DEVELOPING VALUES
ANNUAL REPORT 2016

VIB Vermögen AG

KEY GROUP INDICATORS

IN EUR THOUSAND	**01/01–31/12/2016**	01/01–31/12/2015	Change in %
Income statement			
Revenue	79,549	75,133	+5.9
Total operating revenue	79,899	75,633	+5.6
Changes in value for investment properties	18,018	16,410	+9.8
EBIT (earnings before interest and tax)	79,119	73,438	+7.7
EBIT excluding valuation effects	61,101	57,028	+7.1
EBT (earnings before tax)	58,820	52,788	+11.4
EBT excluding valuation effects and extraordinary items	40,802	36,510	+11.8
Consolidated net income	49,403	44,047	+12.2
Earnings per share [1] (undiluted/diluted, in EUR)	1.71	1.46	+17.1
Balance sheet	**31/12/2016**	31/12/2015	
Total assets	1,116,768	1,009,352	+10.6
Equity	443,527	406,754	+9.0
Equity ratio (in %)	39.7	40.3	–0.6 pt.
Net debt	574,917	517,393	+11.1
LTV (loan-to-value ratio, in %)	53.6	53.1	+0.5 pt.
Gearing (in %)	151.8	148.1	+3.7 pt.
NAV (net asset value), undiluted	470,117	412,765	+13.9
NAV per share [2] (net asset value, undiluted, in EUR)	17.05	15.69	+8.7
NAV, diluted	470,117	431,160	+9.0
NAV per share [3] (diluted, in EUR)	17.05	15.63	+9.1
Other key financials	**01/01–31/12/2016**	01/01–31/12/2015	
FFO (funds from operations)	35,767	32,599	+9.7
FFO per share [1] (in EUR)	1.30	1.18	+10.2
	31/12/2016	31/12/2015	
Share price (Xetra closing price, in EUR)	19.67	17.10	+15.0
Number of shares [2] (reporting date: 31/12)	27,579,779	26,308,405	+4.8
Market capitalisation	542,494	449,874	+20.6
Average number of shares during the fiscal year [1]	27,579,779	27,579,812	0
ICR (interest coverage ratio: interest expense/net basic rents, in %)	30.0	31.7	–1.7 pt.
Average borrowing rate (in %)	3.11	3.67	–0.56 pt.
Annualised net basic rent	70,841	68,027	+4.1
Vacancy Rate (in %)	1.3	1.8	–0.5 pt.
EPRA performance indicators	**01/01–31/12/2016**	01/01–31/12/2015	
EPRA Earnings	32,587	29,056	+12.2
EPRA Earnings per share (in EUR)	1.18	1.05	+12.4
	31/12/2016	31/12/2015	
EPRA NAV	470,117	431,160	+9.0
EPRA NAV per share (in EUR)	17.05	15.63	+9.1
EPRA Vacancy Rate (in %)	1.3	1.8	–0.5 pt.

[1] Average number of shares during the fiscal year
[2] Shares in issue as of the reporting date
[3] Number of shares as of the reporting date including potential shares from mandatory convertible bonds

PROPERTY PORTFOLIO

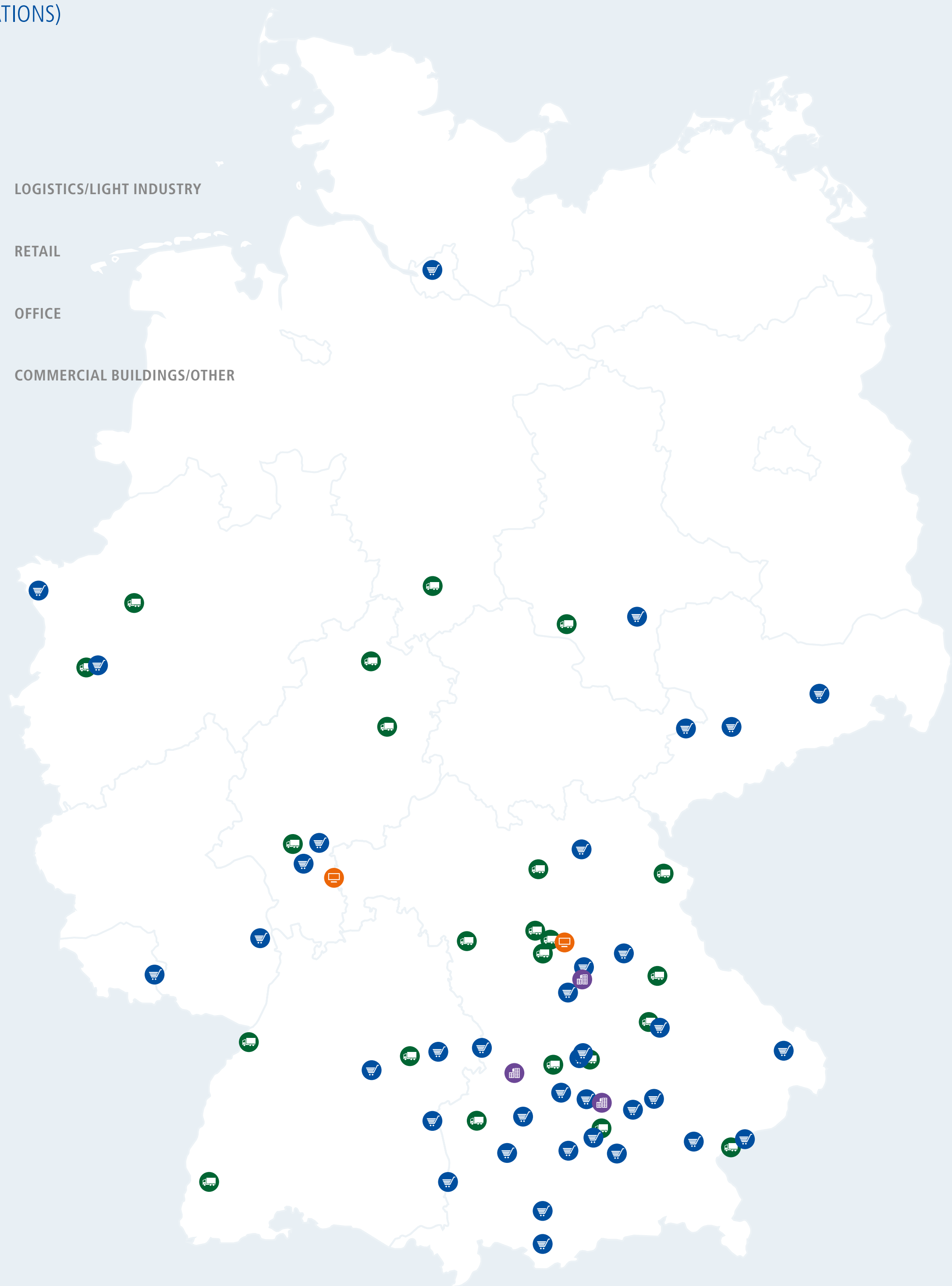
(LOCATIONS)

LOGISTICS/LIGHT INDUSTRY

RETAIL

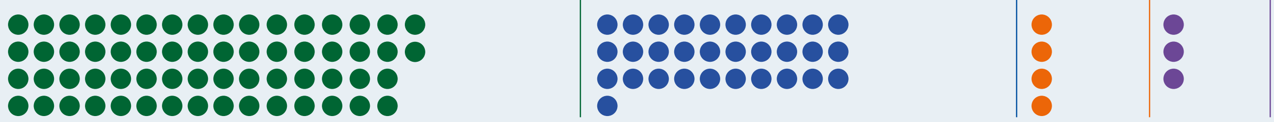
OFFICE

COMMERCIAL BUILDINGS/OTHER



NET RENTAL PROCEEDS BY SECTOR

LOGISTICS/LIGHT INDUSTRY	RETAIL	OFFICE	COMMERCIAL BUILDINGS/ OTHER
62%	31%	4%	3%



VIB AT A GLANCE

› **Property company with a strong net asset value** and an investment focus on the economically strong, high-growth region of southern Germany

› **Strategic flexibility** of the business model in terms of property acquisition, focus on tenants in particular sectors, and financing

› **Broadly diversified portfolio** comprising 104 properties with more than 1.0 million sqm of rentable floor space and a low vacancy rate (1.3%)

› **Sustainable growth and high profitability:** annual operating income growth of 8.0% since 2012 and adjusted EBT growth of 17.1%

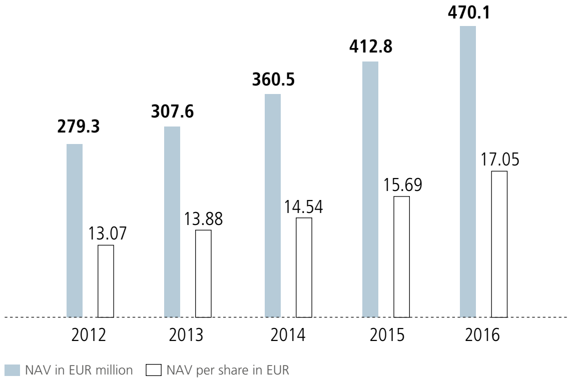
› **Long-term financing strategy:** annuity loans with a current average interest rate of 3.11%

› **Strong cash flow:** sustainable increases in FFO facilitate new investments and an attractive dividend policy

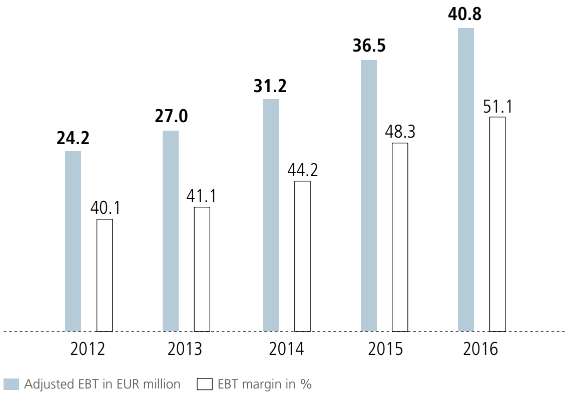
› **Experienced management team** with a strong network and successful track record of more than 20 years

FIVE-YEAR GROWTH COMPARISON

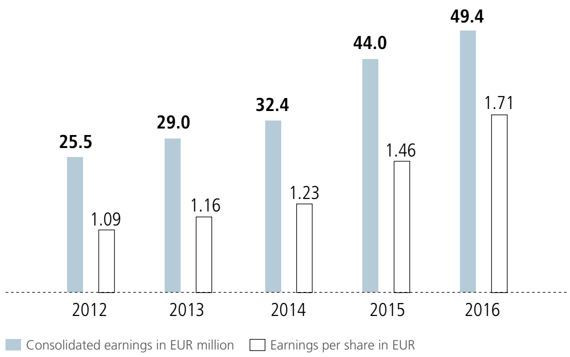
NAV (NET ASSET VALUE) AND NAV PER SHARE



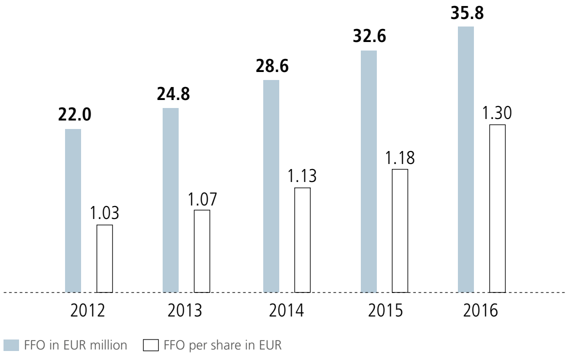
ADJUSTED EBT (EARNINGS BEFORE TAX) AND EBT MARGIN



CONSOLIDATED EARNINGS AND EARNINGS PER SHARE (UNDILUTED)



FFO (FUNDS FROM OPERATIONS) AND FFO PER SHARE



DEVELOPING VALUES

2016 was a successful year for us, both in terms of our achieved goals and our position for the future. The year under review saw us acquire new sites and properties in attractive locations, thus strengthening the foundation for future growth at the company. In other words, there is now even more potential for completing high-yield in-house project developments and expanding our portfolio accordingly. In an everchanging world, this reliability is not just a value, but a competitive edge.

With our high-quality properties, we will continue to give companies the space they need to develop, with our focus remaining on logistics and its sub-sector of light industry. This sector places unique demands on properties – and we possess specialist expertise, enabling us to position ourselves as a preferred partner when it comes to modern solutions for the logistics industry. Our second area of focus remains retail, where we will continue to work with strong brands. Thanks to our mix of industries, our successful financing strategy and the ability to not only acquire new properties, but to develop them ourselves, we are well positioned for a bright future.

VIB – developing values

CONTENTS

(left)

MARTIN PFANDZELTER
Management Board
Chairman (CEO)

(right)

HOLGER PILGENRÖTHER
Management Board
Chief Financial Officer (CFO)

LETTER TO THE SHAREHOLDERS

DEAR SHAREHOLDERS,

we once again proved our reliability by reaching all our targets in the 2016 fiscal year. We underpinned our systematic focus on long-term considerations and healthy, sustainable growth by taking further strategic steps, particularly as regards in-house developments. We therefore believe that we are in a strong position to continue generating attractive yields, even against the backdrop of rising property prices.

Within the context of our profitable growth, we increased total operating income by 5.6% to EUR 79.9 million. The main drivers behind this positive performance were the properties added to the portfolio and increased rental income due to our proactive in-house portfolio management. On the basis of the increase in operating income, a solid cost structure and continued low interest rates, our earnings before tax (EBT), adjusted for valuation effects and extraordinary items, rose by 11.8% to EUR 40.8 million. On the bottom line, this led to an increase of 12.2% in consolidated net income, which climbed to EUR 49.4 million, with earnings per share coming in at EUR 1.71 – compared with EUR 1.46 in the previous year.

It is also pleasing to note that funds from operations (FFO), as an indicator of operating cash inflow, rose by 9.7% on the previous year to reach EUR 35.8 million – thus also exceeding the guidance for 2016.

