-controlling interests primarily related to minority shareholders of the special purpose vehicle HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal.

IKB AG:

in € million	1 Jan. 2021	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Other changes	Net income/loss for the year	31 Dec. 2021
<b>(Corrected) subscribed capital</b>	<b>100.0</b>	-	-	-	-	-	-	-	-	<b>100.0</b>
<b>Subscribed capital (ordinary shares)</b>	<b>100.0</b>	-	-	-	-	-	-	-	-	<b>100.0</b>
<b>Treasury shares (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Uncalled unpaid contributions (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Reserves</b>	<b>650.3</b>	-	-	-	-	<b>38.6</b>	-	-	-	<b>688.9</b>
<b>Capital reserves</b>	<b>647.9</b>	-	-	-	-	-	-	-	-	<b>647.9</b>
in accordance with section 272 (2) no. 1 to 3 HGB	7.6	-	-	-	-	-	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	640.3	-	-	-	-	-	-	-	-	640.3
<b>Revenue reserves</b>	<b>2.4</b>	-	-	-	-	<b>38.6</b>	-	-	-	<b>41.0</b>
Legal reserves	2.4	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	-	-	-	-	-	38.6	-	-	-	38.6
<b>Retained profits/accumulated losses brought forward</b>	<b>164.3</b>	-	-	-	-	<b>-38.6</b>	<b>-12.0</b>	-	<b>77.2</b>	<b>190.9</b>
<b>Own funds</b>	<b>914.6</b>	-	-	-	-	-	<b>-12.0</b>	-	<b>77.2</b>	<b>979.8</b>

IKB AG:

in € million	1 Jan. 2020	Purchase of treasury shares	Capital reduction due to retirement of shares	Retirement of shares	Total	Transfers to/withdrawals from reserves	Distribution	Other changes	Net income/loss for the year	31 Dec. 2020
<b>(Corrected) subscribed capital</b>	<b>100.0</b>	-	-	-	-	-	-	-	-	<b>100.0</b>
<b>Subscribed capital (ordinary shares)</b>	<b>100.0</b>	-	-	-	-	-	-	-	-	<b>100.0</b>
Ordinary shares	100.0	-	-	-	-	-	-	-	-	100.0
Preference shares	-	-	-	-	-	-	-	-	-	-
<b>Treasury shares (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Uncalled unpaid contributions (ordinary shares)</b>	-	-	-	-	-	-	-	-	-	-
<b>Reserves</b>	<b>650.3</b>	-	-	-	-	-	-	-	-	<b>650.3</b>
<b>Capital reserves</b>	<b>647.9</b>	-	-	-	-	-	-	-	-	<b>647.9</b>
in accordance with section 272 (2) no. 1 to 3 HGB	7.6	-	-	-	-	-	-	-	-	7.6
in accordance with section 272 (2) no. 4 HGB	640.3	-	-	-	-	-	-	-	-	640.3
<b>Revenue reserves</b>	<b>2.4</b>	-	-	-	-	-	-	-	-	<b>2.4</b>
Legal reserves	2.4	-	-	-	-	-	-	-	-	2.4
Other revenue reserves	-	-	-	-	-	-	-	-	-	-
<b>Retained profits/accumulated losses brought forward</b>	-	-	-	-	-	-	-	-	<b>164.3</b>	<b>164.3</b>
<b>Own funds</b>	<b>750.3</b>	-	-	-	-	-	-	-	<b>164.3</b>	<b>914.6</b>

## **Notes to the financial statements and the consolidated financial statements**

### **Applied accounting principles**

#### **(1) Preparation of the financial statements and consolidated financial statements**

IKB Deutsche Industriebank AG (IKB AG), Düsseldorf, entered in the commercial register of the Düsseldorf Local Court under HRB 1130, is required to prepare annual financial statements and a management report pursuant to sections 340a and 242 of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with section 264 HGB and to prepare consolidated financial statements and a Group management report pursuant to section 340i (1) HGB in conjunction with section 290ff. HGB.

The General Meeting on 3 September 2020 resolved that IKB AG's financial year would in future begin on 1 January of each year and end on 31 December of the year. Accordingly, the reporting period for these combined annual and consolidated financial statements (1 January until 31 December 2021) differs from the comparison period (1 April until 31 December 2020).

The consolidated financial statements (Group) and the annual financial statements (IKB AG) of IKB Deutsche Industriebank AG for the financial year from 1 January to 31 December 2021 are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with the German Regulation on the Accounting of Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV) and relevant regulations of the German Stock Corporation Act (Aktengesetz – AktG). The consolidated financial statements also take into account the German accounting standards (GAS) adopted by the Accounting Standards Committee of Germany (ASCG) and promulgated by the German Federal Ministry of Justice in accordance with section 342 (2) HGB.

The comparative figures for the previous year were calculated in line with the requirements of German commercial law and stated in accordance with section 298 (1) HGB in conjunction with section 265 (2) HGB; the figures were not restated to show a 12-month reporting period for the prior-year period.

The balance sheet and the income statement are structured in line with the forms for banks pursuant to section 2 RechKredV. The income statement is prepared in account form (RechKredV form 2).

Disclosures that can be provided either in the (consolidated) balance sheet/(consolidated) income statement or the notes to the (consolidated) financial statements have largely been provided in the notes to the (consolidated) financial statements in the order of the items concerned. Amounts are stated in millions of euros. Minor deviations may occur in the totals in the notes due to rounding. Amounts below €50,000 and values of zero are shown as “-” in IKB AG's consolidated financial statements and annual financial statements.

The notes to IKB AG's consolidated financial statements and the notes to IKB AG's financial statements have been combined in accordance with section 298 (2) HGB. Unless stated otherwise, any statements made apply to both the Group and IKB AG. The management report and Group management report have also been combined in accordance with section 315 (5) HGB in conjunction with section 298 (2) HGB.

IKB's financial year begins on 1 January and end on 31 December. The comparative period (short financial year) began on 1 April and ended on 31 December 2020.

## **(2) Changes in presentation and measurement and corrections to financial statements**

As of 30 June 2021, changes in the calculation of the expected and discounted cash flow, among other things, arose in connection with the measurement by an external consulting company of sub-participations in the proceeds from US lawsuits. The remeasurement resulted in a total impairment of €13.6 million of the sub-participation as of 30 June 2021 at the level of IKB AG.

In the case of one foreign-currency transaction, an incorrect currency-translation effect of around €0.2 million per period was identified. The cumulative currency-translation correction was recognised as of 30 September 2021. This resulted in a decline of €1.4 million in the currency-translation adjustment item included in other assets and a corresponding increase in other operating expenses in the reporting period. A correction as of 31 December 2020 would have produced a cumulative currency-translation effect requiring a correction of €1.3 million.

In connection with the restructuring of the pension obligations, two of the previous pension schemes were replaced by a new one. The introduction of various payout options in particular led to the remeasurement as of 30 November 2021 of the pension obligations existing as of 30 September 2021. This resulted in a decline of €8.9 million in the settlement amount. Of this, a sum of €4.2 million was recognised within other operating income, while €4.7 million was deducted from personnel expenses.

As of 31 December 2021, the general value was determined for the first time in accordance with accounting statement IDW RS BFA 7. The adjustment to the calculation method resulted in a decline of €6.8 million in the general valuation allowance to €72.3 million at the level of the Group and of IKB AG as of the reporting date. If the method stipulated by IDW RS BFA 7 had already been applied as of 31 December 2020, the general valuation allowances for receivables from customers, contingent liabilities and commitments including the country general valuation allowances would have equalled €103.4 million at the level of the Group and €103.0 million at the level of IKB AG and would thus have been €0.4 million higher in both cases than under the previous method. As of 31 December 2020, general valuation allowances for securities were valued at €1.4 million at the level of the Group and at €1.2 million at the level of IKB AG but are not included under the new method.

In a decision dated 8 July 2021, the German Federal Constitutional Court ruled that the interest rate of 6% for calculating interest on arrears from 2014 is unconstitutional and should no longer be applied to interest periods from 1 January 2019. An interest rate that is constitutional may be set in corresponding legislation. In a preliminary bill, an interest rate of 1.8% p.a. has been proposed. This interest rate was applied to calculate interest on arrears as of 31 December 2021. The proceeds from the reversal of provisions were recognised in the income statement within other operating income.

## **(3) Consolidated group**

In addition to IKB AG, 12 (31 December 2020: 16) subsidiaries have been fully consolidated in the Group financial statements for the period ended 31 December 2021. 16 (31 December 2020: 13) further subsidiaries were not consolidated pursuant to section 296 (2) and section 311 (2) HGB due to being of only minor importance to the net assets, financial position and results of operations of the Group. Not consolidating these companies does not result in a significantly different view of the economic position of the Group than if they had been consolidated.

HIMERA Grundstücks-Vermietungsgesellschaft mbH, Pullach i. Isartal, was sold by its previous non-Group owners to non-Group third parties in May 2021 under a share purchase and sale agreement. As a result of the sale, the loan agreement with IKB AG was terminated. Accordingly, the majority of the opportunities and risks as defined in section 290 (2) No. 4 HGB no longer accrue to IKB AG. No effect resulted from this deconsolidation.

In June 2021, all forfeited lease receivables and other financial assets held by IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf, were sold. As the corresponding funding amounts and free capital reserve were largely repaid following the sale, the company was deconsolidated due to its minor significance for the net assets, financial position and results of operations of the Group. Deconsolidation resulted in expenses of €1.9 million, which are recognised within other operating expenses.

The two special purpose entities Capital Raising GmbH, Norderfriedrichskoog, and Hybrid Raising GmbH, Norderfriedrichskoog, held shares in IKB Deutsche Industriebank AG as silent partners. Following the discharge of the silent partnerships and the expiry of the guarantees issued, the two entities were deconsolidated in October 2021 in view of their minor significance for the net assets, financial position and results of operations of the Group in accordance with section 296 (2) HGB. No effect resulted from these deconsolidations.

After the completion of the external tax audit and, resulting from this, the elimination of the tax risk, Aleanta GmbH, Düsseldorf, was deconsolidated in December 2021 in view of its minor significance for the net assets, financial position and results of operations of the Group in accordance with section 296 (2) HGB. Deconsolidation resulted in expenses of €0.4 million.

IKB Lux Investment S.à r.l., Munsbach, Luxembourg, was incorporated and consolidated for the first time in December. The purpose of this entity is to hold investments and to acquire securities.

For further information, please see note (51).

#### **(4) Consolidation principles**

The consolidated financial statements were prepared in accordance with the uniform accounting policies applicable to IKB AG. The annual financial statements of the subsidiaries included that are neither banks nor financial services institutions have been reconciled to the structure of the RechKredV forms. There are no Group companies with reporting dates that differ from the Group reporting date.

Since the German Act to Modernise Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG) entered into force, capital consolidation for companies consolidated for the first time has been carried out in accordance with the revaluation method pursuant to section 301 HGB. Prior to this Act taking effect, companies were initially consolidated using the book value method.

Increases in the shares in subsidiaries are classified as a capital transaction within the meaning of GAS 23 – Accounting for Subsidiaries in Consolidated Financial Statements, and thus the assets and liabilities are not remeasured. Instead, the cost of the additional shares is offset against the non-controlling interests in equity attributable to these shares at the date on which these shares are acquired. Any difference remaining after this offsetting is offset directly against group equity.

Assets, liabilities, prepaid expenses, deferred income, expenses and income between the Group companies included are consolidated unless industry-specific accounting regulations prevent this. Intercompany profits or losses from internal transactions are eliminated unless immaterial.

## **Accounting policies**

### **(5) Receivables**

Receivables from customers and banks are recognised at nominal value less specific and general valuation allowances. Differences between the nominal value and the payment amount (premiums/discounts) are recognised in deferred income and prepaid expenses and allocated on a systematic basis, if the difference is equivalent to interest. Purchased receivables with a purchase price discount due to the credit rating are recognised at acquisition cost less specific and general valuation allowances.

Lease receivables were acquired in the context of true forfeiting in connection with the sale of the IKB Leasing Group in the 2017/18 financial year. Payment claims under leases were transferred to an IKB subsidiary and sold to a non-Group third party in June 2021. Pending this sale, the forfeited lease receivables were recognised in the consolidated financial statements as receivables from customers in an amount equalling the purchase price less a possible loan loss allowance. The payments received on the forfeited receivables were divided into payments of principal and interest with a constant effective interest rate. The payments received were not divided into payments of principal and interest if the forfeited receivable were already impaired when purchased. The payments received were initially treated as payments of principal. Excess incoming payments were only recognised in the income statement after the principal has been repaid in full.

### **(6) Provisions for possible loan losses**

Risk provisions for possible loan losses comprise valuation allowances and provisions for all identifiable credit and sovereign risks and for latent default risks.

If the criteria for the recognition of a loan losses allowance or provision are met in the context of the specific valuation allowance process, their amount is calculated from the difference between the current book value and the present value of the expected cash flows. The discount factor is based on the original effective interest rate of the receivable.

In order to estimate current latent counterparty risks, general loan losses allowances and general provisions for receivables from customers and contingent liabilities under guarantees are calculated using a simplified method in accordance with the IDW accounting statement: risk provisions for foreseeable but not yet specific counterparty risks in bank lending business ("general loan losses allowances") (IDW RS BFA7).

For credit exposures in which the expected loss and the corresponding credit risk premium can be assumed to be balanced at the time the loan is granted, a general loan losses allowance is recognised in the amount of the expected loss over an observation period of twelve months without taking credit quality premiums into account (1-year expected loss).

In the case of exposures for which such a balance can no longer be assumed, the expected loss is estimated using a premium rate of 75% on the 1-year expected loss. To determine this calculated markup, historical loss time series were utilised, taking into account credit risk premiums collected and individual exposure categories (normal servicing with a deterioration of more than one notch in the credit rating, intensive, restructuring and workout servicing) over a long-term period (starting from March 2011).

To reflect latent risks of counterparty default on receivables from banks, irrevocable loan commitments and contingent liabilities under protection seller credit default swaps, the Bank also applies the method described above by analogy and has likewise calculated general loan losses allowances and general loan loss provisions for lending business.



In accordance with the guidance provided by IDW RS BFA 7, no general loan losses allowances are calculated for securities held as fixed assets.

