

## *Company Profile 2010*

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## *Table of Contents*

To our Business Associates .....	7
Statement by the Chairman of the Administrative Board .....	10
Report by the Administrative Board for 2010 .....	12
Business development in 2010 in figures .....	14
Real-estate development 2010 in figures .....	16
Management Report .....	17
Annual Accounts .....	29
Balance Sheet as per 31 December 2010 .....	30
Profit and Loss Account for the Period 1 January to 31 December 2010 .....	32
Notes to the Financial Statements for the 2010 Financial Year .....	34
Imprint .....	38





*Ulrich Kissing, Chairman of the Board, and  
Dr. Frank Schneider, Member of the Board*



## *To our Business Associates*

*Ladies and Gentlemen,*

Following a dramatic decline of almost 5% in 2009, Germany's economy returned to firm ground in 2010 growing by around 3.5%. This positive development was primarily due to foreign trade along with significantly higher investments in equipment.

The 0.7% decline recorded in Berlin in 2009 was nowhere near the decline seen in the rest of the country. With growth set to reach around 3% in the year under review, Berlin - unlike the rest of the country - is likely to surpass the pre-crisis level of 2008. That's good news, especially since the current early indicators, for instance, orders on hand in Berlin's industrial sector which at the end of 2010 were up by more than 10% against the previous year, promise further growth for 2011. We expect that real gross domestic product will grow by around 2.5% in the current year.

This differentiated development is largely due to differences in economic structure. On the whole, Berlin's economy, in which the processing industry continues to be relatively unimportant, is less dependent on exports. The mix in Berlin's industrial sector also helped to keep the impact of the economic crisis at bay in Berlin. The city's industrial sector is less dependent on economically vulnerable sectors than companies in most other metropolitan areas with a strong focus on capital goods and vehicles. With an industrial focus on pharmaceuticals, printed products and foodstuffs, the shocks that were sent out by the crisis were significantly subdued in the capital city.

This brings us to the main topic of this year's annual report: Berlin's industrial sector. Following serious bleeding and the loss of every second job since 1991, the industrial sector has been fundamentally revamped and has gained in productivity and competitiveness: a fact not least visible by the significant increase in exports. Although this sector continues to operate in the minor league when compared to other German metropolitan areas, it has been on the rise again since 2001 and has now almost reached the same level as Hamburg. Berlin has also come to clearly recognise the driving force which a sound industrial basis has to offer for other areas of the economy. In an effort to strengthen and expand this driving force, the Berlin Industrial City 2010-2010 master plan was adopted in the year under review. This plan is backed by Berlin's Senate and the Industrial Policy Network which includes the chambers, business associations, the German Federation of Trade Unions, as well as IBB.

For IBB, which has already geared its support activities in recent years to the technological competence fields of the Federal State and which also

pledged almost one third of its support in 2010 to companies working in these future fields, this means that a special focus will be placed on financing conditions for industrial companies in Berlin. As part of a sub-project, we will examine how these conditions can be improved. That's because we are convinced that we are in a very good position here thanks to our loan programmes and investment offers, our syndicated financing offers, and not least the "Improvement of the regional economic structure (GRW)" common task programme. Financing commitments under the GRW programme, which is used to finance investment projects, have increased by more than 80% compared to the previous year and reflect the significant rise in willingness to invest on the part of companies in Berlin.

All in all, we managed to boost our financing commitments, adjusted by special effects, in business development by almost one third to EUR 316.7 million in the year under review. This figure does not include infrastructure financing and global loans totalling EUR 55 million. We see this as proof of the positive economic mood but also as confirmation that the additions to our support programme made last year to dampen the effects of the crisis were a step in the right direction. These additions included EUR 22.4 million alone for financing working capital, pre-financing and refinancing under the IBB growth programme, hence paving the way for companies to expand their business activities. As a development institute, we believe that it is our duty to provide a flexible response to the demands of the market through our financing services and we are pleased to note that we have apparently mastered this task successfully. We are particularly pleased to report that we successfully negotiated with Berlin's Senate in order to extend the expansion measures, originally due to expire in 2010, for another two years so that we can continue to offer these funds until the end of 2012. Despite the very positive economic indicators, we believe that the economic situation is still fragile. The main risk factors in this context are the global increase in national debt, the phasing out of economic policies to ward off the crisis and rising prices which over the course of the year could lead to an increase in the base lending rate in Europe.


In the year under review, we also lived up to our role as a source of finance for real estate. This can be seen by new business in this field which doubled to almost EUR 1.6 billion, although this figure does include special financing in the order of EUR 0.9 billion. Following indications from medium-sized real estate firms that it was becoming increasingly difficult to find financing and that the credit situation was hindering investment, we stepped up our financing services, also within the scope of follow-up financing. We are also pleased to report that a breakthrough was achieved in the year under review with our programme for the energy-efficient refurbishment of existing buildings. This can be seen in financing pledges in the order of almost EUR 93 million in the year under review - an increase of around EUR 10 million compared to the previous year.



All in all, 2010 was a good year, not just for Berlin's economy, but also for IBB. We recorded an increase in total new business of around 50% to around EUR 2 billion. We hence outperformed our targets by far and played a key role in helping Berlin-based companies, real estate firms in Berlin and not least the Federal State of Berlin to obtain affordable financing.

Thanks to the new business supported by IBB, investments in the order of around EUR 4.3 billion were kicked off in 2010 which will have a significant impact on Berlin's regional economy. These investments benefit not only the companies receiving them, but also companies in upstream and downstream sectors, so that a considerable multiplier effect is ultimately generated for the economy as a whole. This effect results in additional public revenue for the Federal State of Berlin in the order of around EUR 1.3 billion and a contribution of EUR 5.2 billion to gross domestic product. Taking all follow-up factors into consideration, this leads to an employment effect of around 28,600 jobs which can be secured or created in different areas of the economy.

