Performance of IKB Deutsche Industriebank in the financial year 2020: further increase in profitability and cost efficiency despite COVID-19

Note: Previously, IKB's financial year ended on 31 March of any given year; the financial year end has now changed to a calendar year end, ending on 31 December. As a result, the 2020 financial year, hereinafter referred to as stub financial year, comprises nine months and its financial figures can only be compared to a limited extent with the 2019/20 financial year.

- **Consolidated net income after risk provisions of €73 million in the financial stub year; return on equity (ROE) increased to 8.3%**
- **Earnings guidance for full-year 2021: net income of close to €100 million and ROE of about 9% expected**
- **Administrative costs reduced to €104 million, cost/income ratio (CIR) improved from 65% to 56%**
- **Risk provisions of €20 million and NPL ratio (EBA definition) of 1.6% at low level**
- **Common Equity Tier 1 (CET 1) ratio significantly increased to 14.3% (financial year 2019/20: 12.0%), pro forma CET 1 ratio in accordance with Basel IV of 15.3%**
- **Leverage ratio increased to 7.4% (financial year 2019/20: 7.1%)**
- **Solid liquidity: loan to deposit ratio of 70% and liquidity coverage ratio (LCR) of 271%**
- **Investment grade ratings received by Moody's (Baa1) and Fitch (BBB)**
- **Resumption of dividend distributions after 15 years**
- **Chairman of IKB's Board of Managing Directors Dr Michael Wiedmann: "The results for the financial year more than met our expectations. Our focused business model guarantees reliable results and stable dividends."**

[Düsseldorf, 19 March 2021] IKB achieved a solid net income in the shortened financial year 2020 (1 April to 31 December 2020) despite the continuing COVID-19 pandemic. Consolidated net consolidated income after tax from operating activities amounted to €73 million, thus exceeding the Bank's own forecast of €60 million. This figure includes the release of tax provisions in the amount of €10 million.

The return on equity increased from 5.9% in financial year 2019/20 to 8.3% (based on a CET 1 ratio of 12% calculated on the basis of average risk-weighted assets). Operating profit before risk provisions (net interest income and net fee and commission income less administrative expenses) was at €82 million (financial year 2019/20: €85 million) and is mainly driven by a decrease in administrative expenses to €104 million (financial year 2019/20: €156 million). The cost income ratio was reduced from 65% to 56% in the financial stub year.

IKB's focus on simple structures, profitable products and stringent cost management is paying off. The Bank is on track to achieve its objectives for the 2021 financial year, with consolidated net income of about €100 million, administrative expenses of about €130 million, a cost income ratio of slightly above 50% and a ROE of about 9%.

Focus of new business on supporting mid-cap companies with KfW special programmes

The development of new business in the financial stub year 2020 was severely impacted by the ongoing coronavirus pandemic. Thanks to its strong market position in the public programme loan business, IKB was able to support its corporate clients in accessing the special programmes launched by KfW. In combination with a more subdued demand for corporate loans, this resulted in total new business volumes of approximately €1.5 billion (financial year 2019/20: €2.8 billion). Therefore, the share of public programme loans as percentage of total volumes increased by 31% year-on-year to 74%. IKB is one of the top 10 on-lending institutions for the KfW special programmes. For the 2021 financial year, the Bank expects a significant increase in new business volumes to €2.5 billion.

Basis created for sustainable profitability

In the financial stub year 2020, IKB generated consolidated net income of €73 million (financial year 2019/20: €8 million), despite the difficult economic environment caused by the coronavirus. The adjusted return on equity increased from 5.9% in financial year 2019/20 to 8.3%.

The solid net income is primarily the result of robust net interest income of €165million (financial year 2019/20: €201 million), which is supported by a stable customer portfolio, selective lending and strict pricing and margin discipline. The net interest margin of the loan book was 1.93% (financial year 2019/20: 1.99%). The decrease in net fee and commission income to €20 million (financial year 2019/20: €40 million) is attributable to the targeted adjustment of the structure of new business towards public programme loans from the KfW special loan programme. Subdued demand for corporate loans resulted in lower commission income from loan structuring. Expectations are that this will revert to normal over the coming years.

