IKB Deutsche Industriebank

Results of IKB Deutsche Industriebank AG for the 2022 financial year: resilient earnings in a volatile market environment

- **Consolidated net income before tax of €61 million**
- **Administrative expenses of €145 million (normalised administrative expense of €128 million)**
- **Cost/income ratio of 68.5% (normalised C/I ratio of 60.4%)**
- **Resilient loan book: risk provisions of €19 million (of which €12 million relates to future potential downward rating migrations in light of uncertain macro environment) and NPL ratio (EBA definition) of 1.9%**
- **CET 1 ratio (fully phased) of 14.5%, CET 1 ratio (phased-in) of 16.6%, CET 1 ratio (Basel IV) of 15.4%**
- **Leverage ratio (fully phased) of 6.0%**
- **Dr Michael Wiedmann, Chairman of the Board of Managing Directors of IKB: "Despite a difficult environment, we were able to keep new business stable and focussed on customers with good credit ratings."**

[Düsseldorf, 10 March 2023] In the 2022 financial year, IKB posted consolidated net income of €61 million in a challenging environment. Earnings were affected by the consequences of the war in Ukraine and the substantial increases in interest rates and credit spreads, as well as elevated volatility and inflation rates. In this challenging business environment, IKB took measures to reduce its risk exposure, bolstering its risk-provision reserves to mitigate these effects. In addition to more selective lending, such efforts included adjustments to the investment portfolio. The bank decided to change the accounting treatment of certain securities from "amortising cost" to "fair value through P&L" and as a result previously unrealised losses were recognised via impairments. These impairments were largely compensated by gains in off-balance sheet derivatives. The forecast for consolidated net income before tax for the 2022 financial year had already been revised downwards to circa €60 million (from circa €85 million) in the first six months mainly due to the impact of inflation-induced expenses related to IKB's pension fund liabilities and one-off expenses for unplanned regulatory project costs.

“Our earnings in the 2022 financial year were resilient despite the turbulent market environment and the reduced business confidence, as a result of high inflation, increasing interest rates and widening credit spreads, due to the consequences of the war in Ukraine. Looking to the 2023 financial year, we expect the macroeconomic situation to remain volatile and project consolidated net income before tax in line with FY 2022. We will continue to support our customers in these uncertain times with tailor-made financing solutions,” said Dr Michael Wiedmann, Chairman of IKB’s Board of Managing Directors.

Key figures in 2022

At €2.7 billion (previous year: €3.0 billion), the volume of new business in the 2022 financial year came close to the previous year’s figure. IKB tightened its risk standards further, granted loans very selectively and, in view of the substantial economic uncertainties, focused to a greater extent on good credit ratings. The proportion of corporate loans within new business stood at 62% (previous year: 66%). In line with its ESG and climate protection agenda, with respect to public programme loans, IKB arranged loans for energy efficiency and environmental protection investments. The focus here was on financing solutions to support customers in their sustainability transformation processes.

Net interest income declined from €221 million to €188 million. This was due to lower TLTRO income and lower income from investments in fixed income securities, while net interest income from the lending business remained stable despite the difficult market conditions. Net fee and commission income amounted to €23 million (previous year: €26 million), due to slightly lower new business volumes.

Administrative expenses totalled €145 million in the 2022 financial year (previous year: €135 million), slightly outperforming the revised forecast of €148 million; net of non-recurring effects, admin expenses amounted to €128 million. The increase in personnel expenses is primarily due to a non-permanent expense of €13 million which is driven by pension increases and adjustments in long-term inflation rates. The inflation drag on IKB’s pension plans is gradually phased-in over a period of three years, and therefore such non-permanent headwinds are expected to continue to have an impact, albeit lower, in IKB's P&L for the next two financial years. However, in economic terms ("mark-to-market") the value of IKB's pension liabilities decreased by €127 million in the 2022 financial year, as a result of a higher discount rate. This effect is not reflected in the financial statements, which are prepared in accordance with German GAAP ("HGB"). One-off expenses for unplanned regulatory project costs added €4 million to other administrative expenses, which rose to a total of €60 million (previous year: €57 million).

Net risk provisioning in the P&L amounted to €19 million for the Group in the 2022 financial year, below the forecasted €25 million charge, even after taking into account the allocation of an additional general loan loss allowance of €12 million to cover potential risks resulting from possible future downgrades of borrower credit ratings, demonstrating the strong asset quality of IKB's portfolio. Against this adverse macro backdrop, the ratio of non-performing loans (NPL) remained at a very low 1.9%. In absolute terms, non-performing assets dropped slightly to €167 million (previous year: €179 million).