We are in a good position to achieve this in the years to come. We cut our risk potential in the year under review significantly and we economised so well that after additional subsidies for the infrastructure of public subsidies in Berlin amounting to EUR 32 million, we still recorded net income of EUR 22 million. We are hence very confident that we will be able to continue serving you as a reliable partner and we look forward to working with you in the future.



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



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

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



**Harald Wolf**  
Chairman of the  
Administrative Board

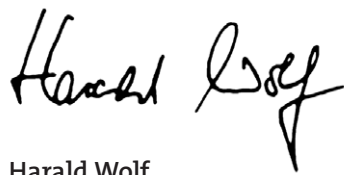
Around twenty years after reunification, Berlin has done a good job of mastering extensive structural change. Over the past five years, Berlin's economy has recorded higher growth than the rest of the country and the number of people in jobs has risen more significantly than in all other Federal Länder. The consequences of the global economic and financial crisis in 2009 were also not as severely felt here as in the other Länder.

This is largely due to the many small and medium-sized businesses which responded to the difficult times that followed reunification with flexible adjustments and innovative products and who are now competitive employers. Every year, these companies were supplemented by another thousand newly founded companies which had the courage, dedication and inventiveness needed to gain a foothold on the market and which have transformed Berlin into Germany's start-up capital. Thanks to their size or their short company history, these companies often have difficulty finding a suitable financing partner for investments in new production capacities, processes or jobs.

It is here that Investitionsbank Berlin was often able to step in with its diverse product portfolio. IBB is the first point of contact for entrepreneurs searching for a micro loan or for companies looking to find a consortium partner for large-scale financing of a loan with their own bank. There was considerable demand in 2010 for innovation financing under the ProFIT programme and for growth and syndicated loans. This financing paved the way to new growth for many companies.

IBB also continues to be an important partner for the real estate sector. With its offers for energy-saving refurbishment and for conversion measures in homes for the elderly, IBB is helping to modernise properties in Berlin and to secure jobs in the trades and construction sector.

I am confident that Berlin's economic development will continue to be positive in 2011. As the structure and development bank of the Federal State of Berlin, Investitionsbank Berlin will continue to serve as a reliable partner in all matters related to financing. I would like to wish you every success!

A handwritten signature in black ink, appearing to read 'Harald Wolf', with a stylized, cursive script.

**Harald Wolf**

*Senator for Economics, Technology and Women's Issues  
of the Federal State of Berlin*

## *Report by the Administrative Board for 2010*

Investitionsbank Berlin is an institution incorporated under public law, and is the development bank of the Federal State of Berlin.

The Administrative Board of Investitionsbank Berlin performed its tasks 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 meetings and one extraordinary meeting.

The work performed by the Administrative Board focused on the new strategic orientation of the bank within the scope of the IBB 2015*plus* project, the issue of diversification of the portfolio, the bank's own risk steering and risk controlling. The Administrative Board discussed in detail the effects of the financial market crisis on IBB and Berlin's economy as well as the related question regarding effective support policy measures for medium-sized enterprises in Berlin.

The Management Board informed the Administrative Board and its committees about the bank's current developments and important business.

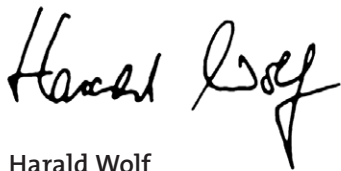
BDO, Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Berlin, performed the mandatory audit of the annual accounts for the 2010 financial year. No objections were raised; the auditors issued Investitionsbank Berlin an unqualified audit opinion.

Following the explanation by the auditor, the Administrative Board acknowledged the result of the audit in its meeting on 30 March 2011. 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 2010 financial year and approved the consolidated annual accounts.

Net income for the 2010 financial year minus subsidy and promotion activities on behalf of the Federal State of Berlin totals EUR 22.1 million.

The Administrative Board would like to thank the Management Board and all the staff of Investitionsbank Berlin for their dedicated work in the 2010 financial year.

Berlin, this day, 30 March 2011  
Chairman of the Administrative Board

A handwritten signature in black ink, appearing to read 'Harald Wolf', with a stylized, cursive script.

**Harald Wolf**  
*Senator for Economics, Technology and Women's Issues  
of the Federal State of Berlin*



## Business development in 2010 in figures

Programme	Business start-ups			Existing companies		
	Volume (in million euro)			Volume (in million euro)		
	Number	Loans and investments, guarantees	Grants	Anzahl	Loans and investments, guarantees	Grants
Berlin Start	118	7.2	0.0	5	0.4	0.0
Berlin Loan	124	19.1	0.0	180	31.1	0.0
Berlin Capital	0	0.0	0.0	2	0.7	0.0
Berlin Infra	0	0.0	0.0	3	40.0	0.0
Common task (GRW)	52	0.0	14.3	145	0.0	47.2
SME fund	1	0.2	0.0	7	0.9	0.0
SME fund – micro-loans up to EUR 25,000	204	3.2	0.0	74	1.4	0.0
Growth/consortium loans	1	15.0	0.0	13	100.1	0.0
ProFIT	46	16.0	4.2	89	10.1	22.1
Innovation Assistant	40	0.0	0.7	75	0.0	1.4
Berlin future fund	2	0.0	2.6	13	0.0	8.1
Intermediate financing of film productions	0	0.0	0.0	20	5.7	0.0
CEE Networks	0	0.0	0.0	2	0.0	0.7
Opening up new markets	0	0.0	0.0	43	0.0	1.7
Liquidity assistance	0	0.0	0.0	11	2.6	0.0
<b>Sub-total – support programmes</b>	<b>588</b>	<b>60.6</b>	<b>21.9</b>	<b>682</b>	<b>192.9</b>	<b>81.3</b>
Global loans	0	0.0	0.0	1	15.0	0.0
<b>Total</b>	<b>588</b>	<b>60.6</b>	<b>21.9</b>	<b>683</b>	<b>207.9</b>	<b>81.3</b>
For information:						
IBB Beteiligungsgesellschaft	24	9.2	0.0	0	0.0	0.0
Federal State guarantees	0	0.0	0.0	1	0.8	0.0
Share of competence fields in support programmes	158	33.5	17.9	358	90.3	69.9

