

Company Profile 2006



2006

Berlin-Wilmersdorf

↳ *Performing for Berlin*

Investitionsbank Berlin

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 **Investitionsbank
Berlin**

Performing for Berlin.

Company Profile 2006



**Investitionsbank
Berlin**

Performing for Berlin.

To our business associates

Ladies and Gentlemen,



Prof. Dr. Dieter Puchta
Chairman of the Board
of Management

Berlin's economic growth in 2006 was the highest since the turn of the millennium. This growth was carried primarily by small and medium-sized enterprises which were able to significantly expand their exports and benefit from rising domestic demand. As prospects continue to be good for Berlin's industry, the climate for investment appears to be improving and there are indications that growth will continue in 2007.

The favourable economic climate last year was also reflected in the business figures of Investitionsbank Berlin. The volume of business subsidies in 2006 more than doubled against the previous year. This means that Investitionsbank Berlin is moving closer to its medium-term loan volume target of EUR 500 million in the field of business promotion. We have also come a long way towards our goal of increasing the share of loans in relation to subsidies even further.

The reorientation and expansion of our product portfolio together with more intensive marketing and advertising have made a positive impact in this context. The launch of our new "Berlin Start" and "Berlin Kredit" programmes was particularly successful, already resulting in brisk demand among Berlin's companies in the second half of the year. Furthermore, the bundling of our programmes in the new IBB Berlin INTRO, IBB Berlin INVEST and IBB Berlin INTAKT product families has led to even greater transparency for our customers and business partners. Within the scope of implementing a newly devised sales strategy, we began to intensify our direct and individual addressing of customers on a permanent basis. Ties with the customer service units in Berlin's commercial banks were developed further, thus strengthening the house bank principle. We are certain that these two measures will boost demand for our financing services even further.

As a long-term financing partner for its real estate customers, Investitionsbank Berlin has now begun to orientate its product portfolio even more towards the needs of its customers. In this context, we will, for instance, focus on developing attractive offers for follow-up financing for our target customers in the real estate segment. Thanks to business contacts that were often established decades ago, Investitionsbank Berlin now has and can utilise the know-how required for this at any time.

The 2006 financial year was also successful for Investitionsbank Berlin in economic terms. Net income for the year totalled EUR 92.6 million, and was hence slightly higher than the previous year. Since this income was retained like in previous years, we have managed to increase the bank's equity plus reserves pursuant to section 340g of the German Commercial Code

from EUR 444 million to EUR 684 million within a period of three years.

The personnel reorganisation goals that were defined for the end of 2007 were already secured in the year under review through appropriate agreements. This was achieved with a fair balance of interests between the Board and staff representatives. The allocation of personnel resources will now be carried out in such a manner that other promising fields of business can be opened up and the potential to reduce costs utilised. The first measures under a "result optimisation" programme that was initiated in the 4th quarter are to be implemented during the course of this year.

With "BEST", the Berlin Economic Simulation Tool developed by Investitionsbank Berlin and distinguished scientists, it is now possible to identify the economic impact of investment and subsidy decisions. This system was introduced to the public in the year under review and tested in practical application. Model calculations were drafted, for instance, to identify the economic effects of the World Cup in football or the Berlinale film festival. The development and application of this model has clearly illustrated the economic expertise of our bank.

In view of the good economic situation to begin with and the positive investment climate in the capital city, we believe that Berlin's economic future looks rosy. In the 2007 financial year, we will continue to operate as a strong and reliable partner for companies domiciled in Berlin. We look forward to working together with you.



