IKB Deutsche Industriebank: Results for the financial year 2019/20

Net consolidated income € 8 million, excluding one-time effects income of € 80 million

Net consolidated income of € 80 million, adjusted for extraordinary expenses of € 48 million from the termination of the silent participations, € 21 million from restructuring expenses and € 2 million from transaction and consulting costs in relation to the capital reduction as well as the termination of the silent participations. Return on equity of approx. 6% assuming a common equity tier 1 ratio of 12% is calculated on risk-weighted assets of € 11.4 billion.

Administrative expenses reduced by 19% from € 192 million to € 156 million

Personnel expenses further reduced from € 99 million to € 81 million. Other administrative expenses reduced in the Group from € 94 million to € 75 million. Administrative expenses will be further reduced to approx. € 140 million in the financial year 2020/21 and to below € 110 million in the medium-term.

Cost income ratio improved from 84% to 65%

Net interest income, fee and commission income increased by 5% from € 230 million to € 241 million, while administrative expenses reduced by € 37 million. Pre-provision income (net interest income, fee and commission income less administrative expenses) more than doubled from € 37 million to € 85 million. The medium-term target level for the cost income ratio is below 50%.

Common equity tier 1 ratio (CET 1) of 12.0% (fully loaded)

The CET 1 ratio was flat at 12%. Despite the introduction of IRBA on 31 March 2019, which resulted in a reduction of € 1 billion in RWAs, the RWA density (risk-weighted assets/total assets) of IKB remains at a high level of approx. 70%. Further model adjustments already under implementation have a potential of additional RWA reduction of up to € 1.5 billion. As a result, a significant increase in the CET 1 is expected.

Pro-forma Basel IV CET 1 ratio of 12.8% above current level

The additional reduction in RWAs from the introduction of Basel IV amounts to € 0.5 billion and results from a reduction in the standard parameters used for calculating RWAs in the foundation IRB approach.

NPL ratio (EBA definition) of 1.3 % remains very low

The level of non-performing assets is stable at € 154 million compared with the previous year (€ 152 million). Net risk provisioning is at a moderate level despite initial corona effects.

High level of LCR of 235% and loan to deposit ratio of 75 %

IKB has a strong liquidity position. The LCR of 235% is significantly above the minimum requirement of 100%. The loan to deposit ratio is 75% (excluding public programme loans). IKB has liquidity reserves of € 1.8 billion.

Liabilities restructuring completed, accumulated losses eliminated, significant amount of available distributable reserves

The share capital of IKB AG decreased to € 100 million through a capital reduction. It comprises 100,000,000 no-par value shares with a notional value of € 1. Available distributable reserves amount to € 460 million. This provides the bank with the flexibility for future distributions.

[Düsseldorf, 18 May 2020] At the end of the financial year 2019/20, an important goal was achieved: IKB once again has the option to issue tier 1 instruments. This was made possible following the completion of the liabilities' restructuring. IKB has terminated the silent participations (Capital Raising and Hybrid Raising) of € 200 million, generating a non-recurring expense of € 48 million at Group level. Accumulated losses were also eliminated. To this end, the share capital of IKB AG decreased to € 100 million through capital reduction. The share capital of the fiscal year comprises 100,000,000 no-par value shares with a notional value of € 1.- per share. Available distributable reserves amount to € 460 million. This provides the bank with flexibility for future distributions.

In the financial year 2019/20, IKB achieved net consolidated income after taxes of € 8 million (previous year: € -41 million), which was in line with the forecast. Net consolidated income of € 80 million, adjusted for extraordinary expenses of € 48 million from the termination of the silent participations, € 21 million from re-structuring expenses and € 2 million from transaction and consulting costs in re-lation to the capital reduction as well as termination of the silent participations. Return on equity of approx. 6% assuming a common equity tier 1 ratio of 12%, calculated on risk-weighted assets of € 11.4 billion.

Pre-provision income (net interest income, fee and commission income less administrative expenses) increased from € 37 million to € 85 million and resulted mainly from the € 37 million reduction in administrative expenses.

The cost income ratio has improved from 84% to 65%. This is due in particular to the continued cost-cutting and restructuring measures, which reduced administrative expenses by 19% compared with the previous year. Net interest income, fee and commission income increased by € 11 million or 5%. In the medium-term, IKB expects a reduction in administrative expenses from € 156 million in the financial year 2019/20 to below € 110 million and a cost income ratio below 50%.

The NPL ratio was stable at a very low level of 1.3%. Cost of risk in the lending business in relation to total lending to enterprises was 0.3% in the period under review.