Total			Programme	
Volume (in million euro)				
Number	Loans and investments, guarantees	Grants	Number	
123	7.6	0.0	7.6	Berlin Start
304	50.2	0.0	50.2	Berlin Loan
2	0.7	0.0	0.7	Berlin Capital
3	40.0	0.0	40.0	Berlin Infra
197	0.0	61.6	61.6	Common task (GRW)
8	1.1	0.0	1.1	SME fund
278	4.5	0.0	4.5	SME fund – micro-loans up to EUR 25,000
14	115.1	0.0	115.1	Growth/consortium loans
135	26.1	26.3	52.4	ProFIT
115	0.0	2.1	2.1	Innovation Assistant
15	0.0	10.7	10.7	Berlin future fund
20	5.7	0.0	5.7	Intermediate financing of film productions
2	0.0	0.7	0.7	CEE Networks
43	0.0	1.7	1.7	Opening up new markets
11	2.6	0.0	2.6	Liquidity assistance
1.270	253.5	103.2	356.7	Sub-total – support programmes
1	15.0	0.0	15.0	Global loans
1.271	268.5	103.2	371.7	Total
For information:				
24	9.2	0.0	9.2	IBB Beteiligungsgesellschaft
1	0.8	0.0	0.8	Federal State guarantees
516	123.8	87.8	211.6	Share of competence fields in support programmes

## *Real-estate and urban development*

### *Real-estate development 2010 in figures*

	New approvals in million euro		Total
	Loans	Grants	
<b>Existing loans</b>	<b>397.7</b>	<b>—</b>	<b>397.7</b>
<b>New loans</b>	<b>283.9</b>	<b>—</b>	<b>283.9</b>
of which:			
IBB – energy-related refurbishment	57.1	—	57.1
IBB homes for the elderly	4.2	—	4.2
Syndicated business	45.0	—	45.0
Global loans	15.0	—	15.0
<b>Grants</b>	<b>—</b>	<b>13.0</b>	<b>13.0</b>
of which:			
Qualification and employment development (QUAB)	—	3.0	3.0
Listed buildings conservation	—	5.5	5.5
Rent compensation	—	0.4	0.4
<b>Total</b>	<b>681.7</b>	<b>13.0</b>	<b>694.7</b>

## *Management Report*

### *Development bank for the Federal State of Berlin*

As the development bank of the Federal State of Berlin, IBB actively supports the development of Berlin as a centre for business. With its business promotion activities, the bank has assumed a central role, especially when it comes to financial assistance for small and medium-sized enterprise (SMEs). In this context, particular emphasis is placed on supporting innovative companies working in Berlin's competence fields.

IBB's activities are strongly geared towards loan-based and investment-orientated forms of finance which are offered within the scope of revolving subsidy funds. Subsidies supplement the product range in certain programmes, especially when it comes to promoting investment. Comprehensive financing consultancy rounds off the portfolio of services offered. IBB's goal is to offer the right form of financing to companies during every stage of their corporate lifecycle, i.e. from start-up to growth, right through to consolidation.

In the field of real estate and urban development, IBB is the ideal partner for all financing issues related to property. This applies not just to single properties, but also to the entire financing portfolio. Activities here focus on ensuring efficient inventory management and supporting Berlin's structural development in order to provide sustainable support to the Federal State of Berlin and Berlin's housing sector.

### *Economic factors*

Following a patchy six-month winter period, Germany's economy rapidly picked up speed by mid 2010. This expansion was not limited to a few individual sectors, but was seen across the board. With a mostly weak euro, exports benefited from the recovery in Asia and stabilisation in the US. Investments and consumption increased significantly and replaced the reluctance that had previously prevailed in this area. This development was supported by favourable financing conditions, improved capacity utilisation and fewer job worries in private households. The federal government and the Federal Länder adopted a consolidation course for public budgets which did not yet, however, curb demand. In light of the slowdown in industrial contract growth, however, Germany's economy is moving towards quieter times at the end of the year. Dynamism has also already weakened on many export markets. At the same time, however, the climate indicators show that the mood among German companies was very good at the turn of the year.

The major central banks maintained their extremely expansive course in monetary policy. In November, the US FED even adopted a further purchase programme for Treasury securities. The European Central Bank left its refinancing rate unchanged at 1%, but reduced excess reserves held by commercial banks in the euro system and thus achieved the first adjustments of terms on the interbank market

In light of the high level of government debt, the dwindling credit rating of some euro zone member states caused considerable tension on capital markets. The dramatic increase in risk premiums forced an internationally coordinated rescue programme in spring with a limited term ending 2013 but which failed to eliminate the causes behind the debt crisis. Uncertainty regarding the form and scope of involvement by private creditors in future rightsizing measures has led to lasting lack of confidence among market players.

In the year under review, Berlin will record a slightly lower growth rate than the average rate recorded by the other Federal Länder. However, this development is primarily due to the weaker impact of the financial crisis on Germany's capital city which also meant that the positive impact of growth normalisation was also weaker. This is because the financial and economic crisis hit the processing industries the hardest, but Berlin's economy is strongly service-orientated. In the first half of 2010, Berlin already recorded economic growth. Following a downward trend in 2009, Berlin's gross domestic product (GDP) was up 2.1% against the first half of the previous year. On a national level, growth of 3.1% was recorded.

The basic unemployment rate in Berlin is still far too high. Last year, Berlin's unemployment rate was more than five percentage points above the German average. In a comparison of Federal Länder, Berlin also came last in December 2010 behind Mecklenburg-Vorpommern, Bremen and Saxony-Anhalt. On the other hand, the situation looks a lot better in the southern Länder. First place goes to Bavaria followed by Baden-Württemberg and Rhineland-Palatinate.

