

## *Company Profile 2012*

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## *To our Business Associates*

*Ladies and Gentlemen,*

Even though the discussion regarding the stability and future of the euro and the debt crisis largely dominated business reporting in many euro countries last year, it must be noted that from an economic perspective 2012 was on the whole much better for Germany than suggested by these negative headlines.

While some euro countries slipped into recession or remained there, Germany proved to be relatively stable with economic growth down from 3.0% to 0.7%. This development was largely the result of consumer spending although exports, especially to non-European countries, also rose higher than expected while investments declined sharply against the previous year.

In 2012, Berlin's economy fared better than the rest of the country. The 1.5% increase in gross domestic product (GDP) was precisely on par with the forecast made by IBB last autumn. After years of above-average growth in employment, Berlin once again recorded the highest increase in employment in Germany of 2.5% (43,600 jobs) in 2012. This means that unemployment also declined significantly in Berlin in 2012 by one percentage point compared to the previous year. However, the annual average rate of 12.3% remains high. Another positive development is the increase in tax revenues by almost EUR 800m compared to the previous year. In 2012, these revenues reached an unforeseen level of EUR 11.6bn and played a key role in the positive financing balance recorded by the Federal Land of Berlin.

By the end of the year, the economic outlook had darkened somewhat. However, we are confident that this is just a temporary situation for Berlin where growth in 2013 is likely to once again outdo the rest of the country and the economy will continue on its course of recovery. An increase of 1.8% in growth could be possible. But this also means that markets in the euro zone will have to continue calming down in 2013. The ECB's announcement at the end of the year that it will do everything to safeguard the stability of the euro and the recovery progress in Ireland, Portugal and Italy gives rise to cautious optimism. The preconditions for this are better than one year ago, but there are still considerable risks.

This uncertainty is making companies reluctant to invest. In its economic report in autumn 2012, Berlin's Chamber of Industry and Commerce (IHK) reported planned investments to be down in nearly all sectors and this correlates with lower export expectations by Berlin's industry.



Companies did, however, consider financing conditions in 2012 to be better than in the previous year and the fear of a credit crunch now appears to be less pronounced. As part of the 2012 SME Report by Creditreform and IBB, only a few companies perceived a worsening in financing conditions and the share of companies who saw an improvement was well above 10%. At the same time, around one fifth of enterprises – especially smaller enterprises – reported that they found the financing situation to be difficult.

With a view to demand for our business development programmes, this demand is flat against last year's level. Increases were primarily recorded with the IBB growth programme, the common task (GRW) programme, the new IBB loan innovative programme, and also with microloans. Looking ahead to 2013, we are very pleased that our proposal for a guarantee programme to supplement the offering by Bürgschaftsbank has been accepted and adopted by the Senate. Within the first six months of 2013, we will be able to take on guarantees for replacement and expansion investments for companies in the clusters ranging between EUR 1.25m and EUR 5m. The new "ERDF guarantee fund" hence smoothly supplements the offering by Bürgschaftsbank which has also been raised to amounts of up to EUR 1.25m. A volume of EUR 16m will make it possible to take on guarantees with a volume of approx. EUR 50m over an initial period ending 2015.

In recent years, special financing has become increasingly important. We have been offering this through "Berlin Infra" both for business development and housing promotion. In previous years, this programme was used to finance the equity fund buyback programme by the former Berlin-based Immobilien Holding (BIH, now Berlinovo) or our pro-rata syndicated loan of EUR 310m for Berlin Brandenburg International Airport. In 2012, IBB financed the buyback of 25% of Berliner Wasserbetriebe (Berlin's water supply company). By acquiring RWE's shares, the Federal Land of Berlin was able to secure a share of more than 75% in Berliner Wasserbetriebe. The Law Establishing Investitionsbank Berlin explicitly foresees the financing of such infrastructure measures which were secured in this case by Federal Land guarantees. IBB's good liquidity situation is enabling us to take on such special financing parallel to our significantly increased financing commitments in business development and housing promotion without adversely affecting these.

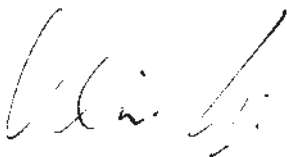
Another increasingly important area in recent years is financing as part of our housing and urban development business activities. In 2012, financing commitments, especially as part of Berlin Infra (EUR 171.6m), syndicated loans (EUR 142.9m) and global loans (EUR 100.0m) accounted for new business amounting to EUR 726.4m. In addition to refinancing and grants, this results in total financing of EUR 915.8m. This result is hence around 23% up against the previous year's figure. Another positive development here is the increase in financing commitments for energy-



saving refurbishment which rose by around 16% to EUR 94.7m and focused clearly on medium-sized investment projects. The 2007–2013 financial programming period for the EU structural funds will end in 2013. During this time, Berlin has managed to trigger an economic recovery process that is still underway. This was also largely due to the structural funds, primarily from the European Regional Development Fund (ERDF), which were used to refinance many business development and promotion programmes. No decision has yet been made regarding to what extent Berlin's current ERDF financing line amounting to EUR 875m is to be reduced for the coming 2014–2020 financial programming period. However, a reduction must be expected with a view to redistribution to more needy economic areas in Europe. These funds are extremely important – especially in the European crisis countries – for triggering an economic growth process. By introducing a series of ERDF-independent financing programmes, such as "Berlin loan" or the "IBB growth programme", IBB has prepared itself in recent years for this situation and will be able to continue offering an attractive range of programmes to companies in Berlin in the years to come.

In the 2012 financial year we were able to continue the good developments achieved in previous years, improving our economic result by around 30% to EUR 72.3m. 2012 was also a good financial year during which we managed to increase our net income to almost EUR 40m with support funds and grants for the Federal Land of Berlin remaining unchanged at EUR 33m. This was not only due to unexpectedly high net interest income and, despite wage/salary increases, only moderately higher administrative expenditure but also to the fact that we were able to drastically reduce our risk provisions following the extensive clear up of our securities portfolio in the PIIGS countries. We are now in an excellent position to provide you with reliable financial services in the years to come. Ladies and gentlemen, we look forward to working with you in the future.

Yours sincerely



**Ulrich Kissing**  
*Chairman of the Board*



**Dr. Frank Schneider**  
*Member of the Board*

## *Statement by the Chairwoman of the Administrative Board*



**Cornelia Yzer**  
Senator for Business,  
Technology and Research  
of the Federal Land of  
Berlin

Berlin's economy is growing. The most important economic indicators for the past year are all positive: In the first six months of the year, gross domestic product in Germany's capital rose faster than in all other Federal Laender. Employment figures were also up by 2.5 percent, the highest increase in all of Germany. These developments are making it possible to transform the opportunities and potential, which have marked Berlin since reunification, into economic success for the people and enterprises of this city: the outstanding science and research landscape which is increasingly networking with innovative SMEs in Berlin; the availability of industrial and commercial space within the city which can be freely configured but which are integrated into the city's infrastructure; not to mention the highly qualified graduates of Berlin's universities. All of this provides an excellent foundation not just for establishing new companies with innovative research results, but also for Berlin's economy as a whole.

