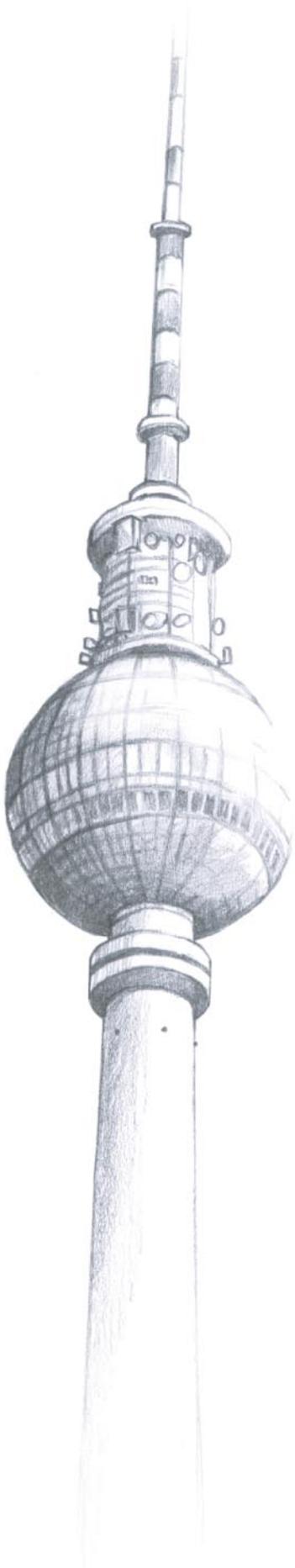


Company Profile 2004



Performing for Berlin.





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To our business associates



Prof. Dieter Puchta
Chairman of the
Board of Management

In 2004, a new era began for Investitionsbank Berlin (IBB). Since 1 September 2004, we have been operating on the market as the independent development bank of the State of Berlin. Just previously the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin—German Federal Financial Supervisory Authority) granted us our banking license, thus clearing the way for the “new” Investitionsbank Berlin. The spin-off from Landesbank Berlin took place as of 31 August 2004, retroactively to 1 January 2004.

The start could hardly have been better. In its first financial year, the “new” Investitionsbank Berlin generated net income for the year of €76 million (previous year: €12 million), €58 million of which was retained. The resultant bolstering of the equity basis and independence in the legal form of a public law bank have given us the flexibility we need as a modern development bank in order to fulfil our mandate of serving Berlin companies to the best of our ability.

The strategic reorientation of our bank as a strong bank operating in line with business criteria implies a clear focus on monetary economic development in the form of loan-based and revolving products. Taking into consideration the reorientation of the business, our product portfolio is being renewed on an ongoing basis, being adjusted to modern requirements. For this reason, we are discontinuing products no longer in line with the current strategy and are disposing of participations such as KPM Königliche Porzellan-Manufaktur Berlin GmbH. We have introduced products such as the “IBB Growth Program”, “ProFIT—a program for government assistance of research, innovations and technologies”, a loan fund for small and medium-sized enterprises (“KMU-Fonds”) as well as a venture capital fund (VC Fonds Berlin). There is also a pilot program for interim financing of film productions we created in cooperation with the Investitionsbank des Landes Brandenburg (ILB). Furthermore, we created the organisational basis for successful and long-term sales of our products with a systematic separation of sales and processing, combined with the successful establishment of the principle banker model.

We have a particular focus on individual government assistance for small and medium-sized enterprises operating in the recognised fields of competency for Berlin. Outside the competency fields, we offer our customers standardised government assistance program products. Recognising and meeting the changing requirements of our customers in the corporate cycle is the benchmark for our sales endeavours. This is one of the reasons we hope to intensify the cooperation of our

local partners further, with commercial banks based in Berlin, other government assistance program institutes as well as other institutions with responsibility for this region.

In addition to preparations for the spin-off from Landesbank Berlin and the reorientation of our business, the key factor of our business in 2004 was the scheduled and successful development of our Treasury as comprehensive asset-liability management. With the commencement of our independent activities on the money and capital markets, we established ourselves very rapidly as a recognised market partner in Germany and abroad, thus being able to implement liquidity management and funding independently.