Prof. Dr. Dieter Puchta
*Chairman of the Board
of Management*



Dr. Birgit Roos
*Member of the Board
of Management*



Dr. Birgit Roos
**Member of the Board
of Management**

Statement by the Chairman of the Administrative Board



Harald Wolf
Mayor and Senator for Economics, Technology and Women's Issues,
Chairman of the
Administrative Board

2006 was a good economic year for Berlin and was also a good year for Investitionsbank Berlin. In the third year of its independence, Investitionsbank Berlin has finally gained a foothold as a financing partner for Berlin's medium-sized business sector and for the banks financing this sector. The newly introduced "Berlin" product family of government assistance loans, which are granted jointly with Berlin's house banks and Bürgschaftsbank Berlin-Brandenburg, have been well received by existing companies and start-ups and are now well established.

Investitionsbank Berlin hence offered the right product at the right time, supporting and accompanying the upswing and the increased willingness among Berlin's business sector to invest. The bank is hence fulfilling its subsidy and support mission.

At the same time, Investitionsbank Berlin is firmly rooted in the network of economic policy makers and institutions in Berlin and the Berlin-Brandenburg region and has an important role to play here not least due to the fact that its extensive subsidies are helping to support economic policies in the federal state.

In the new financial year, Investitionsbank and Berlin's economic policy will continue along the same path, working together in order to create the preconditions for Berlin's continued economic upswing.

The year 2007 has a host of opportunities to offer. Forecasts and surveys tell us that Berlin's entrepreneurs are optimistic about the future and their willingness to invest remains unbroken.

Investitionsbank is ready to make its contribution here and also to play an active role in ensuring that entrepreneurial initiative in Berlin falls on fertile ground. I wish them all every success.

A handwritten signature in black ink, reading "Harald Wolf". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Harald Wolf
Mayor and Senator for Economics, Technology and Women's Issues,
Chairman of the Administrative Board

Berlin's innovations at a glance

"Germany – Land of Ideas". This is the name of an initiative by the Federal Government to coincide with the 2006 World Cup. And indeed, a wealth of ideas and innovative power are the key strengths of Germany as a business location. When it comes to patent applications, Germany ranks third world-wide. Innovations are becoming ever more important. They determine international competitiveness, employment, wealth and the quality of life. But, if good ideas are to have a positive impact on the economy, innovation, business and capital must be implemented. However, there is a lack of financing, especially for innovation projects. This is where Investitionsbank Berlin is targeting its monetary financing offers. Especially when it comes to small and medium-sized enterprises (SMEs), the bank has a central role to play in supporting Berlin as a location for business and innovation. The focus here is on companies operating in Berlin's accepted fields of competence, i.e.

- Biotechnology
- Medical technology
- Information and communication technology
(including media and creative industries)
- Optical technologies
- Transport, traffic and mobility

One prime requisite for the city's good climate of innovation and invention is its outstanding research and science landscape. Four universities along with a host of colleges and non-university research institutions are based in the city. Investitionsbank Berlin is located at the interface between science and business. Its networks and the regular exchange with partners from business and politics provide it with a deep insight into and overview of Berlin's innovation landscape. It is hence using its products to pursue a holistic approach in its support for companies in Berlin. This is why Investitionsbank Berlin supports research and development with offers from the IBB Berlin INTRO and IBB Berlin INVEST product families. At the same time, the financing instruments offered are opening up new horizons for the implementation of ideas developed in Berlin.

Berlin is a good example of an innovative location. In recent years, for instance, the city has moved up further in the ranking for patent applications and according to "Patentatlas Deutschland 2006" now ranks sixth. Berlin also has a very positive founder culture. The Berlin-Brandenburg business plan competition largely initiated by Investitionsbank Berlin is making an important contribution to this. It offers founders comprehensive advice on matters related to going into business and financing their ideas.