Investitionsbank Berlin can support economic investment and innovation projects with a wide range of financing instruments. With grants, loans as well as equity products and consultancy promotion, Investitionsbank is actively helping entrepreneurs in Berlin. With the new guarantee strategy and the ERDF guarantee fund at IBB, Berlin's Senate has paved the way for Berlin's economy to prepare and adjust itself in time for the consequences of the implementation of Basel III. Thanks to the new guarantee strategy, an important step has already been taken in order to support and promote the prevailing founder and growth atmosphere in Berlin with the involvement of Investitionsbank Berlin.

However, it will take more than just public funds to finance further economic growth. That's why we are pleased that a growing number of venture capital companies are coming to Berlin and crowd funding platforms are emerging. This proves that Berlin, as one of the world's attractive locations for start-ups, is being increasingly perceived as a market place. This is where Investitionsbank Berlin is called upon to assist and advise people starting up in business. Investitionsbank Berlin's offering is hence continuously being reviewed and adapted to meet changing demands so that sound advice and support for the future can be provided to enterprises in Berlin. In autumn 2012, for instance, an early phase module for start-up financing in technology was introduced; at the beginning of the year, the consultancy portfolio of IBB Business Team GmbH was reorganised and now also enables internationalisation projects to be accompanied, and the new ERDF guarantee fund allows IBB to adequately support larger investment projects.

Investitionsbank Berlin is not afraid to compare its performance with that of other Federal Laender business development banks. This also means restricting the red tape to the necessary extent.

With the beginning of the new financial programming period for the European development funds in 2014, the challenge now facing Investitionsbank Berlin is how to effectively and successfully implement the potential opened up by the European structural funds for Berlin's economy. One of the important tasks here is also to find jobs for those facing major difficulties on the labour market and who have been unemployed for many years. That's why economic investment in Berlin must be supported further so that jobs can be created, especially for people from different backgrounds.

I am confident that the dynamic economic developments will continue in the coming financial year. Investitionsbank Berlin, in its capacity as the business development and promotional bank of the Federal Land of Berlin, will support this trend. I would like to wish every success, not just to Investitionsbank Berlin, but also to the many companies and founders in Berlin.

A handwritten signature in black ink, appearing to read 'Cornelia', followed by a stylized horizontal line with a vertical stroke intersecting it.

**Cornelia Yzer**

Senator for Business, Technology and Research of the Federal Land of Berlin

## *Report by the Administrative Board for 2012*

Investitionsbank Berlin is an institution incorporated under public law, and is the central business development institution of the Federal Land of Berlin.

The Administrative Board of Investitionsbank Berlin performed the tasks assigned to it as required by law, the memorandum and articles of association, as well as the business rules.

In the year under review, the committee came together for four ordinary and two extraordinary meetings.

The Management Board regularly informed the Administrative Board and its committees about the bank's business development, economic situation, strategic orientation and about important business. In accordance with the minimum requirements for risk management by lending institutions, the Management Board informed the Loan Committee of the Administrative Board every quarter and the Administrative Board itself once a year of the most important contents of the risk reports.

The work performed by the Administrative Board focused on the diversification and ongoing reduction of the securities portfolio as part of the de-risking strategy, including the exchange bid for Greek bonds, the bank's own risk steering and risk controlling measures, the further development of the product portfolio, current developments with the bank's investments and accompanying larger financing transactions, especially in conjunction with the re-municipalisation of Berliner Wasserbetriebe.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Berlin, performed the mandatory audit of the annual accounts for the 2012 financial year and issued an unqualified audit opinion.

Following the explanation by the auditor, the Administrative Board acknowledged the result of the audit in its meeting on 25 March 2013. The committee did not raise any objections against the Annual Accounts of Investitionsbank Berlin drawn up by the Management Board. At its meeting, the Administrative Board adopted the bank's Annual Accounts for the 2012 financial year and approved the consolidated annual accounts.

Net income for the 2012 financial year minus support funds and grants for the Federal Land of Berlin totals EUR 39.5 million.

The Administrative Board would like to thank the Management Board and all the staff of Investitionsbank Berlin for their dedicated work in the 2012 financial year.

Berlin, 25 March 2013

Chairwoman of the Administrative Board

A handwritten signature in black ink, appearing to read 'Cornelia', followed by a stylized horizontal line with a vertical stroke intersecting it.

Cornelia Yzer

Senator for Business, Technology and Research of the Federal Land of Berlin

## Business promotion in 2012 in figures

Programmes	Business start-ups Volume (in million euro)			Existing companies Volume (in million euro)		
	Number	Loans and investments, guarantees	Grants	Number	Loans and investments, guarantees	Grants
Berlin Start	54	4.1	0.0	2	0.1	0.0
Berlin Loan	23	4.4	0.0	143	21.5	0.0
Berlin Loan Innovative	1	0.2	0.0	10	5.6	0.0
Berlin Capital	0	0.0	0.0	0	0.0	0.0
Berlin Infra	0	0.0	0.0	1	30.0	0.0
Common task (GRW)	34	0.0	10.9	149	0.0	78.5
SME fund	2	0.4	0.0	3	0.6	0.0
SME fund – micro-loans up to EUR 25,000	143	2.7	0.0	33	0.6	0.0
Growth/syndicated loans	0	0.0	0.0	16	132.9	0.0
<i>Pro FIT</i>	35	10.5	3.0	59	7.8	13.1
Innovation Assistant	46	0.0	0.9	70	0.0	1.4
Intermediate financing of film productions	1	0.2	0.0	18	2.1	0.0
CEE Networks	0	0.0	0.0	1	0.0	0.3
Opening up new markets	0	0.0	0.0	29	0.0	1.2
Liquidity assistance	0	0.0	0.0	3	0.3	0.0
<b>Sub-total – business development and promotion programmes</b>	<b>339</b>	<b>22.3</b>	<b>14.8</b>	<b>537</b>	<b>201.6</b>	<b>94.5</b>
Global loans	0	0.0	0.0	2	55.0	0.0
Special financing (from Berlin Infra)	0	0.0	0.0	1	700.0	0.0
<b>Total</b>	<b>339</b>	<b>22.3</b>	<b>14.8</b>	<b>540</b>	<b>956.6</b>	<b>94.5</b>
For information:						
IBB Beteiligungsgesellschaft	47	12.1	0.0	0	0.0	0.0
Share of competence fields in support programmes	146	15.6	11.4	350	159.9	59.0

