Company Profile 2018

Investitionsbank Berlin

Investitionsbank Berlin

Since 1924, Investitionsbank Berlin and its predecessors have been committed to promoting housing construction in Berlin. In 1993, business development and promotion were added to our activities and the previously independent institute under public law was merged with Landesbank Berlin. Since 2004, Investitionsbank Berlin has been operating once again as an independent institute under public law and is wholly owned by the Federal State of Berlin.

This company profile is designed to provide our shareholder, business partners and customers with a quick insight into the most important developments in the 2018 financial year. It hence only contains excerpts from the Management Report and the Annual Accounts of Investitionsbank Berlin for the 2018 financial year. The complete Annual Accounts can be found on the Internet at: http://www.ibb.de/gb and in the electronic Federal Gazette. The Annual Accounts contained in excerpts in this Company Profile were prepared in line with the German Commercial Code. In addition, Investitionsbank Berlin also drew up consolidated annual accounts as per 31 December 2018 on the basis of the International Financial Reporting Standards (IFRS) which can be found on IBB's website.

www.ibb.de/gb

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To our Customers and Business Associates

Ladies and gentlemen,

2018 was an economically challenging year with continued irritation over free world trade, Britain's withdrawal from the EU and numerous problems in core European countries such as France and Italy. The optimism nurtured at the beginning of the year suffered a number of setbacks and growth expectations were significantly lowered. One example of this is the performance of the German Share Index (DAX), which has maintained its downward trend since July, falling by almost 20 percent over the course of the year. 2018 was the first year since 2011 in which the DAX recorded no gains.

Berlin's economy fared comparatively well which was also due to domestic economic factors. Here, too, the pace of growth has slowed somewhat and the three before the decimal point recorded since 2015 is unlikely to be reached in 2018. Growth at federal level is likely to be significantly lower again.

Berlin's domestic economy is benefiting from the strong population growth of recent years, which continued into 2018, albeit at a slower pace. In the first half of 2018, the population registered under the registration law rose again by 12,000 to 3.72 million, an increase of 394,000 compared to 2003 when the growth phase began. With the number of people out of work down by around 250,000 over the same period, Berlin's employment figure rose for the first time to a record level of more than 2 million in 2018. The strong increase in labour income forms the basis for the recent high level of household consumption in Berlin. It is not only consumption, however, that has risen, public investments also increased as part of the federal state's investment campaign and due to the renewed strong rise in federal state tax revenues and are thus making their contribution to the strong domestic economy.

Berlin's economy is, of course, not impervious to global economic developments, where lower growth rates can be expected due to the uncertainties previously mentioned.

Against this backdrop, we expect growth to slow to around 2 % in 2019, but nevertheless assume that Berlin's upswing and its recovery process will continue. We expect to see momentum generated especially by the construction industry, which will continue to benefit from strong demand for housing, and from business-related services, in particular, by companies in the digital economy which in recent years have been setting the pace for Berlin's economy. Berlin's industrial sector also gives cause for optimism, recording both sales growth and rising orders in 2018. There are uncertainties here, however, above all in the export-orientated sectors, even though orders from abroad also rose by a good 3 % in 2018.

IBB helped companies in Berlin to finance their projects in 2018 and achieved record results in the business development and real-estate development segments. On the whole, our financing commitments were up by around 20 % against the previous year, from EUR 1,241m to EUR 1,484 m. A good 70 % of this was attributable to housing and real-estate development and around 30% to business development. In housing and real-estate development, the billion threshold was crossed for the first time, and in business development the relative increase was particularly high at around 40 %.

Together with private and institutional partners, our commitments in business and real-estate development financed an investment volume in Berlin of around EUR 4.9 bn in 2018. Business development accounted for a good EUR 3.7 bn of this figure while housing and urban development accounted for just under EUR 1.2 bn. According to information provided by the companies supported, these investments are being used to create and protect a total of almost 12,500 jobs, including 4,350 new jobs.

As Berlin grows, the city needs jobs, housing and investment in urban infrastructure. While the number of people who live in the city has risen by around 12 % since 2003 and the number of jobs by more than 35 %, housing stock has only increased by 3 % since 2003 when public housing was privatised and apartments were taken off the market. Housing has become scarce and Berlin now records the highest rent increases in all of Germany which is also due to its low starting rents.

Against this backdrop, since 2014 we have approved projects with a good 23,000 apartments under the IBB new housing fund, including 10,000 apartments with rent control. This may not appear to be much considering annual demand for at least 20,000 apartments, but it does go a long way to increase supply, especially in the lower price segment. However, since new construction projects require considerable lead time and in view of the shortage of building land, we also consider acquisition of occupancy rights, moderate municipalisation of stocks and support for property ownership to be sensible market regulation measures even if they do not directly increase the supply of apartments. New rental housing must clearly take priority because supply simply must be increased and private investors will also be needed here.

As part of our business development programme, we issued financing commitments totalling EUR 411m for 1,047 projects in 2018, of which around 40 % were for start-ups and 60 % for existing companies. This does not include the services provided by our subsidiaries: In the year under review, IBB Beteiligungsgesellschaft mbH invested EUR 16.9m in 53 shareholdings and IBB Business Team GmbH recorded more than 800 financing commitments with a grant volume of EUR 6.2m.

We introduced several new support programmes in 2018. Support for cooperatives in the field of housing and real-estate development deserves special mention where we promote the construction and acquisition of housing by cooperatives as well as the acquisition of shares in cooperatives. In the field of business development, we have now opened up our development programmes to social enterprises as well on provided that their business model is primarily geared to generating market income in a competitive environment and that they are not substantially dependent on public funding. Other new offerings include the 'Start-upBONUS' to finance the growth of newly founded companies, and the 'Business-related electromobility' programme which supports the purchase of electric vehicles and charging stations. Since the last two programmes are grant programmes, they are implemented by our subsidiary, IBB Business Team GmbH.

The 2018 financial year was very satisfactory for IBB. At EUR 139.1 million, the operating result was up around 6 % against the previous year's figure (EUR 131.3m) and the economic result was slightly lower at EUR 38.3m (– 2.8 %) following a significant increase in risk provisioning (EUR + 8.2m) . After contributing EUR 20m in support funds and grants for the Federal State of Berlin (Berlin-Beitrag), net income for the year totalled EUR 18.3m (previous year: EUR 10.6m).

Ladies and gentlemen, we look forward to working with you again in 2019!

Dr. Jürgen Allerkamp
Chairman of the Board
of Management

Dr. Stephan Brandt
Member of the Board

Report by the Administrative Board

IBB, an institution incorporated under public law, is the central business development institution of the Federal State of Berlin.

