

Company Profile 2005



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To our business associates

Ladies and Gentlemen,

Following our facelift in October 2005, you will have been seeing much more of Investitionsbank Berlin in the Berlin press in recent months. Firstly, this is because we want to communicate the reorientation of our Bank and secondly to show companies in Berlin more about our government assistance program products. We are looking forward to supporting you in your business projects!

From May 2006, we will be rounding off our product offering with our new "Berlin Start", "Berlin Kredit" and "Berlin Kapital" programs. This means that we have government assistance program products to meet any demands that you as a business person can make of us – from starting up a company, through corporate growth to stabilisation and consolidation.

We cooperate with all the key institutes in the Berlin banking arena to sell our products and finance your projects. Now you can apply for government assistance programs from Investitionsbank Berlin at your normal bank and be advised by the consultants you trust. Speak to your bank about Investitionsbank products!

In the year under review, key progress was also made in the process of restructuring Investitionsbank Berlin as a high performance development bank for Berlin in a different respect: The restructuring program to reduce personnel and non-labour operating costs was implemented in line with planning. Thanks to the new structure installed as at the beginning of 2006, we have created the organisational foundations for a "customer-oriented", service-based approach.

Our capital development as a basis for credit-based government assistance program business is also going well: After €76.0 million in the previous year, we generated net income of €88.9 million in the year under review, an increase of around 17%. As the income we generated in the last two years was largely retained, we have recorded a corresponding increase in our shareholders' equity. In the two years since our restructuring, equity has risen from a starting figure of €300 million to €358 million at the end of 2004 and now to €447 million, €147 million of which is reported as the special-purpose reserve.



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

In the final quarter of 2005, we registered a significant increase in credit demand in the context of our programs for investment support. This gives us hope of vigorous response, particularly as our consulting offering focuses on companies in the Central and Eastern European economic area. After years of stagnation, the economic outlook for Berlin appears to be brightening.

The conditions are good for launching into investments and projects now. All we need now are bold and determined entrepreneurs. In line with our vision of "Performing for Berlin", we will support you in whatever way we can and look forward to working together with you.



Dr. Birgit Roos
Member of the Board
of Management

A handwritten signature in black ink, appearing to read "D. Puchta".

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

A handwritten signature in black ink, appearing to read "B. Roos".

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

Statement by the Chairman of the Administrative Board



Harald Wolf
Senator for Economy,
Employment and Women,
Chairman of the
Administrative Board

It's not just people that grow out of their baby shoes – sometimes banks do it as well. In the second year of its independence, Investitionsbank Berlin has consolidated its structures and firmly established itself on the market as an independent development bank for the State of Berlin. To its business partners, it is a dependable factor, to its customers, it is a central point of contact for all matters relating to government assistance programs and corporate finance, and not least, its experience makes it a key advisor to the State in the new and ongoing development of its range of assistance programs.

In particular, the healthy cooperation between economic policy and development bank manifested itself last year in the launch of new, loan-based programs to support small and medium-sized enterprises in Berlin. These programs make it considerably easier for these companies to access credit – a process often fraught with difficulty – and thereby supported investments and innovations in this city.

Investitionsbank will also continue on its current path in the new financial year with the launch of its new "Berlin" product family of government assistance loans for start-ups and established companies, which thanks to their streamlined processes and fast responses can considerably reduce waiting periods for credit commitments, which can be particularly tortuous for small companies.

2006 offers many chances. We know from surveys and forecasts that business people Berlin are much more optimistic about the coming financial year than in recent years. At long last, investments are being planned again and new projects are gaining momentum. Investitionsbank can help a lot of companies seeking to make their ideas a reality in Berlin. I wish them all every success.

A handwritten signature in black ink that reads "Harald Wolf". The signature is written in a cursive, flowing style.

Harald Wolf
*Senator for Economy, Employment and Women,
Chairman of the Administrative Board*

Investitionsbank Berlin (IBB) – your partner for business development

Investitionsbank Berlin operates in the areas of Business Development and Property Support

With its new Business Development system that distinguishes between "competency area development" and "horizontal development", it is actively contributing towards the development of Berlin as a business location. Competency area development concentrates on companies operating in the areas of

- biotechnology,
- medical technology,
- information and communications technology (including media and creative industries),
- traffic systems technology and
- optical technology

These companies, that can expect intensive support from IBB, can choose from an extended range of services. The goal of competency area development is to support on a sustainable basis the structural change in the Berlin economy by selectively assisting companies in these future business areas.