Number	Total Volume (in million euro)		Programmes	
	Loans and investments, guarantees	Grants	Number	
56	4.1	0.0	4.1	Berlin Start
166	25.9	0.0	25.9	Berlin Loan
11	5.8	0.0	5.8	Berlin Loan Innovative
0	0.0	0.0	0.0	Berlin Capital
1	30.0	0.0	30.0	Berlin Infra
183	0.0	89.4	89.4	Common task (GRW)
5	1.0	0.0	1.0	SME fund
176	3.3	0.0	3.3	SME fund – micro-loans up to EUR 25,000
16	132.9	0.0	132.9	Growth/syndicated loans
94	18.2	16.1	34.3	<i>Pro FIT</i>
116	0.0	2.3	2.3	Innovation Assistant
19	2.3	0.0	2.3	Intermediate financing of film productions
1	0.0	0.3	0.3	CEE Networks
29	0.0	1.2	1.2	Opening up new markets
3	0.3	0.0	0.3	Liquidity assistance
<b>876</b>	<b>223.9</b>	<b>109.3</b>	<b>333.2</b>	<b>Sub-total – business development and promotion programmes</b>
2	55.0	0.0	55.0	Global loans
1	700.0	0.0	700.0	Special financing (from Berlin Infra)
<b>879</b>	<b>978.9</b>	<b>109.3</b>	<b>1,088.2</b>	<b>Total</b>
For information:				
47	12.1	0.0	12.1	IBB Beteiligungsgesellschaft
496	175.5	70.4	246.0	Share of competence fields in support programmes



## Real estate and urban development

### Real estate development in 2012 in figures

Year under review	New approvals in million euro	
	2011	2012
<b>Rehabilitation and refurbishment of residential property</b>		
IBB energy-related refurbishment	66.0	92.5
IBB homes for the elderly	12.3	3.3
IBB residential property modernization	—	5.6
KfW residential property modernization	43.1	8.7
KfW energy-efficient rehabilitation	15.4	1.7
Other KfW programmes	—	0.8
<b>Sub-total 1</b>	<b>136.8</b>	<b>112.6</b>
<b>Inter-bank business</b>		
Syndicated business	76.6	142.9
Global loans	80.0	100.0
<b>Sub-total 2</b>	<b>156.6</b>	<b>242.9</b>
<b>Miscellaneous</b>		
Berlin Infra	199.4	171.6
Supplementary loans	92.7	105.7
Subsidy/grant programmes	16.9	7.0
Refurbishment loans	63.6	93.7
Earlier programmes	4.4	—
<b>Sub-total 3</b>	<b>377.0</b>	<b>378.0</b>
<b>Total new business (including subsidies/grants)</b>	<b>670.4</b>	<b>733.4</b>
Refinancing	73.7	182.4
<b>Total</b>	<b>744.2</b>	<b>915.8</b>

# Management Report

## Basics

### *Business model*

As the Federal Land's business development and promotional bank, Investitionsbank Berlin (IBB) focuses on financing and advising start-ups and existing businesses in Berlin and on supporting and financing housing. Furthermore, Investitionsbank Berlin makes important contributions towards the non-monetary promotion of business and technology in Berlin through IBB Business Team GmbH and other shareholdings in various institutions, including, for instance, Berlin Tourismus & Kongress GmbH, Medienboard Berlin-Brandenburg GmbH and ipal Gesellschaft für Patentverwertung GmbH as well as by supporting Technologiestiftung Berlin. IBB Beteiligungsgesellschaft mbH and VC Fonds für Technologie und Kreativwirtschaft, which is managed by the former, are subsidiaries of IBB and have successfully invested in Berlin's growth companies.

In its business development and promotional capacity, IBB supports start-ups as well as small and medium-sized enterprises (SMEs) with loans, equity and grants as well as consultancy services. Special attention is devoted to future-enabled businesses in the Berlin-Brandenburg clusters (health sector, energy technology, transport/mobility/logistics, optics as well as information and communication technology and the creative sector).

In its housing and urban development business, Investitionsbank Berlin offers financing products that contribute towards the sustainable modernisation of Berlin's residential property with a view to energy efficiency and suitable living conditions for the elderly. The bank also fulfils its task as a business development and promotional bank by granting global and syndicated loans through commercial banks, and offers solutions to matters related to existing business development. It serves as a direct point of contact for all matters in conjunction with business development and financing. This applies not just to single properties, but also to an enterprise's entire financing portfolio.

### *Further development of the business model*

Since 2010, many implementation measures have been carried out throughout the bank in order to ensure the optimum implementation of IBB's business development and promotion mission, to reduce complexity, make the best use of resources and to boost customer satisfaction. These measures are part of the strategic planning to be implemented by 2015 and later. Regular reviews are conducted to ensure that the measures foreseen are implemented as planned or that, if necessary, early counter-

measures can be taken. An analysis in 2012 showed that the majority of the optimisation measures can be implemented as scheduled by 2015. A series of further optimisation initiatives will be carried out in various areas of the bank in 2013.

### *The bank's control systems*

IBB's control systems address aspects of business administration, commercial law and regulatory law. These include, in particular, defining the strategic orientation of the business and risk strategy, operative planning, issues regarding the equity base and matching maturities, deciding on the control instruments to be used, as well as accounting, earnings and risk controlling and reporting as the core control functions.

The economic result and the cost-to-income ratio/financing cost-to-income ratio serve as important success-based control variables or performance indicators for IBB. The economic result is calculated on the basis of IBB's annual earnings plus support funds and grants for the Federal Land of Berlin (Berlin-Beitrag). These support funds and grants for the Federal Land of Berlin reflect the loss-making development and support activities by IBB which the bank carried out at the request of the Federal Land of Berlin.

The cost-to-income ratio is the ratio between administrative expenditure and gross earnings where gross earnings is defined as the sum of income from interest and commission and other operating income minus IBB's support funds and grants for the Federal Land of Berlin. The financing cost-to-income ratio is the ratio before the support funds and grants for the Federal Land of Berlin are deducted from gross earnings.

In the year under review, the bank's business activities were controlled by the strategies laid down in the business strategy for the business fields of housing and urban development, business promotion and treasury. In this case, the bank defines the strategies in more detail on the basis of the medium-term plans currently valid. The functional strategies, especially the risk strategy, are derived from the business strategy. Control is carried out here primarily at business field level. Risk control is described in detail in the risk report.

The strategic targets and goals are reviewed each year or as necessary and adjusted when required.

The goals are implemented on a global bank level each year as part of operative planning and have a planning horizon of one year. In the second year, they are implemented at strategic level with a planning horizon of five years as part of medium-term planning. This is also based on the rules for accounting laid down in the German Commercial Code.

## *Economic Review*

### *Economic factors*

Despite the weakness of the global economy that has persisted since 2011 and the crisis in the euro zone, Germany's economy initially proved to be robust. Having said that, as the year progressed the consequences of the crises became primarily visible in transactions, so that a decline in investment did in fact have an adverse impact on the economy.

The euro crisis initially deepened as the year progressed. Since the large-volume, long-term refinancing operations by the European Central Bank (ECB) only resulted in temporary calming of capital markets and European fiscal policy in the first six months of the year failed to deliver any trust-building measures, by the summer of 2012, the ECB had no choice but to declare its willingness to buy bonds. Even before the actual bond purchases took place, the mere willingness on the part of the ECB already led to a reduction in risk mark-ups.

