

IKB Deutsche Industriebank first half 2021 results: solid net income and improved profitability

Note: the results presented in the 2021 six-month financial statements (1 January to 30 June 2021) are only to a limited extent comparable to the prior-year period. Due to the changing financial year the comparable prior year period is running from 1 April 2020 to 30 September 2020 and is hence affected by seasonal effects.

- **Consolidated net profit after risk provisions increases to €47 million (first half of 2020: €42 million); return on equity (RoE) improved to 8.8% (first half of 2020: 7.1%)**
- **Earnings guidance for full-year 2021 confirmed: net income of close to €100 million and RoE of about 9% expected**
- **Administrative expenses of €73 million, cost/income ratio (CIR) of 59.9%**
- **Positive risk provisioning result of €2 million and low NPL ratio (EBA definition) of 1.8%**
- **Common Equity Tier 1 (CET 1) ratio of 14.8% at a high level (first half of 2020: 14.3%), pro forma CET 1 ratio in accordance with Basel IV of 15.9%**
- **Leverage ratio of 7.5% (31 December 2020: 7.4%)**
- **Solid liquidity position: loan to deposit ratio of 89% and liquidity coverage ratio (LCR) of 205%**
- **Chairman of IKB's Board of Managing Directors, Dr Michael Wiedmann: "Our business performed well in the first half of 2021 and we are fully on track to meet our 2021 targets."**

[Düsseldorf, 19 August 2021] Despite the ongoing impact of the coronavirus pandemic, IKB achieved solid results in the first half of 2021 (1 January to 30 June 2021), supported by a slight increase in demand for customer loans. Consolidated net profit after taxes from operating business amounted to €47 million, which was in line with the full-year guidance for 2021 and underscores our focus on profitable new business.

The RoE improved to 8.8% from 7.1% in the first half of 2020 (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) amounted to €49 million. The cost/income ratio amounted to 59.9% in the first half.

With net profit of €47 million in the first half of 2021, the Bank is on track to achieve its objectives for 2021, consisting of a consolidated net income of close to €100 million, administrative expenses of about €130 million, a cost/income ratio of slightly above 50% and a RoE of around 9%.

New business origination with positive trends

Whilst the ongoing coronavirus pandemic continued to impact our new business in the first half of 2021, positive trends emerged. Owing to our good position in public programme loans, IKB was able to support its customers with KfW special loan programmes. In combination with a growing demand for corporate loans, new business volumes increased to around €1.7 billion (prior year: €0.9 billion). The proportion of corporate loans as a share of total loans increased by 47 percentage points to 64%. IKB's loan book increased to €9.7 billion (31 December 2020: €9.4 billion). For the full year 2021, the Bank expects a significant increase in new business volumes of at least €2.5 billion.

Sustainably profitable

The solid net profit of €47 million recorded in the first half of 2021 was primarily driven by the stable net interest income of €108 million (first half of 2020: €107 million), stable net commission income of €14 million (first half of 2020: €14 million) and the positive net risk provisioning result of €2 million (first half of 2020: negative €13 million).

The Group's administrative expenses increased to €73 million in the period under review (first half of 2020: €68 million) mainly due to EU bank levy which was paid in Q1 2021 and was not included in the prior year numbers due to the seasonal difference in the reporting period. The cost/income ratio amounted to 59.9% in the period under review (compared to 55.5% in the first half of 2020).

In the first half of 2021, the Group recorded a positive net risk provisioning result of €2 million (prior year: negative €13 million). Cost of risk in the lending business in relation to the total lending volume to corporates stood at -0.04% in the period under review (2020: 0.27%). The net risk provisioning result consisted of net risk expenses of €13 million (prior year: net risk expenses of €32 million) and net risk income of €15 million (prior year: net risk income of €19 million). Despite the ongoing COVID-19 pandemic, the level of non-performing assets remains low, with a NPL ratio (in accordance with the EBA definition) of 1.8% (first half of 2020: 1.6%). This is primarily attributable to IKB's resilient loan book, which has only limited exposure to sectors that have been strongly impacted by the coronavirus pandemic; out of a total loan book of €9.7 billion, only €161 million relate to strongly impacted sectors. Total general loan loss provisions and specific loan loss provisions amounted to €166 million (31 December 2020: €169 million). This figure includes special general loan loss provisions of €27 million to account for risks relating to the COVID-19 pandemic.