In contrast, "horizontal development" focuses on all of Berlin's small and medium-sized enterprises (SMEs) with its range of standardised government assistance programs.

In financing companies, Investitionsbank Berlin works together closely with commercial banks in Berlin and BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH, which significantly increases its options for project finance. The same is true of the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW). IBB plays a part in the coordinated cooperation that makes up the locational management of Berlin together with the other institutions that share responsibility for Berlin. These include Berlin Partner GmbH (acquisitions, establishment), Technologiestiftung Innovationszentrum Berlin (TSB) (technology development) and BTM Berlin Tourismus Marketing GmbH (tourism) as well as the Chamber of Industry and Commerce of Berlin and the Chamber of Handicrafts of Berlin.

In Property Support, Investitionsbank Berlin focuses on efficient portfolio management. At present, no support is available for new construction in the State of Berlin.

General business development 2005

Implementation of the strategic reorientation in the individual segments

In spite of the continuing poor investment propensity of small and medium-sized enterprises (SMEs) in Berlin, the year under review, Business Development recorded a slight increase in approval figures in the established government assistance programs, and also in the newly launched products such as the IBB Growth Program, SME funds and TV order financing.

In 2005, product development centred on what is known as the "Berlin Family", consisting of the "Berlin Start", "Berlin Kredit" and "Berlin Kapital" products, which can close the assistance and financing gaps for SMEs in Berlin at all stages of their development. With these products, Investitionsbank Berlin is implementing the economic policy goals of the State of Berlin and the strategic reorientation towards monetary business development in the form of loan- and investment-based products.

A cornerstone of this sales and risk strategy is the syndicate finance instrument in cooperation with the commercial banks domiciled in Berlin. The year under review saw the first successes in this area with the conclusion of master agreements. In particular, the cooperation with the commercial banks (house bank principle), KfW and Bürgschaftsbank is reinforced by the "Berlin Family".

On account of the strategic reorientation of Investitionsbank Berlin, new business in Property Support was restricted to the "Qualification of Young Unemployed", "Residential Environment Measures" and "Rent Settlement/Moving Cost Payments" programs for tenants of properties affected by the abolition of follow-up support as well as to fixing of approval granted in previous years. Overall, Property Support activities focused on effective portfolio management. The clear increase in property sales, including in particular the sale of entire housing companies and large packages of apartments in Berlin, led to a decline in portfolio credit volumes in the construction of rental housing and modernisation and maintenance segments. In the property segment, the sharp drop in interest rates on the market resulted in increased repayments of assistance loans with higher interest. In the second half of 2005, IBB-Holding für Immobilienbeteiligungen GmbH initiated the process of selling its shares in Gewerbesiedlungs-Gesellschaft mbH. This was preceded by an EU-wide search for a financial adviser to lend support during the disposal process. The sale of Gewerbesiedlungs-Gesellschaft mbH should bring the balance sheet structure of the Bank more in line with those of other development banks and allow a concentration on the core activities of Investitionsbank Berlin.

Restructuring

In addition to the implementation of measures for the strategic reorientation of Investitionsbank Berlin, activities in 2005 also focused on the ongoing restructuring, as part of which the Bank is aiming for a significantly reduced headcount for its government assistance program activities by 2007. This goal was underpinned with specific action planning for process optimisation. The unavoidable cutbacks this entailed were effected solely by mutual consenting solutions in 2005. Redundancies were fortunately avoided. With regard to the voluntary headcount reduction agreements already in place and in line with current understanding, it can also be assumed that no redundancies will be necessary in the next few years.

The restructuring is also being supported by a comprehensive re-evaluation of all jobs on the basis of current job descriptions. This re-evaluation ensures a consistent remuneration structure in line with both market standards and collective agreements throughout the Bank as a whole.

In order to optimise internal and external communication channels as well as internal workflows, the Bank underwent a reorganisation as of 1 January 2006. In particular, the organisational structure takes the aspects of customer orientation and the strategic focus of Investitionsbank Berlin into consideration.