However, German government bonds were still marked by extraordinarily low returns, because the stabilising effect of the promised ECB intervention was also seen as a provision against German liability risks in conjunction with euro rescue measures.

In this very uncertain market environment, financial institutions in Europe continued to fare very differently. While weaker market players had to rely primarily on the liquidity allocated by the ECB, the strong financial institutions left funds in the euro system, mostly without bearing any interest. The called-for strengthening of the equity base was largely implemented through the reduction of risk-weighted assets.

In 2012, Berlin as a centre for business emerged relatively unscathed from the euro crisis. That's because the economy in Germany's capital city is generally less dependent on industrial sectors which are susceptible to crisis compared to business centres in the southern Federal Laender. Compared to the national average, Berlin's economy is developing at a much more stable rate in today's conditions.

The difficult sales situation in southern European countries hit by recession, such as Spain and Italy, was at least partially offset in Berlin by export successes to the US and the newly industrialised countries. The economy was merely darkened by a downward trend in the processing industry where orders, especially from domestic companies, declined steeply. This weakness was, above all, down to producers of investment goods in the fields of mechanical engineering and electrical equipment. On the other hand, companies serving mostly private consumers – above all, producers of long-lived consumer goods – benefited from ongoing employment growth in the capital, higher wages and record tourist numbers.

Tourists were once again a strong pillar of Berlin's economy in 2012. This extraordinarily positive trend remains unbroken and has led to higher turnover for Berlin's retail trade, its hotels and restaurants.

For some time now, the decline in unemployment figures in Berlin has been above the national average. However, employment figures in Berlin have been rising especially due to people arriving from other regions and commuters from the greater Berlin area so that unemployment is not falling at the same rate. Having said that, unemployment in Berlin, however, went hand in hand with an annual average of around 18,000 job vacancies. The services sector, in particular, proved to be a job engine: Demand for manpower is considerable, especially in hotels and restaurants, retail, information and communications, in the field of freelance and scientific services, as well as in waste disposal.

Despite this dynamic development, basic unemployment in Berlin is still high. Compared to the rest of the country, Berlin came last with an average unemployment rate of more than 11 percent in 2012. On the other hand, the situation looks a lot better in the southern Laender. Top of the list are Bavaria and Baden-Württemberg with unemployment rates of below 4%.

All the same, Berlin is in a position of strength. The tougher economic crisis in Europe is meeting with a competitive industrial sector. Following the collapse in 2008/2009, this sector had already recovered in 2010. In recent years, restructuring of production processes, favourable development of real unit labour costs and high-quality products have helped to strengthen the international standing of Berlin-based enterprises working in the processing industries. On average, the share of foreign turnover last year was higher than the national level. However, Berlin's industry is not completely immune to the considerable weakness of important European customer markets. But it must be remembered that the proportion of value added for Berlin's industry is very low (around 11%). Germany's capital city is strongly characterised by services. And it is these business sectors that form the most important pillars of Berlin's economy.

The relatively robust development in company services, higher wages and, above all, growing consumer spending thanks to the boom in tourism are all having a stabilising effect. Berlin is a city with the highest number of start-ups and the highest number of start-ups per capita compared to the rest of the country. In recent years, Germany's capital city has increasingly become the start-up centre in the world of the Internet. The reasons for this are obvious. Berlin has a lot to offer and is not expensive: well trained staff, many nationalities – the cost of living is relatively low as is the wage structure. There are also many start-ups in future areas such as media, the creative industry, health, energy, transport and optics.

All in all, adding up new companies and deducting company closures, a disproportionately high number of companies were set up in one of the five trans-Länder clusters. "innoBB", the joint innovation strategy for the Berlin-Brandenburg region, covers the following clusters:

- ↳ Health sector
- ↳ Energy systems
- ↳ Transport
- ↳ Mobility and logistics, ICT
- ↳ Media and creative industry
- ↳ Optics (including microsystems).

After deducting company de-registrations, a much higher number of new enterprises were registered last year, especially in "information and communications" and, above all, in the "provision of services for information technology". However, companies are also still being set up by unemployed people, often in the hotel/restaurant, retail and construction sectors.

The current economic climate is also being fostered by a building sector that continues to thrive in Berlin – not least due to the growing focus on assets which results directly from the financial crisis. Construction orders, especially in housing, but also in other areas, rose over the course of the year and are still at the highest level since 2002.

## *Business Development in 2012*

### *General Business Development*

Berlin's economic revival and the sustainable, positive development of the housing market are reflected in IBB's business development in 2012. With an economic result of EUR 72.3m, IBB surpassed the previous year's figure of EUR 55.5m by a long run.

Net interest income continues to be the most important earnings item. The forecasted decline in interest earnings compared to the previous year was weaker than expected due to continued favourable refinancing possibilities for the bank and the bank-friendly interest structure curve.

In addition, risks provisions, especially in conjunction with the European debt and finance crisis, had to be taken into account to a much lesser extent in 2012. This led to a much lower provision of EUR -19.8m (previous year: EUR -82.2m).

IBB once again provided the Federal Land of Berlin with support funds and grants (Berlin-Beitrag) in order to support the business development and promotional policy. This amount totalled EUR 32.8m and accounted for around half of the economic result.

These support funds and grants for the Federal Land of Berlin include activities by IBB on behalf of the Federal Land of Berlin which – taking into account all the costs incurred in their implementation as well as earnings generated – resulted in an economic loss for IBB.

This means that IBB can once again report a very successful year in 2012. In addition to its good earnings position, the bank also has a stable assets and financial position. The balance sheet total declined as planned by 1.5% to EUR 19.9bn. The reduction of the securities portfolio as part of the de-risking strategy was largely offset by higher customer loan volumes.

### *Volume of business development for new business in business and housing/real-estate promotion exceeds the EUR 2bn mark for the first time*

Despite the ongoing financial and debt crisis, IBB went a long way towards securing financing for companies in Berlin in 2012. The volume of new business in business and housing/real-estate promotion rose against the previous year by 66% to reach more than EUR 2bn for the first time ever. This figure surpassed the planned value by more than 100%.



### *Record result in business promotion largely due to financing the re-municipalisation of Berliner Wasserbetriebe under the Berlin Infra programme*

In the 2012 financial year, the business promotion sector presented itself as a competent financial service provider for the Federal Land of Berlin. On behalf of Berlin's Senate, Investitionsbank Berlin accompanied the re-municipalisation of Berliner Wasserbetriebe with a financing line of EUR 700m as part of the Berlin Infra programme.

However, funds were also made available to medium-sized enterprises in Berlin and this led to a considerable increase in the volume of IBB's growth programme. The product range was also adapted further in 2012 in response to demand. With a view to the "Berlin Start" programme, the maximum limit for loans was raised from EUR 100,000 to EUR 250,000 and a company age of 3 to 5 years was agreed to, thus providing founders with a freer hand for their financing. The "Pro FIT" programme has now been supplemented by a new Pro FIT module with early phase financing. The still rather new "Berlin loan innovative", which is geared specifically to small and medium-sized enterprises (SMEs), was extended in the year under review until 2013 (for now).