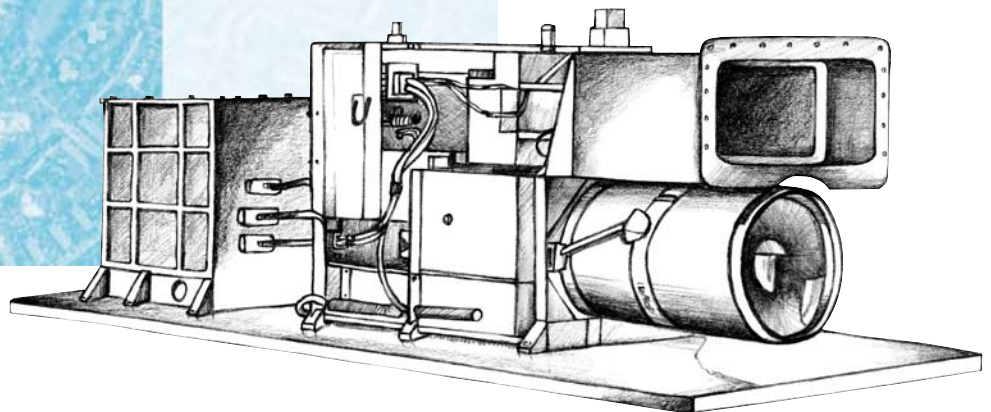
An aerial photograph of the Berlin-Lankwitz district, showing a dense urban landscape with numerous buildings, streets, and green spaces. The image is overlaid with a semi-transparent blue rectangle.

2003

Berlin-Lankwitz

— *Mars camera*

Gerhard Neukum



The spectacular photos made their way around the world in 2006: 3D photos of Mars' landscape taken by the HRSC high-resolution 3D camera developed under the leadership of Gerhard Neukum. On board the European Mars mission, the red planet has just been completely mapped by the HRSC. Mr Neukum is already planning the next project: He wants to send a second camera to the moon.

Germany's capital city is top of the list when it comes to the number of researchers in relation to people employed in industry. Investitionsbank Berlin supports the economic implementation of research results with its subsidiary ipal GmbH by having these ideas patented and subsequently ensuring optimum marketing. In addition to this, TSB Technologiestiftung Innovationszentrum Berlin has undertaken to promote application-orientated science.

Despite all the positive developments, Berlin must make more consistent use of the existing research and science potential. One key way to achieve greater dynamism in the marketing of scientific results in Berlin is to establish new and innovative high-tech companies in co-operation with universities. This is also where Investitionsbank Berlin works as a partner in the centre of innovations, supporting good ideas and start-ups.

As the subsidy bank of the Federal Land of Berlin, Investitionsbank Berlin is aware of its responsibility in relation to its customers and partners when it comes to developing Berlin's business and innovation culture. It will continue to keep a close watch on Berlin's innovation landscape so that it can offer targeted assistance programmes in future, thus making an important contribution towards the positive development of the city.



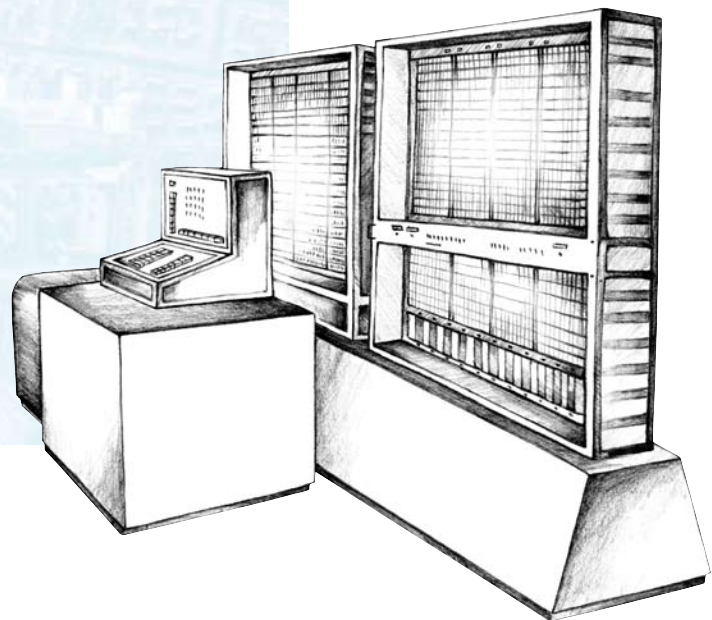
An aerial photograph of the Berlin-Kreuzberg district, showing a dense urban layout with numerous buildings and streets. The image is overlaid with a semi-transparent blue rectangle that serves as a background for the text.