There are no longer any assets bought by companies of the IKB Leasing Group or non-recourse finance for leased assets. Accordingly, it was no longer necessary to calculate any general valuation allowances as of 30 June 2021.

On the other hand, the additional general loan losses allowances recognised for latent counterparty risks for above-average risk of loss in acquisition financing and above-average risk of loss in corporate finance business in connection with the coronavirus crisis were reversed as the latent risks are appropriately covered under the revised methodology.

To cover country risks, a general valuation allowance was recognised for the credit volume in high-risk countries outside the European Union with internal ratings from class 8 for which the risk has not been placed with third parties. The general loan losses allowance for country risks is recognised in the amount of at least the one-year expected loss. The Bank considers whether additional country-risk provisioning appears necessary on a case-by-case basis. Therefore, as in the previous year, country-risk provisions based on tax ranges were recognised for rating classes 13-15, taking account of risk-mitigating factors for individual exposures.

Uncollectible receivables are written off directly. Recoveries on loans previously written off are recognised under "Risk provisions in the lending business" in the income statement.

### **(7) Securities**

Purchased securities are carried at cost in accordance with section 253 (1) sentence 1 HGB. The differences between cost and the redemption amount (premiums/discounts) are recognised as an adjustment in net interest income pro rata temporis over the remaining term.

Securities classified as fixed assets are subsequently measured in accordance with the less strict lower-of-cost-or-market principle under section 340e (1) sentence 1 HGB in conjunction with section 253 (3) sentence 3 HGB. If impairment is expected to be permanent, assets are written down to the lower fair value as of the reporting date.

Securities held as current assets are measured at the lower of the stock-exchange or market price in line with the strict lower-of-cost-or-market principle in accordance with section 340e (1) sentence 2 HGB in conjunction with section 253 (4) HGB. If no prices are available at the reporting date, the fair value is calculated on the basis of price information from market data providers and tested for plausibility using suitable methods. If no stock-exchange prices or price information from contractual providers are available for securities, the value is calculated on the basis of the Bank's own measurement models by discounting expected cash flows. The discount rate is calculated using the risk profile of similar securities. Parameters not exclusively observable on the market are also used for this.

Write-downs are reversed in accordance with section 253 (5) sentence 1 HGB if the reasons for the lower book value no longer apply.

Structured financial instruments are recognised in accordance with the principles of IDW AcP HFA 22. The principle of uniform accounting is only deviated from if the structured financial instrument has significantly elevated or additional risks or opportunities compared to the underlying on account of embedded derivatives.

### **(8) Securities repurchase and lending transactions**

In securities repurchase (repo) transactions, the Bank sell securities – as a repo seller – and at the same time agrees a contingent (non-genuine) or non-contingent (genuine) repurchase agreement for the securities with the repo buyer.

Repo transactions are recognised in line with the rules of section 340b HGB. Thus, in genuine repo transactions, IKB – as the repo seller – continues to report the assets sold on its balance sheet and at the same time recognises a corresponding liability to the repo buyer. If IKB is the repo buyer, a receivable from the repo seller is recognised.

In securities lending transactions, the lender lends securities from its portfolio to the borrower for a set period. The borrower is required to return securities of the same type, amount and quality at the end of the lending period. The lender of the securities remains the beneficial owner of the securities it lends. Accordingly, the securities lent are not reported in the balance sheet of the borrower, rather they continue to be recognised by the lender on account of its beneficial ownership.

#### **(9) Equity investments and investments in affiliated companies/tangible assets/intangible assets/other assets**

Shares in affiliated companies and other investees and investors are recognised at the lower of cost or fair value. They are measured in line with the less strict lower-of-cost-or-market principle under section 340e (1) sentence 1 HGB in conjunction with section 253 (3) sentence 5 HGB.

Finite-lived tangible assets and intangible assets are measured at cost less depreciation or amortisation and impairment. Tangible assets are depreciated on a straight-line basis over their ordinary useful life. If the market values of individual fixed assets fall below their book value, they are written down to market value if the impairment is expected to be permanent.

The option to capitalise internally generated intangible fixed assets in accordance with section 248 (2) sentence 1 HGB is not exercised. Intangible fixed assets purchased from third parties are capitalised at acquisition cost and amortised pro rata temporis on a straight line basis over their standard useful life.

Other assets are carried at cost less any write-downs.

#### **(10) Deferred taxes**

If there are differences between the book values of assets, liabilities, prepaid expenses and deferred income in the financial statements and their tax bases that will reverse in subsequent financial years (temporary differences), any net tax expense resulting from this is recognised as a deferred tax liability. Any net relief resulting from this can be recognised as a deferred tax asset. In calculating deferred tax assets, temporary differences or tax loss carry forwards that are expected to be available for offsetting in the next five years are taken into account in loss offsetting. The option to report deferred tax assets in line with section 274 (1) sentence 2 HGB is exercised. However, the option to report deferred tax assets and liabilities without netting in line with 274 (1) sentence 3 HGB (gross presentation) is not exercised.

The deferred taxes are measured using individual tax rates for each taxable entity that were in effect on the balance sheet date or that have already been approved by the legislator and are expected to apply at the time the deferred tax assets and liabilities are realised. In calculating German deferred taxes, a corporation tax rate of 15%, a solidarity surcharge of 5.5% on corporation tax and a trade tax rate derived using the applicable trade tax multipliers are assumed. Deferred taxes for foreign operations and subsidiaries are measured using the tax rates that apply there.

Owing to tax groups for corporate income tax purposes, the deferred tax assets and liabilities resulting from temporary differences at tax group subsidiaries are taken into account in the calculation of the deferred taxes of the tax group parent. For tax group parents that are also tax group subsidiaries, temporary differences are taken into account at the level of the ultimate tax group parent.

If consolidation adjustments result in temporary differences in the consolidated financial statements, additional deferred tax assets and liabilities are reported for the future tax income or expenses resulting from these differences. The deferred taxes resulting from consolidation adjustments in accordance with section 306 HGB are offset against the deferred taxes in accordance with section 274 HGB.

**(11) Excess of plan assets over post-employment benefit liability**

In accordance with section 246 (2) sentence 2 HGB, assets that are inaccessible to all other creditors and that are solely used to satisfy pension or similar long-term liabilities are offset against these liabilities. The procedure is the same for the associated expenses and income from discounting obligations and from the assets to be offset. The net amount is reported under other operating income or other operating expenses, depending on whether it is positive or negative.

Assets transferred in contractual trust arrangements (CTAs) are measured at fair value. If the fair value of the assets exceeds the amount of the liabilities, the amount is reported under “Excess of plan assets over post-employment benefit liability”.

The accounting of pension liabilities is shown in the accounting policies for provisions (note (13)).

**(12) Liabilities**

Liabilities are reported at their settlement amount. Any negative difference between this and the amount paid is recognised under deferred items and charged to profit or loss on a systematic basis.

**(13) Provisions**

***Provisions for pensions and similar obligations***

Pension liabilities are carried at the settlement amount required according to prudent business judgement. The 2018 G Heubeck mortality tables are used to calculate the settlement amount required. The calculation is performed using the projected unit credit method with the following measurement assumptions:

<b>Measurement factor</b>	<b>31 Dec. 2021 Assumption</b>	<b>31 Dec. 2020 Assumption</b>
Interest rate (7-year/10-year average)	1.35% / 1.87%	1.60% / 2.30%
Salary increases (Board of Managing Directors/non-pay-scale employees/pay-scale employees)	0.0% / 1.0% / 1.5%	0.0% / 1.0% / 1.5%
Pension trend	1.60%	1.50%
<b>Staff turnover rate broken down by age and gender</b>		
Age up to 35 m/f	6.0% / 6.0%	6.0% / 6.0%
Age from 36 to 45 m/f	4.0% / 4.0%	4.0% / 4.0%
Age over 45 m/f	1.5% / 1.5%	1.5% / 1.5%

In accordance with section 253 HGB, pension provisions are discounted using the average market interest rate for the past ten years for a general remaining term of 15 years (see note (34)). The average market interest rate for the past seven years is used for discounting similar obligations. The interest rate is announced by the Bundesbank in line with the German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung – RückAbzinsV). For securities-linked commitments, provisions are carried in the amount of the fair value of the plan assets if a guaranteed minimum amount is exceeded.

To hedge the obligations from pension fund plans and similar arrangements, the assets necessary to meet pension claims were separated from other company assets and transferred to a trustee. If the fair value of the assets transferred is lower than the associated obligations, a provision for pensions and similar obligations is reported in the corresponding amount.

Please see note (11) for information on the offsetting requirement regarding offsetting transferred assets against pension obligations and the recognition of assets.

The Bank exercises the option not to recognise indirect pension obligations (2015 pension plan) in its balance sheet. Similarly, the pension obligations transferred to an external pension fund as of 30 November 2021 due to a change in the pension scheme are no longer recognised in the balance sheet as they entail indirect obligations (see Note (35)).

#### ***Tax and other provisions***

Provisions for taxes and other provisions are recognised in the settlement amount required according to prudent business judgment. The settlement amount required includes future increases in prices and costs. Provisions for expected losses from executory contracts are recognised in the amount of the obligation surplus. Provisions with a remaining term of more than twelve months are discounted in line with section 253 (2) HGB using the matched term interest rates of the German Regulation on the Discounting of Provisions. The effect of interest on non-banking items in subsequent periods is reported under other operating expenses. The interest effect on provisions in connection with banking items is reported in interest expenses.

Restructuring provisions are also reported under other provisions. These must be recognised when the management plans and controls a programme with the aim of significantly changing either the business area covered by the Group or the way it performs this business, thereby leading to an external obligation or expected losses from executory contracts.

#### **(14) Contingent liabilities and other obligations**

Contingent liabilities and other obligations are shown below the balance sheet at nominal amounts less any provisions recognised.

#### **(15) Extraordinary result**

In accordance with section 340a (2) HGB, banks must report the expenses they incur and the income they generate outside ordinary business activities under “Extraordinary expenses” and “Extraordinary income”. This item therefore includes expenses and income in connection with extraordinary measures, such as transformation and merger processes or restructuring measures (see note (44)).

#### **(16) Derivatives**

Derivative financial instruments are accounted for in line with the principles applicable to executory contracts. Premium payments made and received from contingent forwards are reported in other assets and other liabilities, respectively. For non-contingent forwards, upfront fees paid or received are reported in prepaid expenses and deferred income, respectively, and are amortised on a straight line basis over the remaining term in net interest income. On the balance sheet date, a check is made of whether a provision for expected losses from executory contracts needs to be recognised.

For futures positions that are not subject to integration treatment, provisions for expected losses from executory contracts are recognised if the fair value is negative.

Interest derivatives are measured at the lower of cost and market value together with all other interest-bearing financial instruments in accordance with the principles of IDW AcP BFA 3. The present value of the interest-bearing transaction is compared with the corresponding book values, taking into account administrative and risk costs and anticipated refinancing costs. Future cash flows are discounted for the purposes of measurement of the banking book at the lower of cost and market value using a uniform yield curve per currency. Measurement at the lower of cost and market value in accordance with IDW AcP BFA 3 did not result in any requirement to recognise provisions.

Credit derivatives are accounted for in accordance with IDW AcP BFA 1. Accordingly, credit derivatives for which IKB is the protection buyer are treated as loan collateral if the credit derivative hedges default risk, IKB intends to hold the derivative to maturity and the derivative is objectively suitable as a hedging instrument. These credit derivatives are taken into account in the valuation of the hedged transactions. All other credit derivatives for which IKB is the collateral holder are recognised as executory contracts. Provisions for expected losses are recognised in the amount of the negative fair values.

Credit derivatives for which IKB is the collateral provider are treated as guarantees if the derivative only hedges default risk and the intention is to hold the derivative until maturity or the occurrence of the credit event. Provisions are recognised in the amount of the expected utilisation for credit derivatives accounted for as guarantees. If the intention to hold these to maturity is abandoned over time, the close-out effect is reported in net other operating income. All other credit derivatives for which IKB is the collateral provider are recognised as executory contracts. Provisions for expected losses are recognised in the amount of the negative fair values.

### **(17) Currency translation**

The modified closing rate method in accordance with section 308a HGB/GAS 25 – Foreign Currency Translation in Consolidated Financial Statements is used to translate foreign-currency financial statements in the Group. The asset and liability items but not the equity on a balance sheet in a foreign currency are translated to euros at the mean spot rate on the balance sheet date. Equity is translated into euros at the historic rate. Income statement items are translated into euros at the average exchange rate. Any translation difference is reported in consolidated equity as the “Difference in equity from currency translation”. No foreign-currency financial statements were included in the Group as of 31 December 2021.

In IKB AG’s the single-entity financial statements and in the other institutions in the Group, foreign-currency assets and liabilities are translated in line with the principles of section 340h HGB in conjunction with section 256a HGB if there is special cover. Thus, foreign-currency assets and liabilities are translated at the mean spot rate as of the balance sheet date. If the requirements of special cover are not satisfied, currency translation is performed in line with the requirements that apply to all merchants (section 256a HGB). For a remaining term of one year or less, the unrealised gains on currency translation are recognised in income. If the remaining term exceeds one year, the general measurement rules apply.

This special cover within the meaning of section 340h HGB can be deemed provided in accordance with IDW AcP BFA 4 if the currency risk is managed via a currency position and the individual items are aggregated in a currency position. IKB AG allocates foreign-currency transactions to the currency position of the respective currency and manages them using approved limits.

In the income statement, income and expenses from currency translation (translation differences) are reported under “Other operating income” and “Other operating expenses”.

If IKB AG uses currency forwards to hedge interest-bearing assets and liabilities, the forward rate is divided and its two elements (spot rate and swap rate) are taken into account separately in the calculation of gains or losses. The mark-ups and mark-downs on the spot rate are offset pro rata temporis in net interest income. For the above transactions, a check is made of whether closing the positions with matched terms would result in losses and whether provisions should be recognised for these (measurement of remaining items).

## Notes to the balance sheet

### (18) Cash reserve

The cash reserve deposited with the ECB fell to €228.0 million (previous year: €2,312.7 million) in the Group and €228.0 million (previous year: €2,312.7 million) at the level of IKB AG. The decline is primarily due to the fact that surplus liquidity was invested in the short term in the deposit facility as of the reporting date and is therefore included in receivables from banks.