At the same time, the number of people in jobs has been rising again for some time in Berlin due to migration and commuter patterns. The latest employment figures by the Berlin-Brandenburg Statistical Office for 2010 show a strong increase in employment for Berlin. With growth up 1.0% (+17,000 people) against the previous year, the capital city is once again among the top rankings, ahead of Bavaria, Baden-Württemberg and Hamburg. On a national level, the number of people in jobs rose on average by just 0.5%. In Berlin, the rise in employment is primarily due to the increase in the number of people working in jobs that are subject to social insurance contribution payments (+1.7%). In contrast to this, the number of people in employment opportunities (1-euro jobs) fell sharply. The public and private services sectors (and especially the health and social services sector) have helped to increase the number of jobs in



Berlin. The number of people employed in these sectors was up by 11,900 or 1.8%, respectively, against the previous year.

Last year, the economy benefited from short-term distortions, which were primarily related to adverse weather conditions in winter and the resultant interference with construction work, which led to a corresponding backlog effect.

The upswing in Berlin's industrial sector took more time to kick in than in the rest of the country, but recently gained in momentum.

This is indicated by orders on hand which increased perceptibly beginning in mid 2010. In recent years, it has been pharmaceutical companies and manufacturers of IT, electronic and optical products as well as medical technology who have created new jobs and supported Berlin's economy. Future prospects for the optical products and medical technology sectors are good, also with a view to the ageing population. The production of state-of-the-art machines for power generation is also of paramount importance in Berlin. This field is less susceptible to economic fluctuations and benefits considerably from large-scale orders from abroad.

Whilst turnover in domestic business stagnated in 2010, exports rose significantly. This development shows that industrial products from Berlin can now hold their own on the global market and have become increasingly more competitive. The share of foreign turnover in Berlin's industry in 2010 totalled 48% and was hence on par with the rest of the country. In 1991, just around 10% of industrial turnover was generated on foreign markets.

In light of these good economic indicators, economic growth in the order of 2.5% to 3.0% can be expected for 2010 as a whole. This means that Berlin's economy can more than compensate for the 0.7% (Germany: -4.7%) decline recorded in 2009. On the other hand, the total growth rate of 3.6% in 2010 still fails to reach the pre-crisis level in Germany.

## ***Business Development in 2010***

### ***General Business Development in 2010***

In 2010, IBB successfully weathered the financial and economic crisis, proving its worth as Berlin's development institute and as a stable partner for both its customers and its owner. The expansion of demand-orientated promotion products and support for Berlin's competence fields have strengthened the role of IBB as the development bank of the Federal State of Berlin even more.

In a persistently tense market environment in Berlin, IBB demonstrated that it has adopted the right strategic orientation and that its operational activities are rooted in solid ground.

With an economic result of EUR 54.1 million (previous year: EUR 60.4 million), IBB surpassed its budget figures for the financial year by a long run. The bank has used this good result to form reserves to strengthen its risk bearing ability. IBB has also taken precautions to prepare the bank during good times to face the organisational and process-related challenges of the years to come.

In addition to recording net income of EUR 22.1 million, which is also much higher than forecast, IBB was already able to make available to the Federal State around 60% of its economic result, i.e. EUR 32 million, as subsidies in order to support the subsidy policy. Taking payments from provisions formed in previous years, the subsidies and business development activities made available for Berlin even rose to EUR 44 million in 2010 (previous year: EUR 42.6 million).

These subsidy and promotion activities include activities by IBB on behalf of the Federal State of Berlin which – taking into account all the costs incurred in their implementation as well as income generated – resulted in an economic loss for the bank.

### *Around 50% more promotional funds for new business*

Although demand for financing by Berlin's business sector still has a long way to go before reaching the level that existed prior to the financial and economic crisis, IBB has pledged support to the amount of around EUR 2.0 billion and was hence able to increase new business by more than 50% compared to the previous year.

IBB hence played an important role in securing financing for Berlin-based companies in the field of real-estate financing as well as financing for start-ups and medium-sized businesses.

### *Support for more than 1,200 start-ups in Berlin and their growth*

The flexibility with which IBB can respond to the changed needs of customers has led to the provision of additional support funds in close cooperation with the Federal State of Berlin. In 2010, IBB financed more than 588 start-up projects and granted support to more than 684 projects for companies in the growth phase. The volume of growth and start-

up loans as well as grants taken out by customers rose to EUR 371.7 million (previous year: EUR 240.4 million).

In the field of business promotion, IBB's activities and its credit portfolio of EUR 1.0bn are strongly geared towards innovative, technology-oriented companies based in Berlin.

### *EUR 93 million in support for energy efficiency and climate protection*

As a development bank, IBB not only supports Berlin's real-estate sector with a stable supply of loans and liquidity, the bank also significantly expanded its commitment to energy-related refurbishment compared to the previous year. Funds amounting to EUR 92.6 million (previous year: EUR 9.9 million) were made available to support the energy-related refurbishment of buildings, hence making an important contribution towards the climate policy goals of the Federal State of Berlin.

### *Further development of the business model*

IBB is gradually becoming a process-driven, modern development bank. It is using the currently good situation in order to transform itself of its own accord so that it can serve Berlin as a powerful subsidy and structure bank in the years to come. The bank is pursuing this aim in several projects which are also ensuring that IBB meets with the demands of its customers' banks in terms of processes and professionalism and hence remains a sought-after partner when it comes to strengthening Berlin as a centre for business. IBB will also maintain its determination to implement the strict cost awareness strategy already being pursued.