The total value of our property portfolio was EUR 1,062 million as of the end of the reporting period. This corresponds to growth of EUR 93 million compared with the balance sheet date at the end of 2015. As part of our strategy, we invest in both in-house developments and market acquisitions, staying true to our focus on the economically prosperous regions of southern Germany during the year under review. The main drivers behind the increase in the value of our property portfolio were the acquisitions of two properties in Uffenheim and Wackersdorf, the acquisition of sites for further in-house developments, and the optimisation of existing properties.

Due to the expansion of the portfolio as a whole, we increased net basic rents by 4.1% to EUR 70.8 million. We reduced our already low vacancy rate by a further 0.5 percentage points to 1.3% – thanks to our well-connected in-house asset management team and the high quality of our properties.

2017 WILL SEE US PRESS AHEAD WITH THE GROWTH TRAJECTORY THAT WE HAVE ALREADY INITIATED, WITH OUR PROVEN STRATEGY REMAINING THE KEY PILLAR OF OUR SUCCESS.

We are pleased that our strong operating performance is also reflected in our share price. The price of our share rose by around 15% in the 2016 fiscal year, thus once again outperforming the relevant comparative indices. Alongside the increase in value, we want you – our shareholders – to once again receive an appropriate reward for the success of the company and are therefore increasing the dividend to EUR 0.55 per share. This equates to a rise of 7.8% on the previous year.

These results are especially pleasing given the increasingly competitive market environment and a macroeconomic climate influenced by growing political uncertainty. The current low interest rates play an especially significant role in this regard. On the one hand, we clearly benefit from them in terms of our financing costs. On the other hand, low interest rates drive up the purchase price of logistics properties, which in turn squeezes the yields they generate. We are monitoring this trend very closely, but still see ourselves as being in a very strong position to continue generating attractive yields on the basis of our extensive experience, particularly where in-house development projects are concerned.

In the year under review, we laid the foundation for further strong performance in 2017 by acquiring six sites with a total area of around 292,000 sqm for further development projects. Four sites with a total area of approx. 191,900 sqm are located at Interpark Kösching near Ingolstadt, with one site situated in Gersthofen (near Augsburg) and another in Schwarzenbruck (near Nuremberg). The construction phase is already under way at two of the Interpark sites, with the properties – which are already fully let – set to be completed in spring/summer of this year.

2017 will see us press ahead with the growth trajectory that we have already initiated, with our proven strategy remaining the key pillar of our success. This strategy enables us to respond flexibly to market changes and seize opportunities as they present themselves. Alongside a purchasing policy geared towards sustainable yields, there are also opportunities in the financing of our portfolio. By further optimising our financing mix, we managed to reduce our average borrowing rate from 3.67% to 3.11% in 2016. This is due not only to the taking out of a promissory note loan with a very favourable interest rate, but also the taking out of new annuity loans – also with excellent terms – to finance the new acquisitions. We see further potential for the future in terms of reducing the interest rates on our portfolio of borrowings.

This year, we aim to further improve on the strong results of last year. We expect operating income of between EUR 81.5 and 85.5 million, EBIT of between EUR 61.5 and 64.5 million and EBT of between EUR 43.0 and 45.5 million, with each of these figures adjusted for valuation effects and extraordinary items. Furthermore, we anticipate funds from operations (FFO) of between EUR 37.0 and 39.5 million in the current fiscal year.

We would like to take this opportunity to say a special thank you to our employees. Their commitment is the basis for the success of VIB. We would like to thank our business partners for a working relationship based on mutual trust.

We would also like to thank you, our shareholders, for the trust you placed in us during the 2016 fiscal year. We would be delighted if you were to continue to accompany us as we chart our course over the years ahead.

Yours faithfully,

Neuburg/Danube, April 26, 2017

Martin Pfandzelter
(CEO)

Holger Pilgenröther
(CFO)

SUPERVISORY BOARD REPORT

DEAR SHAREHOLDERS,

2016 was characterised by further solid growth and sustained success at the company, with VIB Vermögen AG recording increases in both revenue and earnings in the 2016 fiscal year. We once again expanded our property portfolio with targeted acquisitions and the continuation of our project development work. The Supervisory Board is pleased with the positive company growth and extends the Managing Board its unqualified support in terms of the company strategy pursued.

In the 2016 fiscal year, the Supervisory Board examined the position of the company in great detail, thereby fulfilling the advisory and controlling functions incumbent upon it according to both the law and the company's articles of incorporation.

SUPERVISION OF MANAGEMENT AND COOPERATION WITH THE MANAGING BOARD

During the course of the fiscal year, the Supervisory Board monitored the Managing Board's work on a regular basis and consulted with it concerning its management of the company's business. The Supervisory Board was always included in important decisions. The Managing Board's activities gave rise to no objections. The Managing Board informed the Supervisory Board regularly, promptly and in detail about all topics concerning the company's business activities, particularly its earnings, assets and financial position, as well as about new investment opportunities.

SUPERVISORY BOARD, MEETINGS AND RESOLUTIONS

A total of six Supervisory Board meetings were held in 2016, all of which were attended by all Supervisory Board members.

At these meetings, the Managing Board informed the Supervisory Board in depth about the company's business progress, as well as developments in sales and earnings.

Below is a list of the meeting dates and the main items discussed:

- **March 15, 2016:** discussion of the interim financial statements for 2015, questions of Managing and Supervisory Board remuneration, the report on risks and opportunities for the 2015 fiscal year, issues related to the property sector, declared share capital as well as the registered/conditional capital, and company strategy and planning.
- **April 26, 2016:** approval of the annual financial statements (separate and consolidated financial statements), issues related to the property sector, the agenda of the Annual General Meeting, the application of the Market Abuse Regulation within the company.
- **May 30, 2016:** Managing Board issues and the taking out of D&O Insurance.
- **June 30, 2016:** formation and issues related to the property sector.
- **August 9, 2016:** the course of business in the first half of 2016, the risk management and controlling report of June 30, 2016, issues related to the property sector.
- **December 13, 2016:** the course of business in the first nine months of 2016, the controlling report of September 30, 2016, issues related to the property sector, review of Managing

f. l. t. r.:

JÜRGEN WITTMANN
FRANZ-XAVER SCHMIDBAUER
ROLF KLUG

Board remuneration, approval and adoption of non-audit services of S&P GmbH Wirtschaftsprüfungsgesellschaft and Sonntag & Partner Partnerschaftsgesellschaft mbB and the approval of the 2017 financial calendar.

Important individual transactions, particularly potential real estate transactions and development projects, were also discussed in the meetings, and the resolutions required by law or the company's articles of incorporation were passed in a timely fashion.

As before, no committees were formed due to the efficient size of the Supervisory Board in 2016.

2016 SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The Supervisory Board reviewed the separate annual financial statements as of December 31, 2016, which the Managing Board prepared according to German commercial law regulations, and discussed them, together with the corresponding audit report prepared by S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, represented by auditors Dr Henriette Burkhardt-Böck and Mr Kanus, at its meeting on April 25, 2017. The audit of the 2016 separate annual financial statements led to no amendments, and an unqualified audit opinion was issued. The separate annual financial statements as of December 31, 2016, were approved without objections and are thereby adopted. The Supervisory Board concurs with the Managing Board's proposal concerning the application of retained earnings.

The Supervisory Board also reviewed the 2016 consolidated annual financial statements, which the Managing Board prepared according to International Financial Reporting Standards (IFRS), and discussed them, together with the corresponding audit report prepared by S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, represented by auditors Dr Henriette Burkhardt-Böck and Mr Kanus, at its meeting on April 25, 2017. The audit of the 2016 consolidated annual financial statements also resulted in no amendments, with an unqualified audit opinion being issued and the consolidated annual financial statements as of December 31, 2016, being approved by the Supervisory Board. At its meeting on April 25, 2017, the Supervisory Board also approved the agenda for the Annual General Meeting on June 29, 2017.

The Supervisory Board wishes to thank the Managing Board, as well as all Group employees, for their contribution to the successful development of the VIB Group.

Neuburg/Danube, April 26, 2017

ON BEHALF OF THE SUPERVISORY BOARD
Franz-Xaver Schmidbauer
(Chairman)

OUR BUSINESS MODEL

A FLEXIBLE BUSINESS MODEL AS THE CORNERSTONE OF OUR SUCCESS

In a dynamic market environment, flexibility is of vital importance for us as a company. We have therefore optimised our business model with this in mind. This enables us to systematically pursue our strategic objectives and respond immediately to changing market and underlying conditions. In turn, this allows us to seize market opportunities and thus achieve the targets we set.

In terms of the optimum structuring of our company, we attach particular importance to the following three factors:

01 › the **type of property acquisition** – in other words: where do we source new properties for our portfolio that satisfy our yield requirements?

02 › the **sector focus of our tenants**

03 › the origin of the capital used **to finance our properties**

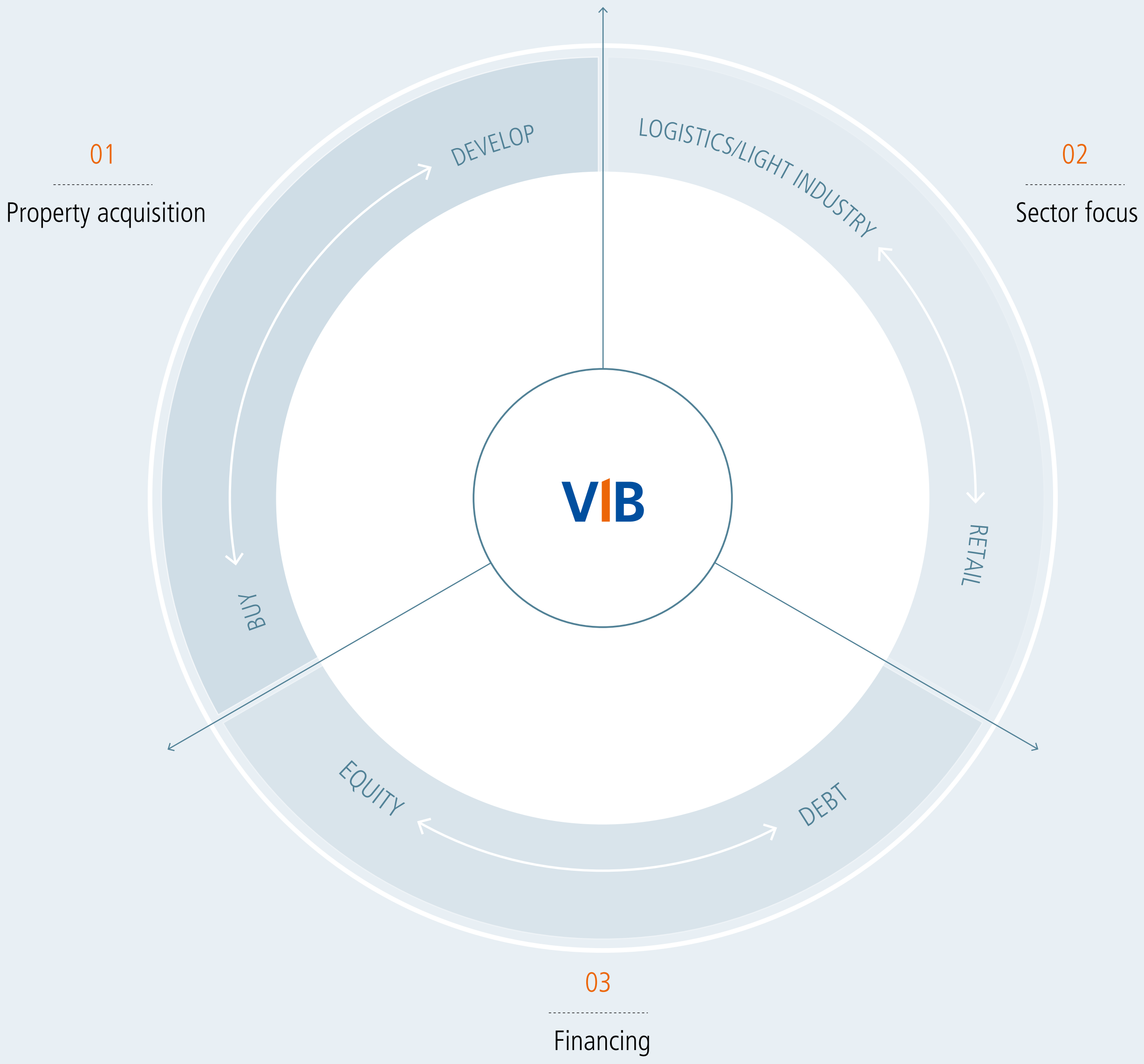
Should we buy or develop ourselves? That's the first question when it comes to property sourcing. Our advantage is that we can do both and can call on many years of development expertise. Whenever property prices rise appreciably, we concentrate increasingly on a strategy of designing and building properties ourselves. We are able to do so thanks to our extensive expertise and a wide-ranging network. By contrast, we acquire more properties on the market whenever we spot attractive offers or such offers are presented to us by our network partners. In both cases, it goes without saying that they have to meet our clearly defined yield criteria.

Another key factor is the industry in which our tenants operate. We work primarily with companies in logistics/light industry on the one hand and with retailers on the other. And then there are our tenants themselves, who value our expertise in both logistics and retail. We possess long-standing experience in both sectors, as well as an intuitive feeling for tenant needs and current market trends. When concluding new rental agreements, our priorities therefore lie where we see the greatest potential for stable and reliable tenants – and therefore rents – in the future.

The financing is the cornerstone of any project. Thanks to our extensive access to the capital market, we are always able to strike just the right balance between equity and debt financing. On the debt financing side, we primarily rely on annuity loans, which are ideal for the financing of long-term property projects. At the same time, they give us an opportunity to secure attractive long-term conditions in a low interest rate climate. On the equity side, we utilise the entire spectrum of available measures, depending on the market situation at the time.