The Group's administrative expenses improved significantly, to €104 million, in the period under review (financial year 2019/20: €156 million), driven by stringent cost discipline. The savings were achieved in particular on IT costs, the cost of office space and legal and consulting costs. The cost income ratio was 56% in the reporting period, compared with 65% in financial year 2019/20.

Net risk provisioning amounted to €20 million in the financial stub year 2020 (financial year 2019/20: €30 million). The risk margin in the lending book amounted to 0.27% in the reporting period (financial year 2019/20: 0.29%). Despite the outbreak of the COVID-19 pandemic, the proportion of non-performing assets remains very low, with an NPL ratio (in accordance with the EBA definition) of 1.6% (31 March 2020: 1.3%). This is primarily attributable to IKB's resilient loan book, which has only a limited exposure to sectors that have been hit particularly hard by the coronavirus pandemic; out of a total loan book of €9.4 billion, only €183 million relate to particularly hard hit sectors. Total portfolio loan loss provisions and single loan loss provisions amounted to €169 million (31 March 2020: €184 million). This figure includes special portfolio loan loss provisions of €29 million for specific risks relating to the COVID-19 pandemic.

€5.7 billion of IKB's loan book of €9.4 billion is refinanced through public programme loans from KfW and other development banks with matching maturities. This means that more than half the loan book does not require refinancing via deposits. IKB's loan book consists largely of loans to medium-sized German companies, i.e. companies with annual revenue of more than €100 million. They are characterised by very solid business models and, in most cases, high capital and liquidity ratios.

Strong capitalization and liquidity position

IKB's capitalization is very solid and significantly exceeds all regulatory requirements. As of 31 December 2020, the CET 1 ratio (fully phased-in) for IKB Group stood at 14.3% (31 March 2020: 12.0%), and IKB recorded as predicted a significant increase in its CET 1 ratios. It significantly exceeds the minimum regulatory requirements of 8.1% under the supervisory review and evaluation process (SREP). Under the Basel IV regulations, the pro forma CET 1 ratio increases to 15.3%.

The Bank's leverage ratio improved to 7.4% (31 March 2020: 7.1%), and the liquidity coverage ratio as of 31 December 2020 increased to 271% (31 March 2020: 235%), significantly higher than the minimum regulatory requirements. IKB's loan-to-deposit ratio – calculated as the loan book excluding public programme loans relative to the total of retail and business customer deposits and promissory note loans – stood at a solid 70% as of 31 December 2020 (31 March 2020: 80%).

Investment-grade rating received from Moody's and Fitch

IKB received an investment-grade rating from rating agencies Moody's (15 January 2021) and Fitch (14 January 2021). Moody's assigned IKB a deposit and issuer rating of Baa1 with a stable outlook. Fitch assigned IKB a long-term issuer default rating of BBB with a negative outlook. Fitch's negative outlook reflects the current market conditions in the banking sector rather than an IKB-specific outlook. These ratings mean that IKB meets the requirements of many business partners and institutional investors.

First dividend in 15 years

Over the past years, IKB has significantly reduced complexities and has created a basis for sustained profitability and stability amidst relatively stable risk provisioning. IKB significantly strengthened its capital ratios in the financial stub year 2020. Besides IKB's strong operating result, the regulatory approval received for model changes in the IRBA rating system, which resulted in a reduction of approximately €0.8 billion in RWAs, was a contributing factor. The CET 1 ratio (fully phased-in) increased to 14.3% as at 31 December 2020, significantly up on the 12.0% as at 31 March 2020. Based on this performance and the fact that the Bank's transformation has been largely completed, the Board of Managing Directors has proposed a dividend distribution to the Annual General Meeting for the first time in 15 years.

Due to the ongoing coronavirus pandemic, ECB and BaFin in December 2020 renewed their recommendation to banks to continue to exercise restraint in distributing dividends until 30 September 2021. IKB is taking this regulatory guidance into account and hence intends to distribute the dividend for the 2020 financial year in two stages. In accordance with regulatory recommendations, the Board of Managing Directors has initially proposed to the Annual General Meeting the distribution of a dividend of €12 million.