Earnings development

The economic result of Investitionsbank Berlin improved as against the previous year by €39.9 million to €147.0 million. After deduction of assistance payments, the Bank generated accounting net income of €88.9 million, up by €12.9 million as against the previous year.

Assistance payments include the government assistance program activities of Investitionsbank Berlin in the interest of the State, which – taking into account all the costs incurred in their implementation as well as income generated by Investitionsbank Berlin – produce an economic loss.

In total, assistance payments for Berlin amounted to €58.1 million (2004: €31.1 million) and relate to the following areas:

- Costs of program implementation
- Assumption of government assistance programs
- Subsidies to institutes
- Assumption of costs for joint public relations

The government assistance program cost/income ratio, defined as the ratio of administrative expenses to total income, was 31.7%. Thus, the ratio improved by 6.4 percentage points as against 2004 as a result of higher income.

Income statement of Investitionsbank Berlin

€ million	2005	2004	Change	
			Absolute	in %
Net interest income	172.2	146.2	26.0	17.8
Net commission income	19.1	24.8	-5.7	-22.9
Net other operating income/expenses	103.0	69.8	33.2	47.6
Total income	294.4	240.8	53.5	22.2
Total administrative expenses	93.3	91.6	1.7	1.8
Personnel expenses	53.2	55.9	-2.7	-4.8
Non-labour operating costs	22.9	22.0	0.9	4.1
Depreciation on tangible assets	17.3	13.8	3.5	25.4
Operating result before risk provisioning	201.0	149.2	51.9	34.8
Risk provisioning	34.0	29.6	4.4	14.9
Securities	-0.5	0.9	-1.4	-151.9
Loans	33.5	28.7	4.8	16.7
Participations	1.0	0.0	1.0	
Operating result after risk provisioning	167.0	119.6	47.4	39.7
Net extraordinary result	-20.0	-12.5	-7.5	60.0
Economic result	147.0	107.1	39.9	37.3
IBB government assistance payments	58.1	31.1	27.0	87.0
Net income for the year	88.9	76.0	12.9	17.0

Despite strong declines in volume, which also generated non-scheduled contributions to earnings, net interest income improved by €26.0 million to currently €172.2 million. Largely as expected, net commission income was down as against the previous year by €5.7 million to €19.1 million. Net interest and commission income is still determined by the results of Property Support.

In particular, in addition to the income from Bank's loss-making government assistance activities, the net other operating income and expenses of €103.0 million include income of €72.7 million (2004: €39.6 million) attributable to Investitionsbank Berlin from the public law agreement with the State of Berlin.

Administrative expenses amounted to €93.3 million, slightly higher than in the previous year in line with planning. However, the decline in personnel expenses in particular, which were down 4.8% on the previous year at €2.7 million, testify to the ongoing success of the restructuring activities. In addition to the €0.9 million rise in non-labour operating costs, amortisation on intangible assets was up by €3.5 million.

Net risk provisioning in the lending business was €33.5 million, an increase of €4.8 million as against the previous year. All the recognisable risks in the lending business were covered by a gross expense of €63.8 million (2004: €61.4 million). The result of risk provisioning for securities improved by €1.4 million as against the previous year as a result of realised exchange gains.

The net extraordinary result includes the planned expenses for the Bank's restructuring. The rise as against the previous year is due to the fact that headcount measures in the context of the restructuring were largely implemented in 2005.

Development of volume

Assets (€ million)	31 December 2005	31 December 2004	Change	
			Absolute	in %
Loans and advances to banks	2,195	2,439	-244	-10.0
Loans and advances to customers	14,728	15,005	-276	-1.8
Bonds and other fixed-income securities	1,683	645	1,038	160.9
Participations, shares in affiliated companies	189	189	0	0.1
Other assets	354	294	60	20.4
Total assets	19,150	18,572	578	3.1

In long-term business in particular, loans and advances to banks were reduced by €244 million to €2,195 million. In contrast, bonds were reported in the amount of €1,683 million, €1,038 million higher than in the previous year. This portfolio was developed to create refinancing options with the European Central Bank.

Loans and advances to customers declined as against the previous year by €276 million to €14,728 million. Scheduled and unscheduled redemption payments in Property Support were only partially offset by new loans in Business Development and Property Support as well as additions to the portfolio in the context of non-trading portfolio management.