All in all, total funds approved for companies as part of business development and promotion in the form of loans, guaranteed loans and grants amounted to EUR 1,088.2m (previous year: EUR 462.8m).

### *Positive trend in the financing volume for housing and urban development*

In the 2012 financial year, Investitionsbank Berlin once again proved to be a highly sought-after finance partner for Berlin's housing and real-estate sector thanks to the bank's stable provision of loans and liquidity. In the housing and urban development segment, a very good result was achieved with a financing volume totalling EUR 908.9 (without special transactions and grants). This was accompanied by a much higher number of transactions compared to the previous year.

In its capacity as a business development and promotional bank, Investitionsbank Berlin also supports measures designed to improve energy efficiency in residential buildings and is thus making an important contribution to climate protection. As part of IBB's "Energy-efficient refurbishment" programme, low-interest loans amounting to EUR 92.5m were granted to finance such investment projects. IBB also focused on co-operating with commercial banks and promoting municipal housing associations as well as on active and targeted management of existing customers.

In 2012, IBB successfully launched the "IBB residential property modernisation" programme to replace the former "KfW modernisation" programme along with the "IBB WEG financing" programme. IBB has also

expanded its product portfolio in order to pass on KfW's home ownership and energy-efficient building programmes to home owners.

### *Developments in the segments*

#### *Business promotion*

From the point of view of business promotion, the 2012 financial year proved to be very good. The total portfolio of loans and guaranteed loans rose by EUR 0.8bn to EUR 1.3bn, thus taking business promotion to more than EUR 2.0bn for the first time ever. This was largely due the bank's support for the buyback of Berliner Wasserbetriebe by the Federal Land of Berlin involving a financing line of EUR 700.0m in the fourth quarter of 2012.

The trend for new business over the past four years has remained on the rise. Financing commitments more than doubled compared to the previous year. The volume of new business in 2012 surpassed the budgeted figure significantly and rose by 135.1% from EUR 462.8m to EUR 1,088.2m.

New business development is largely marked by the "Berlin Infra" programme which involves support for the remunicipalisation of Berliner Wasserbetriebe in the order of EUR 700.0m. The "IBB growth programme" also developed well; this programme provides loans to medium-sized enterprises in Berlin for investment, re-financing, follow-up financing and base financing. New commitments under this programme totalled EUR 132.9m, thus surpassing both the previous year's figure and the budgeted amount.

"Global loans" worth EUR 55.0m were granted in the year under review. With these global loans, commercial banks are increasingly granting loans to companies operating in Berlin and are thus passing on the refinancing advantage which they receive from us in order to strengthen the long-term competitive position of medium-sized enterprises.

With a view to subsidies, funds amounting to EUR 109.3m more than budgeted were granted. The previous year's figure was also once again surpassed. The lion's share of subsidies continued to be granted under the "Improvement of the regional economic structure" common task programme. These subsidies are earmarked for investment projects by existing companies and start-ups in order to create and secure permanent jobs.

In the business promotion segment, revenues amounting to EUR 23.0m were recorded in the year under review and, as expected, are below the previous year's figure (EUR 34.6m). The result recorded in the previous year was influenced by a once-off effect. Savings in administrative expenses achieved during the year had a positive impact on the result for

this segment. However, the result was burdened by risk provisions resulting from the difficult situation in the solar industry. The related exposure was almost completely value-adjusted. The loss totals EUR 8.4m (previous year's profit: EUR 1.3m).

### *Housing and urban development*

In the housing and urban development segment, new financing commitments in 2012 (excluding special transactions and grants) totalled EUR 908.9m. This result surpasses both the appropriation volume expected for 2012 as well as the previous year's figure (EUR 727.3m).

IBB's business development continues to focus on granting low-interest loans financed by KfW under IBB's "Energy-efficient Refurbishment" in order to finance energy-saving projects in residential buildings. Compared to 2011, the volume of approved measures rose by EUR 26.5m, from EUR 66.0m to EUR 92.5m. We are pleased to report here that more and more customers are showing interest in refurbishing their homes in order to save energy and are making use of the funds available. By increasing funds, it was possible to approve a greater number of applications for funding under the programme and this explains the decline in KfW pass-through loans, however, without additional low interest.

In the 2012 financial year, IBB was able to finance infrastructure investments by municipal associations totalling EUR 171.6m (previous year: EUR 199.4m) under the "Berlin Infra" support programme.

IBB has also stepped up its co-operation with commercial banks, indirectly strengthening Berlin's housing sector by granting global and syndicated loans. On the whole, IBB was able to provide commercial banks with low-interest refinancing funds in the form of global loans amounting to EUR 100.0m (previous year: EUR 80.0m) and syndicated loans amounting to EUR 142.9m (previous year: EUR 76.7m).

Furthermore, IBB also supports existing commitments with individual and demand-orientated financing concepts in the form of follow-up financing and re-financing, as well as supplementary financing to close financing gaps that arise under an existing commitment. In an effort to avoid guarantee and financing loan defaults for the Federal Land of Berlin, IBB is also committed to supporting refurbishment projects. As part of this further financing for housing, IBB was able to approve financing totalling EUR 381.8m and hence surpassed both the previous year's figure (EUR 234.4m) and the budgeted amount.

As per the end of the year, the total portfolio of loans and guaranteed loans, disregarding additional receivables, amounted to EUR 11.4bn (previous year: EUR 11.6bn). Loans, excluding special transactions, totalled EUR 874.9m (previous year: EUR 779.1m).

In the year under review, the housing and urban development segment also significantly surpassed the budgeted economic result. As per the end of the year, a result of EUR 56.9m was recorded which was EUR 1.1m up against the previous year. The main source of revenue continues to be net interest which accounts for EUR 70.8m (previous year: EUR 66.8m). Other operating income was down by EUR 9.7m to EUR -3.7m which is largely due to previous year's special effects from the reversal of provisions that were no longer required. On the whole, the portfolio structure has improved significantly and this led to the reversal of provision items. The positive balance with provident measures for lending improved from last year's figure of EUR 7.4m, rising to EUR 16.1m in 2012. Administrative expenditure, which was also below budget, had an additional positive impact on the economic result.

### *Treasury*

In order to perform the financing and business development tasks, the treasury segment steers IBB's liquidity and refinancing position. In addition to the provision of funds by the Federal Land, refinancing is carried out through the issue of bearer bonds, borrower's note loans and registered bonds for any term. Funds were also taken out on the money market and through refinancing funds from KfW and EIB. Balance-sheet structure management is carried out as comprehensive asset/liability management. Transactions are made on national and international money and capital markets.

Through intensive market cultivation activities, IBB warrants the liquidity of its bonds on the secondary market, thus making the titles very attractive for investors. As a business development and promotional bank with public-sector responsibility and the refinancing guarantee of the Federal Land of Berlin, the bank has the same good credit rating as the Federal Land of Berlin. The credit rating of the Federal Land of Berlin is currently being evaluated by two rating agencies, Moody's currently assigns an Aa1 rating for the Federal Land of Berlin (negative outlook) while Fitch assigns a rating of AAA (stable outlook).