The Administrative Board performed the tasks assigned to it by law, the memorandum and articles of association, as well as the business rules. The work of the Administrative Board was supported by the risk, audit and nomination committee as well as the remuneration control committee. The committees prepared the topics and resolutions to be addressed by the Administrative Board and exercised the committee competence assigned to them according to the business rules. In the year under review, the Administrative Board and its committees met for four ordinary meetings. One member of the Administrative Board was able to attend less than half of the meetings. In addition, at its extraordinary meeting on 22 August 2018, the nomination committee addressed the evaluation of the selection interviews and recommended resolutions to be taken by the Administrative Board in conjunction with the appointment of a member of the Management Board responsible for back office.

After Sonja Kardorf resigned from the Management Board as of 31 August 2018, Dr. Stephan Brandt was appointed to the Management Board with effect from 1 September 2018. As a precautionary measure, this appointment was made for a period of two years so that in the meantime the Administrative Board could find a successor to the member of the Management Board responsible for back office. Angeliki Krisilion was appointed by the Administrative Board to succeed Dr. Brandt as a member of the Management Board and is expected to take up her Management Board mandate on 1 July 2019.

The Management Board informed the Administrative Board about the bank's development and important business. Regular reporting included reports on business and result developments, the bank's strategic orientation, the risk situation, supervisory and regulatory developments and their impact on IBB as well as the implications of developments on capital markets for the bank's revenue, liquidity and risk situation. The Board of Management reported on the business, risk, IT and remuneration strategy and also discussed this with the Administrative Board within the scope of a strategy meeting. Furthermore, the reports on the activities of the internal audit and compliance departments as well as the report on the examination of the remuneration system were also presented for examination.

The Administrative Board and its committees additionally focused on extensive discussions regarding the bank's income position in view of the low interest situation and its impact on medium-term planning as well as the bank's own equity basis against the background of increasingly restrictive regulatory requirements. The Administrative Board especially focused on new banking regulations and their implementation at the bank.

Due to the reference to the Budget Code of the Federal State of Berlin in IBB's memorandum and articles of association, responsibility for appointing IBB's auditor previously lay with Berlin's Federal State Court of Audit. However, agreement has been reached between all the parties involved – IBB, the Court of Audit and the State Supervisory Authority – to transfer the appointment of the auditor to IBB's Administrative Board. The necessary amendment to the memorandum and articles of association was approved by the Berlin Senate on 21 August 2018. The risk and audit committee adopted the structure of the selection procedure for the appointment of the 2019 auditor.

The committee chairpersons reported to the Administrative Board regularly on the results of their meetings.

In the period under review, one member of the risk and audit committee disclosed a conflict of interest regarding one issue. The member did not participate in the passing of the resolution.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft performed the mandatory audit of the annual accounts for the 2018 financial year and issued an unqualified audit opinion.

Following the discussion in the risk and audit committee, the Administrative Board acknowledged the result of the audit during its meeting on 28 March 2019. No objections were raised against the Annual Accounts of IBB drawn up by the Board of Management. The Administrative Board adopted the bank's Annual Accounts for the 2018 financial year and approved the Consolidated Annual Accounts.

Following the allocation of EUR 20.0m to the Berlin Support Fund (sec. 340g of the German Commercial Code (HGB; Handelsgesetzbuch)) to support the development and promotion policy of the Federal State of Berlin, IBB recorded net income for the year amounting to EUR 18.3m. Pursuant to sec. 13 (2) No. 1 of the IBB Law, the Senate of the Federal State of Berlin decides on the appropriation of net profit. The Administrative Board proposes that the shareholder fully reinvest the net income of EUR 15.6m for the year and allocate this amount to IBB's special-purpose reserve. The remaining amount of EUR 2.7m is to be distributed to the Federal State of Berlin.

The Administrative Board would like to thank the Management Board and all the staff of IBB for their successful work and commitment in the 2018 financial year.

Berlin, 28 March 2019

Business development in 2018 in figures

Programme	**Pledged financing**			
	Number	Volume (in million EUR)		
As of 31 December 2018		**L, I, G**	**Grants**	**Total**
Berlin Start	115	19.7	–	19.7
Berlin Loan	4	2.0	–	2.0
Berlin Capital	2	1.8	–	1.8
Berlin Infra	2	70.6	–	70.6
Berlin Innovation	15	11.6	–	11.6
Common task (GRW)	189	–	93.0	93.0
SME fund	4	7.3	–	7.3
SME fund – micro-loans up to EUR 25,000	110	2.4	–	2.4
IBB growth programme	24	146.1	–	146.1
Pro FIT	121	25.7	15.8	41.6
Innovation Assistant	206	–	4.1	4.1
Intermediate financing of film productions	22	5.7	–	5.7
Internationalisation programme	232	–	4.2	4.2
Liquidity assistance	1	1.0	–	1.0
Sub-total support programmes	**1,047**	**293.9**	**117.2**	**411.1**
IBB Beteiligungsgesellschaft mbH	53	16.9	–	16.9
IBB Business Team GmbH	823	–	6.2	6.2
Total IBB Group	1,923	310.8	123.4	434.2
Cluster share in support programmes	679	211.3	88.3	299.6
Cluster share in percent	64.9	71.9	75.3	72.9
Start-up share in support programmes	416	39.1	28.2	67.3
Start-up share in percent	39.7	13.3	24.1	16.4

(Explanation: L, I, G = loans, investments, guarantees)

Housing and real-estate development in 2018 in figures

	Pledged financing in million EUR	
Year under review	**2017**	**2018**
Rehabilitation and refurbishment		
IBB energy-related refurbishment	32.9	24.1
IBB homes for the elderly	4.4	6.6
IBB housing modernisation	2.1	15.4
KfW energy-efficient rehabilitation	0.4	0.3
KfW remodelling for the elderly	0.3	0.1
Sub-total – rehabilitation and refurbishment	**40.2**	**46.5**
New buildings		
IBB new family home loan	0.2	–
KfW energy-efficient building	27.4	48.4
KfW home ownership programme	1.5	2.0
IBB new housing fund	54.3	129.1
IBB new housing	232.0	173.6
Sub-total – new buildings	**315.4**	**353.0**
Others		
Syndicated business	238.2	227.1
Berlin Infra	17.4	49.6
Refurbishment loans	16.1	1.2
Loans in addition to government support	166.2	260.4
Grant programmes	20.5	24.3
Sub-total - others	**458.4**	**562.6**
Total new business (including grants)	**814.0**	**962.1**
Refinancing	132.8	111.1
Total (without special financing)	**946.7**	**1,073.2**

Management Report (extracts)

Basis of the Bank

Business model

Investitionsbank Berlin (IBB) is an institution incorporated under public law and the business development bank of the Federal State of Berlin. IBB is backed by the Federal State of Berlin. Pursuant to the IBB Law of 25 May 2004, IBB supports the Federal State of Berlin in the performance of its public tasks. These are specified in detail in both a mission statement, setting forth the owner's targets, and in assignments.