1941

Berlin-Kreuzberg

— *The world's
first computer*

Konrad Zuse



Engineer Konrad Zuse once dreamt of machines that would do much of his boring calculation work for him. In 1941, the time had come. Big as a wardrobe, Z3 was a freely programmable machine based on the binary digit system and is today recognised as the world's first computer. But it was much later that this machine started to make waves because during World War II Germany was completely isolated and there was almost no exchange between international scientists.

General Business Development in 2006

Developments in the individual business segments

In the business promotion segment, product sales were significantly higher than in the previous year. This is due, on the one hand, to the newly launched "Berlin Start" and "Berlin Kredit" products along with the IBB global loan and IBB growth programme/syndicated loan, and on the other hand, also due to traditional subsidy products, such as the common-task programme, ProFIT and the Berlin future fund programme. In line with our business strategy, new business focused on loan-based products and their distribution, which is primarily in co-operation with the commercial banks represented in Berlin (house bank principle). This is in keeping with the developments forecast in last year's annual accounts for the business promotion segment.

In 2006, Investitionsbank Berlin bundled its products in three product families which reflect the corporate lifecycle. These are:

- ↳ IBB Berlin INTRO for companies in the start-up phase
- ↳ IBB Berlin INVEST for companies in the growth phase
- ↳ IBB Berlin INTAKT for companies in the stabilisation phase

This will underpin the move from product orientation to orientation towards the needs of Berlin-based business customers.

With our business strategy in mind, new business in real estate promotion concentrated on subsidy-based support programmes as well as on the qualifying dates of loan approvals from previous periods. Just like in the previous year, a significant number of loans were redeemed prematurely in 2006 due to low interest rates on the capital market and the sale of rented properties. In order to secure loan stocks and revenues in this segment, the product variants requested by our customers in the form of forward loans and roll-over financing were developed and launched on the market. All in all, real estate promotion activities continued to focus on effective management of existing stocks.

With its wholly owned subsidiary IBB Holding GmbH, Investitionsbank Berlin holds 94.99% of shares in Gewerbesiedlungs-Gesellschaft mbH (GSG) as well as a call option to acquire the remaining 5.01%.

In the year under review, the process to sell GSG which began in 2005 was pursued further. The focus of 2006 was the performance of an open, transparent, unconditional bidder procedure in compliance with EU requirements.

Two of the bidders approved for the final phase submitted binding bids in 2006 and the related purchase agreements were then negotiated.

Based on this and subject to approval by the political committees of the Federal Land of Berlin, Investitionsbank Berlin made and entered into an option purchase agreement with an investor on 22/23 May 2006 which entitles IBB-Holding to sell GSG to the investors subject to the agreed terms and conditions. The risks borne here by the bank are not expected to have any seriously negative impact on the bank's revenues. The bank currently sees no need for risk provisioning. After the balance-sheet cut-off date, the firm period of the option agreement was extended to 31 March 2007. Under the current terms and conditions, the option agreement can be terminated by both parties as of 1 April 2007. In order to ward off this theoretical risk, negotiations are currently underway to extend the option term until 15 May 2007.

On 20 March 2007, Berlin's government approved the sale of GSG, thus preparing the political decision in light of the clear majority which appears to be likely in Berlin's parliament. The Senate decision foresees that revenue from the sale will be divided between Investitionsbank Berlin or its subsidiaries and the Federal Land of Berlin.