In the treasury segment, the economic result of EUR 31.2m in 2012 is in line with expectations. Due to the ongoing de-risking strategy, this year's figure for provision requirements for securities of EUR -20.4m was much lower than in the previous year (EUR -75.9m). At the same time, net interest was down 20% against the previous year from EUR 71.7m to EUR 57.2m. This decline was largely due to the scheduled reduction in this segment

### *Corporate center*

The corporate center segment represents the bank's steering functions (sovereign functions) which are not assigned to the market areas (housing and urban development, business promotion and treasury) and the result components not attributable to the market areas.

In the year under review, the corporate centre segment recorded an economic result of EUR -7.4m (previous year: EUR 7.4m). This change is essentially due to low net interest which includes the imputed interest claim for no-interest stocks. In 2012, interest rates on the money and capital markets were much lower than in the previous year. The interest result was also burdened by the compounding of interest on provisions and value adjustments.

## *The situation of the bank*

### *Earnings position*

In the financial statement presented below, certain amounts carried in the income statement according to German commercial law were re-classified and/or supplemented from an accounting point of view. This concerns expenditure by the bank made available as support funds and grants to the Federal Land of Berlin (Berlin-Beitrag) the form of an advance dividend. Payments by the bank included in the income statement under "Other operating expenses" (EUR 14.0m, previous year: EUR 13.8m) and "Risk provisions" (EUR 3.7m, previous year: EUR 3.0m) are carried as support funds and grants for the Federal Land of Berlin just like business development and promotion services performed by the bank for free (EUR 15.1m, previous year: EUR 16.4m) which are considered exclusively as imputed items. These items without liquidity relevance are carried as operating income in the financial statement and additionally as support funds and grants for the Federal Land of Berlin. The bank's administrative expenditure is also reported subject to these changes. This means, for instance, that personnel costs for staff assigned to group subsidiaries (EUR 0.4m) are not reported under personnel expenses but as the balance of other operating income. Similarly, the expenses required for personnel measures in conjunction with the implementation of the project results in order to develop the business model further are included in the extraordinary result just like last year.

The comparison of the financial statement for the 2012 financial year with the previous year is marked by special factors in the previous year's revenues as well as the repercussions of the European debt and finance crisis on risk provisions of the past financial year which were taken into account in 2011.

The economic result for the bank rose primarily due to the much lower provisions necessary by 30.4% or EUR 16.8m to EUR 72.3m.

Income statement in million EUR	2012	2011	Change	
			Absolute	In %
Net interest income	147.9	161.6	-13.7	-8.5
Net commission income	10.7	11.4	-0.7	-6.4
Net other operating income/expenses	12.9	39.8	-26.9	-67.6
<b>Total income</b>	<b>171.4</b>	<b>212.7</b>	<b>-41.3</b>	<b>-19.4</b>
Total administrative expenses	-76.6	-73.9	-2.6	-3.6
Operating result before risk provisioning/valuations	94.9	138.8	-43.9	-31.7
Risk provisioning/valuations	-19.8	-82.2	62.4	75.9
Extraordinary result	-2.8	-1.1	-1.6	<-100
<b>Economic result</b>	<b>72.3</b>	<b>55.5</b>	<b>16.8</b>	<b>30.4</b>
Support funds and grants for the Federal Land of Berlin	-32.8	-33.2	0.4	1.1
<b>Net income for the year</b>	<b>39.5</b>	<b>22.3</b>	<b>17.2</b>	<b>77.3</b>

The bank's main source of revenue is net interest income which declined against the previous year by 8.5% to EUR 147.9m. This decline was largely due to the scheduled portfolio reduction in the treasury segment. With a share of 47.9% (previous year: 41.4%), net interest from the housing and urban development segment accounts for the lion's share of total net interest.

As expected, commission income (EUR 10.7m), which continues to be largely determined by fees for handling guarantees and subsidies in housing and real estate promotion, is below the previous year's figure due to the phasing out of support measures (EUR 11.4m).

Other operating income totalled EUR 12.9m; this figure is significantly lower than the previous year's figure of EUR 39.8m which was determined by special effects.

#### *Administrative expenditures slightly up against the previous year*

As expected, administrative expenses rose by EUR 2.7m against the previous year and now total EUR 76.6 (previous year: EUR 73.9m). Personnel expenditure rose by EUR 1.9m to EUR 49.3m (previous year: EUR 47.4m) and material expenditure also rose by EUR 1.2m to EUR 23.3m (previous year: EUR 22.1m).

The financing cost-to-income ratio, which is defined as the ratio of administrative expenditure to revenues, rose to 44.6% (previous year: 34.7%) primarily due to once-off effects in the annual result of the previous year.

### ***Risk provisioning/measurement gains or losses***

The financial statement is burdened by measurement gains or losses of EUR 19.8m (previous year: EUR 82.2m). The significant decline against the previous year is due to the measurement measures that were necessary in response to the European debt and financial crisis which in the previous year made it necessary to devalue the Greek bonds held by the bank. In lending business, the individual and portfolio value adjustments which continue to be made on the basis of conservative measurement methods pursuant to IAS 39 reflect all foreseeable risks in loan financing.

### ***Net extraordinary result***

Net extraordinary result includes expenditure for the HR measures required within the scope of implementing the project results for the further development of the business model. Contrary to how the income statement is posted according to German commercial law, these items are not treated as personnel expenditure for presentation purposes under the German Commercial Code.

### ***Economic result and net income***

The economic result of EUR 72.3m surpasses the previous year's figure (EUR 55.5m) by 30.4%. After deducting support funds and grants for the Federal Land of Berlin in the financial statement to the amount of EUR 32.8 million (previous year: EUR 33.2m), net income for the year rose by EUR 17.2m to EUR 39.5 million (previous year: EUR 22.3 million) which is carried as a balance-sheet profit.

### ***Financial position***

In the year under review, the balance sheet total increased by EUR 294.7m to EUR 19.9bn. The business volume, which additionally includes contingent liabilities from guarantees and warranty obligations as well as irrevocable loan commitments, fell by EUR 309.3m to EUR 21.0bn.

As per the end of the year, derivatives used to steer risks resulting from changes in interest rates have a nominal volume of EUR 14.2bn (previous year: EUR 14.4bn).