After the establishment, the intensification and the sustained anchoring of the customer orientation correlate with the understanding of our mission as a development bank. Over the next few years, a key area for the Board of Management at Investitionsbank Berlin will be its service focus. Thus, we look forward to constructive cooperation.



Dr. Birgit Roos
Member of the
Board of Management

Prof. Dieter Puchta
Chairman of the
Board of Management

Dr. Birgit Roos
Member of the
Board of Management

Statement from the Chairman of the Administrative Board



Harald Wolf
Senator for Economy,
Employment and Women

The State of Berlin is moving in a new direction in terms of government assistance. A signal for this was the spin-off of Investitionsbank Berlin from Landesbank Berlin as of 1 September 2004 retroactively to 1 January 2004. This laid the foundation for Investitionsbank Berlin as an independent and strong development bank for the Berlin economy.

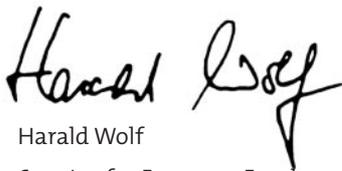
Investitionsbank Berlin is an important partner, particularly for the many small and medium-sized enterprises. It is precisely these companies which are often faced by restraint in terms of financing on the part of commercial banks. Here, Investitionsbank Berlin can help by extending loans together with the commercial banks, passing on its funding advantage as a public-sector bank to customers. In doing so, Investitionsbank Berlin sustainably improves the general conditions for small and medium-sized enterprises.

In the reorientation of the Berlin government assistance programs, the future focus is to be on the competency fields of biotechnology, medicine, information and communication technologies, media and transportation technology. Detailed strategies are currently being drafted for these business areas so as to be able to deploy the government assistance program instruments in the framework of a targeted growth initiative in an optimum manner. In addition to subsidies, Investitionsbank Berlin will increasingly use loans and participations to simplify the access to finance required by many companies and avoid the effect of cashing in on subsidies. This strategy quite clearly determines the new alignment of the Bank. Furthermore, Investitionsbank Berlin naturally remains the contact point for all companies—even if their operations are outside the fields of competency—wishing to realise investments and ideas in Berlin with the help of our government assistance programs.

In order to improve the position of Berlin as an economic location in competition with other metropolises further, the State of Berlin is in the process of rearranging the overall structures in a simpler and more transparent manner. Thus, in 2004 Wirtschaftsförderung Berlin GmbH (WFB) and BAO Berlin International GmbH (BAO) were joined together to form Wirtschaftsförderung Berlin International (WFB). In turn, this was merged with “Partner für Berlin” in 2005. As a result, there

is now a uniform organisation for marketing the location, acquiring investors and export development, cooperating closely with Investitionsbank Berlin.

We are thus well on track to strengthening Berlin as a location, its companies and its attraction for both German and international investors on a sustained basis. As a central development bank for small and medium-sized enterprises, Investitionsbank Berlin is playing a key role here.



Harald Wolf

Senator for Economy, Employment and Women

Investitionsbank Berlin

business areas

Investitionsbank Berlin operates in the areas of business development and property support.