IBB's tasks are subject to the European Commission's principles for the activity of promotional banks (agreement between the Federal Republic of Germany and the European Commission of 27 March 2002, also called Agreement II). The bank has public-sector responsibility, a refinancing guarantee by the Federal State of Berlin, privileged status as contemplated in Article 116 (4) CRR and the best possible Fitch rating of 'triple A' as well as F1 for short-term obligations (confirmation dated 31 January 2018).

In August 2016, the Federal Financial Supervisory Authority (BaFin) classified the bank as a potentially system-threatening institute as contemplated in the Act on the Recovery and Resolution of Financial Institutions. IBB has lodged a complaint against this classification. As a consequence, Bafin then suspended the immediate execution of the notice in December 2016.

Subject to the subsidy rules of the European Union, the bank provides funding and performs business development measures in the fields of business and housing development, climate protection and infrastructure development. In this capacity, the bank operates in a non-competing manner with commercial banks and venture capitalists. It offers a portfolio of support products that includes revolving instruments in the form of loans, mezzanine capital as well as investments, grant programmes and consultancy services. IBB refinances itself on the money and capital markets and employs funds from the Federal State of Berlin, federal government and EU public budgets, as well as the European Investment Bank Group and the Council of Europe Development Bank – CEB.

Company structure

IBB's bodies are the Board of Management and the Administrative Board as well as the Advisory Board. IBB's two separate divisions ensure the separation between front and back office. The Board of Management manages IBB's business in its own responsibility and subject to law, the memorandum and articles of association, the guidelines adopted by the Administrative Board, as well as the business rules applicable to it.

Goals and strategies

IBB's paramount goal is defined by the promotional function provided for by law. The IBB group's pursuit of its promotional mission is based on the following business model:

- Support for Berlin's economy, housing and new housing, climate protection measures as well as renewable energy
- Revolving financial instruments, loans, mezzanine financing, investments, guarantees and grants as well as consultancy services
- As a service provider of the Federal State of Berlin, IBB also performs further tasks for the Federal State of Berlin related to digitalisation
- Efficient and cost-conscious management of the loan portfolio, especially from the housing and real estate promotion programmes of the Federal State of Berlin/IBB
- Generation of revenue by assuming loan risks, steering liquidity, matching maturities and through its own investments in order to support the promotional task, for instance, by contributing to the Berlin Support Fund
- This fund also includes the so-called 'Berlin-Beitrag' (support funds and grants for Berlin) which is coordinated and settled once a year with the Federal State of Berlin
- The bank's business policy is based on adherence to risk-bearing capacity as well as the principle of full cost recovery.

The business strategy is made up of the following components:

The general part contains the goals and measures, including digitalisation, and the governance framework of IBB. The second part contains the sub-strategies of the three business fields of business development, housing and urban development as well as treasury. The business development unit performs consultancy services related to business development products and their marketing. The most important target groups are start-ups, small and medium-sized enterprises (SMEs), as well as innovative and social enterprises operating in Berlin's future fields. The housing and urban development business unit markets the housing development products as part of the support policy goals pursued by the Federal State of Berlin. The main target groups are municipal and listed housing societies and associations, private real-estate investors and companies, commercial banks, co-operation and distribution partners, as well as private customers and tenants. IBB continues to develop its role as a competence centre for the promotion of social housing. The task of Treasury is to support compliance with IBB's support mission; this unit is responsible for managing liquidity and interest-rate risks of support business. The treasury also has a sufficient liquidity portfolio to maintain the bank's liquidity and to manage adherence to the regulatory performance indicators in a profit-orientated manner. The third part describes the functional strategies for the bank's organisation, outsourcing management, personnel management, corporate communications as well as the investments sub-strategy. The risk, IT and remuneration strategies are addressed in separate documents. The risk strategy determines the risk-relevant guidelines for implementation of the business strategy by defining the risk management framework. The IT strategy is designed to ensure the (cost-)effective and reliable performance of the bank's promotional tasks even in the era of digitalisation. The remuneration strategy is focused on adherence to stable remuneration practices, performance-based and market-orientated remuneration of employees and risk assessment in conjunction with variable remuneration components.

Management system

The bank is managed according to customary banking and commercial steering concepts and methods. With a view to its business activities, IBB is primarily committed to providing sustainable support for the Federal State of Berlin in its structural and economic policy tasks.

One condition for steering is the permanent and sustainable strengthening of the bank's equity. IBB defines this parameter as the equity shown in the balance sheet with all of its components plus its provident funds.

Financial performance indicators
Important success-based steering parameters or financial performance indicators for IBB are:

- New business
- Economic result
- Cost-to-income ratio of support and promotional measures
- Total capital ratio.

In line with its public support mission, **new business** in housing and urban development and the business development segments is an important parameter. In order to steer future strategic growth in promotional business, the bank calculates the volume of new business broken down according to support programmes. The volume of new business primarily includes all new commitments made and is supplemented by follow-up and refinancing, as well as supplementary financing for existing support programmes.

The **economic result** is calculated on the basis of annual earnings plus support funds and grants for the Federal State of Berlin ('Berlin-Beitrag'). These support funds and grants for the Federal State of Berlin reflect the loss-making development and support activities by IBB which the bank carries out on behalf of the Federal State of Berlin. The economic result is controlled at overall bank level. IBB's activities are not orientated towards generating a profit.

The **cost-to-income ratio of support and promotional measures**, taking into account the 'Berlin-Beitrag', is calculated on the basis of the ratio between administrative expenditure and operating revenues. Operating revenues include net interest and commission as well as the operating result, including the 'Berlin-Beitrag'.

In addition to economic capital, which is an important risk steering variable in the calculation of risk bearing capability, the new **total capital ratio**, which is calculated according to the rules of the Capital Requirements Regulation (CRR) as the ratio between liable equity and the sum of risk assets, also serves as another important steering variable for IBB.

Target values have been set for all parameters which as part of overall bank management undergo regular target-to-actual comparisons, as well as scenario and forecast calculations in order to determine suitable steering measures.

The financial performance indicators will be addressed separately in the economic review.

Non-financial performance indicators
Reporting on IBB's non-financial performance indicators can be found in a separate, non-financial consolidated report. This consolidated report hence takes into account the requirements under the Act to Strengthen Non-financial Reporting by Companies in their Management and Consolidated Management Reports (Act to Implement the CSR Regulation of 11 April 2017).

Economic review

Overall economic conditions

Berlin's economic momentum continued in 2018. The labour market remained at the positive high level seen in recent quarters with only slight declines. On the whole, however, the economic cycle is likely to have peaked and a slow-down in growth can be expected. Although consumption by households in Berlin remains high and, together with the public sector's nicely filled investment fund, is supporting economic dynamism, sustained growth is leading to an overheating of Berlin's economy and more and more dampening effects are coming into play. The shortage of skilled workers, in particular, is increasingly becoming a burden for the long-term expansion of the economy. The resulting capacity bottlenecks are a particular problem for the construction industry and business-related services. All in all, however, Berlin's economic growth in 2018 is likely to have been above average again thanks to strong domestic demand compared to other federal states.