Following the expected approval of the sale of GSG by Berlin's parliament, the bank assumes that the transaction will be consummated in the 2nd quarter of 2007. Within this scope, IBB-Holding GmbH will take over the subsidiaries of GSG. Moreover, before the option is exercised, the so-called sponsorship model will be implemented with which the sponsorship for the common task (GA) subsidies granted by GSG will be transferred to BTGI Berliner Trägergesellschaft für Gewerbe-Infrastrukturmaßnahmen GmbH (BTGI), a wholly owned subsidiary of IBB-Holding GmbH. By employing control and securing mechanisms, the bank will ensure that the risk in conjunction with the transfer of sponsorship to BTGI will be of insignificant importance only. No other negative effects on the bank's revenue situation are expected.

Other transactions of significant importance were not recorded after the balance-sheet cut-off date.

Restructuring and result optimisation

Investitionsbank Berlin's process of restructuring was pursued further with determination in 2006. This process also involves significantly reducing personnel numbers by optimising processes by 2007 for the bank's subsidy tasks. Efficient implementation control ensured that the specific measures planned were implemented on time and achieved the required process optimisation. Based on the new organisation implemented on 1 January 2006, which with its flat hierarchies has led to much better customer orientation, a project was initiated in the 4th quarter of 2006 to improve results. Taking the findings of 2006 into consideration, processes are to be optimised further in order to reduce costs whilst addition-

al revenue potential is to be opened up which will sustainably strengthen the Bank's economic result needed to provide subsidy services for Berlin.

Earnings development

On the whole, an expectedly good result was recorded. Despite developments on the money and capital markets, which outlined related burdens on the Bank's earnings, it was still possible to outdo the good result recorded last year and to make subsidy programmes available to the Federal Land on almost the same level as the previous year.

The economic result of Investitionsbank Berlin rose by EUR 1.7 million against the previous year to EUR 148.7 million. After deduction of assistance payments, the bank generated net income under commercial law of EUR 92.6 million, up EUR 3.7 million compared to the previous year.

Subsidy payments for Berlin totalled EUR 56.1 million (previous year: EUR 58.1 million). These included subsidy activities by Investitionsbank Berlin on behalf of the Federal Land which – taking into account all the costs incurred in their implementation as well as income generated – resulted in an economic loss of Investitionsbank Berlin.

The subsidy cost/income ratio defined as a ratio of administrative expenses to total income was 31.7% and remained unchanged against the previous year (31.7%).

Income statement of Investitionsbank Berlin

EUR million	2006	2005	Change	
			Absolute	in %
Net interest income	150.8	172.2	-21.4	-12.4
Net commission income	17.6	19.1	-1.5	-8.0
Net other operating income/expenses	103.3	103.0	0.3	0.3
Total income	271.7	294.4	-22.6	-7.7
Total administrative expenses	86.3	93.3	-7.0	-7.6
Personnel expenses	49.0	53.2	-4.2	-7.9
Non-labour operating costs	19.6	22.9	-3.2	-14.1
Depreciation on tangible assets	17.7	17.3	0.4	2.1
Operating result before risk provisioning	185.5	201.0	-15.6	-7.7
Risk provisioning	10.5	34.0	-23.6	-69.3
Securities	0.3	-0.5	0.8	-168.1
Loans	10.1	33.5	-23.4	-69.7
Participations	0.0	1.0	-1.0	0.0
Operating result after risk provisioning	175.0	167.0	8.0	4.8
Net extraordinary result	-26.3	-20.0	-6.3	31.6
Economic result	148.7	147.0	1.7	1.1
IBB government assistance payments	56.1	58.1	-2.0	-3.4
Net income for the year	92.6	88.9	3.7	4.1

Net interest totalling EUR 150.8 million was expectedly EUR 21.4 million below the previous year's figure which was strongly marked by special effects. The termination by our borrowers of high interest loans under the Law Promoting the Berlin Economy had a particularly adverse effect on earnings. Commission income totalling EUR 17.6 million fell by EUR 1.5 million compared to the previous year. Once again, the bank generated the lion's share of interest and commission income from business in the real estate promotion segment.