Depending on the future economic development, the Bank's risk position and regulatory requirements, IKB is planning for an additional dividend of €152 million in the fourth quarter of 2021. This staged distribution is compliant with the recommendations of the ECB and BaFin. The total amount planned for distribution is equivalent to the net income generated by IKB AG in 2020 of €164 million. The entire planned distribution is already deducted from IKB's regulatory capital position as at 31 December 2020. Even after the planned dividend distribution, IKB's CET 1 ratio of 14.3% (fully phased-in) will therefore significantly exceed the regulatory requirements of 8.1%.

In addition, the Bank has reintroduced a general dividend policy going forward. Under this policy, IKB targets to distribute between 60% and 80% of profits after-tax, unless economic or other factors indicate otherwise. The distributions will be made subject to meeting all regulatory requirements imposed by BaFin and the Bundesbank.

Outlook

The current ongoing geopolitical tensions and the consequences of the COVID-19 pandemic, which cannot as yet be assessed conclusively, may continue to have an impact on the Bank's risk position and operating performance. IKB will therefore consistently maintain its high lending standards in the current environment and in light of persistently low interest rates. Although the macroeconomic uncertainty due to the COVID-19 pandemic is an extreme situation, the Bank believes that, given its very solid capital position and its risk situation, it is overall well positioned in the current environment. For the 2021 financial year, IKB plans to increase net interest and commission income to around €250 million. Moreover, the Bank projects a significant rise in new lending volumes to around €2.5 billion in the 2021 financial year.

Uncertainties remain around the expected risk provisioning levels in the 2021 financial year due to the ongoing economic impact of the coronavirus pandemic. Based on the experience of the past financial year and our customer base, the Bank expects net risk provisioning of around €-25 million.

The Group's administrative costs, which have already been continuously reduced in recent years, are to be lowered further by continuing with cost optimisation measures. As a result, the Bank expects administrative costs of around €130 million for the 2021 financial year. IKB expects a further improvement in the cost/income ratio from the levels in the 2020 financial year to slightly above 50%. In IKB's view, improving cost efficiency is a key success factor, and in the medium-term the Bank aims to reduce administrative expenses to around €105 million and to achieve a cost income ratio of below 40%.

In addition to cost efficiency, the return on equity (ROE) is also important for the Bank's further development. IKB expects a ROE of around 9% for the 2021 financial year. In the medium term, it is aiming for a ROE of over 10%.

IKB expects risk-weighted assets (fully phased-in) to increase slightly in the 2021 financial year. The CET 1 ratio is expected to stand slightly above 13% at the end of the 2021 financial year. For the 2021 financial year, IKB forecasts a leverage ratio of above 7%, similar to the level of the financial stub year 2020.

IKB expects to generate consolidated net profit after taxes of close to €100 million in the 2021 financial year. In view of the positive outlook, IKB is targeting an annual distribution ratio of 60% to 80% of consolidated net profit after taxes. To the extent that risks from currently unforeseeable negative developments, particularly in connection with the coronavirus pandemic materialise, earnings in the coming financial year may be significantly lower than expected.

Table: IKB's income statement for the 2020 financial year (consolidated, in accordance with German GAAP (HGB))

in € million	1 Apr. 2020 – 31 Dec. 2020	1 Apr. 2019 - 31 Mar. 2020	1 Apr. 2018 - 31 Mar. 2019
Net interest income	165	201	193
Net fee and commission income	20	40	37
Total banking income	**186**	**241**	**230**
Administrative expenses	-104	-156	-192
Personnel expenses	*-65*	*-81*	*-99*
Other administrative expenses	*-39*	*-75*	*-94*
Operating profit before risk provisions	**82**	**85**	**38**
Net risk provisioning	-20	-30	-36
Operating profit	**63**	**56**	**2**
Net other income	1	-47	-106
Earnings before tax	**63**	**9**	**-104**
Tax expense/income	10	-1	64
Net profit after tax	**73**	**8**	**-41**

Any differences in totals are due to rounding effects.

Further details on developments in the 2020 financial year can be found in the 2020 Annual Report and in the investor presentation at https://www.ikb.de/en/investor-relations/reports-and-presentations.

Contact:

Armin Baltzer, phone: +49 211 8221 6236, email: presse@ikb.de

Andreas Misiek, phone: +49 211 8221 4073, email: presse@ikb.de

IKB Deutsche Industriebank AG supports medium-sized enterprises with loans, capital market services and advisory services.