We will continue to keep sight of all three core components of our business model and adapt them in line with requirements, the aim being to continuously grow the value of our company in the interests of our shareholders.

THE THREE STRATEGIC CORE COMPONENTS OF OUR BUSINESS MODEL



FURTHER GROWTH IN OUR PROPERTY PORTFOLIO IN 2016

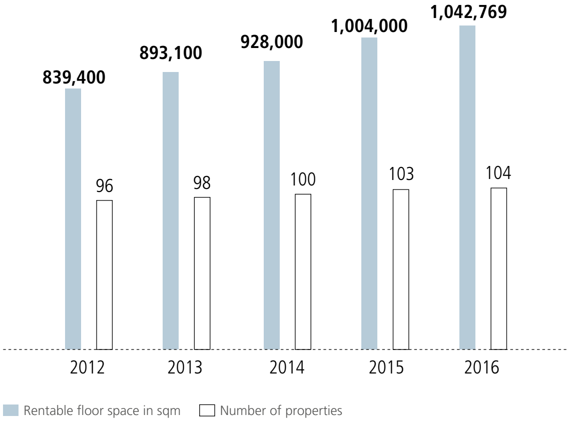
By virtue of the continuous development of our property portfolio, we are building up our stocks for the long term. In doing so, we are not only generating stable and growing returns, but are also sustainably increasing the value of our portfolio.

As of December 31, 2016, our property portfolio included a total of 104 properties with a rentable floor space of 1,042,769 sqm. The lion's share of the portfolio is located in the economically strong region of southern Germany, which is due chiefly to our extensive network in the region.

2016 saw us focus on the expansion of our in-house development work, such as at Interpark in Kösching (near Ingolstadt), as well as the acquisition of further sites to boost future growth. The acquisition of the two properties in Uffenheim and Wackersdorf contributed accordingly to the increase in rentable floor space.

GROWTH IN RENTABLE FLOOR SPACE/NUMBER OF PROPERTIES

AS OF YEAR-END

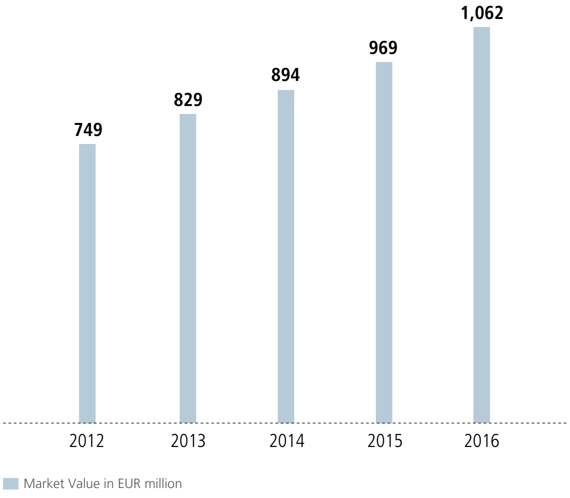


FURTHER INCREASE IN THE VALUE OF THE PROPERTY PORTFOLIO

The market value of our property portfolio (including properties under construction) rose to EUR 1,062 million as of December 31, 2016. The year-on-year increase is partly due to the new investments in the logistics facilities in Wackersdorf (EUR 6.6 million) and Uffenheim (EUR 21.9 million). These are supplemented by further value increases in existing properties and the sites acquired and projects under construction at Interpark in Kösching, near Ingolstadt.

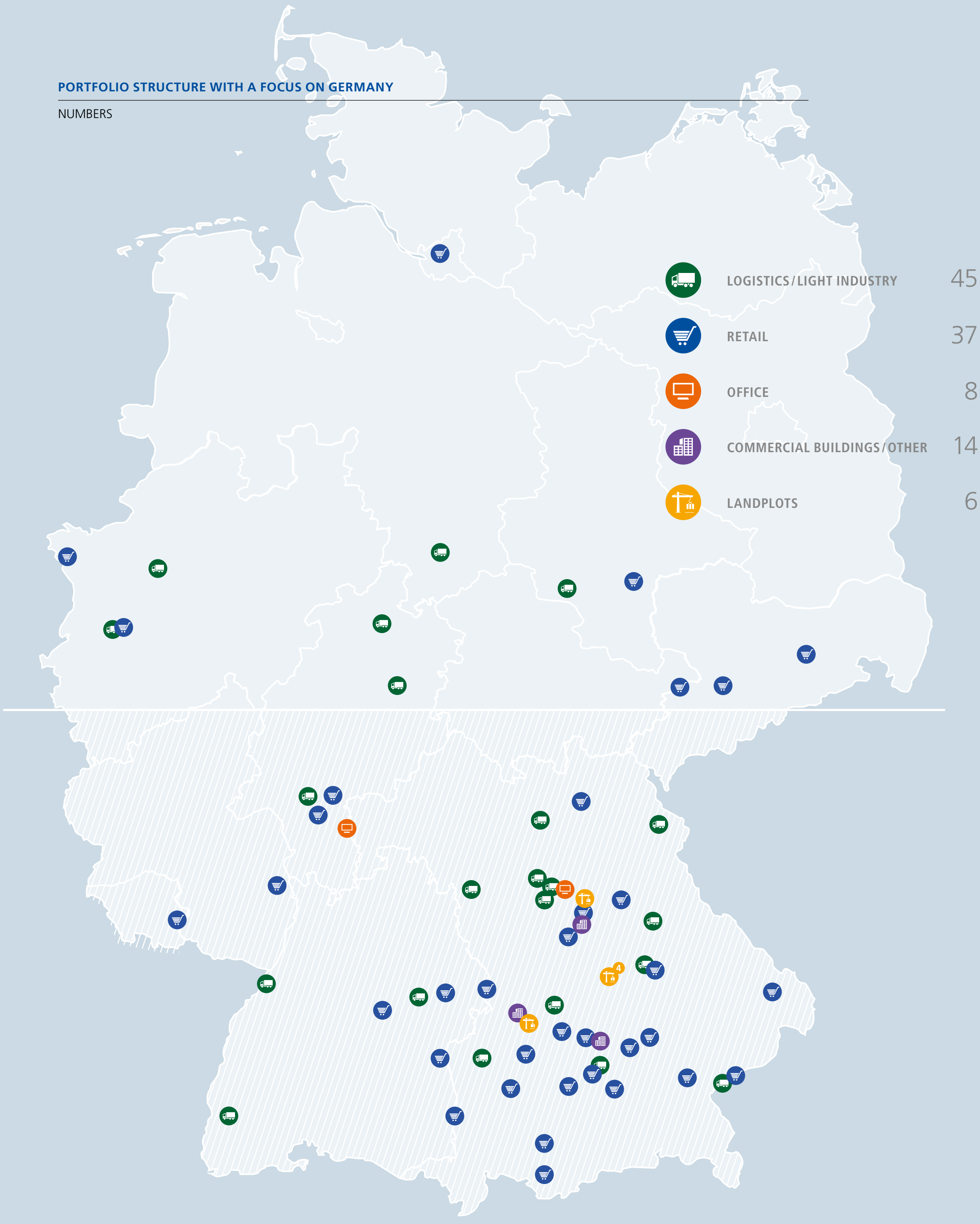
5-YEAR-OVERVIEW OF PORTFOLIO MARKET VALUE

AS OF YEAR-END



PORTFOLIO STRUCTURE WITH A FOCUS ON GERMANY

NUMBERS



KEY PROPERTY PORTFOLIO INDICATORS AT A GLANCE

	31/12/2016	31/12/2015
Number of properties	104	103
Rentable space	approx. 1,043 thousand sqm	approx. 1,004 thousand sqm
Annualised rental proceeds	EUR 70.8 million	EUR 68.0 million
Vacancy rate	1.3 %	1.8 %

RENTAL YIELDS REMAIN HIGH

On average, the rental yield of the portfolio as a whole remained at an attractive 7.14% as of December 31, 2016, and was thus more or less on a par with the previous year's level. Within our two focus sectors, the most attractive yields are still to be found in logistics/light industry. We attach particular importance to a realistic and sustainable valuation of our property portfolio. As a result, we ask an external expert to calculate the value of our portfolio at least once a year using the generally recognised discounted cash flow method.

RENTAL YIELD BY INDUSTRY (BASED ON MARKET VALUES AS OF 31/12/2016)

IN %	
Logistics/Light Industry	7.4
Retail	6.8
Office	7.4
Commercial buildings/other	5.4
Average rental yield	**7.14**

VACANCY RATE FALLS FURTHER FROM THE LOW LEVEL OF THE PREVIOUS YEAR

With a vacancy rate of just 1.3% as of December 31, 2016, we not only improved on the previous year's figure by 0.5 percentage points (31/12/2015: 1.8%), but we are also much better than the industry average. We manage the majority of our properties ourselves, which results in three main benefits: we remain in direct contact with our tenants and receive feedback on their needs. Secondly, it is the best way to meet our high quality standards and, thirdly, we avoid the high costs associated with external property management firms. A further positive effect is that, in the event of a tenant moving out, we can harness our wide-ranging network to quickly find a replacement tenant. As a result, our vacancy rate is much better than average.

RELIABLE TENANTS AND HEALTHY RISK DIVERSIFICATION

In order to keep the vacancy rate low in the future, we focus our efforts on the acquisition of renowned tenants with excellent credit ratings. In the logistics/light industry sector, tenants include Geis Industry-Service, the Rudolph Group and big-name brands such as Audi or Continental. In the retail sector, we serve tenants such as ALDI, Edeka, garden centre chain Dehner and garden and home improvement company BayWa Bau- und Gartenmärkte GmbH & Co. KG. A credit check is performed on all companies prior to the conclusion of a rental agreement in order to minimise the risk of rental default.

To enable us to plan more effectively, we also prefer long-term rental agreements. In 2016, the average term of all rental agreements across our portfolio stood at five years and eight months. Due to the high degree of customer loyalty we enjoy, we usually automatically extend rental agreements with initial short terms or convert them into indefinite rental agreements.

We also ensure that the share of total rental proceeds attributable to any single tenant remains proportional, thus keeping our concentration risk low. In the year under review, none of our tenants had a share in excess of ten per cent, with the largest ten companies in total making up less than half of total net rental proceeds.

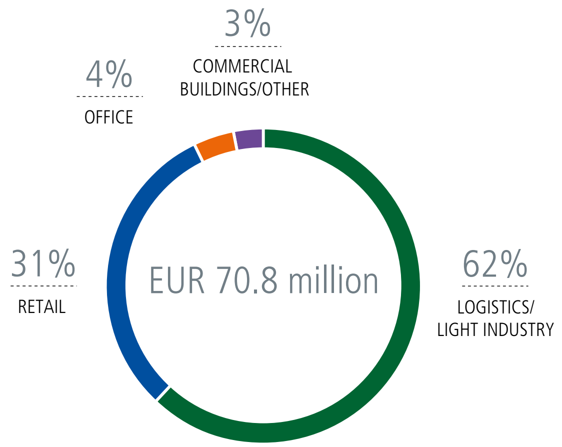
NAME OF TENANT	SECTOR	SHARE OF TOTAL ANNUAL NET RENTS	SITES
Dehner	Retail	9.3%	15
Rudolph Group	Logistics/Light Industry	7.3%	11
Geis Industrie-Service GmbH	Logistics/Light Industry	5.9%	2
Imperial Automotive Logistics GmbH	Logistics/Light Industry	3.8%	1
Loxxess-Gruppe	Logistics/Light Industry	3.6%	2
Continental Automotive GmbH	Logistics/Light Industry	3.5%	2
BayWa Bau- und Gartenmärkte GmbH & Co. KG	Retail	3.4%	3
Anylink Systems AG	Logistics/Light Industry	3.4%	1
Audi AG	Logistics/Light Industry	3.2%	2
Lidl-Schwarz-Gruppe	Retail	2.8%	4
Top 10 tenants in total		**46.1%**	**43**

Last updated: December 31, 2016

RENTAL PROCEEDS REFLECT THE FOCUS ON LOGISTICS/LIGHT INDUSTRY AND RETAIL

We focus on two sectors: logistics/light industry and retail. We possess the greatest expertise in these two areas and also see attractive market opportunities for the future. In 2016 tenants from the logistics/light industry sector made up about 62% of our annualised net rental proceeds, followed by companies from the retail industry with some 31%. We generated around 4% of our net rental proceeds by letting office space, followed by commercial buildings and other properties with about 3%.

ANNUALISED NET RENTAL PROCEEDS BY SECTOR IN 2016



AQUIRED PROPERTY
UFFENHEIM LOGISTICS FACILITY
Rental area: 30,200 sqm
Investment volume: EUR 21.9 million
Initial rental yield: 8.7%
Sector: logistics/light industry

AQUIRED PROPERTY
WACKERSDORF LOGISTICS FACILITY
Rental area: 9,880 sqm
Investment volume: EUR 6.6 million
Initial rental yield: 7.0%
Sector: logistics/light industry

DEVELOPMENTS
INTERPARK KÖSCHING
NEAR INGOLSTADT

1 **2016/2017 DEVELOPMENTS:**
Rentable Space: 7.000 sqm
Investment volume: EUR 8.6 million
Initial rental yield: approx 8.0%

2 **Rentable Space:** 21,000 sqm
Investment volume: EUR 15.4 million .
Initial rental yield: approx. 8.0%

Existing Properties

Undeveloped Sites

PORTFOLIO DEVELOPMENT IN DETAIL

The 2016 fiscal year was characterised by a balanced mix of acquisitions and in-house developments.

We acquired, for instance, six undeveloped sites with a total area of around 292 thousand sqm for in-house development projects. Four sites with a total area of 192 thousand sqm are located at Interpark Kösching near Ingolstadt, with one site situated in Gersthofen near Augsburg and another in Schwarzenbruck near Nuremberg. All the sites boast excellent infrastructure links and are ideal for the development of further logistics properties. Two Interpark projects will be completed, and therefore included within our portfolio, in 2017.