Business volume in million euro	Change			
	31 Dec. 2012	31 Dec. 2011	Absolute	In %
Loans and advances to banks	1,714.0	1,890.2	-176.2	-9.3
Loans and advances to customers	14,217.1	13,732.4	484.7	3.5
Bonds and other fixed-income securities	3,556.2	4,146.7	-590.4	-14.2
Shares in special funds	150.0	150.0	0.0	0.0
Share holdings/shares in affiliated companies	100.3	99.1	1.1	1.1
Other assets	197.9	211.8	-13.9	-6.6
<b>Total assets</b>	<b>19,935.5</b>	<b>20,230.2</b>	<b>-294.7</b>	<b>-1.5</b>
Contingent liabilities	109.3	178.4	-69.0	-38.7
Irrevocable loan commitments	975.6	921.1	54.5	5.9
<b>Business volume</b>	<b>21,020.4</b>	<b>21,329.7</b>	<b>-309.3</b>	<b>-1.5</b>

Loans to banks declined against the previous year by EUR 0.2bn to EUR 1.7bn due to fewer time deposits and call money transactions. The increase in receivables from customers (EUR 0.5bn) compared to the previous year is largely due to support for the remunicipalisation project (Berliner Wasserbetriebe) by the Federal Land of Berlin.

In response to the European debt and financial crisis, a de-risking strategy was already adopted in 2009 and also implemented further in the year under review. As per the balance sheet date, the security portfolio declined against the previous year by EUR 0.6bn to EUR 3.5bn.

Participations/shares in affiliated companies changed by EUR 1.1m to EUR 100.3m (previous year: EUR 99.1m). Investitionsbank Berlin had already founded IBB Technologie-Entwicklungs-Fonds GmbH & Co. KG (TEF) in 2011. The bank's paid-in capital was increased in the year under review by EUR 0.6m to EUR 1.6m. The book value of investments rose due to the EUR 0.5m increase in capital at Peppermint CBF1 GmbH & Co. KG; IBB's share remains unchanged at 19.92%.

The structure of the refinancing side remained largely unchanged against the previous year. 22% (previous year: 20%) of business volume is financed through loans from banks and 31% (previous year: 33%) through the emission of securitized liabilities on the capital market. Refinancing funds received from customers, which primarily include housing subsidy funds made available by the Federal Land of Berlin, remained flat at EUR 8.1bn (previous year: EUR 8.2bn) with a refinancing share of 41% (previous year: 40%).

Liquidity was generated in the year under review by activities on the money market and by issuing capital market instruments worth EUR 1.4bn.

Both the refinancing guarantee of the Federal Land of Berlin and its role as IBB's sole owner were factors thanks to which IBB was at all times able to obtain sufficient liquidity on money and capital markets in 2012 at a reasonable price and with the required maturity.

Thanks to an ECB-enabled portfolio, it was possible to guarantee that no liquidity bottlenecks would occur at any time. Strict secondary conditions of liquidity steering are both compliance with the Liquidity Regulation and fulfilment of the regulatory requirements concerning the minimum reserve. The principles of reasonable capital adequacy and liquidity pursuant to the German Banking Law (KWG) were fulfilled at all times.

### *Financial position, capital structure and liquidity*

IBB's equity according to the balance-sheet rose in the past financial year by EUR 39.5m to EUR 697.0m. Subscribed capital remained unchanged at EUR 300m. The Federal Land of Berlin is the sole owner of IBB.

Statement on changes in equity of IBB in million EUR	Equity	Special- purpose reserves	Balance sheet profit	Total
As per 31 December 2011	300.0	313.1	44.3	657.5
Net income for the year			39.5	39.5
As per 31 December 2012	300.0	313.1	83.9	697.0

Net income recorded for the 2011 financial year totalling EUR 22.3m was left as profit carried forward and hence as part of the bank's equity on the basis of a resolution by the Berlin Senate to this effect.

Including the profit carried forward from the previous year and the net income of EUR 39.5m for 2012, a balance sheet profit of EUR 83.9m (previous year: EUR 44.3m) was recorded in the bank's equity. EUR 39.0m of this is to be appropriated to the special-purpose reserve. Berlin's Senate will decide on how the remaining amount is to be applied.

As per the balance-sheet date, the bank recorded liable equity according to the German Banking Law of EUR 873.0m (previous year: EUR 872.5m). Capital adequacy is determined on the basis of the German Solvability Ordinance (SolvV).

In million EUR/in %	2012	2011
Risk item according to SolvV (German Solvability Ordinance)	4,533.3	4,734.3
Equity capital ratio	19.3 %	18.4 %
Core capital ratio	16.7 %	16.0 %

As per 31 December 2012, equity requirements under regulatory law were adhered to at all times by IBB.

### *Events after the balance-sheet date*

No events of significant importance took place after the conclusion of the financial year as per 31 December 2012.

## *Annual Accounts*

as per 31 December 2012

The Annual Accounts of Investitionsbank Berlin (company accounts) as per 31 December 2012 contained in this Annual Report were prepared in line with the German Commercial Code. In addition to the foregoing, Investitionsbank Berlin also drew up consolidated annual accounts as per 31 December 2012 on the basis of International Financial Reporting Standards (IFRS) which can be found on the Internet at [www.ibb.de](http://www.ibb.de).

## Balance Sheet as per 31 December 2012

Assets (EUR thousand)	31 Dec. 2012	31 Dec. 2011
<b>1. Cash</b>	<b>19,460</b>	<b>30,886</b>
a) Cash on hand	10	1
b) Balances with central banks	19,450	30,885
of which: with Deutsche Bundesbank:	19,450	30,885
<b>3. Loans and advances to banks</b>	<b>1,713,954</b>	<b>1,890,159</b>
a) Payable daily	76,084	176,206
b) Other loans and advances	1,637,870	1,713,953
<b>4. Loans and advances to customers</b>	<b>14,217,092</b>	<b>13,732,428</b>
of which:		
Secured by liens:	7,026,540	7,253,179
Public-sector loans:	4,235,277	4,569,137
<b>5. Bonds and other fixed-income securities</b>	<b>3,556,219</b>	<b>4,146,660</b>
a) Money market paper		
ab) from other issuers	54,883	65,369
including: eligible as collateral at Deutsche Bundesbank	4,996	65,369
b) Bonds and notes		
ba) Issued by public institutions	1,280,358	1,145,432
of which: eligible as collateral at Deutsche Bundesbank	1,228,260	1,093,214
bb) from other issuers	2,220,978	2,935,859
of which: eligible as collateral at Deutsche Bundesbank	2,156,928	2,767,962
<b>6. Shares and other non-fixed-interest securities</b>	<b>150,000</b>	<b>150,000</b>
<b>7. Participations</b>	<b>1,335</b>	<b>795</b>
<b>8. Shareholdings in affiliated companies</b>	<b>98,937</b>	<b>98,337</b>
<b>9. Trust assets</b>	<b>124,037</b>	<b>114,703</b>
of which: Trust loans	124,037	114,703
<b>11. Intangible assets</b>	<b>385</b>	<b>668</b>
b) Concessions purchased, industrial property rights and similar rights, and values as well as licences in such rights and values	385	668
<b>12. Tangible assets</b>	<b>30,975</b>	<b>33,157</b>
<b>14. Other assets</b>	<b>1,868</b>	<b>1,278</b>
<b>15. Prepaid expenses</b>	<b>21,193</b>	<b>31,104</b>
<b>Total assets</b>	<b>19,935,455</b>	<b>20,230,175</b>