### (19) Maturity structure of selected balance sheet items by remaining term

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
<b>Receivables from banks<sup>1)</sup></b>	<b>782.6</b>	<b>977.3</b>	<b>782.6</b>	<b>977.3</b>
remaining term				
up to 3 months	21.2	678.3	21.2	678.3
more than 3 months up to 1 year	761.4	272.3	761.4	272.3
more than 1 year up to 5 years	-	26.8	-	26.7
more than 5 years	-	-	-	-
<b>Receivables from customers</b>	<b>8,847.2</b>	<b>8,773.7</b>	<b>9,132.0</b>	<b>9,163.4</b>
remaining term				
up to 3 months	726.2	463.9	726.2	465.4
more than 3 months up to 1 year	1,483.5	1,379.4	1,768.3	1,684.4
more than 1 year up to 5 years	5,781.3	5,652.8	5,781.3	5,656.0
more than 5 years	856.1	1,277.6	856.1	1,357.6
<b>Liabilities to banks<sup>1)</sup></b>	<b>8,610.3</b>	<b>8,511.2</b>	<b>8,610.3</b>	<b>8,509.0</b>
remaining term				
up to 3 months	202.0	328.1	202.0	328.1
more than 3 months up to 1 year	782.2	722.7	782.2	720.5
more than 1 year up to 5 years	6,780.6	6,292.7	6,780.6	6,292.7
more than 5 years	845.5	1,167.8	845.5	1,167.8
<b>Liabilities to customers<sup>1)</sup></b>	<b>3,495.7</b>	<b>4,612.2</b>	<b>3,612.8</b>	<b>4,756.2</b>
remaining term				
up to 3 months	593.8	1,112.4	597.0	1,112.4
more than 3 months up to 1 year	1,313.6	1,489.5	1,427.5	1,633.5
more than 1 year up to 5 years	1,419.6	1,732.7	1,419.6	1,732.7
more than 5 years	168.7	277.6	168.7	277.6

1) not including receivables or liabilities repayable on demand

Of the bonds and other fixed-income securities, €24.6 million (previous year: €47.6 million) in the Group and €24.6 million (previous year: €47.6 million) in IKB AG have a remaining term of up to one year. Of the bonds issued that are reported as securitised liabilities, €41.4 million (previous year: €83.0 million) in the Group and €41.4 million (previous year: €83.0 million) in IKB AG have a remaining term of up to one year.

In August 2021, IKB AG acquired a portfolio of 25 non-performing loans from LSF6 Rio (Ireland) DAC. These exposures are reported within receivables from customers in the maturity band of 3 months or less.

## **(20) Foreign-currency assets**

The currency volumes translated into euros are shown in the table below:

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Assets <sup>1)</sup>	322.2	285.1	352.7	330.1

1) The previous year's figure for IKB AG was adjusted in view of a USD-denominated intra-Group sub-participation in expected settlement payments from pending lawsuits valued at the equivalent of €45.0 million.

The differences between the assets and liabilities are largely hedged by currency hedges.

## **(21) Repurchase agreements**

As of the reporting date, none of the assets recognised in the balance sheet at the level of the Group or at the level of IKB AG had been pledged under genuine repurchase agreements (previous year: Group and IKB AG €10.9 million) as collateralised funding via Eurex was reduced in favour of other forms of funding.

## **(22) Receivables from affiliated companies and other investees and investors**

in € million	Group			
	31 Dec. 2021		31 Dec. 2020	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	-	-	-	-
Other assets	1.9	-	-	-

  

in € million	IKB AG			
	31 Dec. 2021		31 Dec. 2020	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Receivables from customers	284.8	-	437.7	-
Other assets	71.5	-	147.1	-

The decrease in receivables from customers in IKB AG is due to the further reduction of internal refinancing as part of the reduction of the investment portfolio's complexity. The decline in other assets at the level of IKB AG is due to the fact that profit transfer receivables dropped to €40.0 million (previous year: €101.8 million) together with an impairment recognised through profit and loss of an intra-Group sub-participation in expected settlement payments from pending lawsuits of €13.6 million.

(23) Fixed assets

Group:

in € million	Intangible as-sets	Tangible assets	Equity invest-ments	Shares in affiliated companies	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
<b>Cost as of 31 Dec. 2020</b>	<b>26.0</b>	<b>7.6</b>	<b>0.3</b>	<b>1.0</b>	<b>3,187.8</b>	<b>305.6</b>	<b>3,528.3</b>
Additions to the consolidated group	-	-	-	-	-	-	-
Additions	0.8	0.2	0.3	-	912.7	329.4	1,243.4
Reclassifications	-	-	-	1.7	-	-	1.7
Effects of currency translation	-	-	-	-	-0.1	-	-0.1
Disposals	-0.1	0.0	0.0	-0.8	-1,061.4	-3.7	-1,066.0
<b>Cost as of 31 Dec. 2021</b>	<b>26.8</b>	<b>7.8</b>	<b>0.6</b>	<b>1.9</b>	<b>3,039.0</b>	<b>631.3</b>	<b>3,707.4</b>
<b>Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Dec. 2020</b>	<b>-25.3</b>	<b>-3.7</b>	<b>-</b>	<b>0.0</b>	<b>-1.2</b>	<b>-1.6</b>	<b>-31.8</b>
Reversal of write-downs	-	-	-	-	1.6	0.3	1.9
Depreciation/amortisation and write-downs	-0.5	-1.3	-	0.0	-0.4	-	-2.2
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-
Disposals from the consolidated group	-	-	-	0.0	-	-	0.0
Disposals	0.1	0.0	-	0.0	-	-	0.1
<b>Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Dec. 2021</b>	<b>-25.8</b>	<b>-4.9</b>	<b>-</b>	<b>0.0</b>	<b>-</b>	<b>-1.3</b>	<b>-32.0</b>
<b>Residual book value as of 31 Dec. 2021</b>	<b>1.0</b>	<b>2.8</b>	<b>0.6</b>	<b>1.9</b>	<b>3,039.0</b>	<b>630.0</b>	<b>3,675.3</b>
<b>Residual book value as of 31 Dec. 2020</b>	<b>0.6</b>	<b>3.9</b>	<b>0.3</b>	<b>1.0</b>	<b>3,186.6</b>	<b>304.0</b>	<b>3,496.4</b>

Deferred interest for the financial year and the previous year is included in additions and disposals.

IKB AG:

in € million	Intangible as-sets	Tangible assets	Equity invest-ments	Shares in affiliated companies <sup>1)</sup>	Bonds and other fixed-income securities	Equities and other non-fixed-income securities	Total
<b>Cost as of 31 Dec. 2020</b>	<b>25.9</b>	<b>7.6</b>	<b>0.2</b>	<b>690.4</b>	<b>3,196.4</b>	<b>0.0</b>	<b>3,920.5</b>
Additions	0.9	0.2	-	0.1	912.6	329.4	1,243.2
Reclassifications	-	-	-	0.0	-	-	0.0
Effects of currency translation	-	-	-	-	-0.1	-	-0.1
Disposals	-0.1	0.0	0.0	-9.5	-1,063.0	-3.6	-1,076.2
<b>Cost as of 31 Dec. 2021</b>	<b>26.7</b>	<b>7.7</b>	<b>0.2</b>	<b>681.0</b>	<b>3,045.9</b>	<b>325.8</b>	<b>4,087.3</b>
<b>Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Dec. 2020</b>	<b>-25.3</b>	<b>-3.7</b>	<b>-</b>	<b>-562.8</b>	<b>-1.2</b>	<b>-</b>	<b>-593.0</b>
Reversal of write-downs	-	-	-	-	1.6	-	1.6
Depreciation/amortisation and write-downs	-0.5	-1.3	-	-0.3	-0.4	-	-2.5
Reclassifications	-	-	-	-	-	-	-
Effects of currency translation	-	-	-	-	-	-	-
Disposals	0.1	0.0	-	-	-	-	0.1
<b>Cumulative depreciation/amortisation and write-downs and reversals thereof by 31 Dec. 2021</b>	<b>-25.7</b>	<b>-4.9</b>	<b>-</b>	<b>-563.1</b>	<b>-</b>	<b>-</b>	<b>-593.7</b>
<b>Residual book value as of 31 Dec. 2021</b>	<b>1.0</b>	<b>2.8</b>	<b>0.2</b>	<b>117.9</b>	<b>3,045.9</b>	<b>325.8</b>	<b>3,493.6</b>
<b>Residual book value as of 31 Dec. 2020</b>	<b>0.6</b>	<b>3.9</b>	<b>0.2</b>	<b>127.6</b>	<b>3,195.2</b>	<b>0.0</b>	<b>3,327.5</b>

Deferred interest for the financial year and the previous year is included in additions and disposals.

- 1) In the case of the shares in affiliated companies, historical cost and accumulated impairment losses and reversals of impairment losses were corrected by €0.1 million over the previous year's reporting date.



Tangible assets exclusively comprise operating and office equipment of €2.8 million (previous year: €3.9 million) in the Group and €2.8 million (previous year: €3.9 million) in IKB AG.

The additions to the Group holdings comprise investments in FUNDINGPORT GmbH, Hamburg, which are held by IKB Beteiligungsgesellschaft 3 mbH.

The reclassifications of shares in affiliated companies at the level of the Group relate to the deconsolidation of IKB Beteiligungsgesellschaft 5 mbH and Aleanta GmbH.

The disposals of shares in affiliated companies at the level of IKB AG particularly relate to repayment of a material part of the capital reserve (€9.5 million) of IKB Beteiligungsgesellschaft 5 mbH.

The “Bonds and other fixed income securities” item largely comprises European government bonds and bank bonds.

The line item “Equities and other non-fixed-income securities” comprises primarily (at the level of the Group) or solely (at the level of IKB AG) shares in special funds allocated to fixed assets (see Note (26)) for more details).

All in all, unrealised losses from securities held as fixed assets total €128.3 million (previous year: €1.4 million) at the level of the Group on the basis of carrying amounts of €1,900.8 million (previous year: €122.5 million) and fair values of €1,772.5 million (previous year: €121.1 million). At the level of IKB AG, unrealised losses from securities held as fixed assets total €128.3 million (previous year: €1.4 million) on the basis of carrying amounts of €1,900.8 million (previous year: €122.5 million) and fair values of €1,772.5 million (previous year: €121.1 million). No write-downs were recognised for these impairments in the Group or in IKB AG because they are not expected to be permanent within the meaning of section 253 (3) HGB. All unrealised gains and losses on securities held as fixed assets are presented in note (59).

In the current financial year, write-downs of fixed assets for impairments that are expected to be permanent were recognised in the amount of €0.0 million (previous year: €0.0 million) in the Group and €0.3 million (previous year: €0.0 million) in IKB AG.

The amounts stated do not include deferred interest.

#### **(24) Subordinated assets**

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Receivables from customers	21.5	37.3	21.5	37.3
<b>Total</b>	<b>21.5</b>	<b>37.3</b>	<b>21.5</b>	<b>37.3</b>

The decline in subordinated assets is attributable to scheduled and unscheduled repayments of receivables from customers.

#### **(25) Tradeable securities**

The tradeable securities included in the following balance sheet items break down as follows in terms of stock exchange listing:

31 Dec. 2021 in € million	Group			IKB AG		
	Total negotiable	Listed	Not listed	Total negotiable	Listed	Not listed
Bonds and other fixed-income securities	3,048.8	2,966.7	82.1	3,055.7	2,973.6	82.1
Equities and other non-fixed-income securities	630.0	-	630.0	325.8	-	325.8
Equity investments	-	-	-	-	-	-

31 Dec. 2020 in € million	Group			IKB AG		
	Total negotiable	Listed	Not listed	Total negotiable	Listed	Not listed
Bonds and other fixed-income securities	3,202.2	3,153.2	49.0	3,210.8	3,161.8	49.0
Equities and other non-fixed-income securities	304.0	-	304.0	0.0	-	0.0
Equity investments	0.0	-	0.0	0.0	-	0.0

The item “Bonds and other fixed-income securities” includes tradeable securities held as fixed assets of €3,039.0 million (previous year: €3,186.6 million) in the Group and €3,045.9 million (previous year: €3,195.1 million) in IKB AG. The item “Equities and other non-fixed-income securities” includes tradeable securities held as fixed assets of €630.0 million (previous year: €304.0 million) in the Group and €325.8 million (previous year: none) in IKB AG. The increase in the line item “Equities and other non-fixed-income securities” is due to the non-cash contribution by IKB AG of bonds at their carrying amount in return for investment fund units.

## (26) Disclosures on investment funds

Investment funds in which consolidated Group companies or IKB AG hold a share of more than 10% break down by form of investment as follows:

in € million	Group				IKB AG			
	Book value	Difference		Distribution	Book value	Difference		Distribution
		Fair value	to book value			Fair value	to book value	
	31 Dec. 2021	31 Dec. 2021	31 Dec. 2021	2021	31 Dec. 2021	31 Dec. 2021	31 Dec. 2021	2021
Mixed funds	198.4	198.4	-	-	198.4	198.4	-	-
Other special funds	630.0	657.7	27.7	46.5	325.8	344.5	18.7	5.3
<b>Total</b>	<b>828.4</b>	<b>856.1</b>	<b>27.7</b>	<b>46.5</b>	<b>524.2</b>	<b>542.9</b>	<b>18.7</b>	<b>5.3</b>

in € million	Group				IKB AG			
	Book value	Fair value	Difference to book value	Distribution	Book value	Fair value	Difference to book value	Distribution
	2020	2020	2020	2020	2020	2020	2020	2020
Mixed funds	252.5	252.5	-	2.6	252.5	252.5	-	2.6
Other special funds	304.0	375.3	71.3	49.0	-	-	-	-
<b>Total</b>	<b>556.5</b>	<b>627.8</b>	<b>71.3</b>	<b>51.6</b>	<b>252.5</b>	<b>252.5</b>	<b>-</b>	<b>2.6</b>

Mixed funds comprise investments of the CTA assets in a domestic special-purpose fund. If the offsetting of CTA assets against pension obligations (for each pension plan) results in an excess of CTA assets, this is reported under “Excess of plan assets over post-employment benefit liability”. If the offsetting results in an excess pension obligation, this is recognised as a pension provision. Due to the planned reorientation of the investment policy for the CTA assets, the fund is primarily composed of money-market funds, bank balances and, to a lesser extent, investments in closed-end real estate funds as of the reporting date after previously investing in fixed-income securities for the most part.