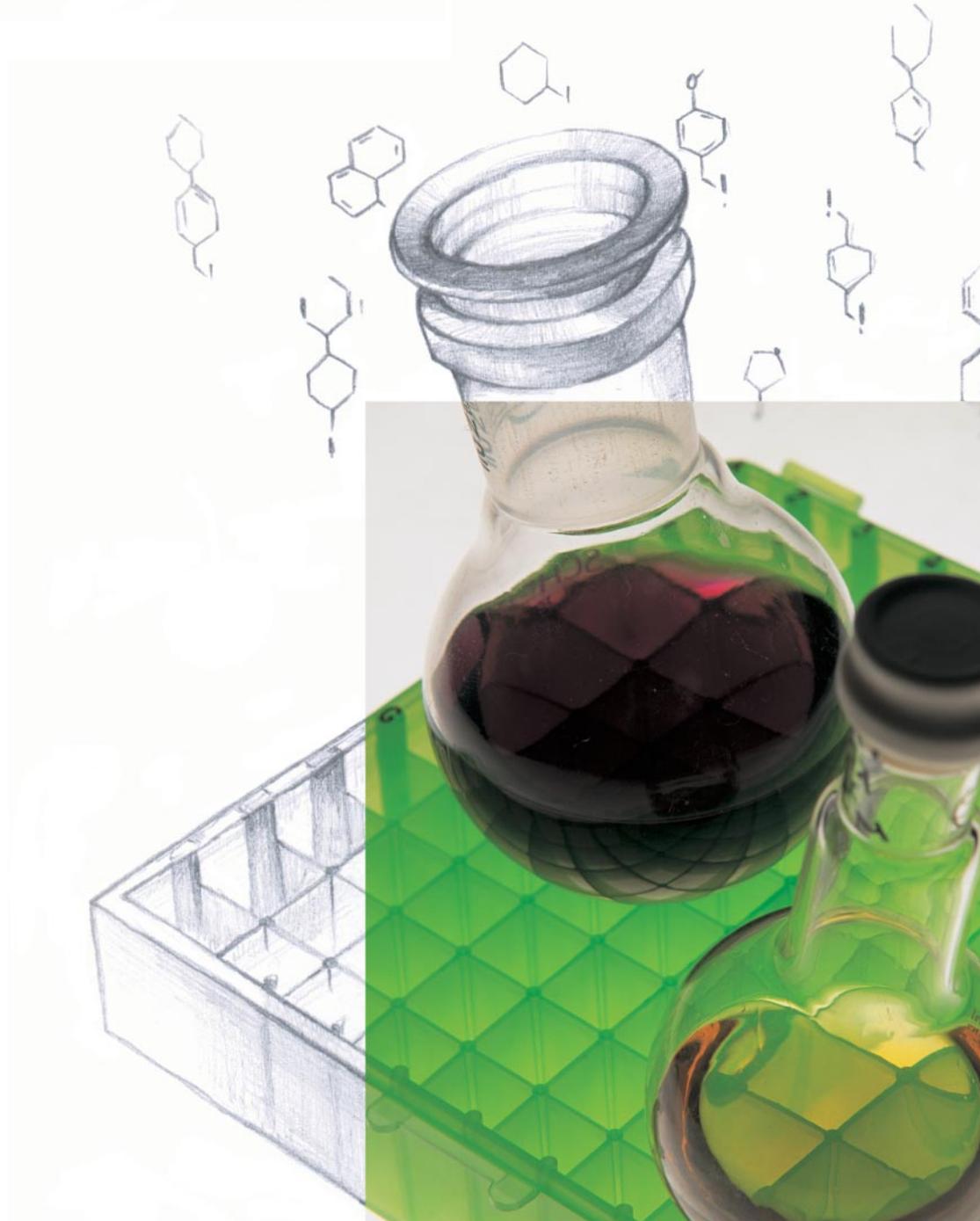
In the reporting year, business development was completely reorganised. Since the restructuring of Investitionsbank Berlin, there have been radical changes. New programs have been introduced, an examination made as to the efficiency of existing programs which were either aligned to market requirements or discontinued.

New is a government assistance range differentiated by “competency field development” and “horizontal development”. Companies operating in the Berlin competency fields of biotechnology, medical engineering, information and communication technology (including media) as well as transportation technology receive individual government assistance which includes project support. For small and medium-sized enterprises in Berlin, Investitionsbank Berlin offers a wide range of standardised government assistance programs which are implemented rapidly and efficiently. Here the focus is on increased deployment of loan-based government assistance program instruments via commercial banks domiciled in Berlin.

Development participations at Investitionsbank Berlin are currently being restructured in line with the reorientation of the Bank to monetary government assistance measures. In the reporting year, the first step was successfully concluded with the disposal of KPM Königliche Porzellan-Manufaktur Berlin GmbH.

In the area of property support, Investitionsbank Berlin concentrates on efficient portfolio management. Currently, there is no support in the State of Berlin for new construction.