While the global economy in 2017 was still characterised by strong synchronous growth in the developed and newly industrialised countries one year earlier, in 2018, it was divided in three parts. On the one hand, the US economy recorded strong growth, while newly industrialised countries have increasingly had to contend with the disagreeable consequences of US trade and monetary policy and Europe, although initially unimpressed by this, has slowed down due to homemade problems.

In conjunction with trade and monetary disputes, political risks, such as the controversial Italian draft budget and the imminent withdrawal of the United Kingdom and Northern Ireland from the EU, have led to a climate of uncertainty in Europe. With seasonally adjusted growth of only 0.2 % compared to the previous quarter, the eurozone economy grew only half as fast in the third quarter as in the first two quarters of the year. It was the German economy with a decline of 0.2 % that slowed European growth. This is primarily attributable to the German automotive industry, which had curbed production after problems with the conversion to the new vehicle approval procedure.

In this tense environment, Berlin's foreign trade painted a rather mixed picture. Uncertainties in domestic and foreign policy, as well as the escalation of global trade disputes, put pressure on incoming orders from abroad and led to declines in exports in 2018. In addition to declining exports to EU countries, exports to newly industrialised countries, such as Russia, India and China, also declined. Berlin's exports of goods to the US, on the other hand, developed well with growth in the double-digit range. Exports to the US accounted for 12 % of Berlin's total foreign trade. After gross domestic product had declined by EUR 400m in the previous year, Berlin's industrial sector once again contributed to Berlin's economic growth in 2018. Industrial sales were secured by stable incoming orders and an increase in new jobs. The majority of these increases were recorded with domestic sales.

Companies working in business-related services recorded strong sales growth in 2018, however, this growth was significantly lower than in the previous year. Sales in this segment account for almost 30 % of total sales in Berlin. In 2018, too, business-related services will attract highly qualified people from all over the world to Berlin. That being said, the momentum in this segment of the economy has slowed somewhat due to increasing shortages of qualified staff, which is ultimately also slowing down Berlin's growth rate. By the end of 2018, the 3.5 % increase in employment in this sector was, for the first time in a long time, only on par with the rest of the economy in Berlin.

Information and communication technology (ICT), which is also part of Berlin's ICT, media and creative industries promotion cluster, also belongs to the area of business-related services. For many years now, this sector has been one of the most important growth engines in Germany's capital city. Economic output in this sector rose more than in any other economic sector: by 6.2 % annually between 2009 and 2017. As an important hub for start-ups, Berlin has also taken the lead in Germany, especially in the digital economy, and is widely recognised on an international level. What's more, every 10th start-up in Germany's digital economy was launched in Berlin. There are now almost 10,000 companies operating in this sector which employs around 88,200 people. Since 2008, the number of employees has increased by an average of just under 9 % per year.

The number of new jobs in Berlin's other economic sectors has also risen at an above-average rate. By mid-2018, the number of people in regular jobs increased once again significantly against the previous year by around 50,000 to 1.48m. With a growth rate of 3.6 %, Berlin continues to be the leader among all the federal states and 1.4 percentage points above the German average. Over the past three years, the total number of people in regular jobs in Berlin has risen by 165,000.

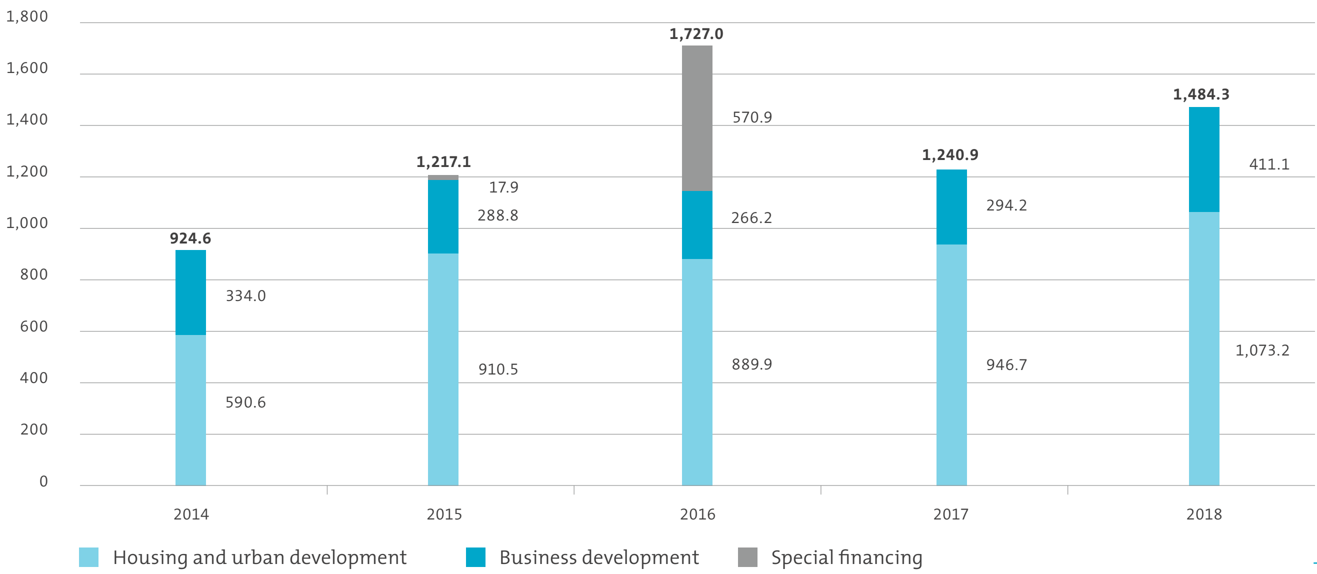
Rising population figures, greater employment, higher incomes and favourable financing have led to a further increase in demand for residential property. Real estate is becoming more and more expensive in the capital city. In 2017, 15,669 new apartments were completed. However, around 20,000 would be needed each year to accommodate the 40,000 people on average moving to the German capital every year since 2011. The reason for the sluggish completion of construction work was the record backlog of 58,000 apartments that were approved but not yet completed (+15 % against the previous year). What's more, building permits have stagnated in the recent past.

All in all, Berlin's economy rests on a broader basis. Together with the surge in tax revenues, strong public sector demand and high investments, investments by private business now also contributed to growth. Thanks to the very good labour market situation and rising wages, private consumption, in particular, ensured robust basic development of Berlin's economy and thus a stable economic environment for IBB.