In connection with the transfer of pension obligations to an external pension fund, an amount of €33 million was withdrawn from the mixed funds through the redemption of the fund units and transferred to the external pension fund (see also Note (13)).

Other special funds at the level of the Group include units in foreign special funds that particularly invest in European and North American fixed-income securities. Distributions from investment funds are recognised in the income statement in the “Equities and other non-fixed-income securities” item.

The increase in other special funds is particularly due to the non-cash contribution by IKB AG of fixed-income securities in return for fund units.

All fund units can be redeemed on any trading day. The management company can suspend the redemption of units if there are extraordinary circumstances that make it appear necessary to do so, taking account of the interests of the investors. The management companies have not exercised this right to date.

## (27) Other assets

The “Other assets” item includes the following:

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Foreign currency adjustment asset	6.9	9.6	6.9	9.6
Receivables from tax authorities	20.3	20.0	20.2	19.9
Deferrals for derivatives	18.7	19.0	18.7	19.0
Assets held for sale	-	19.0	-	-
Trade receivables	2.7	3.0	2.7	2.8
Receivables from affiliated companies	1.9	0.0	71.5	147.1
Miscellaneous assets	9.9	11.6	9.6	11.5
<b>Total</b>	<b>60.5</b>	<b>82.1</b>	<b>129.6</b>	<b>209.9</b>

The foreign currency adjustment asset includes translation differences on currency derivatives in the non-trading book that are included in the special cover in accordance with section 340h HGB.

The assets held for sale at the level of the Group as of 31 December 2020 include an externally used building for sale which was derecognised in the reporting year following the deconsolidation of the special-purpose entity holding it. The decline in receivables from affiliated companies at the level of IKB AG is due to lower profit transfer receivables as well as the recognition through profit and loss of the impairment of the intra-Group sub-participation in expected settlement payments under pending lawsuits.

#### (28) Prepaid expenses

Prepaid expenses primarily comprise discounts on liabilities recognised at their nominal value totalling €0.6 million (previous year: €0.8 million) in the Group and €0.6 million (previous year: €0.8 million) in IKB AG and prepaid expenses for the derivatives business and for credit default swaps accounted for as guarantees totalling €32.6 million (previous year: €49.4 million) in the Group and €32.6 million (previous year: €49.4 million) at the level of IKB AG. In addition, prepaid expenses were recognised for invoices paid in advance in the amount of €11.8 million (previous year: €13.5 million) in the Group and €11.3 million (previous year: €12.6 million) at the level of IKB AG.

#### (29) Deferred tax assets

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Excess deferred tax assets	129.0	136.0	129.0	137.0

Loss carryforwards:

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Reported corporation tax loss carryforwards	-	5.6	-	-
Reported trade tax loss carryforwards	-	5.6	-	-

The book value of deferred tax assets is essentially based on the differences between the financial accounts and the tax accounts that will reverse in subsequent years. In particular, the book value relates to investment funds of the domestic tax group and the difference between pension provisions recognised in the financial accounts and the tax accounts. Local tax rates were used as a basis in each case. The resulting tax expenses and income have been reported net. In the reporting year, the excess deferred tax assets reported in the balance sheet were additionally reduced by €8.0 million due to an impairment as a result of a reduction in expected future Group earnings and in net earnings for the year at the level of the Group as well as at the level of IKB AG.

The corporate and trade tax losses recognised at the level of the Group in the previous year had been attributable to a special-purpose entity that was deconsolidated in the reporting year. As a result, the excess deferred tax assets increased by €1.0 million at the level of the Group.

**(30) Excess of plan assets over post-employment benefit liability**

<b>31 Dec. 2021</b>		
<b>in € million</b>	<b>Group</b>	<b>IKB AG</b>
<b>Offset assets</b>		
Acquisition cost	247.9	247.9
Fair value	255.3	255.3
<b>Offset liabilities</b>		
Settlement amount	-341.7	-341.7
<b>Excess of plan assets over post-employment benefit liability</b>	<b>6.8</b>	<b>6.8</b>
<b>Expenses and income offset in the reporting year</b>		
<b>Expenses and income from pension obligations</b>		
Expenses for pension obligations	-29.7	-29.7
<b>Expenses and income from plan assets</b>		
Income from plan assets	5.4	5.4
Expenses from plan assets	-5.1	-5.1
<b>Net income/expense</b>	<b>-29.4</b>	<b>-29.4</b>
<hr/>		
<b>31 Dec. 2020</b>		
<b>in € million</b>	<b>Group</b>	<b>IKB AG</b>
<b>Offset assets</b>		
Acquisition cost	308.8	308.8
Fair value	315.9	315.9
<b>Offset liabilities</b>		
Settlement amount	-391.9	-391.9
<b>Excess of plan assets over post-employment benefit liability</b>	<b>4.5</b>	<b>4.5</b>
<b>Expenses and income offset in the reporting year</b>		
<b>Expenses and income from pension obligations</b>		
Expenses for pension obligations	-22.5	-22.5
<b>Expenses and income from plan assets</b>		
Income from plan assets	22.5	22.5
Expenses from plan assets	-1.1	-1.1
<b>Net income/expense</b>	<b>-1.1</b>	<b>-1.1</b>

The fair value of assets transferred in CTAs results from their net asset value, which was determined by the investment company as of the balance sheet date.

In connection with the transfer of pension obligations to an external pension fund, an amount of €45.1 million from the CTA assets was transferred to a pension fund.

**(31) Liabilities to affiliated companies and other investees and investors**

<b>in € million</b>	<b>Group</b>			
	<b>31 Dec. 2021</b>		<b>31 Dec. 2020</b>	
	<b>Affiliated companies</b>	<b>Investees and investors</b>	<b>Affiliated companies</b>	<b>Investees and investors</b>
Liabilities to customers	4.0	-	0.7	0.0
Other liabilities	-	-	-	-

in € million	IKB AG			
	31 Dec. 2021		31 Dec. 2020	
	Affiliated companies	Investees and investors	Affiliated companies	Investees and investors
Liabilities to customers	124.5	-	229.1	0.0
Securitised liabilities	-	-	80.0	-
Other liabilities	10.7	-	0.0	-
Subordinated liabilities	75.1	-	75.1	-

Liabilities to customers at the level of IKB AG declined as it is not necessary for the subsidiaries to hold as much liquidity in the form of a deposit with IKB AG due, in particular, to the lower profit transfer obligation to be settled. In the previous year, securitised liabilities at the level of IKB AG had comprised intra-Group bearer bonds which have since been redeemed.

### (32) Foreign-currency liabilities

The currency volumes translated into euros are shown in the table below:

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Liabilities	248.9	283.0	249.5	283.0

The differences between the assets and liabilities are largely hedged by currency hedges.

### (33) Securitised liabilities

The portfolio of securitised liabilities declined to €72.1 million (previous year: €154.4 million) in the Group and €72.1 million (previous year: €234.4 million) at the level of IKB AG. The decline is due to the redemption of bearer bonds issued. Of these, €80.0 million related to bearer bonds held within the Group.

### (34) Other liabilities

The "Other liabilities" item breaks down as follows:

in € million	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Obligations from derivatives	2.0	2.0	2.0	2.0
Deferrals for derivatives	16.2	14.7	16.2	14.7
Liabilities to tax authorities	1.6	0.4	1.5	0.4
Deferred income for subordinated liabilities	17.7	18.5	17.7	18.5
Trade payables	4.4	4.8	4.4	4.6
Miscellaneous liabilities	5.6	8.1	15.8	7.4
<b>Total</b>	<b>47.4</b>	<b>48.6</b>	<b>57.5</b>	<b>47.6</b>

**(35) Deferred income**

Deferred income primarily comprises discounts and fees from the lending business with a nature similar to interest from receivables recognised at nominal value totalling €6.0 million (previous year: €7.7 million) in the Group and €6.0 million (previous year: €7.7 million) in IKB AG and prepaid expenses for the derivatives business and for credit default swaps accounted for as guarantees totalling €34.7 million (previous year: €40.7 million) in the Group and €34.7 million (previous year: €40.7 million) in IKB AG.

**(36) Pension provisions**

The pension provisions recognised total €95.1 million (previous year: €82.9 million) in the Group and €93.2 million (previous year: €80.5 million) at the level of IKB AG.

In connection with the reorganisation of pension obligations, two existing pension schemes were transferred to the new 2021 pension scheme in accordance with a company agreement dated 25 November 2021. This does not affect the claims arising under the previous pension schemes. IKB AG transferred pension obligations of €70.5 million to active beneficiaries under the 2021 and 2006 pension schemes to an external pension fund in return for the transfer of an amount of €70.5 million (of which €45.1 million was from CTA assets).

The difference in accordance with section 253 (6) HGB amounts to:

<b>31 Dec. 2021</b>		
<b>in € million</b>	<b>Group</b>	<b>IKB AG</b>
Measurement of obligation using the ten-year average market interest rate	317.8	315.9
Measurement of obligation using the seven-year average market interest rate	341.0	338.8
<b>Difference in accordance with section 253 (6) HGB</b>	<b>23.2</b>	<b>22.9</b>

The pension obligations not recognised in the balance sheet are covered by corresponding plan assets.

**(37) Subordinated liabilities**

This item comprises liabilities whose contractual conditions stipulate that, in the event of insolvency or liquidation, they will only be repaid after all non-subordinated creditors have been repaid. Early repayment obligation and participation in the losses from operating activities are not provided for.

The preferred shares (trust preferred securities), which were issued by the IKB Funding Trust I, a subsidiary in the USA founded specifically for this purpose, and are defined as hybrid capital instruments, are also reported as subordinated liabilities. In the event of insolvency, these will only be repaid once all other subordinated liabilities and any profit participation certificate issues have been serviced. Unlike German preferred shares, these preferred shares receive no share in the proceeds of liquidation of the issuing companies. In the case of preferred shares, perpetual maturity has been agreed for the investor.

With the exception of the preferred shares issued by IKB Funding Trust I, the interest on all subordinated liabilities is usually owed and paid regardless of the Bank's net profit or loss for the year. The deferred interest attributable to the subordinated liabilities is reported in other liabilities.

As of the reporting date, subordinated liabilities amounted to €765.5 million (previous year: €788.6 million) in the Group and €765.6 million (previous year: €788.6 million) in IKB AG. €75.1 million (previous year: €75.1 million) of this

is accounted for by the preferred shares still outstanding. The interest expenses for subordinated liabilities, including the preferred shares, in the reporting year amounted to €28.1 million (previous year: €22.8 million) in the Group and €28.5 million (previous year: €23.1 million) in IKB AG.

Individual items that exceed 10% of the total amount of subordinated liabilities in the Group and at IKB AG:

<b>Group</b>	<b>Book value</b>	<b>Interest rate in</b>		
<b>Year of issue</b>	<b>in € million</b>	<b>Currency</b>	<b>%</b>	<b>Maturity date</b>
2005/2006	99.7	JPY	2.76	21 July 2035
2017/2018	160.0	EUR	4.50	23 July 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

<b>IKB AG</b>	<b>Book value</b>	<b>Interest rate in</b>		
<b>Year of issue</b>	<b>in € million</b>	<b>Currency</b>	<b>%</b>	<b>Maturity date</b>
2005/2006	99.7	JPY	2.76	21 July 2035
2017/2018	160.0	EUR	4.50	23 July 2022
2017/2018	300.0	EUR	4.00	31 Jan. 2028

### **(38) Fund for general banking risks**

The fund for general banking risks in accordance with section 340g HGB, which qualifies as Common Equity Tier 1 capital under the CRR, amounted to €585.0 million (previous year: €585.0 million). Among other things, the fund, which takes into account IKB's general banking risks, is intended to protect the Bank from the risks described in the management report.

### **(39) Development of capital**

#### ***Treasury shares***

The authorisation to acquire and use treasury shares for purposes other than securities trading, which was resolved by the Annual General Meeting on 5 September 2013, was revoked by way of resolution of the Annual General Meeting on 1 September 2016 and replaced by a new authorisation. This was because the authorisation resolved by the Annual General Meeting on 5 September 2013 was still based on the over-the-counter (OTC) share price on the Frankfurt Stock Exchange. Because IKB Deutsche Industriebank AG's shares were no longer traded OTC on the Frankfurt Stock Exchange at the time of the 2016 Annual General Meeting, the authorisation of 5 September 2013 was void. In light of this, the Company was authorised by way of resolution of the Annual General Meeting held on 1 September 2016 to acquire treasury shares amounting to up to 10% of the share capital for purposes other than securities trading until the end of 31 August 2021. The shares must be repurchased in line with the principle of equal treatment pursuant to section 53a AktG. If the number of shares offered exceeds the maximum number of shares specified by the Company for the buy-back, offers will be accepted proportionally. Preferential acceptance of smaller numbers of shares up to 100 shares tendered per shareholder may be provided for. The purchase price per share (not including incidental costs of acquisition) must be at least €0.05 and no more than €2.00. Together with the treasury shares acquired for other reasons that are held by the company or attributable to it in accordance with section 71a ff. AktG, the treasury shares acquired on the basis of this authorisation must not exceed 10% of the share capital of the Company at any time. The acquired shares can be sold by way of an offer to all shareholders or – if stock-market trading resumes – on the stock exchange or can be retired in full or in part. The authorisation was not used in the 2021 financial year.

In the 2021 financial year, there were no holdings of treasury shares – neither additions nor disposals.



**Equity**

The share capital consists of 100,000,000 no-par value shares with a notional value of €1 per share as of the end of the reporting period. The share capital amounts to €100,000,000.

The shares in IKB Deutsche Industriebank AG were converted from bearer shares to registered shares in accordance with the current market standard for unlisted companies. The corresponding amendment to the Articles of Association was entered in the Commercial Register on 16 November 2021, upon which the conversion became legally effective.

**Additions to retained earnings**

With respect to profit allocation, a partial amount of €38.6 million of IKB AG's net income for the year of €77.2 million has been retained in accordance with section 58 (2) of the German Stock Corporation Act (AktG), resulting in an unappropriated surplus of €190.9 million.

**Proposed appropriation of profits**

The Board of Managing Directors recommends the retention of a partial amount of €38.6 million from the unappropriated surplus of €190.9 million, with the balance of €152.3 million to be carried forward.