## *Income statement*

EUR million	2010	2009	Change	
			Absolute	in %
Net interest income	155.3	143.6	11.7	8.2
Net commission income	13.4	14.4	-1.0	-7.0
Net other operating income / expenses	10.7	3.8	6.9	184.4
<b>Total income</b>	<b>179.4</b>	<b>161.8</b>	<b>17.6</b>	<b>10.9</b>
Total administrative expenses	-77.5	-78.3	0.8	-1.1
<b>Operating result before risk provisioning / evaluations</b>	<b>101.9</b>	<b>83.5</b>	<b>18.5</b>	<b>22.1</b>
Risk provisioning / evaluations	-38.8	-23.0	-15.8	68.8
Net extraordinary result	-9.0	0.0	-9.0	—
<b>Economic result</b>	<b>54.1</b>	<b>60.4</b>	<b>-6.4</b>	<b>-10.4</b>
Subsidy and promotion activities	-32.0	-30.6	-1.4	4.5
<b>Net income for the year</b>	<b>22.1</b>	<b>29.8</b>	<b>-7.7</b>	<b>-26.0</b>

The economic result and net income recorded surpassed the figures forecast for the financial year considerably. This boost in income was largely due to the increase in net interest income, the bank's most important source of revenue, which rose by EUR 11.7 million to EUR 155.3 million (previous year: EUR 143.6m).

In addition to the good operative result from new business development, the bank's favourable conditions for refinancing also affected interest earnings.

Compared to the previous year, the bank's total interest margin rose from 0.707% to 0.753%.

As expected, commission income (EUR 13.4 million), which is largely determined by fees for handling guarantees and subsidies, is below the previous year's level due to that phasing out of support measures (EUR 14.4 million).

Other operating income rose considerably to EUR 10.7 million (previous year: EUR 3.8 million) which largely results from the dissolution of provisions no longer required.

### *Administrative expenditure reduced once again*

Determined cost management on the part of IBB cut administrative expenditure by EUR 0.8 million to EUR 77.5 million. Operating costs increased primarily due to costs for the bank's IT infrastructure. Personnel expenditure (EUR 48.5 million) declined by EUR 2.7 million compared to the previous year (EUR 51.2 million). There were different developments recorded in this item. Whilst expenditure on wages and salaries increased by EUR 1.1 million, pension costs, social security contributions and support scheme costs declined by EUR 3.8 million.

The subsidy cost-to-income ratio, which is defined as the ratio of administrative expenditure to revenues, fell to 43.2% (previous year: 48.4%) as a result of the positive development of earnings.

### *Risk provisioning/evaluations*

The risk provisioning/risk evaluation result for the past financial year totals EUR -38.8 million (previous year: EUR -23.0 million). In addition to specific and/or portfolio adjustments in subsidy loan business and the evaluation result from securities investments, general provident funds were formed in the year under review. These take into account standard risk costs as well as the special risks resulting from the financial market crisis.

### Net extraordinary result

The 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. Furthermore, the effects of the first-time application of the German Accounting Law Modernisation Act were also considered.

### Economic result and net income

After deducting subsidy and promotion activities on behalf of the Federal State of Berlin carried as income amounting to EUR 32.0 million (previous year: EUR 30.6 million), the economic result of EUR 54.1 million (previous year: EUR 60.4 million) declined to a net income amount for the year of EUR 22.1 million (previous year: EUR 29.8 million) which was recorded as a balance-sheet profit.

### Balance sheet and business volume

With a balance sheet total down by EUR 0.3 billion (EUR 20.1 billion), the business volume largely increased due to the rise in irrevocable loan commitments in real-estate promotion by EUR 0.2 billion to EUR 21.5 billion.

As per the end of the year, derivatives used to steer risks resulting from changes in interest rates have a nominal value of EUR 11.3 billion (previous year: EUR 10.4 billion).

Business volume in million euro	31 Dec. 2010	31 Dec. 2009	Change	
			Absolute	in %
Loans and advances to banks	1,499.6	1,469.7	29.9	2.0
Loans and advances to customers	13,306.1	13,216.3	89.8	0.7
Bonds and other fixed-income securities	4,922.5	5,405.8	-483.3	-8.9
Shares in special funds	100.0	0.0	100.0	—
Share holdings / shares in affiliated companies	99.4	118.0	-18.6	-15.8
Other assets	220.8	192.1	28.7	14.9
<b>Total assets</b>	<b>20,148.3</b>	<b>20,401.9</b>	<b>-253.6</b>	<b>-1.2</b>
Contingent liabilities	166.3	101.2	65.1	64.3
Irrevocable loan commitments	1,203.6	814.5	389.1	47.8
<b>Business volume</b>	<b>21,518.2</b>	<b>21,317.6</b>	<b>200.6</b>	<b>0.9</b>

Compared to the previous year, there were no significant changes in loans due to banks. Opposing changes in inventories were the reason for the development in receivables from customers shown in the balance sheet. An increase in receivables from real estate and urban development



business, as well as business promotion, went hand in hand with a decline in receivables from capital market business.

As per the balance sheet date, investment securities declined against the previous year by EUR 0.5 billion to EUR 4.9 billion. There were different developments recorded in this item. A significant increase (EUR +0.8 billion) in bonds and debenture bonds by public institutions went hand in hand with a decline (EUR -1.3 billion) in inventories from other institutions (credit institutions). In order to diversify investment holdings, a special fund was set up and a starting volume of EUR 100m was invested in this fund. The organisation of this special fund is subject to IBB's specific investment guidelines.

The changes in shareholdings and/or shares in affiliated companies are largely due to the termination of the partnership share in BAF, Berlin Animation Film GmbH & Co. Produktions KG i. L. (BAF) which expired on 31 December 2009, as well as the necessary value adjustments.