Other operating income and expenses totalling EUR 103.3 million include not just revenue from loss-making subsidy activities by the bank but, above all, revenue of EUR 77.8 million (previous year: EUR 72.7 million) attributable to Investitionsbank Berlin from the public law agreement with the Federal Land of Berlin.

Administrative expenses amounted to EUR 86.3 million, EUR 7.0 million short of the previous year's figure. Significantly lower costs are the result of the restructuring of the bank both with regard to personnel costs but also in conjunction with non-labour operating costs. Contrary to the annual accounts under commercial law, the addition to pension reserves in 2006 was included in the net extraordinary result.

Net risk provisioning in the lending business was EUR 10.1 million and hence significantly lower than the previous year's figure of EUR 23.4 million. All recognisable risks in the lending business were covered by gross expenditure of EUR 49.6 million (previous year: EUR 63.8 million).

The net extraordinary result includes expenses in conjunction with the reorganisation of the bank to the amount of EUR 4.1 million along with the addition to pension reserves totalling EUR 22.1 million, because the new calculation of pension reserves shows these discounted for the first time with a long-term achievable interest rate of 4.5%, as well an expected salary and pension trend which was included in the calculation of future obligations.

Development of volume

Assets (EUR million)	31 December 2006	31 December 2005	Change	
			Absolute	in %
Loans and advances to banks	1,695	2,195	-501	-22.8
Loans and advances to customers	14,758	14,728	30	0.2
Bonds and other fixed-income securities	3,267	1,683	1,584	94.2
Participations, shares in affiliated companies	189	189	0	0.0
Other assets	337	354	-16	-4.7
Total assets	20,246	19,150	1,097	5.7

Loans and advances to banks declined in total by EUR 501 million particularly due to the premature redemption of long-term flow-through loans under the Law Promoting the Berlin Economy.

With loans and advances to customers up by EUR 30 million, this item remains almost unchanged. Scheduled and unscheduled redemption payments in real estate support were compensated for by the expanded volume of business promotion and within the scope of banking book management.

Due to the continued portfolio expansion designed to create refinancing options with the European Central Bank and to secure long-term revenues, bonds almost doubled in the year under review.

The balance sheet sum was increased by EUR 1,097 million or 5.7% to EUR 20,246 million.

Liabilities and shareholders' equity (EUR million)	31 December 2006	31 December 2005	Change	
			Absolute	in %
Liabilities to banks	6,164	5,880	284	4.8
Liabilities to customers	8,568	8,862	-294	-3.3
Securitised liabilities	4,136	3,066	1,070	34.9
Subordinated liabilities	75	75	0	0.0
Fund for general banking risks	144	144	0	0.0
Other liabilities	619	675	-56	-8.3
Shareholders' equity	539	447	93	20.7
Total liabilities and shareholders' equity	20,246	19,150	1,097	5.7

Liabilities to banks and to customers remained almost unchanged compared to the previous year. The trend towards refinancing via banks, which was identified in recent years, continued in the year under review.

The refinancing of asset expansions was primarily raised through securitised liabilities which were expanded through new issues totalling EUR 1,070 million to the current figure of EUR 4,136 million.

In the period under review, shareholder's equity increased by EUR 93 million to currently EUR 539 million as a result of the appropriation of retained annual income. EUR 239 million of this was reported under other revenue reserves (special-purpose reserve).

In relation to risk items, and after approval of the annual accounts, this translates into a total ratio pursuant to Principle 1 of the German Banking Act of 19.0% and a Tier 1 capital ratio of 17.3%. On the whole, the financial year was marked by stable revenue developments as forecasted. As expected, the focus of business activities shifted further, in line with our business strategy, away from real estate promotion to monetary business promotion.