The amounts barred from distribution break down as follows:

Group:

<b>31 Dec. 2021 in € million</b>	<b>Gross income</b>	<b>Amount barred from distribution</b>
Unrealised gains on plan assets	8.2	6.3
Recognition of deferred taxes	-	130.9
Difference between average seven- and ten-year market interest rate for the measurement of pension obligations	23.1	23.1
<b>Total</b>	<b>31.3</b>	<b>160.3</b>

IKB AG:

<b>31 Dec. 2021 in € million</b>	<b>Gross income</b>	<b>Amount barred from distribution</b>
Unrealised gains on plan assets	8.2	6.3
Recognition of deferred taxes	-	130.9
Difference between average seven- and ten-year market interest rate for the measurement of pension obligations	22.9	22.9
<b>Total</b>	<b>31.1</b>	<b>160.1</b>

**(40) Contingent liabilities and other obligations**

As of the balance sheet date, the guarantees and warranties reported under "Contingent liabilities" primarily comprised credit default swaps (Bank as collateral provider) in the amount of €1,224.3 million (previous year: €1,423.6 million) both in the Group and in IKB AG. Here, IKB has assumed the default risk for a predefined credit event for specific credit portfolios.

As part of the sale of the shares in IKB Leasing GmbH by IKB Beteiligungen GmbH in the 2017/18 financial year, IKB AG jointly and severally assumed warranties and indemnification obligations. These include loan commitments under

IKB Leasing's refinancing facilities; guarantees of quality for GmbH shares and assets; and the proper settlement and fulfilment of past obligations (e.g. filing of tax returns). IKB AG and a further two Group companies also assumed warranties and indemnification obligations in connection with the disposal of IKB Leasing S.A., Bucharest, Romania and IKB Leasing Finance IFN S.A., Bucharest, Romania and the sale of the business operations of IKB Leasing SR, s.r.o. v likvidácii, Bratislava, Slovakia.

in addition, in connection with the sale of its limited partner interests in IKB Projektentwicklung GmbH & Co. KG i.L., IKB AG assumed indemnification obligations for certain taxes payable for periods until the completion of the sale.

The "Other obligations" item includes irrevocable loan commitments from unutilised loans and revolving credit facilities.

There are no contingent liabilities to associates as of the reporting date. There is an irrevocable loan commitment of €0.8 million to FUNDINGPORT GmbH, Hamburg, which is reported under other liabilities.

The risk of utilisation from contingent liabilities and other obligations is assessed on the basis of parameters from credit risk management. Provisions are recognised if utilisation is expected in full or in part due to the deterioration of the borrower's credit standing. Details on the process within credit risk management are explained in the risk report in the management report.

### **(41) Other financial obligations**

As of the reporting date, "Other financial obligations" totalled €65.6 million (previous year: €79.3 million) in the Group and €65.6 million (previous year: €79.3 million) in IKB AG.

There are payment obligations for the rental period under long-term rental agreements of €13.8 million (previous year: €20.7 million) in the Group and €13.8 million (previous year: €20.7 million) in IKB AG. Leases for the Bank's branches for properties used for banking purposes continue to exist. Provisions for expected losses from executory contracts are recognised in case the expenses exceed the benefit of the lease. The risk or opportunity is that after expiry of a temporary lease, an extension of the lease or a follow-up lease may be concluded on less or more advantageous conditions.

Both the Group and IKB AG have payment obligations to national and international banking system guarantee schemes of €9.8 million (previous year: €7.4 million) as of the reporting date. Corresponding collateral has been provided for the payment obligations.

Furthermore, there are payment obligations from future lease payments in connection with leases for assets in the area of operating and office equipment. In leases, the right to use an asset is transferred from the lessor to the lessee in return for regular payments.

Further payment obligations result from purchase commitments in connection with service agreements. There is a risk with service agreements that the terms of the agreement may be less favourable than the terms at the time the agreement is fulfilled or that the costs of the agreement will exceed the economic benefit.

As of the balance sheet date, the Group and IKB AG had no payment obligations from shares, GmbH shares or shares in non-consolidated subsidiaries that were not fully paid in or from shareholdings held by IKB Invest GmbH or subordinated loans.

As in the previous year, none of IKB AG's total financial obligations relate to affiliated companies.

***Differing opinion of the tax authorities***

In view of the comparability with the BFH ruling of 17 November 2020 (I R 2/18), the external tax audit did not lead to any changes at Aleanta GmbH. The applicable tax assessment notices have been received.

**(42) Off-balance sheet transactions**

According to section 285 no. 3 HGB and section 314 (1) no. 2 HGB, the nature and purpose of risks and benefits of transactions not included in the balance sheet must be disclosed in the notes if this is necessary for assessing the financial situation. In particular, disclosures on transactions that are expected to result in significant improvements or worsening of the financial situation or that can be considered unusual in terms of their timing or the business partner may be necessary for assessing the financial situation.

***Forward transactions***

As of the balance sheet date, there were obligations from contingent and non-contingent forwards. These essentially serve to hedge interests and currency risks and lead to future inflows or outflows of cash. Please also refer to the information on forwards (see note (57)).

**Notes to the income statement**

**(43) Income by geographical market**

The total amount of interest income, lease income, current income from equities and other non-fixed-income securities, equity investments and shares in affiliated companies, commission income, the net trading result and other operating income breaks down among the different geographical markets as follows:

in € million	Group		IKB AG	
	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020
Germany	399.6	369.6	358.6	315.4
Rest of Europe	0.2	0.4	-	-
<b>Total</b>	<b>399.8</b>	<b>370.0</b>	<b>358.6</b>	<b>315.4</b>

Income is allocated to geographical markets on the basis of the respective registered office of the company in the Group and the respective places of business in IKB AG.

**(44) Extraordinary income and expenses**

The extraordinary expenses amounted to €2.4 million for the Group (previous year: expenses of €7.0 million) and €2.1 million for IKB AG (previous year: expenses of €6.7 million). It solely concerned extraordinary expenses and was accounted for by business restructuring measures both in the Group and in IKB AG.

**(45) Other operating expenses**

The “Other operating expenses” item largely includes:

in € million	Group		IKB AG	
	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020
Expenses from derivatives in the non-trading book	-121.0	-247.0	-121.0	-247.0
Expenses from additions to provisions	-5.2	-1.5	-5.2	-1.5
Expense from discount factor unwinding on pension obligations and change in the discount rate	-29.7	-22.5	-29.7	-22.5
Fair-value measurement of the CTA assets	0.3	21.5	0.3	21.5
Other expenses	-27.8	-50.6	-30.6	-12.9
<b>Total</b>	<b>183.5</b>	<b>300.2</b>	<b>186.2</b>	<b>262.5</b>

Expenses from derivatives in the non-trading book relate in particular to close-outs of derivative transactions in the banking book. These expenses are offset by income in the “Other operating income” item.

Other expenses include €11.3 million (previous year: €38.8 million) at the level of the Group and €1.7 million (previous year: €2.4 million) at the level of IKB AG for hedging entrepreneurial risks. In addition, other expenses at the level of IKB AG include expenses of €13.6 million (previous year: €0.0 million) from the impairment of the intra-Group sub-participation in expected settlement payments under pending lawsuits.

**(46) Costs of loss absorption**

Expenses of €10.7 million (previous year: €0.0 million) from the absorption of losses at IKB AG relate in particular to loss absorption obligations under the profit and loss transfer agreement with the subsidiary IKB Beteiligungen GmbH.

**(47) Income taxes**

The line item “Taxes on income” includes actual taxes of €-10.1 million (previous year: €10.8 million) at the level of the Group and of €-10.1 million (previous year: €10.9 million) at the level of IKB AG.

This item also reports the change in the recognition of deferred tax assets of €-7.7 million (previous year: €-1.3 million) in the Group and €-8.0 million (previous year: €0.0 million) in IKB AG.

**(48) Income from profit and loss transfer agreements**

The income from profit and loss transfer agreements in IKB AG of €47.4 (previous year: €101.8 million) in the reporting period is accounted for by the profit transfers by the subsidiaries IKB Beteiligungsgesellschaft 2 mbH, IKB Beteiligungen GmbH and IKB Beteiligungsgesellschaft 5 mbH. The decline is primarily due to lower income from distributions on fund units which IKB AG receives from the Istop companies via IKB Beteiligungsgesellschaft 2 mbH. The income of €1.9 million (previous year: €0.0 million) from profit and loss transfer agreements at the level of the Group is attributable to IKB Beteiligungsgesellschaft 5 mbH, which is no longer consolidated.

**(49) Administrative and brokerage services for third parties**

IKB primarily performs administrative and brokerage services in the lending business. The income from these activities is included in net commission income.

**(50) Other operating income**

The “Other operating income” item breaks down as follows:

in € million	Group		IKB AG	
	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020
Income from derivatives in the non-trading book	78.9	74.4	78.9	74.4
Income from currency translation	0.1	0.1	0.1	0.1
Income from the release of provisions	16.0	10.1	14.7	9.9
Other operating income	4.3	8.1	3.1	3.3
Income from compensation payments	0.0	0.2	0.0	0.1
<b>Total</b>	<b>99.3</b>	<b>92.9</b>	<b>96.8</b>	<b>87.8</b>

Income from derivatives in the non-trading book relates in particular to close-outs of derivative transactions in the banking book. This income is offset by expenses in the “Other operating expenses” item.

Income from the reversal of provisions in the reporting year includes income of €4.2 million from the valuation adjustment of pension obligations following the introduction of a new pension scheme.

**(51) List of shareholdings as of 31 December 2021**

31 Dec. 2021		Fiscal year	Equity interest in %
<b>1. Domestic companies (fully consolidated)</b>			
IKB Beteiligungen GmbH, Düsseldorf	2)5)	1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 2 mbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 3 mbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB Invest GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
Istop 1 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
Istop 2 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
Istop 4 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
Istop 6 GmbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
<b>2. Foreign subsidiaries (fully consolidated)</b>			
IKB Finance B.V., Amsterdam, Netherlands		1 Jan. - 31 Dec.	100.00
IKB Funding LLC I, Wilmington, United States of America		1 Jan. - 31 Dec.	100.00
IKB International S.A. i.L., Munsbach, Luxembourg	3)	1 Jan. - 31 Dec.	100.00
IKB Lux Investment S.à r.l., Munsbach, Luxembourg		1 Jan. - 31 Dec.	100.00
<b>3. German subsidiaries (not included in consolidation on the basis of section 296 (2) HGB<sup>4)</sup>)</b>			
Aleanta GmbH, Düsseldorf	1)		
Aleanta GmbH, Düsseldorf	6)	1 Jan. - 31 Dec.	100.00
FRANA Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf		1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 1 mbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB Beteiligungsgesellschaft 5 mbH, Düsseldorf	2)	1 Jan. - 31 Dec.	100.00
IKB NewCo 3 GmbH, Düsseldorf		1 Jan. - 31 Dec.	100.00

<b>31 Dec. 2021</b>		<b>Fiscal year</b>	<b>Equity interest in %</b>
IKB NewCo 5 GmbH, Düsseldorf		1 April - 31 Mar.	100.00
IKB Projektentwicklungsverwaltungsgesellschaft mbH i.L., Düsseldorf	3)	1 Jan. - 31 Dec.	100.00
IKB Real Estate GmbH, Düsseldorf		1 Jan. - 31 Dec.	100.00
ISTOS Beteiligungsverwaltungs- und Grundstücks- Vermietungsgesellschaft mbH i.L., Düsseldorf	3)	1 Jan. - 31 Dec.	100.00
Restruktur 2 GmbH i.L., Düsseldorf	3)	1 April - 31 Mar.	100.00
Restruktur 3 GmbH, Düsseldorf		1 April - 31 Mar.	100.00
<b>4. Foreign subsidiaries (not included in consolidation on the basis of section 296 (2) HGB<sup>4)</sup>)</b>	1)		
IKB Funding Trust I, Wilmington, United States of America		1 Jan. - 31 Dec.	100.00
<b>5. Special-purpose vehicles (not included in consolidation on the basis of section 296 (2) HGB<sup>4)</sup>)</b>	1)		
RIO DEBT HOLDINGS (IRELAND) DESIGNATED ACTIVITY COMPANY, Dublin, Irland			
Rosaria Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Heimstetten KG, Grünwald			
<b>6. German associates/joint ventures (not accounted for using the equity method on the basis of section 311 (2) HGB<sup>4)</sup>)</b>	1)		
FUNDINGPORT GmbH, Hamburg		1 Jan. - 31 Dec.	30.00
<b>7. Foreign associates/joint ventures (not accounted for using the equity method on the basis of section 311 (2) HGB<sup>4)</sup>)</b>	1)		
FUNDINGPORT SOFIA EOOD, Sofia, Bulgaria		1 Jan. - 31 Dec.	30.00

1) The information in accordance with section 285 no. 11 HGB on equity and results is not shown for companies not included in the consolidated financial statements in accordance with section 286 (3) sentence 1 no. 1 HGB.

2) Profit and loss transfer agreement

3) In liquidation

4) The Bank exercises the option of not including companies in consolidation where they are of only minor importance to the net assets, financial position and results of operations of the Group.

5) In 2021 short financial year from 1 April to 31 December

6) In liquidation as of 1 January 2022

The companies consolidated are shown in the list of shareholdings. Accordingly, the separate lists of shareholdings and companies consolidated that were published in previous years have been dispensed with in the interests of greater clarity.

## (52) Significant shares of voting rights

The Bank did not receive any notifications under stock corporation law in accordance with section 20 (1) or (4) AktG in the reporting period. In accordance with section 20 AktG, as soon as an enterprise holds more than 25% (section 20 (1) AktG) or 50% (section 20 (4) AktG) of the shares in a non-listed stock corporation (Aktiengesellschaft) with registered office in Germany, the enterprise must notify the stock corporation in writing.

With the entry in the commercial register of the resolution adopted at IKB AG's extraordinary shareholder meeting on 2 December 2016 to transfer all shares to the main shareholder in return for cash compensation (a squeeze out), LSF6 Europe Financial Holdings, L.P., with registered office in Dallas, USA, holds 100% of IKB's shares.