In autumn 2016, we acquired two properties for our existing portfolio.

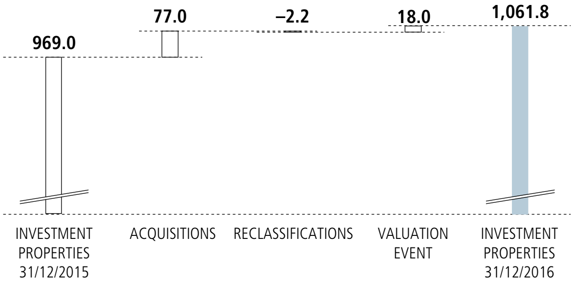
With a total investment volume of EUR 6.6 million, we acquired a logistics facility near Innovationspark Wackersdorf. The useful rental space of approx. 9,880 sqm is let on a 10-year basis, generating an initial rental yield of approx. 7.0%.

The investment volume of the second acquired property stands at around EUR 21.9 million, with the initial rental yield coming in at 8.7%. A rental agreement running until the end of 2019 is in place with a big-name sporting goods manufacturer. By virtue of regular investment, the property is in excellent condition and boasts a total rental area of approx. 30,200 sqm. This logistics centre is the second property in the Bavarian town of Uffenheim – a place with good transport links – that VIB Vermögen has in its portfolio.

As part of ongoing portfolio optimisation work, we divested ourselves of two smaller commercial properties in October with a total area of roughly 2,000 sqm. Together, the two properties accounted for around 0.2% of total rental proceeds. The total proceeds of sale for the two properties amounted to EUR 2.3 million, thus exceeding their carrying value.

GROWTH IN MARKET VALUE OF PORTFOLIO INVESTMENT PROPERTIES

IN EUR MILLION

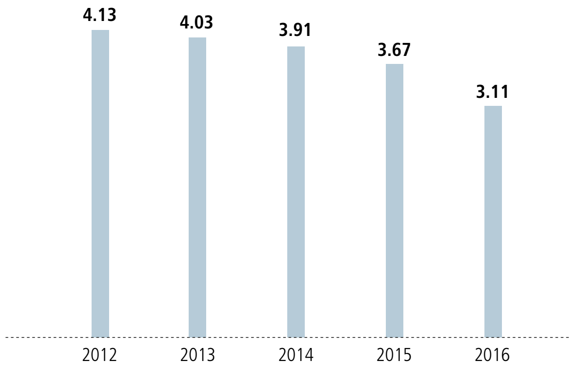


PROPERTY FINANCING

Like everything else we do, our financing strategy is geared towards sustainability and long-term needs. We therefore combine a healthy equity base with borrowing instruments whose risk we can control. In the year under review, we once again further optimised our financing mix in order to benefit from the attractive interest rate climate that currently prevails. As of December 31, 2016, the average interest rate of the entire portfolio of borrowings of the VIB Group stood at 3.11%. This represents a considerable reduction of 0.56 percentage points on the previous year.

AVERAGE INTEREST RATE FOR THE LOAN PORTFOLIO (AS OF THE END OF THE YEAR)

IN %



ANNUITY LOANS AS A SOLID BASIS

In accordance with our sustainable approach to financing, annuity loans are one of the cornerstones of our property financing. This loan type is characterised by constant payment amounts (annuity instalments) across the entire term of the loan. The monthly annuity we pay includes both a repayment portion and an interest portion. In this way, the outstanding debt on the loan is repaid step by step, with the result that the interest portion within the fixed annuity decreases over time whilst the repayment portion increases accordingly.

PROMISSORY NOTE LOANS COMPLEMENT THE VIB FINANCING MIX

Alongside classic debt financing in the form of annuity loans, we supplement our financing mix with flexible promissory note loans. Generally speaking, this type of financing takes the form of "bullet loans". This means that, unlike annuity loans, there are no regular repayments and the entire loan amount is paid at the end of the term.

Thanks to its flexibility, this financing option is the perfect addition to our financing mix, especially when it comes to the advance financing of development projects.

In September 2016, a promissory note loan with a total volume of EUR 70 million was taken out for the purpose of financing our further growth. The loan, which was issued in two tranches, has a term of seven/ten years and comes with a weighted average interest rate of 1.17%. This promissory note loan has made an important contribution to the continued long-term reduction of the average borrowing rate of the VIB Group.

FINANCIAL STABILITY

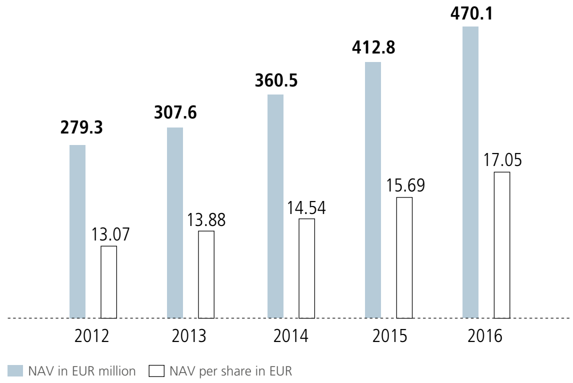
We attach great importance to a solid equity base. Alongside the operating profit generated, our regular loan repayments also help improve our equity ratio. Despite the fact that we funded the growth of our real estate assets in 2016 entirely from cash at bank and bank loans, our equity ratio remained more or less on a par with the previous year's level at 39.8% (31/12/2015: 40.3%).

Financial stability is also reflected in our LTV (loan-to-value) ratio, which shows the ratio of net debts to total assets. In spite of the growth in our property portfolio, our LTV ratio as of the end of 2016 stood at 53.6%, which is more or less on a par with the previous year's level (31/12/2015: 53.1%).

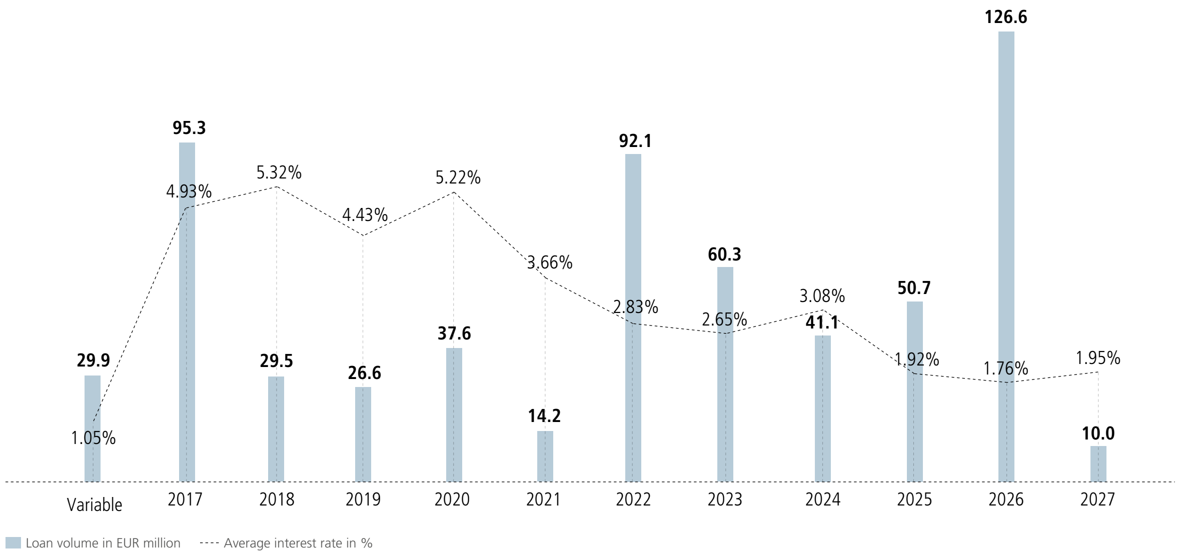
Thanks to a balanced financing mix, solid portfolio growth and our stable equity base, we further improved the net asset value (NAV) of VIB. This has risen from EUR 279.3 million in 2012 to EUR 470.1 million (as of the balance sheet date December 31, 2016). The undiluted NAV per share rose accordingly to EUR 17.05 as of the end of the year under review. This equates to an increase of about 31% compared to 2012.

Overall, we boast excellent access to debt capital. We safeguard this access on a long-term basis by maintaining and building on our relations with a vast array of financing partners. It is also very pleasing that, on account of the company's solid financial position, our loan agreements generally do not contain any covenants.

NAV (NET ASSET VALUE) AND NAV PER SHARE



BREAKDOWN OF LOAN LIABILITIES BY REMAINING FIXED INTEREST PERIOD AND AVERAGE INTEREST RATE



SHARE AND INVESTOR RELATIONS

The VIB Vermögen AG share once again performed extremely strongly in the 2016 fiscal year. As of the end of the year, our share price increased by around 15% compared with the closing price of the previous year. Therefore, the growth of the VIB share was well above that of the SDAX (share price index), the German lead index DAX (share price index) and the industry index EPRA Germany.

As we once again want our shareholders to receive a fair reward for the company's success in the 2016 fiscal year, the management proposes a dividend payment of EUR 0.55 per share. This equates to an increase of 7.8%.

KEY DATA AND SHARE INDICATORS

KEY DATA

Sector	Real estate
Securities identification number (within Germany)	245751
ISIN	DE0002457512
Stock symbol	VIH
Listing	November 28, 2005
Stock exchanges	Munich: open market (m:access), Frankfurt: open market/XETRA
Share type	no-par-value bearer shares

SHARE INDICATORS

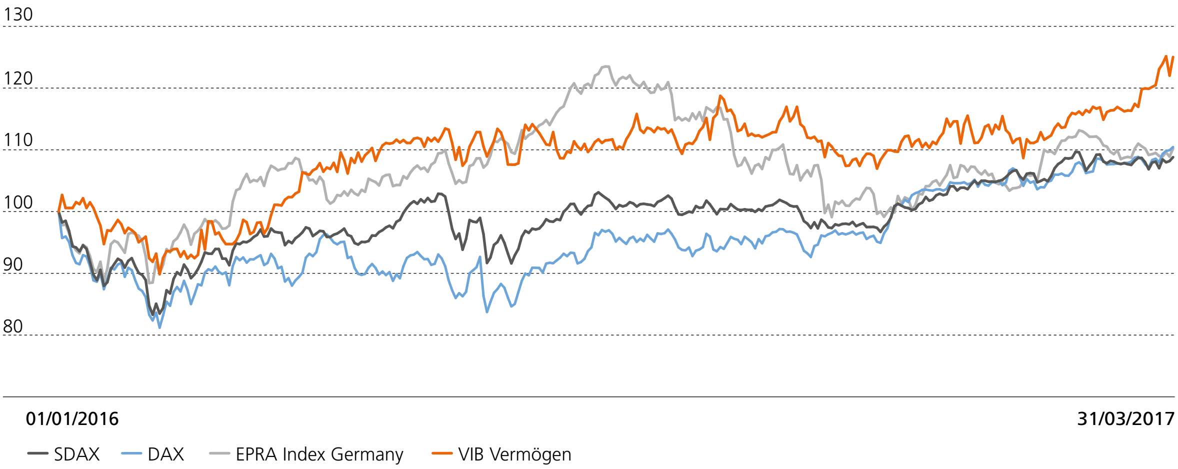
Subscribed share capital	EUR 27,579,779
Nominal value per share	EUR 1.00
Number of outstanding shares	27,579,779
Net asset value (NAV) per share (undiluted)	EUR 17.05
Balance sheet equity (consolidated)	EUR 443,527 thousand
Dividend per ordinary share for the 2016 financial year	EUR 0.55*
Closing price for the year on 31/12/2015	EUR 17.10
Closing price for the year on 30/12/2016	EUR 19.67
Annual high	EUR 20.31
Annual low	EUR 15.37
Average daily trading volume in 2016 **	23,049 shares
Market capitalisation (31/12/2016)	EUR 542.5 million

* Management proposal
** Xetra and all exchanges

VIB SHARE UP SHARPLY IN 2016

SHARE PRICE DEVELOPMENT

SINCE JANUARY 1, 2016 (INDEXED COMPARISON WITH EPRA AND THE DAX AND SDAX PRICE INDICES, IN %)



Below, the VIB share is compared with the share price indexes DAX and SDAX. The share indexes are shown for reasons of objective comparability of the share price movements, as they do not include dividend payments or subscription rights.

MARKET GROWTH

IN %	**2016**	2015
VIB Vermögen AG	15.1	18.0
EPRA Germany	5.9	17.4
DAX (share price index)	3.7	7.3
SDAX (share price index)	2.8	23.3

The capital markets were once again dominated by various political factors and central bank decisions in 2016. In early 2016, fears of a US recession, coupled with a falling oil price, prompted a downward trajectory on global stock markets. This was followed by a noticeable recovery that got under way in mid February.

The DAX fell in early 2016 and, as a consequence, reached its lowest point of the 2016 financial year on February 11, 2016, when it declined to 4,374 points. Midway through the year, the referendum decision of the UK to leave the European Union led to increased volatility. Following a subsequent recovery in July and August, the markets entered a phase of sideways movement before rising sharply towards the end of the year on the back of the US presidential election. The DAX closed at 5,588 points on December 31, 2016, resulting in an overall increase of 3.7%. The SDAX share price index grew less strongly. Taking the year as a whole, it rose by 2.8% to 4,780 points.

