

Company Profile 2016



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 **Investitionsbank
Berlin**

Leistung für 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 fiscal 2016. It hence only contains excerpts from the Management Report and the Annual Accounts of Investitionsbank Berlin for the 2016 financial year. The complete Annual Accounts can be found on the Internet at: <http://www.ibb.de/Geschaeftsberichte> 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 2016 on the basis of International Financial Reporting Standards (IFRS) which can be found on IBB's website.

To our Customers and Business Associates	04
Report by the Administrative Board	06
Business development in 2016 in figures	08
Housing development in 2016 in figures	09
Management Report (extracts)	10
Basics	10
Economic review	12
The situation of the bank	15
Events after the balance-sheet date	21
Report on forecasts, opportunities and risks	21
Annual Accounts	22
Notes to the Financial Statements for the 2016 Financial Year (extracts)	26
Imprint	30

To our Customers and Business Associates

Ladies and gentlemen,

In 2016, Germany's positive economic development continued in an ever-more turbulent international climate. With economic performance up by 1.9% and 425,000 more people in jobs compared to the previous year (+1.0%), Germany once again proved to be a growth driver in the EU. Germany's unemployment rate of 4.1% was far better than the average for Europe as whole which was almost twice as high at 8.6%.

Economic development in Berlin fared even better. With economic growth expected to reach a rate of 3.0%, the city once again reached the same high level of growth as in the previous year. This also meant that Berlin's economic growth was much higher than the average for the country as a whole. Developments on the labour market are also very good with 1,367,000 people in regular jobs. Up 4% against the previous year (approx. 56,000 jobs), this marks a new record in employment. The rise in employment in Berlin, which has continued for eleven years, creating around 350,000 jobs, has now reached an all-time high. Despite the more than 13,000 people who moved to the city, the average number of people out of work for the year fell to 181,000, corresponding to an unemployment rate of 9.8% (previous year: 10.7%).

It hence comes as no surprise that both the autumn survey of Berlin's economy conducted by Berlin's Chamber of Industry and Commerce (IHK) and the Berlin Chamber of Skilled Crafts as well as the SME Report by IBB and Creditreform show that the good mood among companies in Berlin is continuing and that companies have positive expectations for 2017. It is also fitting that receivables claimed by creditors against bankrupt companies in Berlin (1,360) reached a new low of just EUR 570m in 2016 (down 40% against the previous year) which is due to the thriving economy of recent years.

This positive economic situation is also reflected in public financing and the Berlin's tax revenues which have risen continuously since 2009 from EUR 9.7bn to EUR 14.8bn. This is creating good preconditions for the investment campaign which the governing parties announced for the next ten years in their coalition agreement. In this context, Berlin is planning additional investments amounting to EUR 600m p.a. which can now be secured to a large part from the better-than-anticipated revenues of a good EUR 1bn for the 2016 budget year. As part of a supplementary budget, Berlin's Senate has now already decided on additional funds to promote housing construction and to expand and/or refurbish schools and childcare facilities. The refurbishment backlog that has built up in many areas can now be reduced without having to abandon the chosen course of budget consolidation. This is strengthening demand supplies and services by medium-sized companies and crafts in Berlin.

An active industrial policy, the expansion of the digital infrastructure, refurbishment of schools and sustainability are the central priorities of the 'investment package for Berlin' launched by the new federal state government.

With its business support programmes for both public and private companies in Berlin, IBB is pleased to be a partner to this investment package. We welcome the decision expressed in the Coalition Agreement to enable the Bank to continue to build up reasonable capital in order to secure its performance even in times of growing regulatory requirements.

With financing commitments of more than EUR 1,727m, IBB was able to increase the volume of new business in 2016 by a good 40% against the previous year (EUR 1,217m). These financing commitments were almost equally spread over the following business sectors: promotion and support business accounted for EUR 837m, i.e. 48%, housing and urban development accounted for EUR 890m, i.e. 52%.



In the latter sector, the rise in purely new business (without refinancing) rose, in fact, by a good 20 %, from EUR 650m to EUR 793 m. Support for new buildings increased significantly and more than doubled, up from EUR 119m in 2015 to EUR 276 m. Following a slow start, we were able to support more than 2,300 fixed-price apartments, more than twice the figure for the previous year. In light of considerable demand for affordable housing, the Federal State of Berlin aims to provide funding to support up to 5,000 apartments in coming years in order to achieve an effective easing of the housing market.

The result recorded for business development was much higher than the previous year, i.e. EUR 837m compared to EUR 289 m, however, this was marked by enormous investment financing for BER Airport amounting to EUR 571 m. Financing of large public investment and infrastructure projects, such as remunicipalisation of Berliner Wasserbetriebe (Berlin's Waterworks) in 2013/2014, is part and parcel of our work as a public business development bank. We are pleased to contribute to financing as part of the investment programme for the public infrastructure and in the financing solutions envisaged to accelerate the reduction of the backlog in investments.

Thanks to IBB's financing commitments in the year under review, a total of almost EUR 3 bn in economically relevant investments was triggered, a large part of which was intended for capital goods and the construction and redevelopment of residential and commercial properties. The direct job effects at the companies supported totals 9,700 jobs, 2,600 of which are new jobs. Based on this, our economists, taking secondary effects into account, have calculated a EUR 6 bn increase in gross domestic product and EUR 600 m rise in public revenues for Berlin over the next three years.