**(53) Disclosure of auditor's fees**

in € million	Group		IKB AG	
	1 Jan. 2021 - 31 Dec. 2021	1 Apr. 2020 - 31 Dec. 2020	1 Jan. 2021 - 31 Dec. 2021	1 Apr. 2020 - 31 Dec. 2020
Audit of financial statements	-1.5	-1.4	-1.4	-1.4
Other assurance or valuation services	-0.4	-0.3	-0.4	-0.3
<b>Total</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.8</b>	<b>-1.7</b>

Auditor's fees include no expenses for previous financial years (previous year: €17.9 thousand).

The fees for the statutory audit comprise expenses for the statutory audits of the annual and consolidated financial statements. In addition to expenses for the review of the interim financial statements of €0.2 million (previous year: €0.2 million), the other assurance or valuation services in particular include expenses for the audit in accordance with the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in the amount of €0.1 million (previous year: €0.1 million).

**(54) Related-party transactions**

Transactions with related parties are generally conducted at standard market terms. There were no significant transactions under non-standard market conditions that would have been reportable for the IKB Group pursuant to section 314 (1) no. 13 HGB or reportable for IKB AG pursuant to section 285 no. 21 HGB.

**(55) Transfer of collateral for own liabilities and contingent liabilities**

Assets were transferred in the amounts shown for the following liabilities:

31 Dec. 2021		
in € million	Group	IKB AG
Liabilities to banks	9,631.4	9,637.7
Contingent liabilities	41.3	41.3
<b>Total</b>	<b>9,672.7</b>	<b>9,679.0</b>

The assets serving as collateral are primarily receivables and securities transferred to third-party banks or clearing houses in open-market and securities-repurchase transactions as part of business with public programme loans.

**(56) Derivative transactions**

The derivatives concluded primarily serve to manage and limit interest-rate risk and relate in particular to the credit refinancing portfolio and the investment portfolios. The amount of interest-rate risk is restricted by a limit system approved by the Board of Managing Directors and monitored on a daily basis as part of risk management. In addition, the volume of forward and derivative transactions is restricted by counterparty limits.

The interest-rate risks of securities, loans and associated refinancing funds are managed uniformly in the investment portfolios and the credit refinancing portfolio. Derivatives are used to manage interest- and exchange-rate risks. The derivatives used are predominantly interest derivatives.

Please see note (58) for the fair values of interest-related derivatives in the Group and in IKB AG.

**(57) Derivative financial instruments not recognised at fair value**

Group:

31 Dec. 2021 in € million	Nominal	Fair value		Book value	
		Positive	Negative	Assets	Equity and liabilities
Interest-related derivatives	18,595.0	250.9	810.5	33.1	44.9
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	306.1	3.6	3.9	2.2	2.5
Derivatives assigned to several categories	123.0	22.4	2.5	10.1	2.3
<b>Total</b>	<b>19,024.1</b>	<b>276.9</b>	<b>816.9</b>	<b>45.4</b>	<b>49.7</b>

31 Dec. 2021 in € million	Other assets	Book value			Deferred income
		Prepaid expenses	Provisions	Other liabilities	
Interest-related derivatives	15.5	17.6	-	17.2	27.7
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	2.2	-	0.0	2.5	-
Derivatives assigned to several categories	7.4	2.7	-	-	2.3
<b>Total</b>	<b>25.1</b>	<b>20.3</b>	<b>0.0</b>	<b>19.7</b>	<b>30.0</b>

IKB AG:

31 Dec. 2021 in € million	Nominal	Fair value		Book value	
		Positive	Negative	Assets	Equity and liabilities
Interest-related derivatives	18,595.0	250.9	810.5	33.1	44.9
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	306.1	3.6	3.9	2.2	2.5
Derivatives assigned to several categories	123.0	22.4	2.5	10.1	2.3
<b>Total</b>	<b>19,024.1</b>	<b>276.9</b>	<b>816.9</b>	<b>45.4</b>	<b>49.7</b>

31 Dec. 2021 in € million	Other assets	Book value			Deferred income
		Prepaid expenses	Provisions	Other liabilities	
Interest-related derivatives	15.5	17.6	-	17.2	27.7
Credit-related derivatives	-	-	-	-	-
Currency-related derivatives	2.2	-	0.0	2.5	-
Derivatives assigned to several categories	7.4	2.7	-	-	2.3
<b>Total</b>	<b>25.1</b>	<b>20.3</b>	<b>0.0</b>	<b>19.7</b>	<b>30.0</b>

**(58) Unrealised gains and losses**

The table shows the unrealised gains and losses for the following material financial balance-sheet items and off-balance sheet derivatives of the IKB Group. It also includes the unrealised gains and losses on credit default swaps recognised as loan collateral.



Group:

in € million	31 Dec. 2021			31 Dec. 2020		
	Book value	Fair value	Difference	Book value	Fair value	Difference <sup>1)</sup>
Receivables from banks	2,999.2	2,999.2	0.0	2,044.0	2,041.5	-2.5
Receivables from customers	8,847.2	9,146.5	299.3	8,773.7	9,211.2	437.5
Bonds and other fixed-income securities	3,048.8	2,976.3	-72.5	3,202.2	3,602.6	400.4
Equities and other non-fixed-income securities	630.0	657.8	27.8	304.0	375.6	71.6
Derivative financial instruments not recognised at fair value	45.4	277.0	231.6	58.2	410.3	352.1
Credit default swaps recognised as loan collateral	12.8	25.2	12.4	19.8	35.1	15.3
<b>Subtotal</b>	<b>15,583.4</b>	<b>16,082.0</b>	<b>498.6</b>	<b>14,401.9</b>	<b>15,676.3</b>	<b>1,274.4</b>
Liabilities to banks	8,625.2	8,648.6	-23.4	8,527.7	8,640.5	-112.8
Liabilities to customers	4,758.2	4,783.9	-25.7	5,757.6	5,803.6	-46.0
Securitised liabilities	72.1	72.7	-0.6	154.4	154.8	-0.4
Subordinated liabilities	765.5	762.2	3.3	788.6	757.6	31.0
Derivative financial instruments not recognised at fair value	49.7	816.9	-767.2	52.1	1,255.9	-1,203.8
Credit default swaps recognised as loan collateral	4.7	0.0	4.7	6.8	1.4	5.4
<b>Subtotal</b>	<b>14,275.4</b>	<b>15,084.3</b>	<b>-808.9</b>	<b>15,287.2</b>	<b>16,613.8</b>	<b>-1,326.6</b>
<b>Total</b>			<b>-310.3</b>			<b>-52.2</b>

1) In May 2021, the valuation of active promissory note loans was replaced by a model using internally determined probabilities of default. They are now measured in the same way as other lending business. The effect of this conversion was valued at €-8.6 million on the conversion date and €-7.7 million on 31 December 2020.

The unrealised gain or loss is calculated by comparing the net book value and the fair value. The recognition of specific valuation allowances has no influence on unrealised gains or losses, as specific valuation allowances recognised are also taken into account in the calculation of fair value. The book value is treated as being equal to fair value for receivables and liabilities repayable on demand and prepaid expenses/deferred income.

The fair values of receivables that are calculated for reporting in the notes are calculated using the discounted cash flow method. Fair value is calculated using assumptions that would arise when market prices are determined between independent business partners who use similar parameters for their purchase price calculation. The future cash flows of the loans are recognised taking into account value contributions from floor agreements. The measurement model for floating rate loans takes into account assumptions concerning unscheduled payments. Discounting is carried out using term-differentiated swap rates on the reporting sheet date plus a credit spread derived using IKB's internal risk measurement methods. The credit spread for the loan fluctuates according to changes in the measured standard risk costs, which are determined by the customer's internal rating, the collateral situation and the expected remaining term of the loan on the measurement date. Moreover, pre-tax returns of third parties derived from balance-sheet equity, IKB's administrative expenses and the funding costs that are observed on the market for banks with an A or AA rating are also taken into account.

Receivables from development loans, which are matched by individual refinancing loans on the liability side of the balance sheet, are measured without taking funding costs into account. The present value of individual refinancing loans on the liability side of the balance sheet is calculated by discounting the interest and principal repayment cash flows using matched-term, risk-free swap rates.

Securities (including securitised subordinated liabilities) are measured at the stock-exchange or market price on the reporting date if a liquid price is available. A stock-exchange or market price is considered to be liquid if the number of available price quotations exceeds a minimum number defined in accordance with an analysis based on statistical methods. This applies to both traded and non-traded observable prices. If no prices are available at the reporting date, the fair value is calculated on the basis of price information from market data providers and tested for plausibility using suitable methods. If no stock-exchange prices or price information from contractual providers are available for securities, the value is calculated on the basis of the Bank's own measurement models by discounting expected cash flows. The discount rate is calculated using the risk profile of similar securities. Parameters not observed on the market are also used for this. The fair values for the fund units recognised in the IKB Group correspond to the net asset value attributable to the fund units held.

The fair value of derivatives in the non-trading book is calculated in accordance with the measurement hierarchy set out in section 255 (4) HGB. The fair values of derivatives not traded on stock exchanges are determined on the basis of mathematical measurement models and market data (including interest rates, interest-rate volatilities and exchange rates). Future cash flows are derived using currency-specific and tenor-specific swap curves. The amount, timing and certainty of cash flows depend on, among other things, the development of interest rates and exchange rates, contractual regulations on payment dates for the derivative and the credit quality of the counterparty. Secured derivatives are discounted using the currency-based overnight index curve.

To calculate the fair values for liabilities to customers and banks, the contractual cash flows are discounted using a matched-term swap rate plus the funding costs specific to IKB. The funding costs are derived from the costs of comparable issues.

#### **(59) Remuneration of the Board of Managing Directors**

Total remuneration for members of the Board of Managing Directors amounted to €4.2 million (previous year: €3.7 million) in the 2021 financial year. This includes fixed basic salaries, variable performance-based remuneration, severance payments, compensatory pension benefits to compensate for a pension not agreed and non-cash remuneration. The Supervisory Board regularly reviews the appropriateness of the respective total remuneration.

#### ***Former and retired members of the Board of Managing Directors***

The total remuneration for former members of the Board of Managing Directors and their surviving dependants amounted to €3.1 million (previous year: €2.4 million). In the 2021 financial year, pension obligations to former members of the Board of Managing Directors and their surviving dependants amounted to €46.6 million based on a 10-year average interest rate (previous year: €45.4 million).

#### **(60) Remuneration of the Supervisory Board**

For the 2021 financial year, the total remuneration for members of the Supervisory Board amounted to €510 thousand (previous year: €446 thousand). This includes reimbursed expenses of €5 thousand (previous year: €71 thousand).

#### **(61) Remuneration of the Advisory Board**

The members of the Advisory Board were paid €271 thousand (previous year: €172 thousand), including VAT.

**(62) Loans extended to members of the governing bodies and the Advisory Board**

No loans have been granted to members of the Board of Managing Directors. There are loans to members of the Supervisory Board totalling €1.1 thousand (previous year: €5.9 thousand).

**(63) Average number of employees for the year (calculated on the basis of full-time employees)**

	Group		IKB AG	
	31 Dec. 2021	31 Dec. 2020	31 Dec. 2021	31 Dec. 2020
Men	366	385	366	385
Women	192	201	192	201
<b>Total</b>	<b>558</b>	<b>586</b>	<b>558</b>	<b>586</b>

The reduction in the average number of employees is primarily due to cost-cutting and optimisation measures at IKB AG.

**(64) Significant events after 31 December 2021**

The following events of material importance that affect the true and fair view of the operations, the results of operations, the situation and the expected development of the company occurred after 31 December 2021:

***Measures in connection with the BaFin audit in accordance with section 44 (1) KWG (German Banking Act)***

In the 2nd and 3rd quarters of 2021, a regular BaFin audit was carried out in accordance with section 44 (1) of the German Banking Act (KWG) with a reference date of 31 March 2021. The audit concentrated on credit risk management and the calculation of risk bearing capacity (Pillar II). In addition, the appropriateness of loan loss provisioning was also reviewed (PaaR audit). The results of the PaaR audit are already included in the figures for 31 December 2021. The other findings will entail process adjustments as well as methodological adjustments to the calculations used to determine risk-bearing capacity. The Bank expects higher utilisation of its risk-bearing capacity and has already initiated risk-reducing measures, in particular to lower market price risk. BaFin has issued a notice instructing IKB to meet additional temporary own-funds requirements in accordance with section 10 (3) sentence 1 of the KWG.

***Inclusion of profit carry forwards in CET 1 capital***

With effect from 31 March 2022, IKB AG has allocated the profit carry forwards for the 2020 financial year, which is not being distributed as a dividend and is therefore being carried forward, as no distribution is planned for a protracted period of time.

***Impact of the Ukraine war on IKB***

The Ukraine war is causing dislocations in the capital markets and associated risk-off movements. Based on an analysis by IKB's crisis management team, the direct impact of the war in Ukraine on the Group's net assets, financial position and results of operations is currently considered to be fairly low. Higher interest rates and possibly persistently high inflation, which has been additionally amplified by the secondary effects of the war in Ukraine, are resulting in interest-rate-reduced valuation losses in the Bank's investment portfolio. Further effects on the net assets, financial position and results of operations as a result of the war in Ukraine – for example due to increased energy and raw material prices or a shortage of raw materials – are currently subject to a high degree of uncertainty.

***Reduction of the Board of Managing Directors***

Dr Ralph Müller has resigned from the Board of Managing Directors of IKB Deutsche Industriebank AG at his own request. At its meeting on 15 February 2022, the Supervisory Board approved the premature termination of Dr Müller's appointment to the Board of Managing Directors subject to mutual agreement. His duties and responsibilities have been re-assigned to the three remaining members of the Board of Managing Directors.

***Disclosure in accordance with section 24 of the German Banking Act (KWG)***

Effective 28 February 2022, IKB submitted to the banking supervisory authority notification in accordance with section 24 (1) no. 4 of the German Banking Act (KWG) stating that its CET 1 capital had declined by 8.87%. As of the reference date of this notification, IKB AG's CET 1 ratio stood at 14.9% (IKB Group: 15.1%). This loss is attributable to the higher interest rates which have resulted in interest-rate-induced losses on the market value of long-dated securities in particular.

***Reclassification of securities held as fixed assets to the liquidity reserve***

With the resolution of the Board of Managing Directors of 9 May 2022, the Bank abandoned the intention to hold ten investment securities with a nominal value of € 862 million on a permanent basis. The reclassification of these securities to the liquidity reserve results in fair-value measurement losses of approximately €350 million as of the date of this report, which are offset by largely opposing effects in off-balance-sheet items.