General business development 2004

Spin-off of Investitionsbank Berlin

The 2004 calendar year is the first financial year of Investitionsbank Berlin. With the Legal Independence of Investitionsbank Berlin Act of 25 May 2004, Investitionsbank Berlin, Anstalt der Landesbank Berlin – Girozentrale – was spun off from the assets of Landesbank Berlin – Girozentrale – as of 31 August 2004 with retroactive effect to 1 January 2004 to the newly established Investitionsbank Berlin. Thus the development bank of the State of Berlin, which had been integrated into Landesbank Berlin with the transfer of the previously independent Wohnungsbau-Kreditanstalt Berlin, is a legally independent entity again. Of the assets transferred, part of the special-purpose reserve totalling €1,100 million was legally excluded. Landesbank Berlin is to pay interest on this part at market rates. As a compensation for this part of the special-purpose reserve which is excluded from the transfer for assets, until 2007 the State of Berlin transfers the incoming payments from Landesbank Berlin to Investitionsbank Berlin in line with the public-sector agreement.

The institutional liability and the explicit funding guarantee from the State of Berlin on the basis of Article 4 Sections 1 and 2 of the Legal Independence of Investitionsbank Berlin Act allow the Investitionsbank extensive access to money and capital markets as well as the best possible funding conditions.

Restructuring and strategic reorientation

The focus of 2004 was not only the spin-off of Investitionsbank Berlin, but also the start of comprehensive restructuring and strategic reorientation to secure the future of the legally independent entity, Investitionsbank Berlin.

The systematic business focus aims to reduce personnel and operating costs on a sustained basis. This has put Investitionsbank Berlin in the position of operating successfully as an independent institute and further increasing shareholders' equity from its own strength.

Within the context of its business development activity, Investitionsbank Berlin concentrates on monetary government assistance programs. As a consequence, the focus of the government assistance program business will be on loan-based business development. In the competency fields of the State of the Berlin, Investitionsbank Berlin sets business objectives in the area of SME development, start-ups and technological support.

In property support, the core task of Investitionsbank Berlin is efficient portfolio management.

In December 2004, the disposal of KPM Königliche Porzellan-Manufaktur Berlin GmbH was successfully concluded by contract by IBB-Holding für Industriebeteiligungen GmbH as part of the strategic reorientation.

In December 2004, the IBB-Holding für Immobilienbeteiligungen GmbH also decided to initiate a disposal process for the stake in Gewerbesiedlungs-Gesellschaft mbH. The resolution was preceded by declarations of interests in Gewerbesiedlungs-Gesellschaft mbH on the part of institutional investors. The two measures underline the future concentration of Investitionsbank Berlin on its new tasks in the framework of the activities described above on business development.

As part of restructuring there is a FTE capacity target of 546 for all activities of the bank. This objective is underpinned with concrete measures for process optimisation. The consequent and unavoidable personnel reductions will take place in a transparent and fair process. The aim is for personnel cuts to occur in a socially acceptable manner, including early retirement and part-time retirement work regulations. As far as possible, terminations for operational reasons are to be avoided. A works agreement to this effect was agreed with the staff representatives.

In business development the approval figures again declined in the reporting year. The noticeable investment restraint of small and medium-sized Berlin enterprises reflects their strained business situation. Investitionsbank Berlin takes account of this with close monitoring as well as ongoing examination and further development of the range of the government assistance program.

The strategic reorientation resulting from Investitionsbank Berlin becoming independent brings with it a reduction or discontinuation of new business activities in property support. At the beginning of the year the two company programs “IBB-Owner-Ownership” and “IBB Modernisation and Maintenance” were discontinued. As scheduled, financing cooperative stakes in ownership-oriented co-operations ran out to the end of the year. Government assistance funds were thus committed in two programs for new applications with construction measures, the “Residential Environment Measures” and “Qualification of Young Unemployed” programs.

As in the previous year, the main activities in the property business area were the payment of government assistance funds of existing government assistance programs, efficient monitoring of the portfolio loan and portfolio development business and repayment of government assistance funds which had been granted.