Course of business

In the development forecast for the 2018 financial year, we assumed moderately positive demand in the housing and urban development and business development segments and, due to the persistently difficult economic environment, net profit below the level recorded in 2017. Thanks to very good demand for funding, IBB was once again able to record a very good volume of new business across all business segments, exceeding the previous year's figures by 20 %.

Pledges
for loans, guaranteed loans and grants in million EUR



The volume of new business with **real-estate financing** increased by 13 % against the previous year to EUR 1,073.2m (previous year: EUR 946.7m) and thus significantly exceeded the results recorded in previous years.

An increase was particularly noticeable in the field of new residential construction. Private investors and housing associations continued to invest heavily in the construction of social housing. As a result, both the previous year's figure and our ambitious target for new business were exceeded.

Continued population growth in Berlin is confirmation of a persistently tense situation, especially on the market for affordable housing for lower-income sections of the population. That's why IBB's support for new housing projects focuses on financing the construction of new price-controlled housing. Loans pledged totalled EUR 353.0m (previous year: EUR 315.4m). This included EUR 129.1m in public construction loans within the scope of support for social housing (previous year: EUR 54.3m) and especially supplementary financing support amounting to EUR 173.6m (previous year: EUR 232.0m).

In addition to considerable new business in the promotion of new housing projects, demand for energy-efficient and demand-orientated housing refurbishment also increased this year compared to the previous year. New business in this field totalled EUR 46.5m and is significantly higher than in the previous year (EUR 40.2m).

Investment in infrastructure by municipal companies also rose from EUR 17.4m in the previous year to EUR 49.6m. Only in the case of syndicated loans were commitments slightly down against the previous year (EUR 227.1 m; previous year: EUR 238.2m), despite ongoing good co-operation with commercial banks.

IBB also supports existing financing commitments with individual and demand-orientated financing concepts. Through follow-up financing and re-financing, as well as supplementary financing to close financing gaps, a total volume of EUR 371.6m was pledged (previous year's figure: EUR 299.0m).

In the area of **business development**, dynamic economic growth and high demand for business development financing led to significantly higher utilisation of individual funding programmes. Totalling EUR 411.1m, financing commitments were significantly higher than in the previous year (previous year: EUR 294.2m).

IBB's growth programme, in particular, surpassed all expectations totalling EUR 140.6m (previous year: EUR 96.0m) and when it comes to bigger investments and business expansions, re-financing, follow-up and basic financing, this programme continues to have the highest funding volume. The 'Berlin Infra' programme also rose significantly with new business commitments of EUR 70.6m (previous year: EUR 25.0m).

The support programme 'Common task to improve regional economic structure' also had an important role to play in business recorded by the business development segment. Although the result remains below the high expectations for 2018, the volume of EUR 93.0m recorded still clearly surpassed the previous year's figure (EUR 82.8m).

Expectations were also slightly exceeded in the area of technology promotion. Under the *Pro* FIT programme, financing commitments totalling EUR 41.5m (previous year: EUR 40.3m) were approved. These funds are primarily used to support research, development and innovation in the clusters in ICT, the media, the creative industry, the health sector, transport, mobility and logistics as well as energy technology and optical technologies.

Income situation

Thanks in part to continued brisk development of new business, the Bank's income situation in 2018 remains solid.

As expected, the figure was slightly lower than in the previous year (EUR 39.4m), however, the economic result of EUR 38.3m was as forecast so that it was once again possible to provide sustained support for loss-making development and support activities on behalf of the Federal State of Berlin (Berlin-Beitrag: EUR 20.0m; previous year: EUR 28.8m). In addition, one-off income from the release of provisions for performance under the risk protection agreement ('Detailvereinbarung') with the Federal State of Berlin (EUR 30.7 million) was used to strengthen both provident funds and future earnings power.

The following financial statement that is based on commercial aspects highlights the income situation. In some areas, this deviates from the presentation according to the German Commercial Code: This applies without any change to valuation effects resulting from the amortisation of markups with high-interest securities amounting to EUR 11.0 m (previous year: EUR 14.4 m). For economic reasons, these items were transferred from the valuation result to net interest.

This also affects expenditure already listed that results from loss-making development and support activities that are billed as the so-called Berlin-Beitrag to the Federal State of Berlin. In the year under review, EUR 4.9 m (previous year: EUR 13.5 m), including EUR 3.4 m from the 'Other operating expenses' items in the profit and loss account as well as EUR 1.4 m (previous year: EUR 1.4 m) from the 'risk provisioning' item were reported as Berlin-Beitrag. A further EUR 14.6 m (previous year: EUR 15.2 m) in services performed by IBB free of charge was included in the financial statement exclusively as imputed items. These services are recorded as 'other operating income' and are considered as a loss-making Berlin-Beitrag to be deducted from annual net income. For the first time in 2018, the funds to be used for this purpose were taken from the Berlin Support Fund set up in 2016. At the same time, EUR 20.0m was allocated to the fund, leaving a net allocation of EUR 0.5 m to the fund. The provisioning for this fund is thus reflected by the appropriation to the fund for general banking risks (sec. 340g HGB).

Development of earnings

			Change	
in million EUR	**2018**	**2017**	absolute	+/– in %
Net interest income	87.5	118.2	–30.7	–26.0
Net commission income	2.4	2.7	–0.3	–12.7
Net other operating income/expenses	49.3	10.4	38.9	373.0
Total administrative expenses	–79.1	–78.4	–0.6	–0.8
Operating result before risk provisioning/valuations	**60.0**	**52.9**	**7.1**	**13.5**
Risk provisioning/valuations	–21.7	–13.5	–8.2	–60.7
Economic result	**38.3**	**39.4**	**–1.1**	**–2.7**
Support funds and grants for the Federal State of Berlin (Berlin-Beitrag) including allocation to the Berlin Support Fund	–20.0	–28.8	8.8	30.5
Net income for the year	**18.3**	**10.6**	**7.7**	**72.6**

Net interest income totals EUR 87.5m and is significantly lower than in the previous year. This steep decline of EUR –20.0m million results from measures taken to use one-off income from the reversal of provisions for performance under the risk protection agreement in order to strengthen the Bank's future earnings power. Otherwise, net interest income developed as expected against the backdrop of a persistently low interest rate and a flat yield curve, and remained IBB's most important source of revenue.

As expected, net fee and commission income continued to decline and totals EUR 2.4m (previous year: EUR 2.7m). This is determined to a large extent by fees for processing guarantees and subsidies in housing and real-estate development. As a result of the successive phasing out of the relevant support programmes, the previous year's figures will be undershot as planned.

Compared to the previous year, the **operating result** was much higher (EUR 49.3m; previous year: EUR 10.4m). This was mainly due to unexpected one-off income from the reversal of provisions for performance under the risk protection agreement (EUR 30.7m).