IBB's economic result in 2016 totalled EUR 53m and was hence significantly lower than the previous year's figure of EUR 110 that had been marked by once-off effects in 2015. In order to generate the so-called 'Berlin-Beitrag' in the following years, we have created a Berlin Support Fund for the first time with a volume of EUR 45m. In the year under review, we also continued to strengthen our provident funds according to section 34 of the German Commercial Code [§ 34 of HGB]. The good result recorded by the bank in the year under review is due, on the one hand, to income amounting to EUR 213 m (+ 5.5 %) which was marked by the sound operative contribution from business development activities and by statutory changes in the measurement of pension reserves, and on the other, by administrative expenditure which, at EUR 80 m, was even 1.6% below the previous year's figure. After generating the so-called 'Berlin-Beitrag' to finance support activities, IBB recorded net income of EUR 24 m (previous year: EUR 26 m without special effects) that exceeded our expectations.

Based on these good results, the stable economic situation and the groundwork laid for the next four years in the Coalition Agreement, which also includes an investment campaign by the Federal State of Berlin, we are optimistic in our expectations for Berlin and IBB in 2017. Although foreign trade risks have risen somewhat and much is currently being questioned or changed in the global economy, we are confident that economic development will continue to be positive in Berlin. The biggest growth driver here is construction, where many companies are already working at capacity levels, as well as company-near services and the digital economy. What's more, the investment package launched by the Federal State of Berlin for the next ten years will strengthen Berlin's economy in 2017 and give a lasting boost to the domestic economy.

Dr. Jürgen Allerkamp
Chairman of the Board

Sonja Kardorf
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 and audit committee, the nomination committee and the remuneration control committee. The committees prepared the topics and resolutions to be addressed by the Administrative Board and exercised the committee expertise assigned to them according to the business rules. In the year under review, the Administrative Board as well as the risk and audit committees met for four ordinary meetings. The nomination and remuneration control committees met for three and four meetings, respectively.

In conjunction with her departure as Senator for Business, Technology and Research, Chairwoman of the Administrative Board, Cornelia Yzer, resigned her seat on the Board as of 8 December 2016. Dr. Dietrich Rümker (Chairman, risk and audit committee) and Sven Hoffmann are no longer members of the board with effect as of 31 December 2016. The personnel committee of IBB appointed Tom Schuster as a new member with effect as of 1 January 2017. In conjunction with the Senate of Berlin's new appointment of Senator Ramona Pop (Chairwoman), Senator Katrin Lompscher (Deputy Chairwoman) and Senator Dr. Matthias Kollatz-Ahnen to the Administrative Board, State Secretary Dr. Margaretha Sudhof and Senator Andreas Geisel resigned their posts on the Administrative Board.

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 discussed this with the Administrative Board. Furthermore, the reports on the activities of the internal audit and compliance departments 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 environment 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 also focused on the Federal Financial Supervisory Authority's classification of IBB in August 2016 as a potentially system-threatening bank as contemplated in the Act on the Recovery and Resolution of Financial Institutions. IBB has lodged a complaint against this classification. The Federal Financial Supervisory Authority then suspended the immediate execution of the notice in December 2016.

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 two issues. One member did not participate in the passing of the resolution.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft performed the mandatory audit of the annual accounts for the 2016 financial year and issued an unqualified audit opinion.

Following the explanation by the auditor, the Administrative Board and its risk and audit committee acknowledged the result of the audit during its meeting on 24 March 2017. 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 2016 financial year and approved the Consolidated Annual Accounts.

Following the deduction of a 'Berlin-Beitrag' of EUR 28.7m to support the development and promotion policy of the Federal State of Berlin, IBB recorded net income for the year amounting to EUR 23.8m. Pursuant to section 13 (2) number 1 of the IBB Law in conjunction with section 16 (2) number 1 of the memorandum and articles of association of IBB, 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 for the year, in as far as it results from the adjustment of the appropriations for VC funds (EUR 12.5m), and allocate this amount to IBB's special-purpose reserve. A reinvestment amount of EUR 8.5m is planned for the remaining sum of EUR 11.3m. The remaining amount of EUR 2.8m is to be distributed to the Federal State of Berlin.

The Administrative Board would like to thank the Board of Management and all the staff of IBB for their successful work and commitment in the 2016 financial year.

Berlin, 24 March 2017

Business development in 2016 in figures

Programme	Pledged financing			
	Number	Volume (in million euro)		
As of 31 December 2016		D, B, B	Grants	Total
Berlin Start	79	9.0	–	9.0
Berlin Loan	6	3.7	–	3.7
Berlin Capital	3	1.6	–	1.6
Berlin Infra	1	3.0	–	3.0
Berlin Innovation Loan	6	2.1	–	2.1
Berlin Innovation	3	2.9	–	2.9
Common task (GRW)	180	–	51.1	51.1
SME fund	7	2.6	–	2.6
SME fund - micro-loans up to EUR 25,000	121	2.5	–	2.5
IBB growth programme	17	136.9	–	136.9
Pro FIT	108	23.1	15.1	38.2
Innovation Assistant	183	–	3.7	3.7
Intermediate financing of film productions	24	4.8	–	4.8
Internationalisation programme	224	–	4.3	4.3
Liquidity assistance	0	0.0	0.0	0.0
Sub-total support programmes	962	192.0	74.2	266.2
Special financing	2	570.9	–	570.9
IBB total (with special financing)	964	762.9	74.2	837.1
IBB Beteiligungsgesellschaft mbH	43	15.1	–	15.1
Total without special financing	1,005	207.1	74.2	281.3
Total with special financing	1,007	778.0	74.2	852.2
Cluster share in support programmes	647	134.5	56.9	191.4
Cluster share in percent	67.3	70.1	76.6	71.9
Start-up share in support programmes	381	26.5	14.8	41.3
Start-up share in percent	39.6	13.8	19.9	15.5