Statement changes in equity of IBB in million euro	Equity	Special-purpose reserves	Balance sheet profit	Total
<b>As per 31 December 2009</b>	<b>300.0</b>	<b>284.2</b>	<b>29.8</b>	<b>614.0</b>
Transfer to the Federal State of Berlin			-29.8	-29.8
Effects of first-time application <sup>1</sup>		29.0		29.0
<b>Net income for the year</b>			22.1	22.1
<b>As per 31 December 2010</b>	<b>300.0</b>	<b>313.1</b>	<b>22.1</b>	<b>635.2</b>

<sup>1</sup> according to the BilMoG (German Accounting Law Modernisation Act), articles 66, 67 EGHGB (Introductory Act to the German Commercial Code),/ section 253 HGB (German Commercial Code)

Liabilities to banks (EUR -1.8 billion) declined especially due to refinancing through money market and open market transactions. On the other hand, refinancing through the issue of bearer bonds and money market paper rose by almost the same amount (EUR +1.7 billion). The share of refinancing funds provided by the Federal State of Berlin in the balance sheet volume remains almost unchanged and totals around 30% (previous year: 31%).

## Equity

IBB's equity according to the balance-sheet rose in the past financial year by EUR 21.2 million to EUR 635.2 million. Subscribed capital remained unchanged at EUR 300 million. The Federal State of Berlin is the sole owner of IBB.

The net income recorded for the 2009 financial year totalling EUR 29.8 million was transferred on the basis of a resolution to this effect by the Berlin Senate.

The effects of the first time application of the changed balance-sheet and evaluation rules resulting from the German Accounting Law Modernisation Act amounting to EUR 29.0 million were appropriated to the special-purpose reserve.

In million EUR / in %	2010	2009
Risk item according to SolvV (German Solvability Ordinance)	4,235.1	4,422.6
Equity capital ratio	20.1	17.6
Core capital ratio	17.2	15.8

Shareholder's equity shows a balance-sheet profit of EUR 22.1 million (previous year: EUR 29.8 million). Pursuant to section 19 of the Articles of Association of Investitionsbank Berlin, this is to be appropriated in full to the special-purpose reserve unless the Berlin Senate decides otherwise.

As per the balance-sheet date, the bank recorded liable equity according to the German Banking Law of EUR 851.1 million (previous year: EUR 811.2 million). Capital adequacy is determined on the basis of the German Solvability Ordinance (SolvV).

As per 31 December 2010, equity requirements under regulatory law were adhered to at all times by IBB.

## Developments in the segments

### Real estate and urban development

In the real estate and urban development segment expectations were again surpassed significantly in 2010 with a stock volume of EUR 12.2 billion.

In addition to traditional management of existing business through stepped-up support for follow-up financing, the bank was able to successfully push ahead with climate-policy challenges that are in line with the goals and demands of the Federal State of Berlin.

The financial commitments made in the financial year in the order of EUR 681.7 million are also much higher than the previous year's figure even excluding the special project initiated by the Federal State of Berlin. IBB proved to be a sought-after partner also when it comes to financing larger investment projects in the housing sector.

Special business related to refinancing and the approval of credit lines amounting to EUR 905.3 million had a strong impact on business development in this field.

Support activities here focused on granting low-interest subsidy loans for modernisation measures to improve energy efficiency and to reduce barriers in existing homes. In total, subsidies in the order of EUR 406.4 million were used.

As a result of its pass-through function, IBB was able to increase new business (EUR 148.1 million) with energy-efficiency promotion

programmes by more than 100% compared to the previous year. This is due to favourable conditions thanks to interest subsidies from funds from KfW Bankengruppe and the Federal State of Berlin.

In an effort to counteract bottlenecks in lending, low-interest refinancing funds in the form of global loans are made available to customers' banks and syndicated loans are jointly set up with commercial banks.

In its income statement, this business field once again surpassed the figures forecast for the financial year.

Segment revenues (after setting off other operating income) total EUR 53.0 million (previous year: EUR 52.6 million), the same level as the previous year, thus surpassing original expectations. A lower yet still positive result for provident measures in the lending business totalling EUR 13.7 million (previous year: EUR 16.4 million) along with higher administrative expenditure lead to an economic result of EUR 28.5 million (previous year: EUR 33.6 million).

## *Business development and subsidies*

On the whole, 2010 was once again marked by reluctance to invest in bigger projects. The after-effects of the economic and financial crisis were still very evident. However, demand for support funds did increase again in the field of business promotion.

After payments totalling EUR 305.4 million as per the end of the financial year, a loan volume of EUR 1.0 billion (including guaranteed loans of EUR 108.8 million) was recorded.

The share of loans and guaranteed loans in total commitments totalled 81% (previous year: 88%) and remained almost constant in the past financial year.

When it comes to the diverse start-up activities in Berlin, IBB was able to provide commitments for a financing volume of EUR 82.6 million and to once again make an important contribution to growth and job creation.

For existing companies in the growth or stabilisation phase, the appropriation volume for securing sustainable growth increased by 74% to EUR 289.1 million.

By expanding the "Growth and syndicated loans" programme to include refinancing and follow-up financing, as well as base financing for plant and equipment, IBB was able to respond in a much more flexible manner to company demands and recorded EUR 115.1m here compared to EUR 26.2 million in the previous year. For the first time ever in 2010, public-sector

companies were successfully provided with long-term financing for their projects amounting to EUR 40.0 million under the "Berlin Infra" programme. Despite sluggish demand for financing, another EUR 50.2 million under the "Berlin loan" programme was made available via customers' banks.

Commitments in the field of subsidy activities also reached a good level in 2010 (EUR 103.2 million), and rose 40% against the previous year.

Particularly strong development was seen under the "Improvement of the regional economic structure" common task programme. Funds for structural improvement were increased by 82% here.

IBB's promotion of innovation and technology with loans and subsidies under the ProFIT (totalling EUR 52.4 million) and Future Fund (EUR 10.7 million) programmes reached an appropriation level of EUR 63.1 million and is hence almost on the same level as last year (EUR 63.4 million).