Administrative expenditure, which includes personnel and material expenditure as well as depreciation on fixed assets, increased by 1 % against the previous year to EUR – 79.1m (previous year: EUR – 78.4m) and was hence lower than expected. The increase in personnel expenditure (EUR – 51.7m, previous year: EUR – 49.5m) was steeper than planned. This deviation is mainly due to actuarial effects in pension provisions resulting from an update of the so-called Heubeck mortality tables. On the other hand, material expenditure (EUR – 25.6m, previous year EUR – 24.8m) fell short of the operating targets due to persistent cost discipline.

In the year under review, interest and commission income as well as administrative expenditure impacted the **cost-to-income ratio of support and promotional measures**. The value determined for 2018 for this parameter is 56.8 % (previous year: 59.7 %) and is thus below the forecast values.

In the 2018 financial year, the **risk provisioning valuation result**, including the formation of general provident funds according to sec. 340f HGB, totalled EUR –21.7m (previous year: EUR –13.5m). The main reason for this was net reversals of specific allowances in lending business, which led to a positive result of EUR 1.9m (previous year: EUR 9.5m). The Bank used this for measures to strengthen regulatory equity and risk-bearing capacity.

After deduction of the Berlin-Beitrag, the Bank recorded **net income** of EUR 18.3m (previous year: EUR 10.6m). After deducting the fully retained ERDF grants (EUR 7.5m), adjusted net income for the year amounts to EUR 10.8 m. Of this amount, 25 % is to be paid out (EUR 2.7m; previous year: EUR 2.7m) and 75 % (EUR 8.1m; previous year: EUR 8.0m) is to be reinvested.

The return on investment, the ratio between net income for the year and the balance sheet total, calculated as specified in sec. 26a (1), 4th sentence of the German Banking Act (KWG, Gesetz über das Kreditwesen), totals 0.10 % (previous year: 0.06 %).

Business segment results

	IBB total		Housing and urban development		Business development		Banking book		Corporate Center	
in million EUR	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Net interest income	87.5	118.2	61.2	62.6	9.1	10.4	23.7	47.0	– 6.5	– 1.7
Net commission income	2.4	2.7	2.2	2.4	0.8	0.8	– 0.6	– 0.5	0.0	0.0
Net other operating income/expenses	49.3	10.4	26.2	– 5.9	13.1	13.2	0.0	0.0	9.9	3.1
Administrative expenses	– 79.1	– 78.4	– 32.5	– 34.1	– 21.1	– 20.6	– 5.2	– 5.7	– 20.2	– 18.0
Operating result before risk provisioning/ valuations	**60.0**	**52.9**	**57.1**	**24.9**	**1.9**	**3.8**	**17.9**	**40.8**	**– 16.8**	**– 16.6**
Risk provisioning/valuations	– 21.7	– 13.5	2.4	6.2	– 1.0	2.0	– 3.9	1.5	– 19.2	– 23.2
Economic result	**38.3**	**39.4**	**59.5**	**31.1**	**0.9**	**5.8**	**13.9**	**42.3**	**– 36.0**	**– 39.8**
Support funds and grants for the Federal State of Berlin (Berlin-Beitrag) including allocation to the Berlin Support Fund	– 20.0	– 28.8	– 2.1	– 2.4	– 16.0	– 25.0	0.0	0.0	– 2.0	– 1.4
Net income for the year	**18.3**	**10.6**	**57.5**	**28.7**	**– 15.1**	**– 19.3**	**13.9**	**42.3**	**– 37.9**	**– 41.1**

The **housing and urban development** segment generated net interest income of EUR 61.2 m (previous year: EUR 62.6 m) and thus accounted for a large part of the bank’s total net interest income. Due to the reversal of provisions within the scope of performance under the risk protection agreement with the Federal State of Berlin and the related increase in other operating expenditure, the result of EUR 59.5 m recorded was above that of the previous year.

The **business development** segment closed the financial year with a positive economic result of EUR 0.9m and is hence much lower than the previous year's figure (EUR 5.8m). Lower net interest income and the normalisation of individual risk provisions (previous year: reversal of EUR 3.0m) are responsible for this development.

In the **banking book** segment, which includes both bank management and treasury, the economic result totalled EUR 13.9m and is thus much lower than the previous year's figure (EUR 42.3m). This steep decline of EUR – 20.0m million results from measures taken to use one-off income from the reversal of provisions for performance under the risk protection agreement (housing and urban development segment) in order to strengthen the Bank's future earnings power. In addition, higher risk provisions (EUR –3.9m; previous year: EUR 1.5m) had a negative impact on earnings. This increase mainly reflects the widening of credit spreads for the securities in the liquidity reserve.

The **Corporate Center** segment recorded a negative economic result of EUR –36.0m (previous year: EUR 39.8m). Net interest income continues to be impacted by the present net value effects of pension provisions. After deduction of the 'Berlin-Beitrag', provident funds were once again formed in the year under review according to sec. 340f HGB and totalled EUR 19.2m (previous year: EUR 23.2m).

Net worth

IBB's net worth is in order and as at 31 December 2018 is as follows:

			Change	
in million EUR	**31.12.2018**	**31.12.2017**	absolute	+/– in %
Loans and advances to banks	2,000.3	2,070.3	– 70.0	– 3.4
Loans and advances to customers	10,874.1	10,944.8	–70.7	– 0.6
Bonds and other fixed-income securities	4,008.2	4,187.5	–179.3	– 4.3
Stocks and other variable-income securities	3.1	3.3	– 0.2	– 6.4
Shareholdings/shares in affiliated companies	140.9	133.4	7.5	5.6
Other assets	716.3	332.3	384.0	115.6
Total assets	**17,742.9**	**17,671.6**	**71.3**	**0.4**
Contingent liabilities	158.1	158.1	– 0.1	– 0.1
Irrevocable loan commitments	768.5	804.8	– 36.3	– 4.5
Business volume	**18,669.4**	**18,634.6**	**34.8**	**0.2**

The **balance sheet total** stabilised in the year under review. Slight declines in receivables and securities portfolios were offset by higher liquidity.

The **volume of business** amounted to EUR 18.6bn as in the previous year. The amount of loans pledged but not yet carried as per the balance sheet date remained constant, totalling EUR 0.8bn.

The volume of **Loans and advances to customers** remained unchanged at EUR 10.9bn. Slight declines of EUR 0.1bn in real-estate development were offset by additions to business development. The portfolio of note loans remains unchanged at EUR 0.2bn.

The nominal value of **derivatives**, which are used to secure interest for individual transactions, totalled EUR 19.0bn as per the end of the year (previous year: EUR 18.5bn).

As per 31 December 2018, **equity according to the balance sheet** totalled EUR 771.5 m. In addition to current net income, this change was largely due to the distribution of part of the balance sheet profit reported in 2017 amounting to EUR 2.7 m to the Federal State of Berlin. IBB's special-purpose reserve was increased by the reinvestment of the 2017 balance-sheet profit amounting to EUR 8.0 m.