(Erläuterung: D, B, B = Darlehen, Beteiligungen, Bürgschaften)

Housing development *in 2016 in figures*

Year under review	Pledged financing in million euro	
	2015	2016
Rehabilitation and refurbishment		
IBB energy-related refurbishment	76.5	69.1
IBB homes for the elderly	6.0	6.0
IBB housing modernisation	4.1	5.3
KfW energy-efficient rehabilitation	8.5	0.4
KfW remodelling for the elderly	-	-
Sub-total – rehabilitation and refurbishment	95.2	80.8
New buildings		
IBB new family home loan	0.2	0.3
KfW energy-efficient building	11.2	51.2
KfW home ownership programme	1.5	1.7
Co-operative new building competition	1.3	-
IBB new housing construction fund	52.5	47.0
IBB new housing construction	52.9	176.2
Sub-total – new buildings	119.4	276.4
Others		
Syndicated business	154.5	157.2
Global loans	-	65.0
Berlin Infra	73.9	41.0
Refurbishment loans	14.8	6.3
Loans in addition to government support	179.5	154.5
Grant programmes	12.4	12.2
Sub-total - others	280.6	436.2
Total new business (including grants)	649.7	793.4
Refinancing	260.8	96.4
Total (without special financing)	910.5	889.8
Special financing	17.9	-
Total (with special financing)	928.4	889.8

Management Report (extracts)

Basics

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. 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) of the Capital Requirements Regulation (previously "Solvo status") and the best possible Fitch rating of "triple A". 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.

Business model and business strategy

IBB's paramount company 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, and climate protection measures
- Use of revolving financial instruments, loans, mezzanine financing, investments, guarantees and grants as well as consultancy services
- Performance of other tasks as a service provider of the Federal State of Berlin
- Efficient and cost-conscious management of the loan portfolio, especially from the housing and real estate development programmes by Berlin/IBB
- Generation of revenue by assuming loan risks, steering liquidity, matching maturities and through its own investments in order to support the promotional tasks which are co-ordinated and accounted for with the Federal State of Berlin once a year as part of support funds and grants for Berlin ('Berlin-Beitrag')
- Permanent adherence to all regulatory requirements

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 banking book, including 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 companies 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. The task of the banking book business unit, including 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 banking book unit, including Treasury, also has a sufficient liquidity portfolio to maintain the bank's liquidity and to manage adherence to the regulatory indicators in a profit-orientated manner. The third part describes the functional strategies for the bank's organisation, personnel management and corporate communications.

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.

Company structure

IBB's bodies are the Board of Management and the Administrative Board as well as the Advisory Board. IBB's four 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.

The bank's steering systems

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 value as the equity shown in the balance sheet with all of its components plus its provident funds.

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

- ↳ new business volume
- ↳ the economic result
- ↳ cost-to-income ratio of support and promotional measures
- ↳ total capital ratio.

In line with its public support mission, new business volume in housing and urban development and the business development segment is an important parameter. In order to steer future strategic growth in support 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 at the request 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.

There are target values for all parameters which, as part of overall bank management, undergo regular target/actual comparisons, as well as scenario and forecast calculations in order to determine suitable steering measures.

Besides financial performance indicators, IBB defines the qualitative development of its staff as a **non-financial performance indicator**. The success of the bank largely depends on the performance of all of its staff. The bank supports its staff through a diverse range of personnel development measures.

New developments, such as increasingly complex regulatory requirements for banks and demographic change, also require a high degree of personnel flexibility. As part of its annual professional development programme, the bank therefore invests in the continuous professional development of its employees in order to qualify them for future challenges.

Just like in the past, systematically designed professional development measures were offered in order to qualify the bank's staff. Besides bank-specific and methodological aspects, the programmes also served to boost personal and social competence. IBB's employees attended qualification programmes both by external coaches as well as internally developed special programmes. Subjects with legal relevance were covered, for instance, in special computer-based training programmes (CBT programmes). Each employee invested an average of around 3.7 days in (seminar-based) further qualification.

Due to various organisational changes during the year under review, additional measures focused on supporting organisation and team development efforts.

Sustainability report

For IBB, as the business development and promotional bank of the Federal State of Berlin, sustainability is an implicit part of its business model. The related goals and challenges that form the basis for our sustainable work have been laid down in a dedicated sustainability report that is regularly updated.

Economic review

Economic factors

In light of many uncertainties, global economic growth in 2016 was merely moderate. Besides the Brexit decision and Italy's failed constitutional referendum and bank crisis, concerns have also arisen recently regarding the new direction in US politics following the election of the new president. The effects of the difficult transformation process in China are also weighing down global economic developments. Although China's public investment in infrastructure increased to a double-digit level in early 2016, boosting the Chinese economy over the course of the year, weak exports and an overheated housing sector continued to cause problems. The US economy was able to continue reducing its imbalances in 2016 and has now returned to a course of stable growth. With quickly rising wages, this upswing is being increasingly felt by the general public. The election of the new president and the related hopes of a strong boost for the economy also strengthened the good mood at the end of the year.