€5.5 billion of IKB's total loan book of €9.7 billion is funded through public programme loans from KfW and other development banks with matching maturities. This implies that more than half the loan book is not refinanced through deposits. IKB's loan book consists largely of loans to medium-sized German companies, i.e. companies with annual revenue starting from €100 million. They are characterised by very solid business models and, in most cases, high capital and liquidity ratios.

Strong capitalization and solid liquidity position

IKB's capital position is very strong and significantly exceeds regulatory requirements. As of 30 June 2021, IKB Group's CET 1 ratio (fully phased) rose to 14.8% (31 December 2020: 14.3%), significantly exceeding the minimum regulatory requirements of 8.1 % under the supervisory review and evaluation process (SREP). Under Basel IV regulations, the pro forma CET 1 ratio improved to 15.9%.

IKB's leverage ratio amounted to 7.5% (31 December 2020: 7.4%). Following the reduction of excess liquidity that has been built up in response to COVID-19, the liquidity coverage ratio as of 30 June 2021 amounted to 205% (31 December 2020: 271%). IKB's loan-to-deposit ratio – calculated as the loan book excluding public programme loans relative to the sum of retail and business customer deposits and promissory note loans – stood at 89% as of 30 June 2021.

Outlook

The outlook for the second half of 2021 continues to be characterised by uncertainties as the future development of the pandemic remains difficult to predict. However, IKB views risks as balanced and hence broadly reaffirms the outlook and forecasts issued during the FY 2020 results. For the financial year 2021, IKB continues to prudently expect loan loss provisions at around €25 million and plans to increase net interest and commission income to around €250 million. The Bank now projects a significant rise in new lending business of at least €2.5 billion in the 2021 financial year.

Reduction of the Group's administrative costs, which has been a key focus over the past years, is continuing with additional cost optimisation measures. The Bank expects administrative costs of around €130 million for the 2021 financial year. As a result, IKB expects a further improvement in its cost/income ratio to slightly above 50%. Improving cost efficiency is a key success factor for IKB 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%.

Besides cost efficiency, profitability (measured as RoE) is a key metric for the bank. IKB expects a RoE of around 9% for the 2021 financial year. In the medium term, the bank is aiming for a RoE above 10%.

The IKB Group expects risk-weighted assets (fully phased) to increase slightly again in the second half of 2021. The CET 1 ratio is expected to be above 13% at the end of 2021. IKB expects the Group's leverage ratio to exceed 7% in 2021 and therefore to remain flat year over year.

IKB expects the IKB Group to generate net profit after taxes of close to €100 million in the 2021 financial year.

IKB's income statement for the first half of 2021 (consolidated, in accordance with German GAAP (HGB))

in € million	1 Jan 2021 – 30 Jun 2021	1 Apr 2020 – 30 Sep- 2020
Net interest income	108	107
Net fee and commission income	14	14
Net banking income	122	122
Administrative expenses	-73	-68
<i>Personnel expenses</i>	-41	-40
<i>Other administrative expenses</i>	-32	-27
Operating profit before risk provisions	49	54
Net risk provisioning	2	-13
Operating profit	51	41
Net other income	-3	2
Earnings before tax	48	43
Tax expense/income	-1	0
Net profit after tax	47	42

Any differences in totals are due to rounding effects.

Further details on developments in the first half of 2021 can be found in the report on the first half of 2021 and in the investor relations presentation at

<https://www.ikb.de/en/investor-relations/reports-and-presentations>.

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