Statement on changes in equity (German Commercial Code) in million EUR	**Equity**	**Special-purpose reserves**	**Balance sheet profit**	**Total**
As per 31 December 2017	300.0	445.2	10.6	755.8
Transfer to the Federal State of Berlin			– 2.7	– 2.7
Reinvestment in the special-purpose reserve		8.0	– 8.0	0.0
Net income for 2018			18.3	18.3
As per 31 December 2018	**300.0**	**453.2**	**18.3**	**771.5**

The slight increase in the special-purpose reserve led to a slight increase in the total equity ratio in 2018 while risk-weighted assets remained virtually unchanged. This once again reflects the Bank's sound capital position which is appropriate for the bank's promotional and development activities.

Overall risk value and capital ratios

in million EUR / in %	**31 Dec. 2018**	**31 Dec. 2017**
Total risk (RWA)	5,279.3	5,280.4
Own funds	976.1	972.2
Equity capital ratio	18.5 %	18.4 %
Core capital ratio	18.1 %	17.9 %

The principles of reasonable capital adequacy and liquidity pursuant to the CRR and the German Banking Law (KWG) were fulfilled at all times during the year under review.

Financial position

In the 2018 financial year, IBB was able to achieve its refinancing targets in terms of volume, maturity and structure by making diversified use of its refinancing options. Both the refinancing guarantee of the Federal State of Berlin and its role as IBB's sole shareholder were supporting factors which meant that IBB was able at all times to obtain sufficient liquidity on money and capital markets at a reasonable price.

In terms of detail, the structure of refinancing changed only slightly compared to the previous year. Liabilities to banks total EUR 4.3bn (previous year: EUR 3.7bn), corresponding to a share of 24 % (previous year: 21 %). With a volume of EUR 6.0bn, the share of securitised liabilities remained almost constant at 34 %.

Refinancing funds received from customers, which primarily include funds made available by the Federal State of Berlin for housing support programmes, total EUR 5.8bn (previous year: EUR 6.4bn) or 33 % (previous year: 36 %), respectively.

Liquidity was generated in the year under review not just through activities on the money market but also by issuing capital market instruments with a volume of EUR 1.7bn (previous year: EUR 1.9bn).

Both the course of business as well as the bank's income situation, net worth and financial position were satisfactory in the 2018 fiscal year.

Events after the balance-sheet date

No events of significant importance took place after the conclusion of the financial year.

The risk situation in summary

Measures have been taken at IBB to limit or minimise all significant risks. Lending risks are taken into account by forming general allowances within the scope of risk provisioning. Capital held is sufficient to cover all risks.

Due to the portfolio of highly liquid securities, IBB's liquidity was fully ensured at all times during the 2018 financial year.

During the period under review, IBB adhered to the regulatory requirements for capital adequacy. The utilisation of the total capital ratio according to CRR totalled between 18.4 % and 19.2 % and was hence far higher than the required level.

Utilisation of the risk limit ranged between 39.4 % and 44.3 % in the year under review. These changes were primarily due to the major changes in the risk management system and plan adjustments presented in the section entitled 'Value-orientated risk-bearing capacity'.

Annual Accounts

Balance Sheet as per 31 December 2018

Assets in EUR thousand		31.12.2018	31.12.2017
1. Cash		**363,105**	**35,307**
b) Balances with central banks	363,105		35,307
of which: with Deutsche Bundesbank:	363,105		35,307
2. Loans and advances to banks		**2,000,266**	**2,070,266**
a) Payable on demand	205,416		219,565
b) Other loans and advances	1,794,850		1,850,701
3. Loans and advances to customers		**10,874,135**	**10,944,818**
of which:			
Secured by liens:		5,675,535	5,613,932
Public-sector loans:		3,026,264	3,599,433
4. Bonds and other fixed-income securities		**4,008,200**	**4,187,520**
a) Money market paper			
ab) from other issuers	54,914		25,001
Including: eligible as collateral at Deutsche Bundesbank:	15,017		25,001
b) Bonds and notes			
ba) Issued by public institutions	980,357		1,165,965
of which: eligible as collateral at Deutsche Bundesbank:	980,357		1,165,965
bb) from other issuers	2,970,392		2,993,992
of which: eligible as collateral at Deutsche Bundesbank:	2,808,107		2,849,712
c) Own bonds	2,538		2,562
Nominal amount	2,500		2,500
5. Stocks and other variable-income securities		**3,093**	**3,303**
6. Investments		**452**	**452**
7. Shares in affiliated companies		**140,460**	**132,960**
8. Trust assets		**303,559**	**238,271**
of which: Trust loans	303,559		238,271
9. Intangible assets		**628**	**596**
b) Acquired concessions, industrial property rights and similar rights and values as well as licenses thereto	628		596
10. Tangible assets		**22,580**	**22,797**
11. Other assets		**1,912**	**2,041**
12. Prepaid expenses		**24,494**	**33,288**
Total assets		**17,742,884**	**17,671,619**

Liabilities in EUR thousand		31.12.2018	31.12.2017
1. Liabilities to banks		**4,258,237**	**3,706,650**
a) Payable on demand	163,073		178,403
b) With an agreed term or notice period	4,095,164		3,528,247
2. Liabilities to customers		**5,794,909**	**6,381,885**
b) Other liabilities			
ba) Payable on demand	719,568		716,186
bb) With an agreed term or notice period	5,075,341		5,665,699
3. Securitised liabilities		**5,965,242**	**6,064,760**
a) Bonds issued	5,965,242		6,064,760
4. Trust liabilities		**303,559**	**238,271**
of which: Trust loans	303,559		238,271
5. Other liabilities		**161,227**	**6,309**
6. Prepaid expenses		**75,215**	**87,500**
7. Provisions		**163,109**	**181,093**
a) Provisions for pensions and similar obligations	137,306		122,176
c) Other provisions	25,803		58,917
8. Funds for general banking risks		**249,859**	**249,311**
9. Equity		**771,527**	**755,840**
a) Called-in capital			
Subscribed capital	300,000		300,000
c) Retained earnings			
cd) Other revenue reserves (special-purpose reserve)	453,184		445,212
d) Net retained profit	18,343		10,628
Total liabilities and shareholders' equity		**17,742,884**	**17,671,619**
Off-balance sheet items			
1. Contingent liabilities		**158,060**	**158,147**
b) Liabilities in relation to guarantees and warranties		158,060	158,147
2. Other obligations		**768,475**	**804,814**
c) Irrevocable loan commitments		768,475	804,814