***Lawsuits concerning profit participation rights***

The non-admission appeals against the decisions of the Düsseldorf Higher Regional Court were dismissed in a ruling of the Federal Court of Justice of 5 April 2022. As a result, the two underlying legal disputes have come to an end, and IKB has, as expected, prevailed in full. In a letter dated 12 April 2022, the plaintiff withdrew the action pending before the Göttingen Regional Court; this law suit has therefore also been terminated.

***Proceeds from lawsuits***

IKB generated net income at the Group level in a double-digit million range under a judicial settlement in March 2022. At the level of IKB AG, other assets have therefore decreased by a single-digit million amount since the reporting date. The settlement has not led to evidence of any impairment.

**(65) Executive bodies**

***Board of Managing Directors***

Dr Michael H. Wiedmann (Chairman)

Claus Momburg (until 31 December 2021)

Dr Ralph Müller (from 1 February 2021 to 15 February 2022)

Dr Patrick Alfred Trutwein (since 1 February 2021)

Steffen Zeise (since 1 January 2022)

***Supervisory Board***

Dr Karl-Gerhard Eick (Chairman), management consultant

Dr Claus Nolting (Deputy Chairman), lawyer

Sven Boysen<sup>1)</sup>, employee representative

Mark Coker, Managing Director and General Counsel – Europe at Lone Star Europe Acquisitions Ltd.

Benjamin Dickgießer, Managing Director of Hudson Advisors Portugal, LDA

Susanne Eger<sup>1)</sup>, employee representative (since 18 March 2021)

Dr Lutz-Christian Funke, Director of KfW

Arndt G. Kirchhoff, Chairman of the Advisory Board of KIRCHHOFF Automotive Holding Verwaltungs GmbH

Nicole Riggers<sup>1)</sup>, employee representative

Jörn Walde<sup>1)</sup>, employee representative (until 18 March 2021)

1) Elected by the employees

***Offices held by employees***

As of 31 December 2021, the following employees were represented in the statutory supervisory boards of large corporations:

Dr Reiner Dietrich

Tricor Packaging & Logistics AG

## **Notes on segment reporting**

Segment reporting is based on the internal income statement, which forms part of IKB's management information system. It is presented in accordance with internal management reporting, which is used by the Board of Managing Directors to assess the performance of the segments and to allocate resources. Segment reporting is prepared in accordance with the guidance contained in DRS 28 and is based on the Bank's product units. Each segment is treated as an independent entity responsible for its own profit and loss and the requisite capitalisation.

### **Segmentation**

Reporting is based on a product approach with the following business segments:

- Public Programme Loans
- Corporate Bank
- Corporate Centre

The Public Programme Loans segment includes income and expenses from development loans granted to mid-cap customers as well as consulting services for obtaining and applying for development loans.

The Corporate Bank segment is composed of the services provided in connection with internally financed corporate banking business. In addition to financing and advisory services in traditional lending business, this also includes supporting customers in capital market activities.

The income and expense items from Funding & Asset Liability Management and the investment portfolio are reported in the Corporate Centre. Non-attributable costs of other central functions are also allocated to this segment.

### **Segment results and key figures**

The segments are treated as independent entities with their own capital. Capital is allocated on the basis of the risk-weighted assets with a target CET 1 ratio of 12% derived from the minimum requirements for regulatory own funds plus a capital buffer. Income and expenses are allocated to the segments in accordance with their responsibility for profit and loss. In line with standard industry practice, interest income and expense are reported on a net basis, as net interest income is a key performance indicator for assessing the segment's profitability. In the Public Programme Loans segment, interest income on loans is compared with the funding expenses of the development banks. Actual funding costs arising from private and corporate client deposits are netted between the Corporate Centre segment and the Corporate Bank segment. The return on allocated own funds is also transferred from the Corporate Centre and distributed across the Public Programmes Loans segment and the Corporate Bank segment. The interest margin is the ratio of net interest income and risk costs in the Public Programme Loans and Corporate Bank segments to the corresponding volumes of the loan book. Risk costs equal the quotient of net risk provisioning and the applicable average value of the loan book. The figures for the previous year (short financial year) were extrapolated to twelve months to determine the key figures.

The personnel and administrative expenses of the central units are allocated to the segments in accordance with their origin and by means of transfer pricing. Project costs are allocated to the segments if the projects are directly related to these segments. Administrative expenses for projects and corporate functions with a corporate or regulatory background are reported in the Corporate Centre.

The risk provisions reported in the segments equal the net additions to and reversals of allowances for losses on loans and advances and recoveries on loans and advances previously written off.

The tax result is calculated in the Corporate Bank and Public Programme Loans segments on the basis of a notional tax rate of 12.5% specific to IKB. This figure is reconciled with the Group tax result in the Corporate Centre.

The performance of a segment is measured on the basis of net profit after tax, the cost/income ratio and the return on equity. The cost/income ratio is calculated as the quotient of administrative expenses and gross income (net interest income and net fee and commission income). The return on equity (extrapolated to twelve months in the previous year) is calculated as the ratio of net profit after tax to the average allocated equity derived from a 12-percent imputed capital charge for risk-weighted assets in accordance with the CRR. The calculation of the average risk-weighted assets in the previous year also retrospectively takes account of the effects of the IRBA model change for the previous quarters.

## Segment report

Table: Segment reporting – Group

in € million	Public Programme Loans		Corporate Bank		Corporate Centre		IKB	
	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020	1 Jan. - 31 Dec. 2021	1 Apr. - 31 Dec. 2020
Net interest income	85	64	88	78	48	23	221	165
Net fee and commission income	5	3	15	13	6	4	26	20
<b>Gross income</b>	<b>90</b>	<b>67</b>	<b>103</b>	<b>92</b>	<b>54</b>	<b>27</b>	<b>247</b>	<b>186</b>
Administrative expenses	-43	-32	-40	-31	-52	-40	-135	-104
<b>Operating profit before risk provisions</b>	<b>48</b>	<b>35</b>	<b>63</b>	<b>60</b>	<b>2</b>	<b>-13</b>	<b>113</b>	<b>82</b>
Provisions for possible loan losses	3	-2	-15	-17	0	0	-12	20
<b>Operating profit</b>	<b>50</b>	<b>33</b>	<b>48</b>	<b>43</b>	<b>2</b>	<b>-13</b>	<b>101</b>	<b>63</b>
Net other income	0	-	1	-3	3	3	4	1
<b>Earnings before tax</b>	<b>50</b>	<b>33</b>	<b>49</b>	<b>40</b>	<b>5</b>	<b>-10</b>	<b>104</b>	<b>63</b>
Tax expense/income	-6	-4	-6	-5	-6	19	-18	10
<b>Net profit after tax</b>	<b>44</b>	<b>29</b>	<b>43</b>	<b>35</b>	<b>0</b>	<b>9</b>	<b>86</b>	<b>73</b>
New business	1,023	1,091	1,981	379	-	-	3,004	1,470
Loans outstanding as of the reporting date	5,141	5,404	4,199	4,013	8,155	9,302	17,495	18,719
Risk-weighted assets	2,931	3,322	3,653	3,774	1,610	1,820	8,194	8,916
Average CET 1 capital at 12%	375	398	462	507	200	263	1,037	1,167
Interest margin (%)	1.57	1.61	2.06	2.31			1.78	1.93
Cost/income ratio (%)	47.4	47.8	39.0	34.2			54.5	55.7
Risk costs (%)	-0.05	0.05	0.35	0.52			0.12	0.27
Return on equity (%)	11.7	9.6	9.2	9.3			8.3	8.3

Any differences in totals are due to rounding effects.

## Performance of the segments

The Public Programme Loans segment, which includes income and expenses from IKB's activities in connection with the grant of public programme loans to mid-cap customers and the provision of advice on obtaining and applying for

such loans, generated net profit after tax of €44 million (9 months of the previous year: €29 million). The new business volume was at €1.0 billion, compared with €1.1 billion in the 9 months of the previous year. The return on equity in the segment rose to 11.7% (previous year: 9.6%) particularly as a result of positive net risk provisioning; the cost/income ratio came to 47.4% (previous year: 47.8%).

The Corporate Bank segment, which combines our financing and advisory services in traditional lending business with support for our customers in capital market activities, generated net profit after tax of €43 million (9 months of the previous year: €35 million). The risk-related reduction of parts of our corporate investment portfolio resulted in a net other income of €1 million. New business increased significantly compared to the previous year due to additional refinancing funds provided by the central bank, coming to €2.0 billion (previous year: €0.4 billion). The segment return on equity came to 9.2% (previous year: 9.3%). The cost/income ratio rose to 39.0%, up from 34.2% in the previous year, due to smaller margins in new lending business, which were influenced by shorter loan terms and an improved risk profile as well as lower net commission income.

The Corporate Centre, which includes profit and loss from our funding operations and asset/liability management and the investment portfolio as well as company-related costs (e.g. for the EU bank levy and the external audit of the annual financial statements) and the unallocated costs of central functions, reported a net loss before tax of €5 million (net profit after tax of €0 million).



Düsseldorf, 18 May 2022

IKB Deutsche Industriebank AG  
The Board of Managing Directors



Dr Michael H. Wiedmann



Dr Patrick Trutwein



Steffen Zeise

## Report of the independent auditor

To IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of IKB Deutsche Industriebank AG, Düsseldorf, which comprise the balance sheet as at 31 December 2021, and the income statement for the financial year from 1 January 2021 to 31 December 2021, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of IKB Deutsche Industriebank AG for the financial year from 1 January 2021 to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) HGB [“Handelsgesetzbuch”: German Commercial Code] contained in section 7 of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- **the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021 in compliance with German legally required accounting principles, and**
- **the accompanying management report as a whole provides an appropriate view of the Institution’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance referred to above.**

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the annual financial statements and of the management report” section of our auditor’s report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that

the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

**Below, we describe what we consider to be the key audit matters:**

1. Recoverability of deferred tax assets

**Reasons why the matter was determined to be a key audit matter**

The assessment of the recoverability of deferred tax assets is subject to judgment and requires estimates regarding the future tax income situation and the usability of tax losses.

IKB AG assesses the recoverability of deferred tax assets on the basis of a forecast of the taxable results for the next five financial years based on internal planning as of 31 December 2021, which is highly dependent on estimates and assumptions made by the Board of Managing Directors.

Given the judgment in relation to the assumptions used in the forecast and the uncertainty inherent in any planning, the assessment of the recoverability of deferred tax assets was a key audit matter.

**Auditor's response and any key observations**

During our audit procedures, we walked through the design of the Bank's process for recognizing deferred tax assets and assessing the recoverability of deferred tax assets and assessed its compliance with internal requirements.

We obtained an understanding of how the underlying transactions and effects of reversals are identified. We reconciled the Bank's tax forecasts for subsequent years with internal planning documents in accordance with German commercial law and analyzed the causes of any differences in the tax accounts. We assessed the budgets and forecasts prepared in accordance with German commercial law in terms of the underlying planning assumptions, in particular by reference to the quality of past budgets and forecasts. In addition to our knowledge of the bank's business activities, our assessment is based in particular on forecasts of industry developments, taking into account the possible effects of current geopolitical and global economic events. For this purpose, we consulted internal business valuation and mathematical finance specialists.

We identified the existing tax group relationships and analyzed whether the underlying tax rates reflect the effective tax burden of the tax group. We also assessed whether the Bank's calculation is consistent with the pertinent tax legislation. In this regard, we consulted internal tax specialists.

Our audit procedures did not lead to any reservations relating to the recoverability of deferred tax assets.

### **Reference to related disclosures**

The Bank provides information on deferred taxes in the notes to the financial statements and the consolidated financial statements of IKB as of 31 December 2021 in notes “(10) Deferred taxes” and “(29) Deferred tax assets.”

2. Identification and valuation of defaulted receivables from customers in industrial sectors subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation

### **Reasons why the matter was determined to be a key audit matter**

The identification and valuation of defaulted receivables from customers in industrial sectors which are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation is a key area in which the Board of Managing Directors uses judgment. At IKB AG, these risk factors primarily affect receivables from customers in the following industrial sectors: automotive suppliers, metal products/steel and mechanical engineering, real estate and construction as well as the retail and wholesale trade (including the textiles and paper industries). The identification of impaired loans and determination of required single loan loss allowances entail uncertainties and involve various assumptions and influencing factors, in particular the financial situation of the borrower, and expectations regarding future cash flows and the realization of collateral. These uncertainties increased significantly in financial year 2021 due to the ongoing impact of the global coronavirus pandemic, supply chain disruptions and rising inflation.

Even minor changes in the assumptions and estimation inputs can lead to significantly different valuations and thus to a change in allowances. In light of the significance for the assets, liabilities and financial performance, we considered the identification and valuation of defaulted receivables from customers in industrial sectors which are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation to be a key audit matter.

### **Auditor's response**

**During our audit, we examined the processes for identifying and monitoring the default risk for receivables from customers in industrial sectors which are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation. To this end, we assessed in particular the processes and controls implemented for monitoring the occurrence of early warning indicators, the application of default criteria and the correct allocation to the relevant risk status.**

**We also examined the process for calculating allowances, which included testing the operating effectiveness of the controls implemented for the calculation of allowances.**

**As part of our credit file review, we selected a risk-based sample and analyzed the allowance requirements determined for those exposures that are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation.**

**We performed substantive audit procedures, assessing whether the significant assumptions and estimation inputs concerning the estimated future cash flows from the loan exposures including the carrying amount of the collateral held were consistent with the financial situation of the borrower and the publicly available market and industry forecasts. We also checked the arithmetical accuracy of the allowances calculated for default risks.**

Our audit procedures did not lead to any reservations relating to the identification and valuation of defaulted receivables from customers in industrial sectors subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation.

### **Reference to related disclosures**

The Bank's disclosures on the identification and valuation of defaulted receivables from customers, which also include those subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation, are contained in note "(6) Provisions for possible loan losses" in the notes to the financial statements and the consolidated financial statements as of 31 December 2021 and in section "3. Risk report" in the "Counterparty default risks" subsection in the combined management report of IKB AG and the IKB Group.

3. Determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7

### **Reasons why the matter was determined to be a key audit matter**

The valuation of receivables from customers and the related determination of the portfolio loan loss allowance for expected general counterparty credit risk is a key area in which the Board of Managing Directors use judgment.