With interest revenues stable compared to the previous year, total revenues rose by 10% to EUR 21.6 million (previous year: EUR 19.7 million) due to the dissolution of provisions. As expected, commission remained below the previous year's figure which was influenced by special factors. However, the figure recorded was higher than originally forecast. Lower administrative expenditure as well as lower expenditure on provident measures in the lending business meant a 37% increase in economic result totalling EUR -6.9 million (previous year: EUR -11 million).

## Others

Other segments include steering functions of the bank (sovereign tasks) that are not assigned to the market areas, as well as IBB's balance-sheet structure management. In terms of the bank's overall employee capacity, 12.8% (previous year: 12.3%) of capacity is allocated to the bank's sovereign functions. This also includes all inventories and results which cannot be allocated on a cost causative basis to the other segments. This is especially the case with non-interest bearing balance sheet items (e.g. fixed assets or equity).

Balance-sheet structure management is controlled by the Treasury unit. This serves the performance of IBB's subsidy tasks according to Understanding II and contains the main tasks of steering liquidity as well as the refinancing of IBB. In addition to the provision of funds by the Federal State, refinancing is carried out through the issue of bearer bonds, borrower's note loans and registered bonds with all terms. 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 development bank with public-sector responsibility and the explicit refinancing guarantee of the Federal State of Berlin, the bank has the same good credit rating as the Federal State of Berlin.

Total revenues which rose by 17% to almost EUR 104.8 million (previous year: EUR 89.5 million) as well as lower administrative expenditure made it possible to form additional reserves to strengthen the bank's risk bearing ability. In addition to writing off securities according to the lower of cost or market principle, IBB has also taken precautions to prepare the bank during good times to face the organisational and process-related challenges of the years to come.

The economic result of the areas shown under "Others" declined as a result of this to EUR 32.5 million (previous year: EUR 37.9 million).

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

No events of significant importance took place after the conclusion of the financial year as per 31 December 2010.



## *Annual Accounts*

as per 31 December 2010

The Annual Accounts of Investitionsbank Berlin (company accounts) as per 31 December 2010 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 2010 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 2010

Assets (EUR thousand)	31 December 2010	31 December 2009
<b>1. Cash</b>	<b>37,168</b>	<b>29,314</b>
b) Balances with central banks	37,168	29,314
of which: at Deutsche Bundesbank:		
37,168,000 (31 December 09: 29,314,000)		
<b>3. Loans and advances to banks</b>	<b>1,499,577</b>	<b>1,469,726</b>
a) Payable daily	101,012	198,144
b) Other loans and advances	1,398,565	1,271,582
<b>4. Loans and advances to customers</b>	<b>13,306,095</b>	<b>13,216,276</b>
of which:		
Secured by liens:		
7,254,255,000 (31 December 09: 7,399,995,000)		
Public-sector loans: 4,145,361,000 (31 December 09: 4,076,387,000)		
<b>5. Bonds and other fixed-income securities</b>	<b>4,922,464</b>	<b>5,405,801</b>
a) Money market paper		
ab) from other issuers	43,723	218,654
b) Bonds and notes		
ba) Issued by public institutions	1,144,529	342,412
of which: eligible as collateral at Deutsche Bundesbank	1,070,054	342,412
bb) from other issuers	3,692,185	4,844,635
of which: eligible as collateral at Deutsche Bundesbank	3,539,914	4,712,833
c) Own bonds	42,027	100
Nominal amount	42,100	100
<b>6. Shares and other non-fixed-interest securities</b>	<b>100,000</b>	<b>0</b>
<b>7. Participations</b>	<b>528</b>	<b>11,165</b>
of which:		
In banks EUR 0 thousand (31 December 09: EUR 0 thousand)		
<b>8. Shareholdings in affiliated companies</b>	<b>98,863</b>	<b>106,849</b>
of which:		
In banks EUR 0 thousand (31 December 09: EUR 0 thousand)		
<b>9. Trust assets</b>	<b>107,183</b>	<b>97,828</b>
of which: Trust loans	107,183	97,828
<b>11. Intangible assets</b>	<b>776</b>	<b>633</b>
<b>12. Tangible assets</b>	<b>35,178</b>	<b>37,660</b>
<b>15. Other assets</b>	<b>2,305</b>	<b>3,775</b>
<b>16. Prepaid expenses</b>	<b>38,174</b>	<b>22,842</b>
<b>Total assets</b>	<b>20,148,310</b>	<b>20,401,870</b>

Liabilities (EUR thousand)	31 December 2010	31 December 2009
<b>1. Liabilities to banks</b>	<b>3,836,397</b>	<b>5,650,783.54</b>
a) Payable daily	153,140	280,560
b) With an agreed term or notice period	3,683,257	5,370,224
<b>2. Liabilities to customers</b>	<b>8,154,860</b>	<b>8,295,309</b>
b) Other liabilities		
ba) Payable daily	371,017	429,338
bb) With an agreed term or notice period	7,783,843	7,865,971
<b>3. Securitised liabilities</b>	<b>6,798,879</b>	<b>5,087,167</b>
a) Bonds issued	6,546,600	5,087,167
b) Money market paper	252,279	0
<b>4. Trust liabilities</b>	<b>107,183</b>	<b>97,828</b>
of which: Trust loans	107,183	97,828
<b>5. Other liabilities</b>	<b>6,754</b>	<b>6,279</b>
<b>6. Deferred income</b>	<b>172,004</b>	<b>188,314</b>
<b>7. Provisions</b>	<b>217,725</b>	<b>242,911</b>
a) Provisions for pensions and similar obligations	74,196	81,013
c) Other provisions	143,529	161,897
<b>9. Subordinated liabilities</b>	<b>75,000</b>	<b>75,000</b>
<b>11. Funds for general banking risks</b>	<b>144,311</b>	<b>144,311</b>
<b>12. Shareholders' equity</b>	<b>635,197</b>	<b>613,968</b>
a) Share capital	300,000	300,000
c) Revenue reserves		
cd) Other revenue reserves (special-purpose reserve)	313,138	284,178
d) Net retained profit	22,059	29,790
<b>Total liabilities and shareholders' equity</b>	<b>20,148,310</b>	<b>20,401,870</b>
<b>Off-balance sheet items</b>		
<b>1. Contingent liabilities</b>	<b>166,346</b>	<b>101,233</b>
b) Liabilities in relation to guarantees and warranties	166,346	101,233
<b>2. Other obligations</b>	<b>1,203,605</b>	<b>814,481</b>
c) Irrevocable loan commitments	1,203,605	814,481
	<b>1,369,951</b>	<b>915,714</b>