IKB has a solid capital position. At 31 March 2020, the fully loaded CET 1 ratio amounted to 12.0% and total capital ratio to 18.1%. The pro-forma CET 1 ratio according to the Basel IV regulations would be 12.8%. In addition, IKB expects a reduction in the next financial year of risk-weighted assets from changes to its IRBA rating system in the amount of approx. € 1.5 billion. The reduction in risk-weighted assets results from an application for a change in the IKB rating model already submitted to the supervisory authority. Furthermore, IKB expects to be in a position in the financial year 2020/21 to submit an application to the supervisory authority for the complete abolishment of the PD increase for impaired loans, which was an initial condition for the IRBA approval. Even though these positive effects might be mitigated by negative rating migrations, a considerable increase in the CET 1 ratio is expected.

IKB has a strong liquidity position: the fully loaded leverage ratio was 7.1%, the loan to deposit ratio was 75% (calculated as lending book excluding public programme loans in relation to the sum of private and business customer deposits as well as promissory note loans). The liquidity coverage ratio amounted to 235%. IKB has liquidity reserves of € 1.8 billion.

€ 5.2 billion of IKB's loan book is refinanced through public programme loans (KfW and other public banks). Therefore, more than half of the loan book is not financed by deposits.

The consolidated income statement for the financial year 2019/20 is as follows:

Table: IKB income statement (Group, HGB)

in € million	1.4.2019 to 31.3.2020	1.4.2018 to 31.3.2019	Change
Net interest income	201	193	8
Net fee and commission income	40	37	3
Administrative expenses	-156	-192	37
Personnel expenses	*-81*	*-99*	*18*
Other administrative expenses	*-75*	*-94*	*19*
Pre-provision income	85	37	47
Net other income	-47	-106	59
Net risk provisioning	-30	-36	6
Tax income/expense	1	64	-63
Net consolidated income/loss	**8**	**-41**	**49**

Some totals may be subject to discrepancies due to rounding differences.

The Group's net interest income of € 201 million in the period under review exceeded the previous year's figure of € 193 million, while net fee and commission income rose from € 37 million to € 40 million. Given continuing muted demand for corporate loans and intense margin competition, IKB's new business volume of € 2.8 billion in the financial year 2019/20 was below the previous year. Despite that the size of the loan book remained stable.

Administrative expenses in the Group reduced by € 37 million to € 156 million. Personnel expenses further reduced as a result of continued cost-cutting and optimisation measures (Group: by € 18 million to € 81 million). Other administrative expenses, including depreciation, amortisation and write-downs of intangible and tangible assets, reduced in the Group by € 19 million to € 75 million. In addition to lower costs for office space, IT-expenses as well as consulting fees were reduced further as a result of reductions in the project portfolio. In the financial year 2019/20 the cost income ratio improved markedly from 84% in the previous year to 65%.

Despite initial risk provisioning due to Corona, net risk provisioning decreased by € 6 million from € 36 million to € 30 million compared to the previous year. General loan loss provisions and specific loan loss provisions amounted to € 184 million (previous year: € 194 million). Included in this amount are general loan loss provisions of € 32 million to mitigate corona risks.

Net other income amounted to € 47 million. This figure includes non-recurring expenses from the termination of the silent participations of € 48 million, restructuring measures of € 21 million and transaction and consulting costs in relation to the capital reduction as well as termination of the silent participations of € 2 million.

Tax expense in the period under review was € 1 million (previous year: € 64 million tax income).

Outlook

The Coronavirus, which has been spreading rapidly since the beginning of 2020, will have negative economic consequences for many economies and will affect IKB's business. IKB expects an increase in risk provisioning in the financial year 2020/21, the amount cannot be estimated at this point in time. New business potential arises for the bank from the utilisation of recently established KfW special programmes.

For the financial year 2020/21, the bank expects net interest income, fee and commission income stable at the level of the previous year. The continuing low interest rate environment and the expected slight decline in lending volumes will have a negative impact on gross interest income. This is offset by lower funding costs.

Further reductions in administrative expenses will be implemented. Therefore, the bank anticipates administrative expenses of approx. € 140 million in the financial year 2020/21. In comparison to the financial year 2019/20 the cost income ratio will be further reduced which is mainly driven by a reduction in the cost base.

The bank anticipates a significant increase in the common equity tier 1 ratio in the coming financial year. This results from a marked reduction in risk-weighted assets due to changes to the IRBA corporate rating system, accompanied by a slight decline in total lending volume.

The result for the financial year 2019/20 is significantly impacted by non-recurring expenses for the termination of the silent participations as well as restructuring costs. For the financial year 2020/21, the bank expects at the group level net consolidated income after taxes in the upper double-digit million euro range and net income for IKB AG slightly above the group's level. Risks arising from the Corona pandemic might have unforeseen negative impacts on many corporate clients and therefore the result in the coming financial year can be significantly lower than expected.

The bank has a solid tier 1 capital base and sufficient liquidity.

Further details on developments in the financial year 2019/20 can be found in the annual report 2019/20 at https://www.ikb.de/en/investor-relations/financial-reports.

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