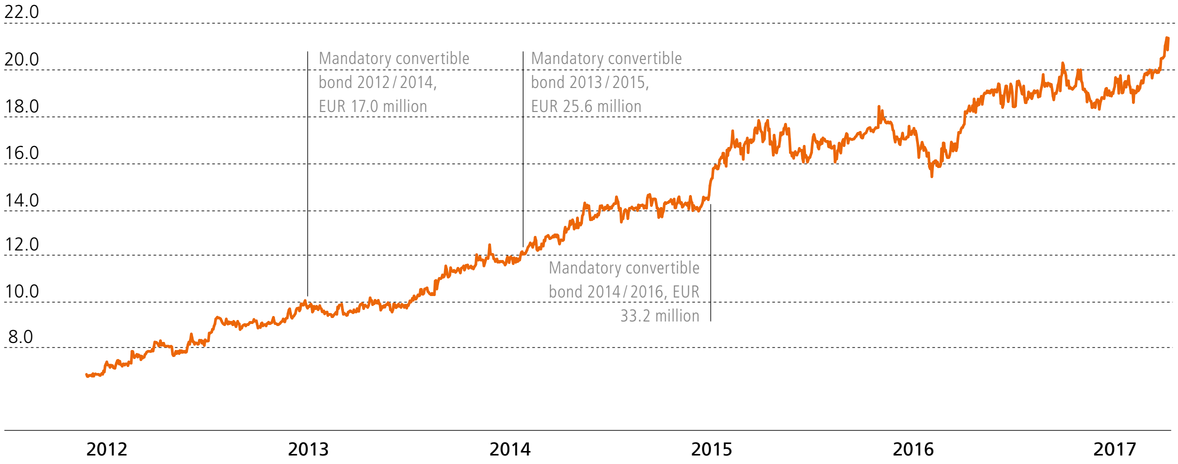
Our share exhibited extremely positive growth in 2016. Whilst it fell until mid February in line with the overall market trend, it then embarked on a phase of above-average increases. The VIB share reached its annual high of EUR 20.31 in late September. On December 31, 2016, our share closed the year at EUR 19.67, which equates to an increase of 15% on the previous year's closing price.

Therefore, the VIB share considerably outperformed the EPRA Germany comparative index relevant to the real estate sector in the year under review. This sector index grew by 5.9% over the course of 2016 as a whole and came in at 9.2 percentage points below the VIB share in terms of growth.

As at the start of 2017, our share price continued to rise, closing the first quarter of 2017 at EUR 21.38, an increase of 8.7%.

FIVE-YEAR TREND OF THE VIB SHARE

IN EUR



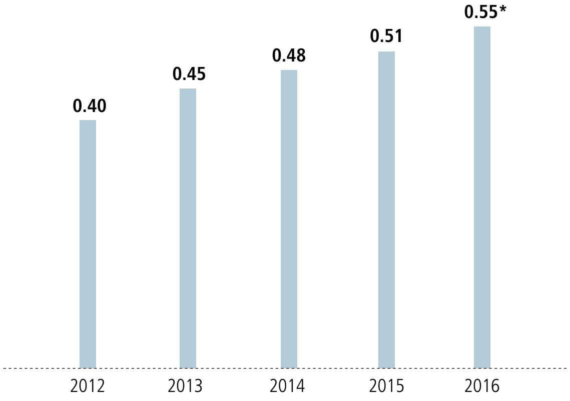
The VIB share has also performed impressively from a long-term perspective. The share price has increased almost threefold over the past five years. By way of comparison, EPRA Germany achieved growth of around 130%, with the SDAX (price index) and DAX (price index) posting growth of approx. 90% and around 70% respectively. This trend not only documents the attractiveness of the VIB share within the context of our growth-oriented company strategy, but also the strong performance of property as an asset class.

INCREASED DIVIDEND PROPOSAL OF EUR 0.55 PER SHARE

For the 2016 fiscal year, the Managing and Supervisory Boards of VIB Vermögen AG will, at the Annual General Meeting on June 29, 2017, propose that a dividend of EUR 0.55 per share be distributed. This corresponds to a total dividend distribution of EUR 15.2 million, with a dividend yield of 2.8% as of December 31, 2016. As in previous years, our dividend payment has grown in accordance with the positive growth in company FFO. By increasing our dividend by 7.8%, we are continuing to pursue our policy of allowing our shareholders to enjoy a fair share of the company’s success in the long term.

DIVIDEND GROWTH PER SHARE

IN EUR



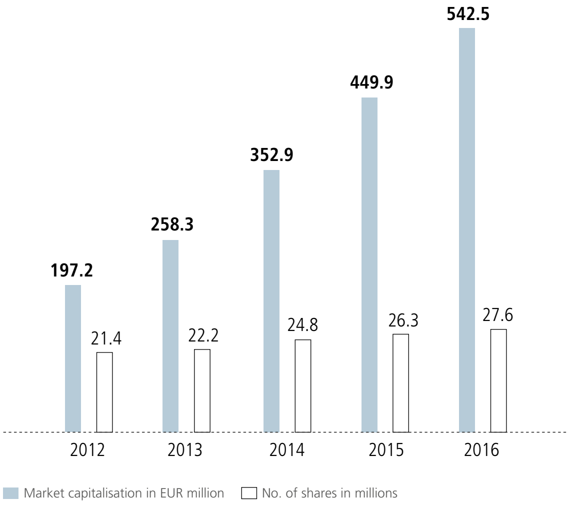
* Management proposal

MARKET CAPITALISATION RISES FURTHER, REACHING AROUND EUR 542.5 MILLION

On December 5, 2016, the VIB Vermögen mandatory convertible bond issued in 2014 (ISIN DE000A13SJL8, WKN A13SJL) was converted in full, resulting in the creation of 1,271,374 new shares. As a consequence, the total number of shares climbed to 27,579,779. Coupled with the positive price trend of the VIB share in the year under review, this caused the company's market capitalisation to rise by 20.6% to EUR 542.5 million as of December 31, 2016.

TREND IN MARKET CAPITALISATION AND NUMBER OF SHARES

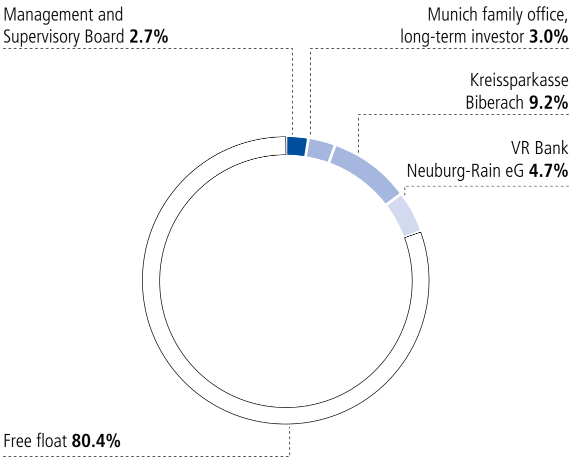
AS OF YEAR-END



BALANCED SHAREHOLDER STRUCTURE

Our shareholder structure is distinguished by a stable ratio of free float to long-term investors. We have further enlarged the VIB shareholder base by converting the mandatory convertible bond into shares. Alongside Raiffeisen-Volksbank Neuburg/Donau eG (now trading as "VR Bank Neuburg-Rain eG") as a founding investor (4.7% share of voting rights), our long-term investors are Kreissparkasse Biberach (9.2%) and a Munich-based family office with 3.0%. With a combined shareholding of 2.7%, both the Managing and Supervisory Boards are underscoring their long-term trust in the future development of the company. During the 2016 fiscal year, our free float stood at 80.4%.

SHAREHOLDER STRUCTURE



As at: Annual General Meeting 2016

ANALYSTS CONTINUE TO RECOMMEND BUYING THE VIB SHARE

In the 2016 fiscal year, our share was rated on a regular basis by nine national and international research houses. Virtually all the analysts continues to see positive growth potential for VIB Vermögen in 2017 and recommend the VIB share as "buy". We publish updated analyst opinions on our website soon after they are issued.

ANALYST RECOMMENDATIONS AT A GLANCE

	Date	Recommen-dation	Share price target (EUR)
Baader Bank (Andre Remke)	05/04/2017	Buy	23.00
Bankhaus Lampe (Dr. Georg Kanders)	22/03/2017	Hold	21.00
Berenberg (Kai Klose)	27/03/2017	Buy	21.00
BHF Bank (Thomas Effler)	12/08/2016	Overweight	20.60
Degroof Petercam (Herman van der Loos)	22/03/2017	Add	21.40
Mirabaud (Emmanuel Valavanis)	13/04/2016	Buy	21.50
SRC Research (Stefan Scharff)	24/03/2017	Accumulate	22.00
Victoria Partners (Bernd Janssen)	17/01/2017	Buy	20.30 to 22.30
Warburg Research (Andreas Pläsier)	23/03/2017	Buy	22.70

STRONG SUPPORT AT THE AGM

The 2016 Ordinary Annual General Meeting was held in Ingolstadt on June 30, 2016. We achieved overwhelming support from the shareholders on all items on the agenda, which were each passed with a majority close to 100%. When it came to the elections to the Supervisory Board, all three candidates nominated were re-elected with a sizeable majority. A total of 53.3% of the voting-entitled share capital was present. The 2017 Ordinary Annual General Meeting will be held in Ingolstadt on June 29.

DIALOGUE WITH THE CAPITAL MARKET

We pursue the aim of addressing as wide a group of shareholders as possible. We therefore regularly exceed the requirements of a listing in the open market of the Frankfurt Stock Exchange and the m:access segment of the Munich Stock Exchange. Continuous, comprehensible and transparent communication is aimed at meeting capital market demands and expectations in terms of up-to-date and relevant information, and the equal treatment of parties that are interested in such information.
To this end, we engage in communication with analysts, institutional investors and private investors, as well as with the financial, business and industry press. We also communicate with international investors by making all publications of relevance to the capital market available in both German and English. We also cultivate active and personal contact with the financial community: the Managing Board conducts regular discussions with analysts, investors and journalists. We were present at many capital market conferences in the year under

review, explaining our strategy, corporate development and current business results to a wide audience. In the year under review, the Managing Board of VIB Vermögen held presentations at the Baader Investment Conference in Munich, the Berenberg Conference in Munich, the m:access Conference in Munich, the Degroof-Petercam Real Estate Conference in Brussels and the SRC Forum in Frankfurt, for example. VIB's capital market communication is completed by regular roadshows for current and potential investors, both in Germany and abroad (Amsterdam, Brussels, Copenhagen, Edinburgh, Frankfurt, Hamburg, Helsinki, London, Munich, Paris, Vienna and Zurich).

FINANCIAL CALENDAR

May 10, 2017
Publication of the first Interim Report 2017

June 1, 2017
m:access Analysts Conference, Munich

June 29, 2017
Annual General Meeting in Ingolstadt

August 9, 2017
Publication of the half-year Report 2017

September 7, 2017
SRC-Forum Frankfurt

September 18, 2017
Berenberg/Goldman Sachs Conference, Munich

September 19, 2017
Mandarin Gestion International Investment Conference, Munich

September 20, 2017
Baader Investment Conference, Munich

September 27, 2017
Degroof/Petercam Real Estate Seminar, Brussels

November 9, 2017
Publication of the second Interim Report 2017

IR CONTACT

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EPRA PERFORMANCE INDICATORS

VIB Vermögen AG has been a member of the European Public Real Estate Association (EPRA) since 2011. This Brussels-based organisation represents the interests of the largest European property companies vis-à-vis the public and also supports their market presence.

A few years ago, we started following the EPRA recommendations in terms of communication and financial communication. For example, we compare our share price trend with the EPRA Germany index.

Compared with the previous year, we have once again expanded our EPRA reporting in order to further increase the transparency and comparability of our key performance indicators.

SUMMARY OF EPRA PERFORMANCE INDICATORS

IN EUR THOUSAND	**31/12/2016**	31/12/2015
EPRA Earnings	32,587	29,056
EPRA NAV	470,117	431,160
EPRA Vacancy Rate	1.3%	1.8%

EPRA EARNINGS

The item “EPRA Earnings” shows earnings from operating activities, adjusted for extraordinary items such as valuation effects relating to investment properties or the results of sales activities. Therefore, this item can be used to ascertain the extent to which a dividend distribution is covered by earnings. Absolute EPRA Earnings currently stand at EUR 32,587 thousand and are EUR 3,531 thousand higher than in the previous year. This increase is chiefly attributable to an expansion of the operating property portfolio and the associated increase in net basic rents. This development is reflected in the increase in EPRA Earnings per share from EUR 1.05 to EUR 1.18.

EPRA EARNINGS

IN EUR THOUSAND		**2016**	2015
Group shareholders’ share of earnings		**47,240**	**40,119**
Adjusted for:			
(i)	Changes in value of investment properties	–18,018	–16,410
(ii)	Profits or losses on the disposal of investment properties	0	0
(iii)	Profits or losses on the disposal of trading properties	0	0
(iv)	Taxes on the profits or losses of disposals	0	0
(v)	Negative goodwill/goodwill impairment	0	0
(vi)	Income/expenses from measurement of financial derivatives	0	132
(vii)	Transaction costs relating to the purchase of participating interests and associates	0	0
(viii)	Deferred taxes in respect of EPRA adjustments	2,851	2,576
(ix)	Adjustments to (i) to (viii) above in respect of associates	0	0
(x)	Minority interests in respect of adjustments to EPRA Earnings	514	2,639
EPRA Earnings, in absolute terms		**32,587**	**29,056**
Average number of shares (undiluted)		27,579,779	27,579,812
EPRA Earnings per share (in EUR)		**1.18**	**1.05**

Due to the fact that no shares are currently being created through the use of conditional or registered capital, diluted EPRA Earnings per share remain unchanged.

EPRA NAV

EPRA NAV represents the net asset value of the company, assuming a long-term company strategy. Here, the fair value of assets and liabilities is adjusted for extraordinary effects such as the market valuation of derivative financial instruments or deferred taxes.

EPRA NAV improved year-on-year by EUR 38,957 thousand to EUR 470,117 thousand by virtue of the positive consolidated result and the further increase in the value of the property portfolio. With the number of outstanding shares remaining the same, EPRA NAV per share rose to EUR 17.05.