Profit and Loss Account for the Period from 1 January 2018 to 31 December 2018

In EUR thousand				Previous year
1. Interest income from				
a) Lending and money market transactions	213,520			234,656
of which: expenditure from negative interest	5,077			2,160
b) Fixed-income securities and book entry securities	46,503			57,034
		260,023		**291,690**
2. Interest expenses		161,520		159,081
of which: income from negative interest		11,718		11,207
		161,520		**159,081**
			98,503	**132,609**
3. Current revenue from				
a) Stocks and other variable-income securities		0		0
b) Investments		2		2
c) Shares in affiliated companies		0		0
			2	**2**
4. Fee and commission income		3,242		3,508
5. Fee and commission expenses		891		817
			2,351	**2,691**
6. Other operating income			**44,813**	**7,073**
7. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	40,568			40,278
ab) Social security contributions and expenses for pensions and other benefits	11,180			9,178
of which: for pensions	4,129			2,136
		51,748		49,456
b) Other administrative expenses		25,637		24,778
			77,385	**74,234**
8. Amortisation and write-downs on intangible assets and tangible assets			**1,673**	**4,204**

In EUR thousand			Previous year
9. Other operating expenses		**13,435**	**17,211**
10. Amortisation and write-downs on receivables and certain securities as well as additions to reserves in loan business	34,648		35,420
of which: dissolution of the fund for general banking risks	19,452		0
of which: allocation to the fund for general banking risks	20,000		0
		34,648	**35,420**
11. Amortisation and write-downs on investments, shares in affiliated companies and securities treated as fixed assets	47		568
		47	**568**
12. Result from ordinary activities		**18,479**	**10,738**
13. Taxes on income and revenue	90		93
14. Other taxes not reported under item 11	46		17
		136	**110**
15. Net income for the year		**18,343**	**10,628**
16. Profit/loss brought forward from the previous year		**0**	**0**
17. Net retained profit		**18,343**	**10,628**

Notes to the Financial Statements for the 2018 Financial Year (extracts)

General notes

Investitionsbank Berlin (IBB) has its headquarters in Berlin and is registered in the commercial register of Charlottenburg Magistrates' Court (Handelsregister des Amtsgerichts Charlottenburg) under number HRA 35566 B.

Public-sector responsibility and refinancing guarantee

The Federal State of Berlin bears public-sector responsibility that includes the public-law obligation in relation to IBB to secure its economic basis at all times and to maintain it in a condition suitable for operation during the time of its existence. Pursuant to sec. 4 (2) of the Law Establishing Investitionsbank Berlin as an Incorporated Institution under Public Law (Investitionsbank Law – IBBG) of 25 May 2004 in the version of 24 November 2015, the Federal State of Berlin is liable for the loans, bonds, futures transactions, options and swaps subscribed to by IBB, as well as any other loans granted to IBB.

Accounting principles

The annual accounts as per 31 December 2018 were prepared in line with the German Commercial Code and in adherence to the Ordinance Regulating Reporting by Banks (RechKredV, Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute). 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 3 (account form) is chosen for the profit and loss account.

Accounting and measurement methods

Assets, liabilities and pending transactions were valued in accordance with the regulations of sec. 252 et seqq. of the German Commercial Code (HGB, Handelsgesetzbuch) in conjunction with sec. 340 et seqq. HGB.

Loans and advances to banks and customers are generally carried at their nominal amount.

Premiums and discounts are allocated 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 netted on a contract by contract basis and carried under loans and advances or liabilities to banks or customers. Income resulting from interest rate derivatives is carried in the Bank's net interest income. Incoming and outgoing close-out payments are recognised in full in the profit and loss account.

Negative interest from receivables and/or liabilities is carried as interest income or interest expenditure, respectively, and accordingly reduces income or increases expenditure.

Risks in loan business are addressed by value adjustments for accounts receivable and provisions for off-balance-sheet transactions. Furthermore, value adjustments for receivables bearing lower interest are formed due to margin waivers in conjunction with business development.

Individual impairments were carried out in the case of significant receivables for identifiable counterparty risks whilst flat-rate individual impairments were applied to non-significant receivables. A first check is carried out to determine whether objective indications of a reduction in value exist. 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 determined by subtracting the cash value of all payments still expected from the book value of the receivable. The amount of the flat-rate individual impairment is determined by multiplying the book value by an expected loss given default.

With regard to latent risks in the receivables portfolio, general allowances amounting to the expected default were made, taking into account default probability, default rate and a factor for the time between the detection and actual occurrence of the threatening default.

On the basis of the principle of individual valuation pursuant to sec. 252 (1) No. 3 HGB, the option permitted under sec. 340e (1) in conjunction with sec. 253 (3) 4th sentence HGB (valuation according to the diluted lower of cost or market principle) was exercised throughout for financial assets held as fixed assets. If sustained impairment of value is expected, write-downs are always carried at the strict lower of cost or market principle.

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

Evaluation units pursuant to sec. 254 HGB were exclusively formed as micro hedge relationships to protect against risks due to changes in interest rates. Underlying transactions are fixed-interest securities of the investment and liquidity portfolio which are carried under bonds and other fixed-interest securities. Plain vanilla swaps are the sole hedging instrument used. 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.

The net hedge presentation method is used to record the effective part of the valuation units formed in the balance sheet.

In order to identify risks that are not hedged, the entire change in fair value of the underlying transaction is compared to the entire change in fair value of the hedging instrument. When evaluating the underlying transaction, the negative net value is considered according to the recognition-of-loss principle. A positive net value is not taken into account.

In the case of underlying transactions that are allocated to the investment portfolio, extraordinary depreciation is only carried out if a lasting decline in value is expected due to changes in the non-hedged risks.

Furthermore, all underlying transactions and hedging instruments of valuation units are included in the loss-free valuation of the banking book using the IDW RS BFA 3 comments.

The IDW RS BFA 3 comments were taken into account in full within the scope of the balance sheet and valuation as per 31 December 2018. The cash equivalent approach is applied in order to determine any provision for anticipated losses which may be necessary. The trading book's value-based ability to bear losses serves as the basis for calculation. The book value is deducted from net assets, and 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 2018 G tables. A projected salary/contribution assessment ceiling increase of 2.5 % and a projected pension increase of 1.75 % (or 1.0 % in the case of commitments by Versorgungsanstalt des Bundes und der Länder (VBL)) were taken into consideration. The figures remained unchanged compared to the previous year. The evaluation was based on an assumed interest rate of 3.21 % (previous year: 3.68 %). The change in assumed interest was carried in net interest income in the profit and loss account. The change in other valuation 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 change in assumed interest is carried as net interest income in the profit and loss account. The interest share of the sum added to other reserves is carried in interest expenditure.

IBB conducts all transactions in euro.

Unless anything to the contrary is noted, all amounts are shown in million euro (EUR m) and rounded to one decimal place. This rounding may result in minor deviations in the addition of the amounts shown.

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