Other assets increased by €60 million as a result of the capitalisation of receivables from the State of Berlin due to interest on its dormant participation in particular as well as the increase in cash.

In the year under review, total assets rose by €578 million or 3.1% to €19,150 million.

Liabilities and shareholders' equity (€ million)	31 December 2005	31 December 2004	Change	
			Absolute	in %
Liabilities to banks	5,880	5,047	833	16.5
Liabilities to customers	8,862	9,499	-637	-6.7
Securitized liabilities	3,066	2,698	368	13.6
Subordinated liabilities	75	75	0	0.0
Fund for general banking risks	144	144	0	0.0
Other liabilities	675	733	-57	-7.8
Shareholders' equity	447	358	89	24.8
Net retained profits	0	18	-18	-100.0
Total liabilities and shareholders' equity	19,150	18,572	578	3.1

The new refinancing requirements for asset business were raised almost entirely on the money and capital market. As a result, liabilities to banks increased by €833 million to currently €5,880 million. Customer deposits received in the past as a result of the Berlinförderungsgesetz (Berlin Promotion Act) to finance residential construction were almost completely repaid as at year-end. Thus, at €8,862 million, customer deposits have lost further ground in structural significance and now essentially only include borrowings from the State of Berlin for refinancing Property Support as well as borrowings from institutional investors in the context of non-trading portfolio management.

New issues totalling €850 million resulted in a €368 million increase in securitized liabilities to €3,066 million. Virtually all issues were admitted to official trading.

In the reporting period, shareholders' equity increased by €89 million to currently €447 million as a result of the appropriation of retained annual income. €147 million of this was reported under other revenue reserves (special-purpose reserve).

In relation to the risk items, after adoption of the annual financial statements, this results in an overall capital ratio pursuant to Principle I of the German Banking Act of 16.3% and a Tier 1 capital ratio of 15.0%.

Balance sheet as at 31 December 2005

Assets (€ thousand)	31 December 2005	31 December 2004
1. Cash	28,873	5,021
b) Central bank balances of which:	28,873	
at Deutsche Bundesbank:		
€28,873 thousand (31 December 2004: €5,021 thousand)		
3. Loans and advances to banks	2,195,434	2,438,971
a) Payable on demand	205,129	31,671
b) Other loans and advances	1,990,305	2,407,300
4. Loans and advances to customers	14,728,310	15,004,749
of which:		
secured by liens:		
€10,660,277 thousand (31 December 2004: €10,878,825)		
Public-sector loans: €2,338,961 (31 December 2004: €2,218,032)		
5. Bonds and other fixed-income securities	1,682,660	645,043
b) Bonds and notes		
ba) Issued by public institutions	49,152	30,172
of which: eligible as collateral at Deutsche Bundesbank	49,152	30,172
bb) Issued by other issuers	1,585,752	606,882
of which: eligible as collateral at Deutsche Bundesbank	1,585,752	606,882
c) Own bonds	47,756	7,989
Nominal amount	47,722	7,725
7. Participations	11,440	11,362
of which:		
in banks €0 thousand (31 December 2004: €0 thousand)		
8. Shares in affiliated companies	178,004	177,979
of which:		
in banks €0 thousand (31 December 2004: €0 thousand)		
9. Trust assets	103,297	105,382
of which: trust loans	103,297	105,382
11. Intangible assets	17,705	23,017
12. Tangible assets	50,334	53,953
15. Other assets	141,791	99,822
16. Prepaid expenses	11,957	6,693
Total assets	19,149,805	18,571,992