Growth in the Eurozone in 2016 stabilised at a rate of 1.7% following two relatively good years. The European Central Bank's (ECB) extremely relaxed monetary policy played a key role here in the economic upswing. A departure from the expansive monetary policy is becoming increasingly difficult, especially since inflation is still a long way away from the target of just under 2% envisaged by the ECB. The high unemployment rates in most countries kept inflation low again in 2016. In this environment, the ECB merely performed gentle changes in direction. Although it extended its Asset Purchase Programme (APP) in December for another nine months until the end of 2017, it did also announce a future reduction in the volume of monthly purchases of EUR 20 bn to EUR 60bn per month. Other components included the elimination of the minimum returns required for purchases as well as the inclusion of very short-term bonds in the APP. Both measures will lessen demand pressure in the long-term range and hence helped to normalise the interest structure curve.

The economic upswing in Germany continued in 2016. According to first calculations by the German Statistical Office, the annual average for real gross domestic product (GDP) in 2016 was up 1.9% against the previous year. This marked the strongest growth in five years. This positive development in 2016 was due to consumption. The steep increase in government spending is, for instance, due to the high numbers of asylum seekers coming to Germany and the related costs.

Berlin's gross domestic product in 2016 is likely to have risen by 3.0%, once again recording above-average growth. Various different developments were behind this strong growth: Low interest rates, continued population growth, ongoing boom in tourism, steep increases in wages and pensions, as well as a high propensity to consume, have generated strong momentum for the economy. What's more, growth in foreign trade in 2016 also contributed to Berlin's dynamic economic development. The biggest growth generators, however, were the construction sector, where many companies are already working at capacity levels, and company-near services. In the digital economy, in particular, staff numbers increased significantly. People are being hired here as a precautionary measure because it is becoming increasingly more difficult to find qualified people for specific IT fields.

Although Berlin did record around 170,000 job-seekers, Berlin's labour market now has job opportunities for many people. This is indicated by the currently high demand for workers, even in areas with above-average wages. In 2016, Berlin's unemployment rate totalled 9.8% which was much lower than in the previous year and under the 10% mark for the first time since German Reunification. The number of people in jobs shows just how much Berlin's labour market has improved. All in all, 47,000 more people were employed in regular jobs than one year earlier. With this increase of 3.5%, Berlin is much higher than the average for Germany as a whole. Within three years, around 130,000 new jobs have been created in Berlin, especially in the different areas of the digital economy.

One field within the digital economy that experienced very rapid growth in 2016 is the technology-driven development of new solutions for financial and insurance services. As an important hub for start-ups, Berlin has also taken the lead in Germany in this sub-sector of the digital economy and continues to be visible on an international scale. This is documented by the many new fintech start-ups, the unabated influx of highly qualified people and the substantial inflow of venture capital. Berlin once again dominated Germany's start-up scene in 2016. Out of a total of EUR 1.9 bn in venture capital, EUR 1.0 bn went to start-ups in Berlin, i.e. more than half of the entire amount for Germany. At European level, Berlin ranked third in 2016, right behind London and Paris.

By contrast, sales in traditional industrial sectors were sluggish over the course of 2016. Despite that, exports of goods from Berlin were up significantly in 2016, primarily due to higher exports to the US, China and Egypt. The strong increase in Berlin's goods exports is mainly due to exports of engines and automotive parts. Engines also include, for instance, gas turbines. Exports to the US were another strong factor; that's because the US has been the most important export country for Berlin for some time now (share in all exports: 13%). These exports are primarily pharmaceutical products, motorcycles, as well as equipment to build electrical infrastructures. In 2016, the low euro helped to boost exports from Berlin.

The biggest growth driver in 2016 was, however, construction. Contrary to developments in industry, the order books of Berlin's construction companies were once again full to the brim in 2016. Order intake rose by close to 40%, marking the highest level of orders on hand in 16 years. Against the background of continued strong population growth in Berlin, almost half of these construction projects were for housing in the capital city. All in all, Berlin's construction industry recorded an increase in order intake in 2016 of around EUR 1.5bn for housing, commercial construction and public construction.

Course of business

The 2016 financial year was marked by the persistent phase of low interest rates. At the same time, high demand for business development financing reflected rising investment activities in Berlin's economy.

In the year under review, business development activities focused on medium-sized enterprises, start-ups and measures to promote housing. Compared to the previous year, the volume of new business rose by 42% to EUR 1,727.0 m (previous year: EUR 1,217.1 m).

Development of new business volume

for loans, guaranteed loans and grants in million EUR



In **housing and urban development**, IBB as a favourite partner for Berlin's housing and real-estate sector pledged financing of EUR 889.9m (previous year: EUR 928.4m). This figure is almost unchanged against the previous year. 88% of the ambitious target figure for new business was achieved.

It was possible to significantly expand support for new housing construction. Loans pledged totalled EUR 276.4 m (previous year: EUR 119.4 m). Demand was once again particularly strong for public construction loans in the field of support for social housing, amounting to EUR 47.0 m (previous year: EUR 52.5 m), and especially for supplementary financing amounting to EUR 176.2 m (previous year: EUR 52.9 m).

As part of the 'Berlin Infra' programme, IBB will accompany infrastructure investments by municipal companies. Contrary to expectations, the volume of new business declined from EUR 73.9 m to EUR 41.0 m. Thanks to stepped-up co-operation with commercial banks for syndicated loans (EUR 222.2 m; previous year EUR 154.6 m), it was possible to more than make up for this decline.

IBB is also supporting existing 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 250.9 m was pledged (previous year's figure: EUR 440.3 m).

In the **business development** segment, continued economic growth and high demand for business development financing led to much greater use of individual support programmes. All in all, the business development segment pledged financing for loans, guaranteed loans and grants totalling EUR 837.1m (previous year: EUR 288.8m).

