IKB Deutsche Industriebank in the first half of 2020/21: Solid net income achieved – profitability and cost efficiency increased

- **Consolidated net income after risk provisions of €42 million; return on equity (ROE) improved to around 7%**
- **Earnings guidance for full year 2020/21 confirmed: net income of around €80 million expected**
- **Administrative costs further lowered by around 20% to €68 million**
- **Cost/income ratio improved to 56% from 64% previously**
- **Robust customer portfolio with NPL ratio (EBA definition) of 2.0% and risk provision expense of €13 million**
- **Common Equity Tier 1 (CET 1) significantly increased to 13.3% (previous year: 12.0%), pro forma CET 1 ratio in accordance with Basel IV of 14.0%**
- **Solid liquidity position: loan to deposit ratio of 64% and LCR of 309%**
- **The Chairman of IKB's Board of Managing Directors Dr Michael Wiedmann said, "Our solid net income for the first half of the year confirms the sustainability and profitability of our focused business model. Our well-established and unbureaucratic cooperation with KfW enabled us to support our customers by granting loans under the coronavirus special programmes and we are thus one of the top 10 on-lending banks for KfW coronavirus special programmes."**

[Düsseldorf, 12 November 2020] IKB achieved a solid net income in the first half of the 2020/21 financial year (April to September 2020) despite an economic environment impacted by the COVID-19 pandemic. Consolidated net income after tax was €42 million and thus in line with our forecast. Compared to net income of €8 million for the 2019/20 financial year, IKB has made significant progress and continued its focus on simplified structures, profitable products and stringent cost management. The return on equity increased from around 6% in the business year 2019/20 to nearly 7% (on a common equity tier 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) increased by around 12% to €54 million, driven particularly by a 20% reduction in administrative costs to €68 million. The Bank is heading in the right direction to achieve its objectives for the full 2020/21 financial year with expected consolidated net income of around €80 million and administrative costs of just under €140 million.

Conscious focus in new business underwriting on supporting mid-cap companies in accessing the KfW special programmes

The development of new business in the first half of the year was shaped by the coronavirus pandemic. IKB provided its mid-cap clients customers with targeted support particularly through its extensive expertise in accessing public programme loans. Demand for the special programmes which KfW launched therefore impacted our new lending business. As a result, the proportion of business with public programme loans increased by 42 percentage points to 83%. The Group deliberately reduced the volume of loans it granted from its own resources, with the result that new business overall amounted to €0.9 billion (previous year: €1.3 billion). Since spring 2020, IKB has supported a large number of SMEs in accessing the KfW special programmes and has placed applications with a total volume of close to €2 billion with KfW. This makes the Bank one of the top 10 on-lending institutions for the KfW special programmes.

Focus on sustainably increasing profitability

Despite the difficult economic environment caused by the coronavirus, IKB's consolidated net income after tax of €42 million in the first six months of the 2020/21 financial year (April to September 2020) was almost at the previous year's level (prior year period of April to September 2019: €46 million). Whilst net interest income remained almost constant, further savings in administrative expenses more than compensated for the decrease in net fee and commission income and the increase in risk provisioning. The return on equity increased from around 6% in the business year 2019/20 to around 7%.

As planned, at €107 million the consolidated net interest income in the reporting period was almost stable at the previous year's level. The Group's net fee and commission income decreased to €14 million, which was largely driven by the focus of new business underwriting on public programme loans from KfW special programmes.

As planned, the Group's administrative expenses were significantly further reduced by around 20% to €68 million in the reporting period from €84 million in same period of the previous year. This stringent cost discipline is paying off: the cost/income ratio decreased to 56% in the reporting period from 64% in the prior year period.

Net risk provisioning amounted to €13 million in the first half of 2020/21 (previous year: €5 million). Based on current information the bank expects risk provisions for the full 2020/21 financial year at a similar level to the financial year 2019/20. The risk provisions in the lending business measured against the corporate credit volume amounted to 30 basis points in the reporting period, as expected. Even following the outbreak of the COVID-19 pandemic, the proportion of non-performing assets remains very low. The NPL ratio (in accordance with the EBA definition) was 2.0% based on our robust loan book, with an expected downward improvement by the end of the financial year. IKB's loan book only has a very small proportion of sectors that have been hit particularly hard by the coronavirus crisis. The Bank currently expects risk provisions to remain at a moderate level in the following financial year as well.