## Profit and loss account for the period 1 January 2010 to 31 December 2010

Expenses	EUR thousand	EUR thousand	EUR thousand	Previous year EUR thousand
1. Interest expenses			361,306	424,904
2. Fee and commission expenses			4,979	4,710
3. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	39,873			38,747
ab) Social security contributions and expenses				
for pensions and other benefits	<u>18,342</u>			12,442
Of which: for pensions EUR 11,641,000				
(previous year: EUR 5,328,000)		58,215		51,189
b) Other administrative expenses		<u>24,408</u>		22,583
			<u>82,623</u>	73,772
4. Depreciation, amortisation and write-downs on intangible assets and tangible assets			4,596	4,520
5. Other operating expenses			27,052	30,133
6. Amortisation and write-downs on receivables and specific securities, as well as provisions for loans			29,652	32,370
7. Amortisation and write-downs on investments, shares in affiliated companies and securities treated as fixed assets			11,949	0
8. Extraordinary expenditure			1,208	0
9. Other taxes not report under item 5			11	8
10. Net income for the year			22,059	29,790
<b>Total expenses</b>			<b>545,435</b>	<b>600,205</b>
1. Net income for the year			22,059	29,790
2. Appropriation to other revenue reserves (special-purpose reserve)			<u>0</u>	<u>0</u>
3. Net retained profit			22,059	29,790

Income	EUR thousand	EUR thousand	Previous year EUR thousand
<b>1. Interest income from</b>			
a) Lending and money market transactions	409,061		445,781
b) Fixed-income securities and Book-entry securities	<u>107,593</u>		122,733
		<u>516,654</u>	<u>568,514</u>
<b>3. Fee and commission income</b>		<b>18,369</b>	<b>19,113</b>
<b>5. Revenue from additions to investments,     shares in affiliated companies and     securities treated as Fixed assets</b>		<b>0</b>	<b>9,334</b>
<b>6. Other operating income</b>		<b>8,451</b>	<b>3,244</b>
<b>7. Extraordinary income</b>		<b>1,961</b>	<b>0</b>
<b>Total income</b>		<b>545,435</b>	<b>600,205</b>

## *Notes to the Financial Statements for the 2010 Financial Year*

### *General notes*

Investitionsbank Berlin (IBB) prepared the annual accounts as per 31 December 2010 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.

### *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. 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 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.

Pursuant to IAS 39, adequate account is 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 which were also identified pursuant to IAS 39.

Pursuant to section 253(3) in conjunction with section 340e of the German Commercial Code, the bank has opted to value financial assets at their cost of acquisition (according to the less strict lower of cost or market rule, in some areas according to the strict lower of cost or market rule). 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.

Evaluation units were exclusively formed as micro hedge relationships to protect against risks due to changes in interest rates. In all cases where the nominal amounts are identical, the fixed interest rate of the respective underlying transaction is opposed to the fixed interest rate of the related hedge until the respective underlying and hedge transactions reach maturity. Since all value-determining factors basically match for all evaluation units, the critical-term-match method is applied to evaluate effectiveness. Pursuant to the freeze or permanent-evaluation method, the negative excess balances that remain after offsetting future interest payments are carried in the balance sheet as provisions for anticipated losses for each evaluation unit as long as they are not based on credit spreads.

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.

Reserves for pension obligations were calculated using Prof. Dr. Heubeck's 2005G tables and based on the rules of the so-called Defined Benefit Obligation according to IAS 19. A projected salary/contribution assessment ceiling increase of 2.5% and a projected pension increase of 1.5% (or 1.0% in the case of commitments by Versorgungsanstalt des Bundes und der Länder (VBL)) were taken into consideration. The evaluation was based on an assumed interest rate of 5.15%.

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. The interest share of the sum added to other reserves is carried in interest expenditure.

### **German Accounting Law Modernisation Act (BilMoG)**

The recording of reserves in the balance sheet was adapted to the rule of the German Accounting Law Modernisation Act as of 1 January 2010. The effects of first-time discounting and the evaluation with deviating interest rates to the amount of EUR 29.0 million was, in as far as permitted, recorded in other revenue reserves according to article 67(1), sentence 3, of the Introductory Act to the German Commercial Code.



Pursuant to article 66(5) and article 67(7) of the Introductory Act to the German Commercial Code, the additions to reserves in consideration of forecast wage increases and the evaluation with deviating interest rates were carried as extraordinary expenditure (EUR 1.2 million) as well as the effect of the changed evaluation of provisions for anticipated losses for micro hedge relationships in extraordinary revenues (EUR 2.0 million).

The adjustment of the previous year's figures due to the first-time application of the new rules of the German Accounting Law Modernisation Act was waived pursuant to article 67(8), sentence 2 of the Introductory Act to the German Commercial Code.

### *Principles of currency translations*

All transactions of Investitionsbank Berlin were carried out in euro.



## *Imprint*

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### – *Conceptual design and layout*

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[www.adjouri.com](http://www.adjouri.com)

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GOLDIN, DALTON & WITTEGREBE  
Prager Str. 3  
10779 Berlin, Germany  
[www.g-d-w.de](http://www.g-d-w.de)

### – *Print*

Das Druckteam Berlin  
Gustav-Holzmann-Straße 6  
10317 Berlin, Germany  
[www.druckteam-berlin.de](http://www.druckteam-berlin.de)



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