The steep increase of EUR 570.9 m is related to the financing of the new Berlin-Brandenburg airport. EUR 300.9 m of this figure is related to the earlier-than-planned extension of the existing loan volume.

The IBB Growth Programme, in which loans are granted at favourable terms for typical investment projects by medium-sized enterprises, is the programme with the highest volume, i.e. EUR 136.9m pledged. Compared to the previous year (EUR 125.0m), the volume of new business for larger investments and company expansions, refinancing, follow-up financing and base financing was increased once again.

Technology support under the *Pro FIT* programme also accounts for an important share in the annual result. In the year under review, loans and grants were approved amounting to EUR 38.2 m (previous year: EUR 41.9 m) in order to support research, development and innovation in the following clusters: ICT/media/creative industry, health sector, transport, mobility and logistics, as well as energy and optical technology.

With approvals totalling EUR 51.1m, the 'Common task to improve regional economic structure' programme fell short of the previous year's figure (EUR 61.7m). That being said, however, many companies in Berlin once again made use of these attractive grants for commercial investments, so that an important contribution was made towards creating and protecting permanent jobs.

The situation of the bank

Income position

The bank can once again look back over a solid financial year.

Thanks to special effects, the higher than expected **economic result** of EUR 52.5 m (previous year: EUR 110.1m) made it possible to introduce measures to strengthen regulatory equity and to create for the first time a Berlin Support Fund (EUR 45.0m) to provide sustainable support for loss-making development and support activities by IBB.

IBB's income position is highlighted in the following financial statement. Like in the previous year, certain amounts carried in the profit and loss account according to German commercial law are re-classified and/or supplemented from an accounting point of view in the financial statement presented below.

- This applies to **valuation effects** resulting from the amortisation of markups with high-interest securities amounting to EUR 18.5m (previous year: EUR 22.0m). For economic reasons, these items were transferred from net interest to the valuation result.
- Furthermore, this also concerns expenditure by IBB, provided to the Federal State of Berlin as the so-called '**Berlin-Beitrag**'.

In conjunction with this, EUR 12.0 m (previous year: EUR 14.3 m) from the income statement under 'Other operating expenses' and EUR 2.1 m (previous year: EUR 2.9m) from risk provisioning are carried as 'Berlin-Beitrag'. Furthermore, services performed by IBB free of charge (EUR 14.6 m, previous year: EUR 14.4 m) are shown in the financial statement exclusively as imputed items. These items are carried as operating income and additionally as support funds and grants for the Federal State of Berlin (Berlin-Beitrag).

in million EUR	2016	2015	Change	
			Absolute	in %
Net interest income	123.3	129.8	-6.5	-5.0
Net commission income	3.1	4.6	-1.6	-34.0
Net other operating income/expenses	86.2	67.1	19.1	28.4
Total income	212.6	201.6	11.0	5.5
Total administrative expenses	-80.0	-81.3	1.3	1.6
Operating result before risk provisioning/valuations	132.5	120.2	12.3	10.2
Risk provisioning/valuations	-35.0	-10.2	-24.8	-244.5
Allocation to the Berlin Support Fund	-45.0	0.0	-45.0	-
Economic result	52.5	110.1	-12.5	-52.3
Support funds and grants for the Federal Land of Berlin (Berlin-Beitrag)	-28.7	-31.6	2.9	9.1
Net income for the year	23.8	78.5	-54.7	-69.6

Operating revenues

Net interest income totals EUR 123.3 m and is moderately below the previous year's figure (EUR 129.8 m). Thanks to refinancing terms which were more advantageous in the short term, the downward trend was once again less pronounced than had been originally expected in view of continued low interest rate levels. Net interest income hence remained IBB's most important source of revenue.

Net fee and commission income (EUR 3.1 m, previous year: EUR 4.6 m) is determined to a large extent by fees for processing guarantees and subsidies in housing and real-estate development. The fact that the previous year's figures will not be reached is due to the expected phasing out of support measures in 2016.

In the year under review, **other operating income** was once again affected by special effects. Following directive-compliant use, ERDF liabilities that were already recognised as liabilities amounting to EUR 70m could now be included as a grant in the profit and loss account. Another EUR 12.5m results from non-repayable grants for VC funds which IBB received in 2016 and which has been fully reinvested in the special-purpose reserve in order to strengthen the equity basis.

The result is therefore much higher than both the previous year's figure and the budgeted values.

Administrative expenditure

Administrative expenditure, which includes personnel and material expenditure as well as depreciation on fixed assets, was far lower than expected, declining by 2% against the previous year to EUR -80.0m (previous year: EUR -81.3m).

Personnel expenditure (EUR –50.4m, previous year: EUR –48.1m) generally developed as expected.

A continued, high degree of cost discipline, along with a lower regulatory levy reduced material expenditure by EUR 2.5 m to EUR –25.4 m (previous year: EUR –27.9 m). Material expenditure also remains below the operative budget values.

Together with the special effects in other operating income, the **financing cost-to-income ratio** totals 37.7%. Without special effects, this value totals 59.7% (previous year: 54.6%) and is therefore significantly lower than budgeted. In the previous year, a significant increase in the financing cost-to-income ratio had been forecast as a result of declining revenues and the continued phase of low interest rates.