Net other income in the year under review amounted to €13 million (previous year: €4 million). Given elevated market volatility on the back of consistently high inflation, interest-rate hikes and wider credit spreads, the Bank has taken measures to lower its risk exposure. In addition to more selective lending, these risk-mitigation efforts included adjustments to the investment portfolio with the aim of reducing market risk. The bank decided to change the accounting treatment of certain securities from "amortising cost" to "fair value through P&L" and as a result previously unrealised losses on securities of €467 million were recognised via impairments. In economic terms, these impairments were largely offset by gains in off-balance sheet derivatives, in the amount of €457 million. Regarding the P&L, the losses on securities of €467 million were largely offset by a withdrawal of €426 million from the fund for general banking risks. Overall, these effects resulted in a net other income of €13million.

The Group cost/income ratio stood at 68.5% in the 2022 financial year (previous year: 54.5%), in line with the revised guidance. The increase in the cost/income ratio was caused by inflation-related expenses for pension liabilities (€13 million), one-off expenses for unplanned regulatory project costs (€4 million) and also a lower denominator mainly due to the decline in non-core net interest income. Adjusted for non-recurring expenses, the cost/income ratio was 60.4% (previous year: 68%). At 1.80%, the net interest margin on the loan book remained stable compared with the previous year (1.78%).

Resilient loan book

The loan book decreased slightly from €9.3 billion to €9.2 billion. Public programme loans amounted to €5.0 billion, or 54%, of the loan book, and are maturity match-funded by the KfW banking group and other development banks. Therefore, refinancing has been secured for more than half of the loan book, while the corporate book, which is mainly deposits funded, is generally floating, therefore a directionally positive impact from increasing interest rates is expected as the book reprices. Our long-standing customers typically have an excellent market position, a solid equity and liquidity base, and a high degree of diversification across sectors and regions.

Capital adequacy

The CET1 ratio (fully phased) stood at 14.5% for the IKB Group as of 31 December 2022. This represents a 1.5% buffer to the forecasted 13% CET1 ratio. RWAs have decreased by c. 4% YoY due to focused RWA management. Despite its comfortable solvency position, the Bank does not plan to pay dividends for FY 2022.

As of 31 December 2022, the net stable funding ratio, which tracks medium to long-term liquidity, was 117% for the IKB Group, thus consistently exceeding the statutory minimum of 100% in line with the forecast. IKB leverage ratio amounted to 6.0%.

Outlook

The Russian war in Ukraine represents a geopolitical turning point with unpredictable consequences for Europe. Forecasts are still subject to substantial uncertainty. Key factors for the macroeconomic outlook include the development of the war in Ukraine and the energy crisis it has triggered, the consequences of countermeasures taken by the government, and the impact of inflation. Fundamentally, there are risks of substantially weaker economic growth and protracted inflationary pressures.

IKB forecasts a significant year-on-year increase in net interest and commission income in the 2023 financial year. This is driven partly by higher interest income on floating-rate corporate loans in the wake of interest-rate hikes and partly due to increasing volumes and business mix optimisation.

The effects of inflation and cost increases on the pension provisions resulted in additional expenses of €13 million in 2022. IKB currently assumes that, provided underlying conditions remain steady, this effect will likewise exert strain on administrative expenses in the next two years. IKB expects administrative expenses in 2023 to be slightly higher than in 2022 due to regulatory one-off projects costs. IKB assumes that the cost/income ratio for 2023 will improve substantially over 2022 to slightly over 60%. In IKB's view, improving cost efficiency is a key success factor. Accordingly, its medium-term target is to further reduce administrative expenses and thus achieve a cost/income ratio of roughly 40%. Structurally, IKB believes that the bank is making good progress with its cost-rationalisation measures with a view to achieving its medium-term goals.

In light of the ongoing uncertainties resulting from the general economic environment such as the war in Ukraine as well as inflation and interest rate developments, IKB is budgeting higher net risk provisioning in its lending business of around -€35 million for 2023 compared to the previous year. Moreover, an additional portfolio loan loss allowance of €12 million was recognised in 2022 for potential risks resulting from credit rating downgrades.

IKB expects CET1 ratio for the 2023 financial year in the range of 13 – 14% for the Group.

For the 2023 financial year, IKB projects net income before taxes of around €60 million. Uncertainties surrounding the further course of the Ukraine war, the capital and commodity markets and the further development of regulatory requirements, are key factors that may impact IKB's performance in the coming year.

Table: IKB income statement for the 2022 financial year (Group, in accordance with German commercial law)

in € million	**1 Jan. 2022 – 31 Dec. 2022**	**1 Jan. 2021 – 31 Dec. 2021**
Net interest income	188	221
Net fee and commission income	23	26
Gross income	**211**	**247**
Administrative expenses	-145	-135
Personnel expenses	*-84*	*-78*
Other administrative expenses	*-60*	*-57*
Operating profit before risk provisions	**66**	**113**
Net risk provisioning	-19	-12
Operating profit	**48**	**101**
Net other income	13	4
Earnings before tax	**61**	**104**
Tax expense/income	0	-18
Net profit after tax	**61**	**86**

Any differences in totals are due to rounding effects.

Further details on the business performance in the 2022 financial year can be found in the 2022 Annual Report and the investor presentation at https://www.ikb.de/en/investor-relations/reports-and-presentations

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