EPRA NET ASSET VALUE (NAV)

IN EUR THOUSAND	**31/12/2016**	31/12/2015
Total equity	443,527	406,754
Minority interest	–19,680	–17,944
NAV shown on the consolidated balance sheet (attributable to Group shareholders)	**423,847**	**388,810**
Dilution effect due to options, convertible bonds and other equity instruments	0	763
Diluted NAV after options, convertible bonds and other equity instruments	**423,847**	**389,573**
plus:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	n.a.	n.a.
(i.b) Revaluation of investment properties under construction (if IAS 40 cost option is used)	n.a.	n.a.
(i.c) Revaluation of other assets (owner-occupied properties and participating interests)	n.a.	n.a.
less:		
(iv) Market value of derivative financial instruments	7,001	8,513
(v.a) Deferred taxes	39,269	33,074
EPRA NAV	**470,117**	**431,160**
Number of outstanding shares (diluted)	27,579,779	27,579,812
EPRA NAV per share (in EUR)	**17.05**	**15.63**

EPRA VACANCY RATE

The EPRA vacancy rate is calculated on the basis of the ratio of the estimated market rent of the vacant space to the estimated market rent of the property portfolio as a whole.

Thanks to a further decrease in vacant space in the year under review, the EPRA vacancy rate fell from 1.8% to 1.3% as of the end of the fiscal year.

EPRA VACANCY RATE

IN EUR THOUSAND	**31/12/2016**	31/12/2015
Annualised market rent of the portfolio as a whole	70,840	69,274
Vacant space measured at market value	923	1,247
EPRA Vacancy Rate	**1.3%**	**1.8%**

EPRA REPORTING ON THE DEVELOPMENT OF THE PROPERTY PORTFOLIO

ACCOUNTING PURSUANT TO IAS 40

Due to the business activities of the company, all properties are classed as investment properties pursuant to IAS 40. Newly acquired properties are valued at cost. Subsequent measurement is performed at fair value through profit and loss, with the ancillary acquisition costs of a typical buyer deducted from the fair value.

VALUATION INFORMATION

Fair values are calculated at least once a year by an independent property appraiser. To this end, we have engaged the services of Landestreuhand Weihenstephan GmbH Wirtschaftsprüfungsgesellschaft, Freising.

The appraiser receives a set fee for each property appraisal, regardless of the outcome of the appraisal.

The appraiser has drawn up the appraisal in accordance with the standards of the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany, Incorporated Association) (IDW S 10 – Grundsätze zur Bewertung von Immobilien) and valued all properties using the discounted cash flow method.

The value of the investment properties shown on the balance sheet tallies exactly with the property values determined by the appraiser.

For more information on the valuation model used, please refer to pages 80ff. and 103ff. of the Notes.

PORTFOLIO INFORMATION

› **Remaining terms of rental agreements**

The average remaining term of the rental agreements of five years and eight months underscores the stability of the company's rental income. The calculation is based on the annualised net rental proceeds from the rented properties and shows the remaining term until the first termination opportunity.

NET RENTAL PROCEEDS BY REMAINING RENTAL TERM

	SHARE IN %	NET RENT (IN EUR THOUSAND)
Rolling	7.5%	5,317
1 to 3 years	22.9%	16,252
3 to 5 years	18.2%	12,931
5 to 7 years	23.0%	16,311
7 to 10 years	15.3%	10,831
Longer than 10 years	13.1%	9,264

› **Overview of properties**

Please refer to our website in this regard (http://www.vib-ag.de/en/real-estate/overview.html). You will find detailed information in the "Real Estate" section.

› **Ownership status**

As part of full consolidation, all properties are included within the Group and are wholly owned by the Group companies concerned.

LIKE-FOR-LIKE (LFL) RENTAL GROWTH

LFL rental growth describes the year-on-year growth in net basic rents of the operating portfolio, adjusted for property acquisitions and disposals.

Adjusted net basic rents for the 2016 fiscal year (EUR 63,625 thousand) rose by EUR 448 thousand (0.7%) on the previous year (EUR 63,177 thousand).

The gains are attributable to the following categories:

- Contractual indexing EUR 30 thousand
- Changes in vacancy rate EUR 324 thousand
- Changes arising from existing agreements EUR 94 thousand

INFORMATION ON INVESTMENT PROPERTIES

IN EUR THOUSAND	
New investments/acquisitions	27,859
Developments, assets under construction	39,781
Post-capitalisation of existing properties/LFL	9,364
Other	0
Total investments	**77,004**

LOGISTICS
IN THE FAST LANE

It's impossible to imagine today's business world without modern logistics; intelligently managed and networked goods flows keep the product life cycle intact. As an extended workbench of industry, logistics now also offers a host of production-related additional services.

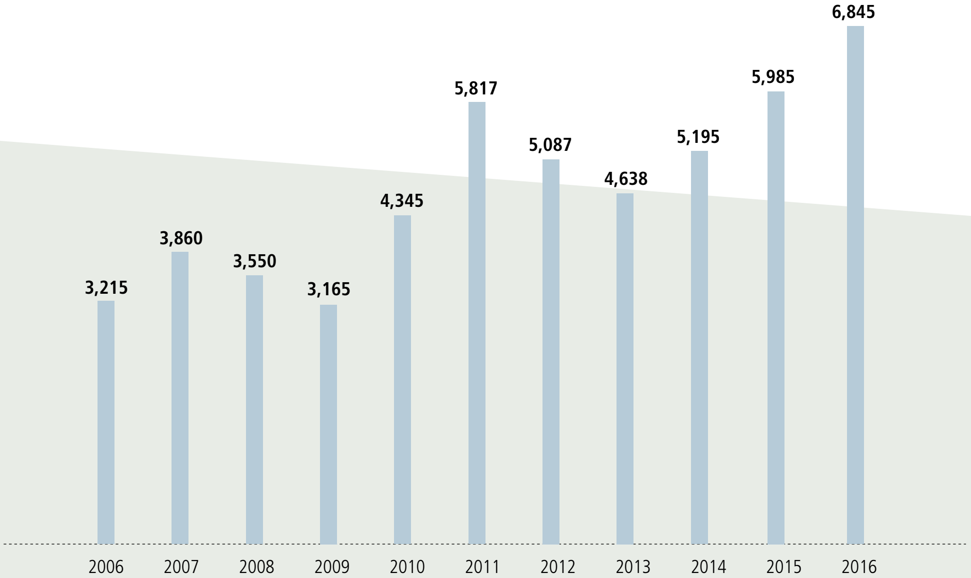
Changes in the industry are also being witnessed on the consumer side: with the rising importance of e-commerce, the distribution chain is being redefined all the time, from producers and wholesalers through to retailers and consumers. At the same time, batch sizes are decreasing and the speed of delivery is increasing.

The logistics industry can look back on many successful years. Growing demand for logistical solutions, coupled with increasing consumer appetite, led to one sales record after another.

According to a new study carried out by Bulwiengesa, one of the leading independent analysis firms specialising in the real estate sector, demand for logistics services is set to increase further in the medium to long term. This also applies to Germany in particular. One factor conducive to growth is that Germany boasts a large number of consumers with a correspondingly high level of purchasing power. Another advantage is that the country is located in the heart of Europe, making it the ideal hub for supplying many regions on the European continent.

LIGHT INDUSTRIAL AND LOGISTICS TAKE-UP IN GERMANY

IN THOUSAND SQM



Source: BNP Paribas Real Estate Industrial Services, December 31, 2016

LOGISTICS PROPERTIES REMAIN ATTRACTIVE

UNWAVERINGLY HIGH DEMAND

According to the Bulwiengesa study, around 30 million sqm of logistics space was sold/leased in Germany between 2011 and mid 2016. With 10.6 million sqm, the largest share is attributable to the haulage and transport industries, followed by the automotive, food and drink, and e-commerce sectors. Together, these three sectors account for more than 50% of new construction in the period studied.

Further growth in the construction of new logistics space is also expected for 2016 as a whole. The forecasts indicate that 4.7 million sqm of new logistics space will be built, which would indicate a growth of 40% compared to 2015. The five top regions are Hamburg, Munich, Berlin, Düsseldorf and the Rhine-Main area. Two of our core regions, Augsburg and Nuremberg, are regarded as hidden champions.

IN INVESTORS' SIGHTS

The profile of logistics property as an asset class has increased in recent years. Attractive returns, coupled with a relatively low level of cyclicality compared with office and retail properties, draw in both national and international investors. Therefore, it should come as no surprise that demand for logistics space as an investment opportunity continues to grow strongly. According to the Bulwiengesa study, a transaction volume of EUR 3.3 billion was reached in Germany purely for warehouse and logistics properties in 2015, thus considerably outperforming the previous year's figure of a good EUR 2.8 billion and the five-year investment market average of around EUR 2.3 billion. This trend continued in 2016. The lion's share of demand for logistics space (around 70%) comes from abroad, particularly Europe and North America. Foreign investors usually focus on large-scale investments with a volume in excess of EUR 50 million. Even so, there are still ten German companies in the 20 largest investors in German logistics firms. Foreign investors focus primarily on the top regions, whereas attractive properties away from the major conurbations are purchased more frequently by German investment companies.

CURRENT TRENDS IN THE LOGISTICS INDUSTRY

- **Global supply chains** and increasing demand from abroad
- **Increasing individualisation of customer requirements**
- **Digitalisation and industry 4.0**
- **Sustainability** ("green logistics"), saving resources, cutting emissions
- **Demographic change**
- **Limited infrastructure**
- **Increasing division of labour**
- **Traffic congestion**

STRONG MOMENTUM STILL SEEN IN PRICES

The property prices in a logistics region are an indicator of demand and, therefore, the region's attractiveness.

The investment market frequently uses the net initial yield as a further indicator to measure the attractiveness of a logistics region. The lower it is, the more attractive and expensive the region. If demand increases, the prices of individual properties will rise too – and net initial yields will fall as a result. Alongside Berlin, the strongest growth in recent years has been observed in the regions of Halle/Leipzig, Stuttgart, Hamburg and Munich. In absolute terms, Munich and Hamburg offered the lowest maximum yield (5.4%) in 2015, followed by Berlin, Rhine–Main/Frankfurt, Cologne and Düsseldorf, Stuttgart and Rhine–Ruhr with yields of between 5.5 and 5.9%. Experts anticipate that yields will continue to decline in the top regions on account of high investor demand, albeit not quite as sharply as in recent years. Peripheral regions can increasingly profit from this trend, as the yields are still somewhat higher in these areas. Compared with other property categories, logistics properties continue to offer a tangible benefit in terms of returns despite the price rises of recent years.

NEW TYPES OF LOGISTICS PROPERTY: "LIGHT INDUSTRY" – A NEW ASSET CLASS

Shifting requirements necessitate new solutions. Therefore, standardised logistics properties are adapting all the time. Flexibility will always be king. The logistics properties of the future will have to be both standardised and suitable for alternative use; they will have to be capable of being converted in a short space of time.

A current trend goes by the name of "Light Industry". This term refers to a range of processes and tasks in the fields of production and distribution and reflects the increasing popularity of outsourcing within the industry. Alongside warehousing and goods handling, there is increasing demand for logistics properties that give tenants the opportunity to pre-assemble products on site. This new asset class places greater specialist and technical demands on a logistics property than a standard logistics operation. More powerful lighting, an increased socket density, extensive IT cabling and the temperature inside the depot – to name just a few examples. Another difference is the more acute need for office and communal spaces on account of the larger number of employees. In terms of location, light industry properties are usually situated close to the production facilities where final assembly occurs.

LOCATION, LOCATION, LOCATION

Whether talking about residential or logistics properties, the location makes them attractive and is often the decisive factor in terms of whether or not to buy an existing property or build a new one. Excellent transport links in the form of direct access to transport hubs in big cities is also crucial. Another factor is the proximity to production facilities or key markets. Nowadays, new logistics sites are often built within a 50 kilometre radius of big cities, as this allows speedy delivery to the major urban area in question.

approx.

6 million sqm

of logistics space are sold every year in Germany

FACTS: "LIGHT INDUSTRY" – A NEW ASSET CLASS

- **Alongside warehousing and goods handling, there is also the option of pre-assembly**
- **More specialist and technically complex requirements on the logistics property, such as more powerful lighting, extensive IT cabling and the depot temperature**
- **More acute need for office and communal spaces due to the larger number of employees**
- **Proximity to production facilities**
- **Suitability for alternative use**

VIB AS A PARTNER IN THE LOGISTICS SEGMENT

COMPELLING REASONS

What makes VIB the perfect partner for its tenants in the logistics and light industry segments, as well as for potential buyers of properties or land? In a nutshell: we have experience and knowledge of the market, we are a full-service provider and are committed to long-term and reliable business relations.

OVER 20 YEARS OF EXPERIENCE

We have been operating in the market for logistics properties for 23 years. During this time, we have planned, developed or acquired numerous such properties. In order to maintain the high quality level of our portfolio, ensure sustainable rental incomes and minimise vacancy rates, we have set out stringent investment criteria for ourselves and rely wholly on in-house facilities management.

What's more, the location and the usability of the property play a vital role. We focus our investments on properties that are situated in the economically prosperous region of southern Germany and that boast a positive economic outlook. Southern Germany possesses a particularly high density of industry, which – coupled with low unemployment – leads to high purchasing power. The region also has excellent transport links thanks to its location in the heart of Europe.

With a view to our logistics clients, we got to grips with the requirements of "light industry" at an early stage. Thanks to our partnership-based approach, we have quickly built up a high degree of specialist expertise in this area, which is something that our tenants value. The fact that seven of the ten largest tenants of VIB Vermögen AG, measured by net rental proceeds, originate from this segment speaks for itself. This asset class will remain at the heart of our operations in the future.

Photo: Logistics facility in Scheßlitz

WE TAKE CARE OF EVERYTHING

Alongside the acquisition of completed properties, we also develop our own. To enable these projects, we usually purchase commercial sites in attractive locations in advance. Whether an in-house development or an acquired property, we always focus firmly on the needs of our tenants. Thanks to our experience in the logistics market, we can meet many of the needs of our future tenants before the construction phase has even begun. New builds are regularly constructed in partnership with the future anchor tenant. In keeping with our risk-aware approach, large sections of the future property are normally already rented at the time construction gets under way. This is how we put into practice bespoke concepts with appreciable added value for our customers, whilst ensuring that we are able to plan reliably.