Risk provisioning/valuations

A positive change in the credit rating of debtors and the repeated absence of significant loan defaults meant it was possible to reduce expenditure on risk provisioning. The valuation result is as planned, totalling EUR –10.0 m (previous year: EUR –10.1 m), and includes the formation of general provident funds amounting to EUR 18.1 m (previous year: EUR 29.2 m). Furthermore, another EUR 25.0 m from the derecognition of the ERDF liabilities was used to strengthen the general provident funds so that EUR 43.1 m was allocated to the provident fund according to section 340 f of the German Commercial Code [§340f HGB]. IBB was therefore once again able to use its good operating result to strengthen its risk-bearing capacity in line with the bank's strategy.

Berlin Support Fund

In the year under review, a Berlin Support Fund worth EUR 45.0 m was set up for the first time to support loss-making development and support activities by IBB within the scope of the 'Berlin-Beitrag' to be performed in the future. The provisioning for this fund is thus reflected by the appropriation to the fund for general banking risks (section 340g of the German Commercial Code [§340g HGB]).

Economic result

The expectations for the operative results in the individual segments were met:

million EUR	IBB total		Housing and urban development		Business development		Banking book		Corporate Center	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	123.3	129.8	63.6	63.1	9.0	9.6	40.4	58.2	10.3	–1.0
Net commission income	3.1	4.6	2.8	4.4	0.6	0.7	–0.4	–0.4	0.0	0.0
Net other operating income/expenses	86.2	67.1	–12.2	–18.1	15.8	29.8	0.0	0.0	82.6	55.4
Total income	212.6	201.6	54.2	49.4	25.5	40.1	40.0	57.7	92.9	54.4
Total administrative expenses	–80.0	–81.3	–35.5	–34.2	–21.9	–20.9	–5.8	–6.1	–16.9	–20.1
Operating result before risk provisioning/valuations	132.5	120.2	18.7	15.1	3.6	19.2	34.3	51.6	75.9	34.3
Risk provisioning/valuations	–35.0	–10.2	5.4	23.6	2.2	–5.3	0.4	0.7	–43.1	–29.2
Allocation to the Berlin Support Fund	–45.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–45.0	0.0
Economic result	52.5	110.1	24.1	38.7	5.8	13.9	34.7	52.3	–12.1	5.0
Support funds and grants for the Federal Land of Berlin (Berlin-Beitrag)	–28.7	–31.6	–1.8	–1.2	–24.1	–26.6	0.0	0.0	–2.9	–3.8
Net income for the year	23.8	78.5	22.4	37.6	–18.3	–12.7	34.7	52.3	–15.0	1.3

The **housing and urban development** segment generated net interest income of EUR 63.6 m (previous year: EUR 63.1 m) and thus accounted for a large part of the bank's total net interest income. Due to significant reversals in risk provisioning in recent years, the economic result of EUR 24.0 m is below that of the previous year.

The **business development** segment closed the financial year once again with a positive economic result amounting to EUR 6.0 m even though this is still far below the previous year's figure (EUR 13.9 m). This is largely due to lower other net operating income; in the previous year, once-off higher administrative expenditure was refunded here for invoicing reasons. By contrast, the budgeted figures were clearly surpassed due to reversals in risk provisioning.

In the **banking book** segment, which includes both bank management and treasury, the economic result totalled EUR 34.7 m and is thus below the previous year's figure (EUR 52.3 m). The figures forecast for 2016 were not reached either. This downward trend is primarily due to net interest income and related prepayment penalties. Compared to the previous year, there were far fewer premature reversals.

The **Corporate Center** segment is down against the previous year totalling EUR -12.1 m (previous year: EUR 5 m). Due to the previously mentioned reversal of ERDF liabilities that were already recognised as liabilities (around EUR 70.0 m) and additionally received ERDF grants (EUR 12.5 m), other operating net income (EUR 82.6 m) exceeds both the budget and the previous year's figure. In contrast to this, general provident funds have been increased to EUR 43.1 m in order to further strengthen the bank's risk-bearing capacity (previous year: EUR 29.2 m) and the Berlin Support Fund was set up for the first time (EUR 45.0 m).

Net income for the year

Following the deduction of a 'Berlin-Beitrag' of EUR 28.7 m to support the development and promotion policy of the Federal State of Berlin, IBB recorded net income for the year amounting to EUR 23.8 m (previous year: EUR 78.5 m).

It is planned to fully reinvest the net income for the year, in as far as it results from the adjustment of the appropriations for VC funds (EUR 12.5 m) and to allocate this amount to IBB's special-purpose reserve. A reinvestment share of 75 % (EUR 8.5 m) is planned for the remaining sum of EUR 11.3 m and/or a distribution of 25 % (EUR 2.8 m).

The return on investment, the ratio between net income for the year and the balance sheet total, calculated as specified in Section 26 a (1), sentence 4, of the German Banking Act [§ 26a Abs. 1 Satz 4 KWG], totals 0.13 %.

Net worth

In the year under review, net worth fell as expected by EUR 1.2 bn to EUR 18.0 bn. This was largely due to the EUR 1.0 bn decline in loans to customers. This decline was mainly the result of scheduled and unscheduled repayments in support loan business. Support for housing and real estate was hardest hit, declining by EUR 0.4 bn. Business development volume declined by EUR 0.1 bn. Note loans markets were additionally reduced by EUR 0.1 bn and outstanding items were reduced by EUR 0.4 bn.

The EUR 0.2 bn decline in receivables from business development handled via customers' banks led to an overall decline in loans and advances to banks.

Bonds and other fixed-income securities remained almost unchanged, totalling EUR 4.2 bn.

Investments/shares in affiliated companies rose due to capital increases in VC fund business by EUR 25.0 m to EUR 133.4 m.