**Development of the
government assistance
program business**

Profit and loss account

Investitionsbank Berlin internal profit and loss account	
€ million	2004
Net interest income	146.2
Net commission income	24.8
Net other operating income / expenditure	69.8
Total income	240.8
Total administrative expenditure	91.6
- Personnel costs	55.9
- Operating expenditure	22.0
- Scheduled depreciation on tangible assets	13.8
Operating result before risk provisioning	149.2
Risk provisioning	29.6
- Securities	0.9
- Loans	28.7
- Participations	0.0
Operating result after risk provisioning	119.6
Total extraordinary result	-12.5
Economic result	107.1
IBB support services	31.1
Net income for the year	76.0

In the first financial year, the **economic result** at Investitionsbank Berlin was €107.1 million. This includes the pro bono services agreed with the State of Berlin and rendered by Investitionsbank Berlin. IBB support services relate to government assistance program activities of Investitionsbank Berlin at the behest of the State of Berlin, which netting all costs and income for implementation generate an economic loss for Investitionsbank Berlin. IBB support services occur in the following areas:

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

After deducting IBB support services, net income for the year in line with commercial law of €76.0 million was generated.

The **government assistance program-cost/income-ratio** defined as the ratio of administrative expenditure to total income is 38.1%.

Net interest and net commission income totals €171.0 million, in line with planned results. In line with the previous alignment of the bank, the two positions were determined by the results from property support.

The balance of **Other operating income and expenditure** of €69.8 million contains the income from the remaining part of the special-purpose reserve of Investitionsbank Berlin of €39.6 million due to Investitionsbank Berlin. In addition, income from IBB support services of €30.5 million is posted.

Administrative expenditure totals €91.6 million. Particularly with operating expenditure, the initial successes of the stringent cost management are evident, as the result of the restructuring activities. These total €4.9 million or 18.2% less than the costs originally scheduled. Total administrative expenditure was 6.1% under the planned figures.

The total for **Risk provisioning in the loan business** is €28.7 million. Provisioning was made for all recognisable risks in the loan business with a gross amount of €61.4 million. €0.9 million was posted for amortisation on the securities portfolio valued at the strict lower of cost or market principle and realised losses were posted.

In addition to ongoing restructuring charges, the **Total extraordinary result** includes a further allocation to personnel provisions for implementing of the restructuring measures.

Development of volume

Development of volume: Assets

Assets (in million €)	31 December 2004	1 January 2004	Absolute change	Change in %
Loans and advances to banks	2,439	2,810	-371	-13.2
Loans and advances to customers	15,005	14,857	148	1.0
Debt securities and other fixed-income securities	645	0	645	
Participations, shares in affiliated companies	189	169	20	11.8
Tangible assets	54	74	-20	27.0
Other assets	240	187	53	28.4
Total assets	18,572	18,097	475	2.6

Loans and advances to banks declined by €371 million to €2,439 million, primarily as a result of the early repayments of long-term transmitted loans in line with the Berlin Promotion Act in the financial year.

Loans and advances to customers increased by €148 million to €15,005 million. Here repayment flows in property support were more than compensated for by higher public-sector loans.

Debt securities of €645 million were posted. The portfolio was developed to create funding options with the European Central Bank.

In comparison to the opening balance sheet, **Participations and shares in affiliated companies** increased by €20 million to €189 million as a result of founding VC Fonds Berlin GmbH. The object of the company is taking minority participations in young technology companies in the early phase of their development.

Tangible assets were down €20 million as a result of the first-time application of IDW HFA ERS No. 11 (reclassification of capitalised software as intangible assets).

Development of volume: Liabilities

Liabilities (in € million)	31 December 2004	1 January 2004	Absolute change	Change in %
Deposits by banks	5,047	4,138	909	22.0
Customer savings	9,499	11,445	-1,947	-17.0
Securitised liabilities	2,698	1,315	1,383	105.2
Provisions	119	106	13	11.0
Subordinated liabilities	75	0	75	
Shareholders' equity	358	300	58	19.3
Consolidated profit	18	0	18	
Fund for general bank risks	144	144	0	0.0
Other liabilities	614	648	-34	-5.3
Total liabilities	18,572	18,097	475	2.6

New funding was obtained exclusively on the money and capital markets. Over the year, the share of deposits by banks and securitised liabilities to total assets increased from 30% to almost 42%.