Our tenants appreciate the comprehensive service they receive from VIB Vermögen. Our services range from site selection and acquisition through to bespoke planning. As we handle many aspects ourselves or with carefully selected general contractors, we offer particularly speedy implementation.

We manage the majority of our properties ourselves. This results in three main benefits: firstly, we remain in direct contact with our tenants and gain key insights into their needs and the development of the market concerned. Secondly, it is the best way to meet our high quality standards and, thirdly, we avoid the high costs associated with external service providers. A further positive upshot is that we can use our network in the logistics sector to quickly find a new tenant should the existing one move out. As a result, our vacancy rate is better than average.

Alongside the requirements of our customers, we also ensure good alternative usability. This is partly due to the combination of each property's favourable location and high functionality. For our logistics/light industry customers, in particular, factors such as a depot design with sufficient ceiling height and floor load capacity plays a major role. Furthermore, issues such as electromobility and/or the inclusion of charging points are taken into account from the outset.

OUR ETHOS: A LONG-TERM FOCUS AND RELIABLE PARTNERSHIPS

When acquiring and developing properties, we benefit from a broad network of regional partners. These include renowned companies and tenants, as well as banks, other intermediaries, local authorities and local decision-makers. Thanks to our knowledge of regional requirements and characteristics, we are able to anticipate many of the needs of vendors and potential tenants. This makes us a popular company to do business with, including when it comes to the cultivation of new logistics sites.

In turn, this helps us secure new sites at an early stage for the development of logistics properties, such as at Interpark near Ingolstadt.

What else makes us unique? We maintain our personal contacts, which are based on mutual trust, on a regular basis, as reliability is paramount to us. In this way, we build long-term partnerships that are underpinned by a spirit of trust. We pursue an approach of incorporating properties in our portfolio on a long-term basis. This gives tenants predictability in terms of their landlord, without having to speak to new people all the time.

Generally speaking, our tenants recognise this by entering into long-term rental agreements, which give us a high degree of predictability in return. We are delighted that the average term of all rental agreements across our portfolio remained at around six years in 2016, which is on a par with the pleasing level witnessed in the previous year. Due to the high degree of customer loyalty we enjoy, we usually automatically extend rental agreements with initial short terms or convert them into indefinite rental agreements. We also handle rental agreements approaching expiry at an early stage and in a solution-oriented way.

Alongside the duration of our rental agreements, our long-term approach is also reflected in the terms of the agreements. Here too, we believe in fair terms coupled with continuous utilisation of the property instead of a drive for short-term returns. This ethos also includes regular investment in repair and maintenance work on the property. We can only generate long-term loyalty on the part of tenants if we keep the properties in a permanently good condition.

In the logistics sector, in particular, we have been serving a series of renowned tenants for a long time. These include SMEs such as the Rudolph Group, Geis Industrie-Service and Imperial Automotive Logistics GmbH, not to mention big-name brands such as Audi and Continental. What's more, a credit check is performed on all companies prior to the conclusion of a rental agreement in order to minimise the risk of rental default.

5 GOOD REASONS TO CHOOSE VIB IN THE LOGISTICS MARKET

- ✓ **Long-standing experience and expertise in the asset classes of logistics and light industry**
- ✓ **Outstanding network in attractive logistics regions**
- ✓ **Numerous properties already planned, developed or acquired**
- ✓ **Bespoke concepts developed in consultation with clients**
- ✓ **Properties that exhibit alternative usability**

SUSTAINED **RETAIL** GROWTH

In the retail sector, the opportunities afforded by online shopping have changed consumer behaviour. The response of retailers can be summed up in one word: "multichannel", i.e. the strategy of reaching potential consumers via a range of sales channels. Bricks-and-mortar retail, however, will remain the industry's dominant sales channel in the long term.

The shift in consumer habits is also reflected in the growth figures. Industry association Handelsverband Deutschland (HDE) predicts strong overall sales growth of 2.5% to around EUR 486 billion for the 2016 fiscal year. Bricks-and-mortar retail grew by around 1%. This was much smaller than the increase seen in online retail, which grew by 11% in the same period.

The outlook for growth in the industry remains extremely positive. According to a study carried out by GfK, German consumers are still optimistic about the future, which should have a positive effect on retail sales.

1%

Growth in bricks-and- mortar retail

VS.

11%

Growth in online retail

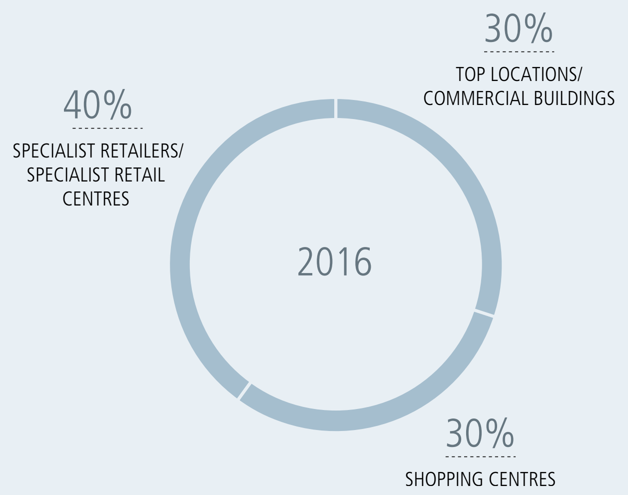
NEW REQUIREMENTS FOR RETAIL PROPERTIES

In light of changing consumer behaviour, new requirements will be placed on retail properties. This does not just affect retail itself, but the logistics processes involved. One example: the emerging online retail sector requires less retail space overall, but instead needs logistics hubs with good transport links. At the same time, online retailers are increasingly opening bigger outlet stores so as not to lose their proximity to customers.

In turn, this is driving demand for retail space, especially in good and excellent locations close to big cities and within conurbations. At the same time, ever more space is required. Today's retail stores are often three times the size of their equivalents 20 years ago, with the importance of factors such as warehouse capacity, infrastructure, flexibility and expansion potential rising accordingly.

As part of the expansion of the multichannel approach, bricks-and-mortar retail is increasingly moving away from pure product presentation and is instead becoming a venue for shopping experiences. Retailers have to offer consumers added value in stores that is not otherwise available online or from competitors.

TRANSACTION VOLUME BY BUILDING TYPE IN THE RETAIL SECTOR 2016



Source: Colliers International, market report on Germany, 2016/2017

DEMAND FOR RETAIL PROPERTIES REMAINS HIGH

According to a Deutsche Bank study, there is currently almost 120 million sqm of retail space in Germany, the value of which is estimated at between EUR 160 and 200 billion. Annual sales of almost EUR 400 billion are transacted on this space. The study found that international investors still see considerable potential for value appreciation in the German market.

In the past, the transaction volume for retail properties kept setting new records; according to a study conducted by BNP Paribas, it even reached the second highest level in history in 2015. In 2015, the average of the previous ten years was exceeded by around 74%, with specialist retailers and supermarkets accounting for just under a third of the total volume.

In 2016, the transaction volume for retail properties grew far more moderately at first. This was chiefly due to a lack of supply in top locations. From the third quarter of 2016 onwards, however, the transaction volume once again picked up noticeable momentum. In the 2016 reporting year, demand was once again especially high for specialist retail stores and supermarkets. In light of these underlying conditions, however, a squeeze on yields in this asset class was observed.

Based on the trend of previous months, we anticipate a continuously high demand for retail properties in the future. Due to the continued low interest rates, professional investors are searching for lucrative investment opportunities. Another reason lies in the positive sales growth observed in retail, which is driving increased demand for suitable rental spaces.

A PARTNER THAT OFFERS ADDED VALUE FOR RETAILERS

Upstream and downstream logistics is also a key success factor for retailers. With more than 20 years of experience in both sectors, we can therefore make an important contribution to optimising retail usage concepts.

As the holder of a retail portfolio, it is crucial that our properties and the shopping experience remain attractive in the eyes of consumers, as this is the only way that we can ensure long-term loyalty on the part of our tenants. A prime example of successful modernisation work is the refurbishment of City Center Gersthofen, which we completed in 2016. Here, we invested around EUR 1 million in the rejuvenation of the entire property – a project that involved extensive work in all indoor and outdoor areas. Cutting-edge technologies, a uniform outer appearance (including improved advertising structures) and a new guidance system ensure an interesting and enjoyable shopping experience.

CORPORATE GOVERNANCE AND SUSTAINABILITY

CORPORATE GOVERNANCE

Corporate governance describes a responsible, transparent leadership approach that is geared towards long-term value creation. We firmly believe that good corporate governance is a key pillar underpinning sustainable success and that it strengthens the trust shown in our company by shareholders, business partners, employees and the financial markets.

INFORMATION ON MANAGEMENT PRACTICES

For VIB Vermögen AG, applicable legislation – particularly company and capital market law, the company's articles of incorporation and the rules of procedure issued by the Supervisory and Managing Boards – is the basis on which the company is governed and overseen.

VIB Vermögen AG also believes, however, that good corporate governance entails the application of corporate governance practices that go beyond statutory requirements. With this in mind, the ability of both the management and workforce to act in a proactive and committed fashion, and to respond flexibly and promptly to changes, is the cornerstone of sustainable company success. The stated aim of the company is to win the trust of all stakeholders in the reliability and performance of VIB Vermögen AG.

In general terms, this requires a high degree of personal initiative and openness to change, as well as expertise and dedication on the part of the whole team. The company's senior management treat their employees with great respect and courtesy, set high standards, provide impetus and always strive to inspire the necessary confidence. In day-to-day operations, individuality is respected and diversity of opinion fostered. Decisions are implemented with purpose and resolve in an atmosphere characterised by mutual acceptance and appreciation.

WORKING STYLE OF THE MANAGING AND SUPERVISORY BOARDS

A key feature of German company law is the dual governance system, which comprises a Managing Board and a Supervisory Board. The Managing Board is the governing body of a public limited company (Aktiengesellschaft) and the Supervisory Board is the oversight body. The Managing Board runs the company on its own authority, whereas the Supervisory Board oversees the Managing Board and advises it on how to conduct business. In particular, it appoints the members of the Managing Board and is responsible for Managing Board affairs. Since January 1, 2017, the Managing Board of VIB Vermögen AG has comprised two members. The Supervisory Board consists of three members. The Supervisory Board members, who – in accordance with the articles of incorporation – are appointed for five-year terms, reflect the activities of VIB Vermögen AG in terms of their professional experience.

When selecting members of the Supervisory Board, the emphasis is not only on experience, but also on the skills and knowledge necessary to perform the role. On account of the size of the company, the Supervisory Board has not formed any committees, as it is possible for the Supervisory Board to work effectively as a whole. The Supervisory Board has drawn up rules of procedure governing its work. The Supervisory Board is quorate when all three Supervisory Board members are present for a vote. It passes resolutions with a majority of the votes cast. The Chair of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents its interests vis-à-vis external parties. The Supervisory Board report issued to the Annual General Meeting outlines details of the Supervisory Board's work in the year under review.

The Managing and Supervisory Boards work together closely and in a spirit of mutual trust as they perform their statutory duties. The aim is to sustainably increase the value of the company. The Supervisory Board is consulted on strategy and planning, as well as on all questions of fundamental importance to the company.

Significant business transactions are subject to approval requirements set out by the Supervisory Board. The Managing Board provides the Supervisory Board with regular and comprehensive information – both in a timely fashion in writing and at the Supervisory Board meetings – on all developments and events significant to the company. This information pertains to the general course of business, planning, the risk situation and any compliance measures employed by the Managing Board to ensure adherence to rules and legislation within the company. If necessary, the Supervisory Board will meet without the Managing Board, and extraordinary Supervisory Board meetings will be held. In the 2016 fiscal year, there were no conflicts of interest on the part of Managing and Supervisory Board members that had to be disclosed to the Supervisory Board. There were also no consultancy contracts, or other contracts for service/works, between the members of the management and the company in the 2016 fiscal year.

MANAGING BOARD REMUNERATION

The system, amount and payment dates of Managing Board remuneration are set out and regularly reviewed by the Supervisory Board on behalf of VIB Vermögen AG. In terms of evaluating the appropriateness of remuneration, the extent of the duties and areas of responsibility of the individual Managing Board member are taken into account on the one hand; on the other hand, factors such as the size of the company, its asset, financial and earnings position, and its development opportunities are considered on the other.

The remuneration system for the Managing Board of VIB Vermögen AG comprises a non-performance-related component and a performance-related component. The non-performance-related component consists of a fixed annual salary, ancillary benefits and pension commitments. The fixed annual salary is payable in twelve monthly instalments, each of which is paid midway through the month. The ancillary benefits primarily comprise insurance premiums and the use of company cars. Tax is paid on taxable ancillary benefits by each Managing Board member separately.

The performance-related component of the remuneration system is tied to the economic performance of the company and is subject to upper monetary caps. The system combines both short- and long-term components that are linked to the sustainable development of the company. The performance-related remuneration is calculated on the basis of the consolidated pre-tax profit per share reported, adjusted for valuation effects and extraordinary items.

Benefits paid to a Managing Board member on the occasion of premature termination of their Managing Board tenure due to a change of control are limited to three annual salaries.

No advances or loans were granted to members of the Managing Board by the company. In the year under review, no Managing Board member received benefits or benefit commitments from a third party in respect of their position as a Managing Board member.

The Supervisory Board did not grant the Managing Board members any one-off benefits in the 2016 fiscal year. Beyond that, there are no share schemes or other securities-based incentive systems in place for the Managing Board.

FURTHER ELEMENTS OF GOOD CORPORATE GOVERNANCE

INFORMATION AND TRANSPARENCY FOR SHAREHOLDERS

By law, the Annual General Meeting is the platform for the shareholders of VIB Vermögen AG to exercise their voting rights and obtain information. Our shareholders exercise their rights at the company's Annual General Meeting. The Annual General Meeting votes on all matters that, as prescribed by law, are of a binding nature for all shareholders and the company.