€5.3 billion of IKB's loan book of just under €10 billion is refinanced through public programme loans from KfW Group and other development banks on the basis of matching maturities. This means that more than half the loan book does not require refinancing through deposits. IKB's loan book consists largely of loans to medium-sized German companies; i.e. companies with annual revenue starting from €250 million. They are characterised by very solid business models and, in most cases, high capital and liquidity ratios.

Strong equity position and liquidity position

IKB's equity position remains at a strong level and significantly above all regulatory requirements. On 30 September 2020, the CET 1 ratio for the IKB Group was 13.3% on a fully-loaded basis (31 March 2020: 12.0%). The pro forma CET 1 ratio in accordance with Basel IV regulations would be 14.0%. The leverage ratio improved to 7.5%, and the liquidity coverage ratio as of 30 September 2020 was 309% in the IKB Group and thus also significantly above the minimum regulatory requirements. The loan to deposit ratio was 64%.

Result of subordinated securities lawsuits

IKB regards the lawsuits filed against the Bank in relation to the subordinated securities as without merit. This assessment was confirmed on 24 September 2020 by three second-instance rulings of the Düsseldorf Higher Regional Court clearly in IKB's favour. Some of the lawsuits were inadmissible and all the other lawsuits were completely dismissed. The higher regional court did not permit an appeal in any of the cases.

Outlook

The uncertainty about the future development of the coronavirus pandemic and the related protective measures remains high, even against the background of the further lockdown of parts of the German economy in November 2020. Nevertheless, IKB currently expects to keep the sum of net interest income and net fee and commission income stable at the previous year's level. The reduction of administrative costs in the Group will be achieved through continued cost-cutting and optimisation measures. As a result, the Bank expects administrative costs for the 2020/21 financial year at a lower level of around €140 million. IKB expects a significant improvement in the cost/income ratio compared to the 2019/20 financial year. Based on current information the bank expects risk provisions for the full 2020/21 financial year at a similar level to the financial year 2019/20. The Bank expects a downward improvement of the NPL ratio by the end of the financial year and currently expects risk provisions to remain at a moderate level in the following financial year. New business opportunities arise for the Bank in liability-exempted loans from the KfW special programmes.

Due to model changes in the IRBA rating system, IKB expects a further reduction of around €0.8 billion for the RWA in the short term and further potential upside in the following financial year. This RWA reduction could lead to a significant increase in the CET 1 capital ratio compared to the 2019/20 financial year.

Thanks to its stable business model, focused strategy and sustainably efficient positioning, IKB currently expects to achieve its medium-term objectives including improvement of the return on equity to more than 10% and reduction of the cost/income ratio to around 40%.

On the basis of the first six months of the financial year, as forecast, IKB expects consolidated net income after tax for the financial year of around €80 million and thus expects to achieve the forecast. IKB plans to change its financial year, which currently ends on 31 March each year, to a 31 December year-end. In the event of a shortened nine-month financial year with a reporting date of 31 December 2020, the Bank expects a corresponding net income after taxes of around €60 million for the IKB Group. The further development of the coronavirus pandemic and its economic impact remain highly uncertain. Against this background, net income as of the end of the forecast period on 31 March 2021 and as of the end of the shortened financial year on 31 December 2020 may be lower than expected.

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

Table: IKB's income statement for the first half of 2020/21 (consolidated, in accordance with HGB)

in € million	**H1 2020/21** **(1 Apr. - 30 Sep. 2020)**	**(H1 2019/20** **(1 Apr. - 30 Sep. 2019)**	**Change** (absolute)	**FY 2019/20**
Net interest income	107	110	-2	201
Net fee and commission income	14	22	-8	40
Administrative expenses	-68	-84	16	-156
Personnel expenses	*-40*	*-45*	*5*	*-81*
Other administrative expenses	*-27*	*-39*	*12*	*-75*
Operating profit before risk provisions	54	48	6	85
Net other income	2	5	-3	-47
Net risk provisioning	-13	-5	-8	-30
Tax expense/income	0	-2	1	-1
Consolidated net income	**42**	**46**	**-4**	**8**

Any differences in totals are rounding differences.

Further details on developments in the first half of 2020/21 can be found in the 2020/21 six-month report at https://www.ikb.de/en/investor-relations/financial-reports and in the investor presentation at https://www.ikb.de/en/investor-relations/news.

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