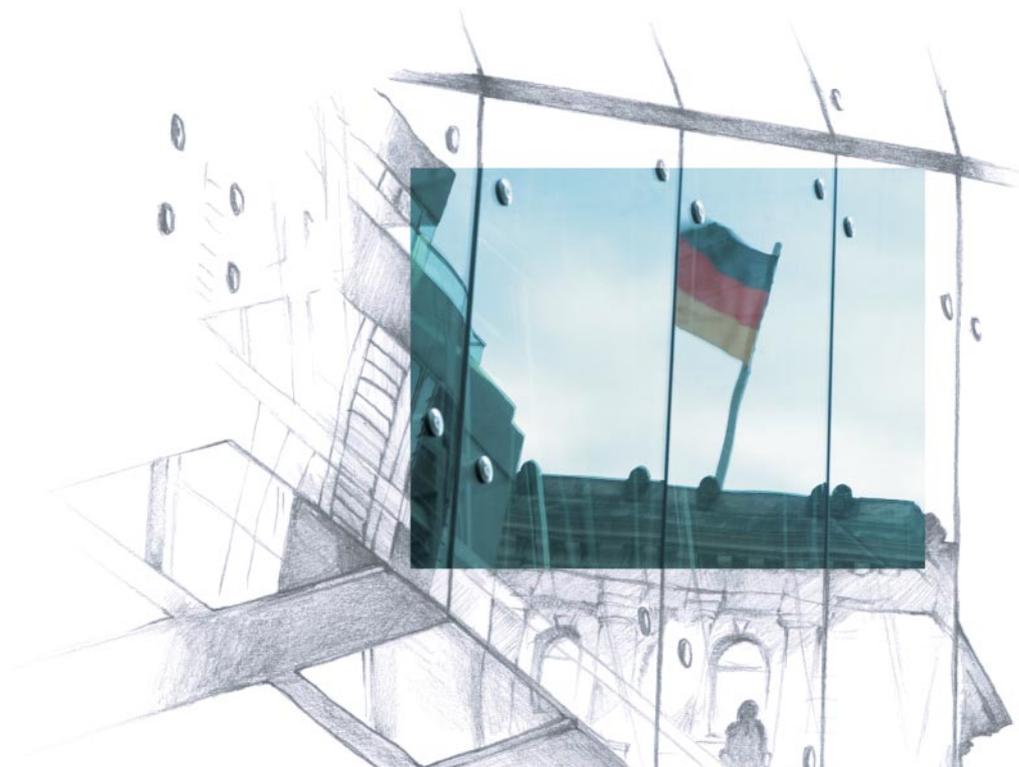
Deposits by banks were expanded by €909 million to €5,047 million. This partially compensated outflows as a result of high-interest customer loans granted in line with the Berlin Promotion Act being terminated by Investitionsbank Berlin. Overall, customer savings declined by €1,947 million to €9,499 million. In addition to further deposits of €984 million in line with the Berlin Promotion Act, this position largely included long-term funds taken up by the State of Berlin for property support.

Issue activity for improving the funding basis resulted in **Securitised liabilities** increasing by €1,383 million to €2,698 million. All issues were approved for official trading.

In the reporting period **Shareholders' equity** increased by €58 million to €358 million as a result of retaining part of net income for the year. €58 million of this is posted as earnings reserves (special-purpose reserve). The Senate of Berlin approved the proposal of the Administrative Board on the appropriation of the consolidated profits of €18 million, for distributing them to the owners.

As of 31 December 2004, total bank regulatory capital resources pursuant to the German Banking Act (after approval of the annual financial statements) totalled €498 million. In relation to risk positions of €3,813 million, this results in an overall key ratio in line with the German Banking Act Principle I of 13.1% and a core capital rate of 12.6%.