Liabilities and shareholders' equity (€ thousand)	31 December 2005	31 December 2004
1. Liabilities to banks	5,879,661	5,046,797
a) Payable on demand	146,726	196,327
b) With an agreed term or notice period	5,732,935	4,850,470
2. Liabilities to customers	8,862,158	9,498,915
b) Other liabilities		
ba) Payable on demand	520,088	412,064
bb) With an agreed term or notice period	8,342,070	9,086,851
3. Securitised liabilities	3,066,378	2,698,216
a) Bonds issued	3,066,378	2,698,216
4. Trust liabilities	103,297	105,382
of which: trust loans	103,297	105,382
5. Other liabilities	118,319	134,198
6. Deferred income	276,954	374,334
7. Provisions	176,827	118,839
a) Provisions for pensions and similar obligations	46,843	45,740
c) Other provisions	129,984	73,099
9. Subordinated liabilities	75,000	75,000
11. Fund for general banking risks	144,311	144,311
12. Shareholders' equity	446,900	376,000
a) Share capital	300,000	300,000
c) Revenue reserves		
cd) Other revenue reserves (special-purpose reserve)	146,900	58,000
d) Net retained profits	0	18,000
Total liabilities and shareholders' equity	19,149,805	18,571,992
Off-balance sheet items		
1. Contingent liabilities	6,060	6,935
b) Liabilities in relation to guarantees and warranties	6,060	6,935
2. Other obligations	81,934	58,764
c) Irrevocable loan commitments	81,934	58,764
	87,994	65,699

Profit and loss account for the period 1 January 2005 to 31 December 2005

Expenses	€ thousand	€ thousand	€ thousand	Previous year € thousand
1. Interest expenses			525,511	572,866
2. Fee and commission expenses			239	122
3. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	41,070			42,846
ab) Social security contributions and expenses for pensions and other benefits	<u>12,095</u>			13,027
of which: for pensions €3,508 thousand		53,165		55,873
b) Other administrative expenses		<u>22,859</u>		21,966
			<u>76,024</u>	77,839
4. Depreciation, amortisation and write-downs on intangible and tangible assets			17,302	13,799
5. Other operating expenses			31,693	6,977
6. Amortisation and write-downs on receivables and specific securities as well as provisions for the lending business			33,026	29,615
7. Amortisation and write-downs on participations, shares in affiliated companies and securities treated as long-term assets			1,000	0
8. Extraordinary expenses			19,994	12,490
9. Other taxes not reported under item 5			13	13
10. Net income for the year			88,900	76,000
Total expenses			793,702	789,721
1. Net income for the year			88,900	76,000
2. Appropriation to other revenue reserves (special-purpose reserve)			<u>88,900</u>	<u>58,000</u>
3. Net retained profits			0	18,000

Income	€ thousand	€ thousand	Previous year € thousand
1. Interest income from			
a) Lending and money market transactions	671,273		714,228
b) Fixed-income securities and book-entry securities	<u>26,451</u>		4,833
		<u>697,724</u>	<u>719,061</u>
2. Fee and commission income		19,387	24,946
3. Other operating income		76,591	45,714
Total income		793,702	789,721

Notes on the profit and loss account

General notes

Investitionsbank Berlin (IBB) prepared the annual financial statements as of 31 December 2004 in line with the Commercial Code and the Ordinance Regulating Reporting by Banks (RechKredV). The principles of proper accounting were observed. The formats of the balance sheet and the profit and loss account are in line with the forms of the Ordinance Regulating Reporting by Banks.

Accounting and valuation methods

Assets, liabilities and pending transactions are valued in accordance with the regulations of Articles 252 ff. of the German Commercial Code in connection with Articles 340 ff. of the German Commercial Code. The Ordinance Regulating Reporting by Banks was observed.

Loans and advances to banks and customers are reported at the nominal amount. Zero bonds are posted 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 was recognised on an accruals basis. It is reported under loans and advances to banks and liabilities to banks.

Adequate account was taken of identifiable lending risks through the establishment of individual charges for bad and doubtful debts and provisions. There are general charges for bad and doubtful debts in the receivables portfolio. Irrecoverable interest is not posted.

Financial assets are valued at the cost of acquisition. If impairment on a sustained basis is expected, write-downs are always performed to the strict lower of cost or market principle. If declines in value are only temporary, the value is retained pursuant to Article 253 Section of the 2 German Civil Code in connection with Article 340e of the German Civil Code. The securities of the liquidity reserve are valued at the strict lower of cost or market principle.

Scheduled write-downs are taken on assets with a limited useful life. Low-value assets are written off immediately. Liabilities are carried at the repayment amount. The amount of provisioning for pensions is based on actuarial expert opinion.

Other provisions are reported at the amount that is required in line with prudent business consideration

Principles of currency translations

All transactions of Investitionsbank Berlin are in euro.

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