Balance sheet as per 31 December 2006

Assets (EUR thousand)	31 December 2006	31 December 2005
1. Cash	19,823	28,873
b) Central bank balances	19,823	
of which: at Deutsche Bundesbank:		
EUR 19,823 thousand (31 December 2005: EUR 28,873 thousand)		
3. Loans and advances to banks	1,694,562	2,195,434
a) Payable on demand	132,272	205,129
b) Other loans and advances	1,562,290	1,990,305
4. Loans and advances to customers	14,758,008	14,728,310
of which:		
secured by liens:		
EUR 9,496,661 thousand (31 December 2005: EUR 10,660,277)		
Public-sector loans: EUR 3,532,796 (31 December 2005: EUR 2,338,961)		
5. Bonds and other fixed-income securities	3,266,931	1,682,660
a) Money market paper		
ab) from other issuers	24,138	0
b) Bonds and notes		
ba) Issued by public institutions	126,223	49,152
of which: eligible as collateral at Deutsche Bundesbank	126,223	49,152
bb) Issued by other issuers	3,115,852	1,585,752
of which: eligible as collateral at Deutsche Bundesbank	2,976,213	1,585,752
c) Own bonds	718	47,756
Nominal amount	718	47,722
7. Participations	11,440	11,440
of which:		
in banks EUR 0 thousand (31 December 2005: EUR 0 thousand)		
8. Shares in affiliated companies	178,004	178,004
of which:		
in banks EUR 0 thousand (31 December 2005: EUR 0 thousand)		
9. Trust assets	101,246	103,297
of which: trust loans	101,246	103,297
11. Intangible assets	10,038	17,705
12. Tangible assets	46,863	50,334
15. Other assets	141,626	141,791
16. Prepaid expenses	17,804	11,957
Total assets	20,246,345	19,149,805

Liabilities and shareholders' equity (EUR thousand)	31 December 2006	31 December 2005
1. Liabilities to banks	6,164,119	5,879,661
a) Payable on demand	268,789	146,726
b) With an agreed term or notice period	5,895,330	5,732,935
2. Liabilities to customers	8,568,073	8,862,158
b) Other liabilities		
ba) Payable on demand	341,542	520,088
bb) With an agreed term or notice period	8,226,531	8,342,070
3. Securitised liabilities	4,136,404	3,066,378
a) Bonds issued	4,136,404	3,066,378
4. Trust liabilities	101,246	103,297
of which: trust loans	101,246	103,297
5. Other liabilities	115,211	118,319
6. Deferred income	250,498	276,954
7. Provisions	152,004	176,827
a) Provisions for pensions and similar obligations	69,033	46,843
c) Other provisions	82,971	129,984
9. Subordinated liabilities	75,000	75,000
11. Fund for general banking risks	144,311	144,311
12. Shareholders' equity	539,479	446,900
a) Share capital	300,000	300,000
c) Revenue reserves		
cd) Other revenue reserves (special-purpose reserve)	239,479	146,900
d) Net retained profits	0	0
Total liabilities and shareholders' equity	20,246,345	19,149,805
Off-balance sheet items		
1. Contingent liabilities	18,508	6,060
b) Liabilities in relation to guarantees and warranties	18,508	6,060
2. Other obligations	187,176	81,934
c) Irrevocable loan commitments	187,176	81,934
	205,684	87,994