Equity ratios



Annual financial statements

as of 31 December 2004

Balance sheet as of 31 December 2004

Assets in € thousand	31 December 2004	1 January 2004
1. Cash reserve	5,021	457
b) Balance at central banks: €5,021 thousand	5,021	
of which: at Deutsche Bundesbank:		
€5,021 thousand (1 Jan. 2004: €457 thousand)		
3. Loans and advances to banks	2,438,971	2,809,855
a) Due on demand	31,671	172,786
b) Other loans and advances	2,407,300	2,637,069
4. Loans and advances to customers	15,004,749	14,857,166
of which:		
secured by charges over property:		
€10,878,825 thousand (1 Jan. 2004: €11,072,961 thousand)		
Public-sector loans: €2,218,032 thousand (1 Jan. 2004: €1,476,724 thousand)		
5. Debt securities and other fixed-income securities	645,043	0
b) Bonds and debt securities		
ba) issued by public institutions	30,172	
of which: eligible as security at Deutsche Bundesbank	30,172	
bb) from other issuers	606,882	
of which: eligible as security at Deutsche Bundesbank	606,882	
c) Own debt securities	7,989	
Nominal value	7,725	
7. Participations	11,362	11,362
of which:		
in banks €0 (1 Jan. 2004: €0)		
8. Shares in affiliated companies	177,979	157,979
of which:		
In banks T€ 0 (1 Jan. 2004: T€ 0)		
9. Assets held in trust	105,382	108,581
of which: trusted loans	105,382	108,581
11. Intangible assets	23,017	0
12. Tangible assets	53,953	73,743
15. Other assets	99,822	68,969
16. Prepayments and accrued income	6,693	8,803
TOTAL ASSETS	18,571,992	18,096,915

Liabilities in € thousand	31 December 2004	1 January 2004
1. Deposits by banks	5,046,797	4,137,740
a) Due on demand	196,327	125,146
b) With agreed term or notice period	4,850,470	4,012,594
2. Customer savings	9,498,915	11,445,465
b) Other liabilities		
ba) Due on demand	412,064	309,172
bb) With agreed term or notice period	9,086,851	11,136,293
3. Securitised liabilities	2,698,216	1,314,814
a) Debt securities issued	2,698,216	1,314,814
4. Liabilities held in trust	105,382	108,581
of which: trustee loans	105,382	108,581
5. Other liabilities	134,198	142,470
6. Accruals and deferred income	374,334	397,118
7. Provisions	118,839	106,416
a) Provisions for pensions and similar obligations	45,740	43,381
c) Other provisions	73,099	63,035
9. Subordinated liabilities	75,000	0
11. Fund for general bank risks	144,311	144,311
12. Shareholders' equity	376,000	300,000
a) Subscribed capital	300,000	300,000
c) Retained earnings		
cd) Other retained earnings (special-purpose reserve)	58,000	0
d) Consolidated profit	18,000	0
TOTAL LIABILITIES	18,571,992	18,096,915
Off-balance sheet items		
1. Contingent liabilities	6,935	10,118
b) Liabilities from guarantees and warranties	6,935	10,118
2. Other obligations	58,764	192,060
c) with agreed term or notice period	58,764	192,060
	65,699	202,178

Profit and loss account 1 January to 31 December 2004

Expenditure	T€	T€	T€
1. Interest payable			572,866
2. Fees and commission payable			122
4. General administrative expenditure			
a) Personnel costs			
aa) Wages and salaries	42,846		
ab) Social security costs and expenditure for pensions and provisions	<u>13,027</u>		
of which: for pensions €3,919 thousand		55,873	
b) Other administrative expenditure		<u>21,966</u>	
			<u>77,839</u>
5. Depreciation and value adjustments on intangible and tangible assets			13,799
6. Other operating expenditure			6,977
7. Depreciation and value adjustments on loans and advances specific securities as well as allocations to provisions in the lending business			29,615
11. Extraordinary expenditure			12,490
13. Other taxes not shown under item 11			13
15. Net income for the year			76,000
Total expenditure			789,721
1. Net income for the year			76,000
2. Allocations to earnings reserves in other earnings reserves (special-purpose reserve)			<u>58,000</u>
3. Consolidated profit			18,000

Income	T€	T€
1. Interest income from		
a) Lending and money market transactions	714,228	
b) Fixed-income securities and debt register claims	<u>4,833</u>	
		<u>719,061</u>
4. Commission income		24,946
8. Other operating income		45,714

Total income	789,721
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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.

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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