The business volume, which also includes contingent liabilities from guarantees and warranty obligations as well as irrevocable loan commitments, declined by EUR 0.7 bn to EUR 18.9 bn.

in Mio. Euro	31.12.2016	31.12.2015	Change	
			Absolute	in %
Loans and advances to banks	1,964.8	2,108.8	- 144.0	-6.8
Loans and advances to customers	11,400.8	12,417.4	-1,016.5	-8.2
Bonds and other fixed-income securities	4,199.2	4,243.0	-43.8	-1.0
Stocks and other variable-income securities	3.7	3.3	0.4	12.3
Shareholdings/shares in affiliated companies	133.4	108.4	25.0	23.1
Other assets	277.8	252.4	25.4	10.0
Total assets	17,979.6	19,133.3	-1,153.6	-6.0
Contingent liabilities	137.4	110.3	27.1	24.5
Irrevocable loan commitments	809.1	428.5	380.6	88.8
Business volume	18,926.1	19,672.1	-746.0	-3.8

As per the end of the year, swaps and derivatives have a nominal volume of EUR 15.3 bn (previous year: EUR 15.5 bn).

Financial position, capital structure and liquidity

The structure of the refinancing side changed slightly against the previous year. Liabilities to banks total EUR 4.0 bn (previous year: EUR 3.9 bn), corresponding to a share of 22 % (previous year: 20 %). With a lower volume of EUR 6.1bn (previous year: EUR 6.4 bn), the share of securitised liabilities remained constant at 34 %.

Refinancing funds received from customers, which primarily include funds made available by the Federal State of Berlin for housing support programmes, declined to EUR 6.4 bn or to 36 %, respectively (previous year: EUR 7.4 bn or 39 % respectively).

IBB's special-purpose reserve was increased by the reinvestment of the 2015 balance-sheet profit amounting to EUR 72.0 m.

IBB's equity according to the balance sheet increased in the financial year to EUR 748.0 m. This change is due to current net income of EUR 23.8 m for the year which is recorded in equity as a balance-sheet profit, as well as to the distribution of part of the balance-sheet profit amounting to EUR 6.5 m for the year 2015 to the Federal State of Berlin. Subscribed capital remained unchanged at EUR 300 m. The Federal State of Berlin is the sole shareholder of IBB.

Statement on changes in equity (German Commercial Code) in million EUR	Equity	Special- purpose reserves	Balance sheet profit	Total
As per 31 December 2015	300.0	352.2	78.5	730.7
Transfer to the Federal Land of Berlin			- 6.5	- 6.5
Reinvestment in the special-purpose reserve		72.0	- 72.0	0.0
Net income for 2016			23.8	23.8
As per 31 December 2016	300.0	424.2	23.8	748.0

As per the balance-sheet date, the bank recorded own funds or risk item amounts according to CRR as follows:

in million EUR/in %	2016	2015
Total risk (RWA)	5,032.7	4,851.8
Own funds	957.3	890.8
Equity capital ratio	19.0 %	18.4 %
Core capital ratio	18.3 %	17.5 %

Despite the increase in weighted risk assets, the increase in the special purpose reserve led to a higher total capital ratio in 2016. This reflects the bank's sound capital which is appropriate for the bank's promotional and development activities.

Liquidity was generated in the year under review by activities on the money market and by issuing capital market instruments worth EUR 1.3 bn.

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 in 2016 at a reasonable price and with the required maturity.

An ECB-enabled asset portfolio ensured liquidity at all times. Strict secondary conditions of liquidity steering are compliance with regulatory indicators and the minimum reserve.

The principles of reasonable capital adequacy and liquidity pursuant to the CRR and the German Banking Law (KWG) were fulfilled at all times. No relevant liquidity risks were quantified.

Course of business and the situation of the bank in summary

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

Events after the balance-sheet date

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

Report on forecasts, opportunities and risks

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 2016 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 CCR totalled between 19.0% and 19.6% and was hence far higher than the required level.

Utilisation of the risk limit ranged between 40.2% and 65.3% in the year under review. These changes were primarily due to the major changes in the risk management system presented in the section entitled 'Value-orientated risk-bearing capacity'.

Balance Sheet

as per 31 December 2016

ASSETS (EUR thousand)		31.12.2016	31.12.2015
1. Cash		26,733	15,389
a) Cash on hand	0		4
b) Balances with central banks	26,733		15,385
of which: with Deutsche Bundesbank:	26,733		15,385
2. Loans and advances to banks		1,964,778	2,108,781
a) Payable on demand	271,041		243,150
b) Other loans and advances	1,693,737		1,865,631
3. Loans and advances to customers		11,400,826	12,417,361
of which:			
Secured by liens:		5,856,243	6,390,835
Public-sector loans:		4,077,483	4,494,763
4. Bonds and other fixed-income securities		4,199,194	4,243,037
a) Money market paper			
ab) from other issuers	0		0
Including: eligible as collateral at Deutsche Bundesbank:	0		0
b) Bonds and notes			
ba) Issued by public institutions	1,051,309		1,099,103
of which: eligible as collateral at Deutsche Bundesbank:	1,051,309		1,099,103
bb) from other issuers	3,141,682		3,143,934
of which: eligible as collateral at Deutsche Bundesbank:	3,066,620		3,062,828
c) Own bonds	6,203		0
Nominal amount	6,000		0
5. Stocks and other variable-income securities		3,663	3,263
6. Investments		452	452
7. Shares in affiliated companies		132,960	107,957
8. Trust assets		208,368	190,556
of which: Trust loans	208,368		190,556
9. Intangible assets		810	1,346
b) Acquired concessions, industrial property rights and similar rights and values as well as licenses thereto	810		1,346
10. Tangible assets		24,647	26,156
11. Other assets		2,053	1,523
12. Prepaid expenses		15,162	17,453
Total assets		17,979,646	19,133,274