Pursuant to the IDW Accounting Principle "Loan loss allowances for expected general counterparty credit risk in the lending business of banks" (portfolio loan loss allowances) (IDW AcP BFA 7), the Bank – using the simplified approach – calculated the portfolio loan loss allowance on the basis of a 12-month expected loss for the first time as of 31 December 2021. For exposures where it can no longer be assumed that the credit rating premium determined upon lending matches the expected loss, the loan loss allowance is increased. This higher amount reflects the estimated lifetime expected loss.

The valuation process is based on various credit risk inputs which are estimated on the basis of historical information, obligor characteristics and current economic developments. Some of these credit risk inputs can only be observed with a time lag and are subject to a high degree of estimation uncertainty. Even minor changes in the assumptions and inputs can lead to significantly different valuations.

Given the high degree of judgment involved in the estimation of the various credit risk inputs, we consider the determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7 to be a key audit matter.

### **Auditor's response**

We analyzed the underlying functional design document used for determining the portfolio loan loss allowance to ascertain whether the use of the simplified approach is reasonable and the design of the approach appropriate within the meaning of IDW AcP BFA 7.

Regarding the default risk, we examined the design and operating effectiveness of the controls implemented in the risk classification process to assess whether the various credit risk inputs are appropriate. In addition, we considered the processes implemented in connection with the valuation and monitoring of collateral in the lending business. In this respect, we assessed the design and operating effectiveness of the controls implemented for this purpose. In addition, we obtained an understanding of the review of the credit risk inputs as part of the Bank's validation process, assessed the appropriateness of the validation process and examined whether the validation results are adequately considered. We consulted internal credit risk management specialists during our audit procedures.

To determine whether the credit rating premium matches the expected loss upon lending, we examined the processes implemented by the Board of Managing Directors of IKB Deutsche Industriebank AG in connection with extending and pricing loans and assessed their design and operating effectiveness. We also performed substantive procedures on a sample basis, assessing whether the credit rating premium upon lending appropriately reflects the risks arising with regard to the obligor, the loan amount, the term and the collateral provided and arithmetically covers the expected loss upon lending.

Where the credit rating premium no longer matched the expected loss, we assessed whether the loan loss allowance was calculated correctly over the remaining term.

Based on a data export, we assessed the arithmetical accuracy of the portfolio loan loss allowance determined on the basis of the credit risk inputs.

Our audit procedures did not lead to any reservations relating to the determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7.

### **Reference to related disclosures**

The Bank's disclosures on the determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7 are contained in note "(6) Provisions for possible loan losses" in the notes to the financial statements and the consolidated financial statements as of 31 December 2021 and in section "3. Risk report" in the "Counterparty default risks" subsection in the combined management report of IKB AG and the IKB Group.

### **Other information**

The Supervisory Board is responsible for the "Report of the Supervisory Board." In all other respects, the executive directors are responsible for the other information.

The other information comprises the corporate governance declaration pursuant to Sec. 289f (4) HGB. In addition, the other information comprises the non-financial report, of which we obtained a version prior to issuing this auditor's report. Furthermore, the other information comprises additional parts of the annual report of which we received a version before issuing this auditor's report, in particular the key figures of the IKB Group, the letter from the Chairman of the Board of Managing Directors and the Report of the Supervisory Board, but not the annual financial statements, not the management report disclosures whose content is audited and not our auditor's report thereon.

Our opinions on the annual financial statements and on the management report do not cover the other information and consequently, we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- **is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or**
- **otherwise appears to be materially misstated.**

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

### **Auditor's responsibilities for the audit of the annual financial statements and of the management report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- **Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.**
- **Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.**
- **Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.**
- **Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective**



opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 18 March 2021. We were engaged by the Chairman of the Risk and Audit Committee on 7 June 2021. We have been the auditor of IKB Deutsche Industriebank AG without interruption for five years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Risk and Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Martin Werthmann.

Düsseldorf, 20 May 2022

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Werthmann  
Wirtschaftsprüfer  
[German Public Auditor]

Gundelach  
Wirtschaftsprüferin  
[German Public Auditor]

To IKB Deutsche Industriebank Aktiengesellschaft, Düsseldorf

Report on the audit of the consolidated financial statements and of the group management report

## Opinions

We have audited the consolidated financial statements of IKB Deutsche Industriebank AG, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2021, and the consolidated income statement for the financial year from 1 January 2021 to 31 December 2021, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the consolidated financial statements, including the recognition and measurement policies presented therein, as well as the group segment reporting for the financial year from 1 January 2021 to 31 December 2021. In addition, we have audited the group management report of IKB Deutsche Industriebank AG for the financial year from 1 January 2021 to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) HGB [“Handelsgesetzbuch”: German Commercial Code] contained in section 7 of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- **the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021 in compliance with German legally required accounting principles, and**
- **the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance declaration referred to above.**

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

## Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional

responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

#### Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

#### **Below, we describe what we consider to be the key audit matters:**

2. Recoverability of deferred tax assets

#### **Reasons why the matter was determined to be a key audit matter**

The assessment of the recoverability of deferred tax assets is subject to judgment and requires estimates regarding the future tax income situation and the usability of tax losses.

The IKB Group assesses the recoverability of deferred tax assets on the basis of a forecast of the taxable results for the next five financial years based on internal planning as of 31 December 2021, which is highly dependent on estimates and assumptions made by the Board of Managing Directors.

Given the judgment in relation to the assumptions used in the forecast and the uncertainty inherent in any planning, the assessment of the recoverability of deferred tax assets was a key audit matter.

#### **Auditor's response and any key observations**

During our audit procedures, we walked through the design of the Bank's process for recognizing deferred tax assets and assessing the recoverability of deferred tax assets and assessed its compliance with internal requirements.

We obtained an understanding of how the underlying transactions and effects of reversals are identified. We reconciled the Group's tax forecasts for subsequent years with internal planning documents in accordance with German commercial law and analyzed the causes of any differences in the tax accounts. We assessed the budgets and forecasts prepared in accordance with German commercial law in terms of the underlying planning assumptions, in particular by reference to the quality of past budgets and forecasts. In addition to our knowledge of the Group's business activities, our assessment is based in particular on forecasts of industry developments, taking into account the possible effects of current geopolitical and global economic events. For this purpose, we consulted internal business valuation and mathematical finance specialists.

We identified the existing tax group relationships and analyzed whether the underlying tax rates reflect the effective tax burden of the tax group. We also assessed whether the Group's calculation is consistent with the pertinent tax legislation. In this regard, we consulted internal tax specialists.

Our audit procedures did not lead to any reservations relating to the recoverability of deferred tax assets.

### **Reference to related disclosures**

The Group provides information on deferred tax assets in the notes to financial statements and the consolidated financial statements of IKB as of 31 December 2021 in notes "(10) Deferred taxes" and "(29) Deferred tax assets."

2. Identification and valuation of defaulted receivables from customers in industrial sectors subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation

### **Reasons why the matter was determined to be a key audit matter**

The identification and valuation of defaulted receivables from customers in industrial sectors which are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation is a key area in which the Board of Managing Directors uses judgment. At the IKB Group, these risk factors primarily affect receivables from customers in the following industrial sectors: automotive suppliers, metal products/steel and mechanical engineering, real estate and construction as well as the retail and wholesale trade (including the textiles and paper industries). The identification of impaired loans and determination of required single loan loss allowances entail uncertainties and involve various assumptions and influencing factors, in particular the financial situation of the borrower, and expectations regarding future cash flows and the realization of collateral. These uncertainties increased significantly in financial year 2021 due to the ongoing impact of the global coronavirus pandemic, supply chain disruptions and rising inflation.

Even minor changes in the assumptions and estimation inputs can lead to significantly different valuations and thus to a change in allowances. In light of the significance for the assets, liabilities and financial performance, we considered the identification and valuation of defaulted receivables from customers in industrial sectors which are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation to be a key audit matter.

### **Auditor's response**

**During our audit, we examined the processes for identifying and monitoring the default risk for receivables from customers in industrial sectors which are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation. To this end, we assessed in particular the processes and controls implemented for monitoring the occurrence of early warning indicators, the application of default criteria and the correct allocation to the relevant risk status.**

We also examined the process for calculating allowances, which included testing the operating effectiveness of the controls implemented for the calculation of allowances.

As part of our credit file review, we selected a risk-based sample and analyzed the allowance requirements determined for those exposures that are subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation.

We performed substantive audit procedures, assessing whether the significant assumptions and estimation inputs concerning the estimated future cash flows from the loan exposures including the carrying amount of the collateral held were consistent with the financial situation of the borrower and the publicly available market and industry forecasts. We also checked the arithmetical accuracy of the allowances calculated for default risks.

Our audit procedures did not lead to any reservations relating to the identification and valuation of defaulted receivables from customers in industrial sectors subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation.

### **Reference to related disclosures**

The Group's disclosures on the identification and valuation of defaulted receivables from customers, which also include those subject to increased risk factors due to the pandemic, supply chain disruptions and/or rising inflation, are contained in note "(6) Provisions for possible loan losses" in the notes to the financial statements and the consolidated financial statements as of 31 December 2021 and in section "3. Risk report" in the "Counterparty default risks" subsection in the combined management report of IKB AG and the IKB Group.

3. Determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7

### **Reasons why the matter was determined to be a key audit matter**

The valuation of receivables from customers and the related determination of the portfolio loan loss allowance for expected general counterparty credit risk is a key area in which the Board of Managing Directors use judgment.

Pursuant to the IDW Accounting Principle "Loan loss allowances for expected general counterparty credit risk in the lending business of banks" (portfolio loan loss allowances) (IDW AcP BFA 7), the Group – using a simplified approach – calculated the portfolio loan loss allowance on the basis of a 12-month expected loss for the first time as of 31 December 2021. For exposures where it can no longer be assumed that the credit rating premium determined upon lending matches the expected loss, the loan loss allowance is increased. This higher amount reflects the estimated lifetime expected loss.

The valuation process is based on various credit risk inputs which are estimated on the basis of historical information, obligor characteristics and current economic developments. Some of these credit risk inputs can only be observed with a time lag and are subject to a high degree of estimation uncertainty. Even minor changes in the assumptions and inputs can lead to significantly different valuations.

Given the high degree of judgment involved in the estimation of the various credit risk inputs, we consider the determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7 to be a key audit matter.

### **Auditor's response**

We analyzed the underlying functional design document used for determining the portfolio loan loss allowance to ascertain whether the use of the simplified approach is reasonable and the design of the approach appropriate within the meaning of IDW AcP BFA 7.

Regarding the default risk, we examined the design and operating effectiveness of the controls implemented in the risk classification process to assess whether the various credit risk inputs are appropriate. In addition, we considered the processes implemented in connection with the valuation and monitoring of collateral in the lending business. In this respect, we assessed the design and operating effectiveness of the controls implemented for this purpose. In addition, we obtained an understanding of the review of the credit risk inputs as part of the Group's validation process, assessed the appropriateness of the validation process and examined whether the validation results are adequately considered. We consulted internal credit risk management specialists during our audit procedures.

To determine whether the credit rating premium matches the expected loss upon lending, we examined the processes implemented by the Board of Managing Directors of IKB Deutsche Industriebank AG in connection with extending and pricing loans and assessed their design and operating effectiveness. We also performed substantive procedures on a sample basis, assessing whether the credit rating premium upon lending appropriately reflects the risks arising with regard to the obligor, the loan amount, the term and the collateral provided and arithmetically covers the expected loss upon lending.

Where the credit rating premium no longer matched the expected loss, we assessed whether the loan loss allowance was calculated correctly over the remaining term.

Based on a data export, we assessed the arithmetical accuracy of the portfolio loan loss allowance determined on the basis of the credit risk inputs.

Our audit procedures did not lead to any reservations relating to the determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7.

### **Reference to related disclosures**

The Group's disclosures on the determination of the portfolio loan loss allowance for expected general counterparty credit risk relating to receivables from customers upon initial application of IDW AcP BFA 7 are contained in note "(6) Provisions for possible loan losses" in the notes to the financial statements and the consolidated financial statements as of 31 December 2021 and in section "3. Risk report" in the "Counterparty default risks" subsection in the combined management report of IKB AG and the IKB Group.

## Other information

The Supervisory Board is responsible for the “Report of the Supervisory Board.” In all other respects, the executive directors are responsible for the other information.

The other information comprises the corporate governance declaration referred to above. In addition, the other information comprises the non-financial report, of which we obtained a version prior to issuing this auditor’s report. Furthermore, the other information comprises additional parts of the annual report of which we received a version before issuing this auditor’s report, in particular the key figures of the IKB Group, the letter from the Chairman of the Board of Managing Directors and the Report of the Supervisory Board, but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor’s report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- **is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or**
- **otherwise appears to be materially misstated.**

**If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.**

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

**The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.**

**In preparing the consolidated financial statements, the executive directors are responsible for assessing the Institution’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.**



Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

#### **Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German legally required accounting principles.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

**We were elected as auditor by the Annual General Meeting on 18 March 2021. We were engaged by the Chairman of the Risk and Audit Committee on 7 June 2021. We have been the auditor of IKB Deutsche Industriebank AG without interruption for five years.**

**We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Risk and Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).**

German Public Auditor responsible for the engagement

**The German Public Auditor responsible for the engagement is Martin Werthmann.**

**Düsseldorf, 20 May 2022**

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

**Werthmann  
Wirtschaftsprüfer  
[German Public Auditor]**

**Gundelach  
Wirtschaftsprüferin  
[German Public Auditor]**

## **Note on forward-looking statements**

This report contains forward-looking statements. Forward-looking statements are statements that do not describe past events; they also include statements on IKB's assumptions and expectations. These statements are based on the planning, estimates and forecasts currently available to the management of IKB. Forward-looking statements therefore apply only on the day on which they are made. IKB does not assume any obligation to update such statements in light of new information or future events.

By their nature, forward-looking statements contain risks and uncertainty factors. A large number of important factors could cause actual results to differ significantly from forward-looking statements. Such factors include economic developments, the condition and development of the financial markets in Germany, Europe, the US and other places where IKB generates income from securities trading, the possible default of borrowers or counterparties in trades, the implementation of our management agenda, the reliability of risk management policies, procedures and methods, and the liquidity situation.

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(Only the German version of this report is legally binding.)