Profit and loss account for the period 1 January 2006 to 31 December 2006

Expenses	EUR thousand	EUR thousand	EUR thousand	Previous year EUR thousand
1. Interest expenses			511,691	525,511
2. Fee and commission expenses			1,175	239
3. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	38,304			41,070
ab) Social security contributions and expenses				
for pensions and other benefits	<u>32,893</u>			12,095
of which:				
for pensions EUR 24,730 thousand		71,197		53,165
b) Other administrative expenses		<u>19,632</u>		22,859
			<u>90,829</u>	76,024
4. Depreciation, amortisation and write-downs on intangible and tangible assets			17,666	17,302
5. Other operating expenses			37,536	31,693
6. Amortisation and write-downs on receivables and specific securities as well as provisions for the lending business			10,460	33,026
7. Amortisation and write-downs on participations, shares in affiliated companies and securities treated as long-term assets			0	1,000
8. Extraordinary expenses			4,096	19,994
9. Other taxes not reported under item 5			12	13
10. Net income for the year			92,579	88,900
Total expenses			766,044	793,702
1. Net income for the year			92,579	88,900
2. Appropriation to other revenue reserves (special-purpose reserve)			<u>92,579</u>	<u>88,900</u>
3. Net retained profits			0	0

Income	EUR thousand	EUR thousand	Previous year EUR thousand
1. Interest income from			
a) Lending and money market transactions	580,010		671,273
b) Fixed-income securities and book-entry securities	<u>82,471</u>		26,451
		<u>662,481</u>	<u>697,724</u>
2. Fee and commission income		18,793	19,387
3. Other operating income		84,770	76,591
Total income		766,044	793,702

Notes on the Profit and Loss Account of Investitionsbank Berlin as per 31 December 2006

General notes

Investitionsbank Berlin prepared the annual accounts as per 31 December 2006 in line with the German Commercial Code and the Ordinance Regulating Reporting by Banks (RechKredV). The generally accepted accounting standards were observed.

The format of the balance sheet and of the profit and loss account is in line with the forms of the Ordinance Regulating Reporting by Banks.

Investitionsbank Berlin holds all shares in IBB-Holding GmbH. The sole purpose of this holding is the management of the share in Gewerbesiedlungs-Gesellschaft mbH. This company is held by IBB-Holding GmbH solely for the purpose of selling it. This is not included in the consolidated accounts pursuant to Section 296(1) No. 3 of the German Commercial Code.

The other subsidiaries shown are all of lesser importance (Section 296(2) of the German Commercial Code). This is why no consolidated accounts were drawn up.

Accounting and valuation methods

Assets, liabilities and pending transactions were valued in accordance with the regulations of articles 252 cf. of the German Commercial Code in conjunction with sections 340 cf. of the German Commercial Code. The Ordinance Regulating Reporting by Banks (RechKredV) was observed.

Loans and advances to banks and customers are generally carried at their nominal amount. Zero bonds are carried at market value.

Premiums and discounts are appropriated to prepaid expenses and deferred income, respectively, and written back as scheduled.

Pro-rata interest on interest rate swaps are recognised on an accruals or deferrals basis, respectively. It is reported under loans and advances to banks and liabilities to banks. Successes resulting from interest rate derivatives are reported in the bank's interest result.

Adequate account was taken of identifiable lending risks through the establishment of itemised allowances for bad debts and provisions. General allowances were made for bad debts in the receivables portfolio.

Irrecoverable interest is not posted.

Financial assets are valued at their cost of acquisition. If sustained impairment of value is expected, write-downs are always performed to the strict lower of cost or market principle. If impairment of value is only temporary, the value is retained pursuant to Section 253 (2) of the German Commercial Code in conjunction with Section 340 e of the German Commercial Code.

The securities of the liquidity reserve are valued at the strict lower of cost or market principle.

Scheduled write-downs are made on assets with a limited useful life. Low-value assets are written off immediately.

Liabilities are carried at their repayment amount.

Contrary to past procedures, pension reserves in the 2006 financial year were no longer calculated by applying the going-concern method pursuant to Section 6a of the German Income Tax Law and an assumed interest rate of 6%. An assumed interest rate of 4.5% was applied for the first time and the calculation of reserves is based on the rules of the so-called Defined Benefit Obligation pursuant to IAS 19. Future salary and pension developments were also considered.

Other provisions are carried at the amount required in line with prudent business consideration.

Principles of currency translations

All transactions of Investitionsbank Berlin are shown in euro.

Imprint

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