Liabilities (EUR thousand)	31 Dec. 2012	31 Dec. 2011
<b>1. Liabilities to banks</b>	<b>4,394,780</b>	<b>4,090,312</b>
a) Payable daily	12,382	64,177
b) With an agreed term or notice period	4,382,398	4,026,135
<b>2. Liabilities to customers</b>	<b>8,112,531</b>	<b>8,156,395</b>
b) Other liabilities		
ba) Payable daily	433,733	355,015
bb) With an agreed term or notice period	7,678,798	7,801,380
<b>3. Securitized liabilities</b>	<b>6,123,939</b>	<b>6,724,639</b>
a) Bonds issued	6,123,939	6,724,639
<b>4. Trust liabilities</b>	<b>124,037</b>	<b>114,703</b>
of which: Trust loans	124,037	114,703
<b>5. Other liabilities</b>	<b>5,537</b>	<b>5,542</b>
<b>6. Deferred income</b>	<b>150,515</b>	<b>160,099</b>
<b>7. Provisions</b>	<b>182,800</b>	<b>176,686</b>
a) Provisions for pensions and similar obligations	81,049	76,764
c) Other provisions	101,751	99,922
<b>11. Funds for general banking risks</b>	<b>144,311</b>	<b>144,311</b>
<b>12. Shareholders' equity</b>	<b>697,005</b>	<b>657,488</b>
a) Called-in capital		
Subscribed capital	300,000	300,000
c) Revenue reserves		
cd) Other revenue reserves (special-purpose reserve)	313,138	313,138
d) Net retained profit	83,867	44,350
<b>Total liabilities and shareholders' equity</b>	<b>19,935,455</b>	<b>20,230,175</b>
<b>Off-balance sheet items</b>		
<b>1. Contingent liabilities</b>	<b>109,335</b>	<b>178,384</b>
b) Liabilities in relation to guarantees and warranties	109,335	178,384
<b>2. Other obligations</b>	<b>975,571</b>	<b>921,102</b>
c) Irrevocable loan commitments	975,571	921,102
	<b>1,084,906</b>	<b>1,099,486</b>

## Profit and Loss Account for the Period from 1 January to 31 December 2012

Expenses	EUR thousand	EUR thousand	EUR thousand	Previous year EUR thousand
1. Interest expenses			348,322	400,915
2. Fee and commission expenses			763	2,621
4. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	39,794			39,391
ab) Social security contributions and expenses for pensions and other benefits	<u>12,693</u>			9,132
Of which: for pensions EUR 6,056,000 (previous year: EUR 2,614,000)		52,487		48,523
b) Other administrative expenses		<u>23,316</u>		22,150
			75,803	70,673
5. Depreciation, amortisation and write-downs on intangible assets and tangible assets			3,945	4,379
6. Other operating expenses			23,423	16,576
7. Amortisation and write-downs on receivables and specific securities, as well as provisions for loans			7,595	17,028
8. Amortisation and write-downs on investments, shares in affiliated companies and securities treated as fixed assets			15,906	68,185
13. Other taxes not reported under item 6			16	12
15. Net income for the year			39,517	22,291
<b>Total expenses</b>			<b>515,290</b>	<b>602,680</b>
1. Net income for the year			39,517	22,291
2. Profit carried forward			44,350	22,059
8. Net retained profit			83,867	44,350



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## *Notes to the Financial Statements for the 2012 Financial Year*

### *General notes*

Investitionsbank Berlin (IBB) prepared the annual accounts as per 31 December 2012 in line with the German Commercial Code and in adherence to 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. Form 2 (account form) was chosen for the profit and loss account.

### *Accounting and valuation methods*

Assets, liabilities and pending transactions were valued in accordance with the regulations of articles 252 seq. of the German Commercial Code in conjunction with sections 340 seq. 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.

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

Pro-rata interest on interest rate swaps is recognised on an accruals or deferrals basis, respectively. It is carried under loans and advances to banks and liabilities to banks or customers. Income resulting from interest rate derivatives is carried in the bank's interest result. Since the 2012 financial year, incoming and outgoing close-out payments in conjunction with derivatives have been recognised in full in the profit and loss account.

Risks in the loan business are addressed by value adjustments for accounts receivable and provisions for off-balance-sheet transactions.

In accordance with IAS 39, individual value adjustments were carried out in the case of significant receivables for identifiable address risks whilst flat-rate individual value adjustments were applied to non-significant receivables. A first check is carried out to determine whether there are objective indications of a reduction in value. In a second step, a check is then performed to determine whether the value of the receivable has in fact declined. The amount of the individual value adjustment is deter-

mined by subtracting the cash value of all payments still expected from the book value of the receivable. The amount of the flat-rate individual value adjustment is determined by multiplying the book value by an expected loss given default.

With regard to latent risks in the receivables portfolio, portfolio value adjustments amounting to the expected default are made in accordance with IAS 39, considering a factor for the time between the detection of the threatening default and the actual occurrence of the default event.

On the basis of the principle of individual valuation pursuant to section 252 (1) No. 3 of the German Commercial Code [§ 252 Abs. 1 Nr. 3 HGB], the option permitted under section 253 (3) in conjunction with section 340e of the German Commercial Code [§ 253 Abs. 3 i.V.m. § 340e HGB] (valuation according to the diluted lower of cost or market principle) was not exercised throughout for securities held as fixed assets. Valuation according to the strict lower of cost or market principle was performed in certain parts. If sustained impairment of value is expected, write-downs are always carried at the strict lower of cost or market principle.

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

Other financial assets (stocks and other variable-income securities, shareholdings as well as shares in affiliated companies) are carried at their cost of acquisition; if their value is likely to be permanently impaired, they are written down at the lower of cost or market principle.

The IDW RS BFA 3 comments (as per August 2012) were taken into account in full within the scope of the balance sheet and measurement as per 31 December 2012. The cash equivalent approach is applied in order to determine any provision for anticipated losses which may be necessary. The trading book's valued-based ability to bear losses serves as the basis for calculation. The book value is deducted from net assets, the risk and administrative costs as well as the bank-specific refinancing costs for fictitious closing transactions are taken into account to the extent necessary.

Scheduled write-downs of fixed assets are made on assets with a limited useful life over their expected useful life. Low-value assets are written off immediately.

Liabilities are carried at their repayment amount.

Reserves for pension obligations are calculated by external actuarial experts according to the projected unit credit method using Prof. Dr. Heubeck's 2005 G tables. These calculations also took into account a projected salary/contribution assessment ceiling increase of 2.5% and a projected pension increase 1.5% (or 1.0% in the case of commitments by Versorgungsanstalt des Bundes und der Länder (VBL)). The evaluation was based on an assumed interest rate of 5.06%. The change in measurement assumptions was carried in the profit and loss account under current service cost. The interest share of the sum added to pension reserves is carried in interest expenditure.

Other provisions are carried at the amount required in line with prudent business considerations. Provisions with a term of more than one year are discounted. The interest share of the sum added to other reserves is carried in interest expenditure.

### *Principles of currency translations*

All transactions of Investitionsbank Berlin were carried out in euro.



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