LIABILITIES (EUR thousand)		31.12.2016	31.12.2015
1. Liabilities to banks		3,998,849	3,896,329
a) Payable on demand	154,631		56,895
b) With an agreed term or notice period	3,844,218		3,839,434
2. Liabilities to customers		6,401,161	7,379,117
b) Other liabilities			
ba) Payable on demand	841,554		873,407
bb) With an agreed term or notice period	5,559,607		6,505,710
3. Securitised liabilities		6,084,722	6,442,070
a) Bonds issued	6,084,722		6,442,070
4. Trust liabilities		208,368	190,556
of which: Trust loans	208,368		190,556
5. Other liabilities		8,020	5,429
6. Prepaid expenses		97,604	106,811
7. Provisions		183,566	177,964
a) Provisions for pensions and similar obligations	112,666		111,680
c) Other provisions	70,901		66,284
8. Funds for general banking risks		249,311	204,311
9. Equity		748,045	730,687
a) Called-in capital			
Subscribed capital	300,000		300,000
c) Retained earnings			
cd) Other revenue reserves (special-purpose reserve)	424,216		352,180
d) Net retained profit	23,829		78,508
Total liabilities and shareholders' equity		17,979,646	19,133,274
Off-balance sheet items			
1. Contingent liabilities		137,369	110,294
b) Liabilities in relation to guarantees and warranties		137,369	110,294
2. Other obligations		809,080	428,529
c) Irrevocable loan commitments		809,080	428,529

Profit and Loss Account

from 1 January 2016 to 31 December 2016

in EUR thousand		Previous year
1. Interest income from		
a) Lending and money market transactions	267,351	323,737
of which: expenditure from negative interest	758	100
b) Fixed-income securities and book entry securities	69,593	83,291
	336,944	407,028
2. Interest expenses	195,169	266,210
of which: income from negative interest	7,750	2,054
	195,169	266,210
	141,775	140,818
3. Current revenue from		
a) Stocks and other variable-income securities	0	11,000
b) Investments	2	2
c) Shares in affiliated companies	0	0
	2	11,002
4. Fee and commission income	3,829	5,420
5. Fee and commission expenses	777	791
	3,052	4,628
6. Other operating income		89,293
7. General administrative expenses		
a) Personnel expenses		
aa) Wages and salaries	41,037	39,848
ab) Social security contributions and expenses for pensions and other benefits	9,398	9,248
of which: for pensions	2,560	2,398
	50,435	49,096
b) Other administrative expenses	25,408	27,937
	75,843	77,033
8. Amortisation and write-downs on intangible assets and tangible assets		4,204
9. Other operating expenses		29,642

in EUR thousand		Prevoius year
10. Amortisation and write-downs on receivable and certain securities as well as additions to reserves in loan business	101,260	35,735
of which: allocaiton to the fund for general banking risks	45,000	0
	101,260	35,735
11. Revenues from additions to investments, shares in affiliated companies and securities treated as fixed assets	717	618
	717	618
12. Results from ordinary activities		23,890
13. Taxes on income and revenue	66	38
14. Other taxes not reported under item 11	-5	17
	61	55
15. Net income for the year		23,829
16. Profit/loss brought forward from the previous year		0
Net retained profit		23,829
		78,508

Notes to the Financial Statements for the 2016 Financial Year (extracts)

General notes

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

Public-sector responsibility and refinancing guarantee

The Federal State of Berlin bears the 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 section 3 (2) of the memorandum and articles of association of IBB, 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 2016 were prepared in line with the German Commercial Code [HGB] and in adherence to the Ordinance Regulating Reporting by Banks (RechKredV). The generally accepted accounting standards were observed.

The format of the balance sheet and of the profit and loss account is in line with the forms of the Ordinance Regulating Reporting by Banks. Form 3 (vertical form) has been chosen for the profit and loss account beginning fiscal 2016.

Accounting and measurement methods

Assets, liabilities and pending transactions were valued in accordance with the regulations of articles 252 et seq. of the German Commercial Code in conjunction with sections 340 et seq. of the German Commercial Code [§§ 252 ff. HGB in Verbindung mit §§ 340 ff. 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 interest result. Incoming and outgoing close-out payments have been 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.

In accordance with IAS 39, 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 there are objective indications of a reduction in value. In a second step, a check is then performed to determine whether the value of the receivable has in fact declined. The amount of the individual value adjustment is 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 in accordance with IAS 39, 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 section 252 (1) No. 3 of the German Commercial Code [§ 252 Abs. 1 Nr. 1 HGB], the option permitted under section 340e (1) sentence 3 in conjunction with section 253 (3) sentence 4 of the German Commercial Code [§ 340e Abs. 1 Satz 3 i.V.m. § 253 Abs. 3 Satz 4 HGB] (valuation according to the diluted lower of cost or market principle) was exercised throughout for securities 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 securities of the liquidity reserve are valued at the strict lower of cost or market principle.

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

Evaluation units pursuant to section 254 of the German Commercial Code [§ 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 measurement as per 31 December 2016. 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 2005 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 evaluation was based on an assumed interest rate of 4.01%. 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 was 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.

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