All documents relating to the Annual General Meeting required by law are available in German on our website (www.vib-ag.de), pursuant to company law. These include the invitation, the agenda items, any reports and information required for voting purposes and any information on attending the Annual General Meeting, voting and safeguarding shareholder rights.

The Annual General Meeting is organised in order to ensure that shareholders are provided with comprehensive information in a timely and effective manner. Whenever a ballot is held, each share entitles the holder to one vote. All shareholders who register on time and in accordance with the eligibility requirements set out in the invitation to the Annual General Meeting are entitled to attend the Annual General Meeting. Shareholders who are unable to attend the Annual General Meeting in person have the opportunity to entrust their voting rights to official proxies named by VIB Vermögen AG, but who are bound by the shareholders' instructions, or to be represented by a financial institution, a shareholders' association or another proxy chosen by the shareholder. The official proxies can be contacted during the entire duration of the Annual General Meeting. Following the Annual General Meeting, we will publish the attendance figures and voting results in the "Investor Relations" section of our website (www.vib-ag.de). The next Ordinary Annual General Meeting will be held on June 29, 2017, in Ingolstadt.

All half-yearly and annual reports, as well as the interim reports, can be accessed on the company's website. The Managing Board regularly and promptly informs shareholders, interested investors, analysts and the media of significant developments at the company. Corporate news items and, if necessary, ad hoc releases provide information on current events and new developments. The "Investor Relations" section of the company's website (www.vib-ag.de) also provides an interested capital market audience with more comprehensive information on VIB Vermögen AG. Important dates for shareholders are also listed in a financial calender and published online. The financial reports, the financial calendar and ad hoc releases are available online in the "Investor Relations" section of the company website (www.vib-ag.de).

COMPLIANCE

As the holder of a commercial property portfolio, VIB Vermögen AG is reliant on the trust of its tenants, shareholders and business partners. Behaviours that could harm this trust, unfairly influence the capital market or have a detrimental impact on the reputation of our company must be avoided.

For the company, its governance and oversight bodies and its employees, compliance is therefore not just the adherence to existing legislation, but also adherence to internal instructions and voluntary commitments in order to put the values, principles and rules of responsible corporate governance into practice in day-to-day business operations.

RISK MANAGEMENT

The responsible handling of business risks, i.e. an effective risk management system, also helps ensure the success of good corporate governance. A risk management system of this nature makes it possible to identify and assess risks at an early stage and to initiate appropriate countermeasures. To this end, the Managing Board of VIB Vermögen AG has company-specific reporting and control systems at its disposal. Furthermore, these systems are enhanced on an ongoing basis and cover all areas of the company. The Managing Board informs the Supervisory Board of existing risks and their progression on a regular basis. Within the context of the end-of-year audit of the annual financial statements, the Supervisory Board focuses particularly on overseeing the accounting process including reporting, the effectiveness of the internal control system, the risk management system, compliance and the final audit. In the risk report of the 2016 Annual Report, we report on the principles of the risk management system and the current risks to the company.

ACCOUNTING AND END-OF-YEAR AUDIT

VIB Vermögen AG prepares its annual financial statements in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The consolidated annual financial statements are prepared in accordance with the fundamental principles of the International Financial Reporting Standards (IFRS).

The annual financial statements of VIB Vermögen AG and the consolidated annual financial statements were audited by the audit firm appointed at the 2016 Annual General Meeting – S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg – and adopted and approved by the Supervisory Board. The audits were conducted in accordance with German audit guidelines and with due regard to the principles of proper end-of-year audits as set out by Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany, Incorporated Association) (IDW). Prior to a proposal being made as to the choice of auditor, the Supervisory Board obtained a declaration from the auditor detailing any relations between the auditor, its governing bodies and audit manager and the company or members of its bodies. There were no doubts as to the auditor's independence.

SUSTAINABILITY

Here at VIB Vermögen AG, we are conscious of our responsibilities. For us, sustainability means taking a long-term approach. We do not think in terms of quarters, but instead pursue a far-sighted strategy. With this in mind, we once again demonstrated in 2016 that we take our responsibilities seriously and that we also aspire to be a role model in terms of economic considerations, ecological considerations, employees and society.

When it comes to sustainability, properties offer numerous starting points in this regard that go beyond existing statutory requirements, regardless of whether they are logistics, retail or office spaces. Both in terms of our new builds and our existing properties, we take into account ecological aspects such as resource-saving construction methods and the sustainable usability of the building. The aim is to strike the right economic – but also the right ecological – balance across the entire useful life of a property.

At VIB Vermögen AG, the issue of sustainability is the responsibility of the entire Managing Board and is also followed and overseen by the entire Supervisory Board. Sustainability-related topics are implemented via the line management structure in place at VIB Vermögen AG. Within the scope of day-to-day operations, those responsible for specific areas ensure that agreed standards and measures are implemented and that targets are attained. The responsible personnel are employed in the following departments: Property Management, Project Development, Construction Management and Monitoring, Accounting, and Communication.

THE NEW COMPANY HEAD OFFICE AS AN EXAMPLE OF ENERGY-EFFICIENT CONSTRUCTION

The latest example of an energy-efficient construction method at VIB Vermögen AG is the new head office in Neuburg an der Donau. We placed great emphasis on cutting-edge technology when bringing this project to life. Alongside the latest standards in the fields of cooling and air conditioning technology, coupled with heat pumps, the building also boasts a solar installation, a ventilation system with heat recovery technology, LED lighting and charging points for electric vehicles.

EFFICIENT NEW-BUILD PROJECTS

In order to ensure that our new-build projects meet the highest ecological standards, we consider key factors such as soundproofing, potential compensatory sites and optimum infrastructure utilisation at the site selection phase.

In light of rising electricity prices, it is also particularly important with new builds to keep energy consumption to a minimum. We usually plan our in-house developments in such a way that all the specifications of the German Energy Saving Ordinance (Energiesparverordnung) are exceeded. At the same time, we use recyclable materials and sustainable resources wherever possible. We also harness cutting-edge technology to run our properties in as cost-efficient and eco-friendly a way as possible, installing charging points, for example, so that our clients can make increased use of electric vehicles. We also embrace the use of renewable energies and employ them wherever it is possible and economically viable to do so, whether solar installations to generate electricity, rainwater infiltration, the use of daylight, or geothermal energy to heat buildings in winter and keep them cool in summer. Thanks to this approach, we ensure that our properties meet a very stringent standard when it comes to CO_2 emissions. Together, all these measures ensure a high degree of environmental friendliness, result in economic benefits for us and our tenants and, if necessary, contribute to the usually smooth process of finding a replacement tenant.

OPTIMISED PORTFOLIO PROPERTIES

Further key factors are the maintenance, modernisation and enhancement of our portfolio properties. These measures not only retain the value of the properties, but also make them more attractive to our tenants. They include the use of modern lighting systems with dynamic light control and LED technology, with the resulting energy savings frequently exceeding the 80% mark. The total costs of these investments are usually amortised within two to three years.

LONG-TERM FINANCING SOLUTIONS

The issue of sustainability also plays a pivotal role in the way our properties are financed. The majority of our properties have been funded with annuity loans taken out from local banks. As a result, the monthly repayments can be accurately predicted. There is no refinancing risk with this kind of financing arrangement – and only the new interest rate is negotiated once the fixed-interest period expires. Overall, the regular repayments associated with annuity loans result in a continuous reduction in liabilities to banks and, therefore, a sustained increase of the company's net asset value.

LOYALTY TO EMPLOYEES AND THE LOCAL REGION

We do everything in our power to ensure that our employees are happy at the company, can make the most of their talents and deploy their experience and specialist knowledge on our behalf. We are delighted by the long average length of service and low staff turnover – and see this as evidence of a positive working environment. We are also taking steps to safeguard the future of our workforce. Last year, we launched a company pension scheme to support all employees in the VIB Group.

Furthermore, we also attach great importance to the training and professional development of our people. Alongside a range of internal seminars and training events, VIB has also been certified as an apprenticeship provider for property professionals by the "Industrie und Handelskammer" (IHK, German Chamber of Industry and Commerce) since 2013. We also help our employees to become IHK-certified estate agents.

We are also conscious of our obligations to the society in which we have been able to grow so strongly over the past 20 years. We want to give something back. Alongside our support in establishing a real estate professorship at Ingolstadt University of Applied Sciences, VIB regularly helps charitable centres and initiatives in the region. We also increasingly look towards regional companies when awarding contracts for services connected to our core business, such as the maintenance of our properties.

GROUP **MANAGEMENT REPORT**

DETAILED INDEX

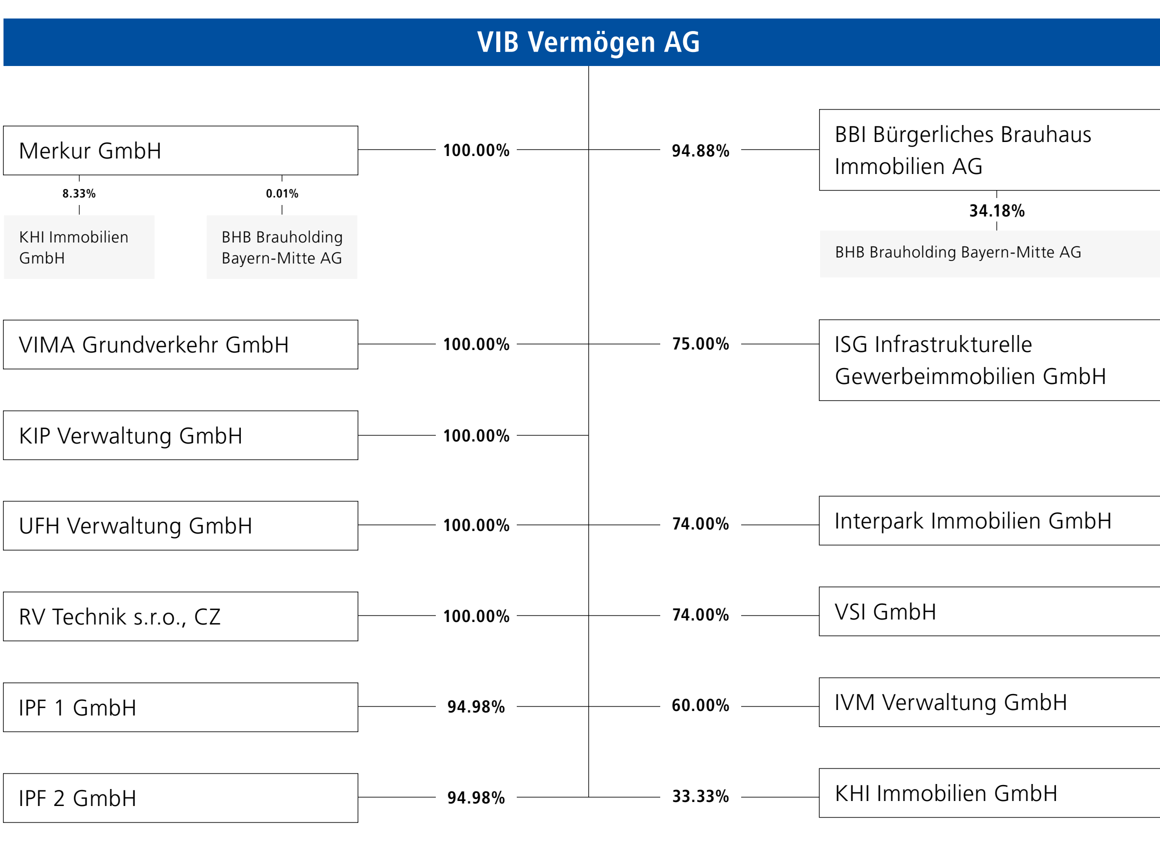
BASIS OF THE GROUP

1. BUSINESS ACTIVITIES, GROUP STRUCTURE AND PARTICIPATING INTERESTS

VIB Vermögen AG (also referred to below as "we", "VIB" or the "VIB Group") is a medium-sized company specialising in commercial real estate management that has now been operating successfully for more than 20 years. We focus on logistics and retail properties in the economically strong region of southern Germany. Founded as an unincorporated firm in 1993, it was converted into a public stock corporation in 2000. VIB's shares have been listed on the Munich (m:access) and Frankfurt (Open Market) stock exchanges since 2005.

Our business model is based on a "develop-or-buy-and-hold" strategy. We develop new properties from scratch and acquire properties that are already let in order to transfer them to our portfolio over the long term and generate lasting rental income from them. VIB also holds investments in companies with real estate assets. As of December 31, 2016, our portfolio comprised a total of 104 attractive logistics and light-industry properties and specialist retail centres, as well as commercial and service centres, with a total rentable area in excess of 1 million sqm. We manage our own real estate portfolio with the support of our wholly owned subsidiary Merkur GmbH.

OVERVIEW OF PARTICIPATING INTERESTS AS OF DECEMBER 31, 2016



VIB Vermögen acquired a majority interest in BBI Immobilien AG in 2007. The interest it held as of December 31, 2016, amounts to 94.9% of the share capital of BBI Immobilien AG. VIB Vermögen AG indirectly holds 34.2% of the shares of the subsidiary of BBI Immobilien AG, BHB Brauholding Bayern-Mitte AG (BHB Brauholding AG), which was founded in November 2009.

A profit-transfer agreement is in place between VIB Vermögen AG and BBI Immobilien AG. Accordingly, VIB Vermögen AG has undertaken to pay the shareholders of BBI reasonable monetary compensation (a guaranteed dividend) of EUR 0.74 (gross) per ordinary share for the duration of this agreement as a repeat annual payment.

2. CORPORATE TARGETS AND STRATEGY

We pursue the objective of continuously and sustainably increasing the value of our company by expanding our property portfolio. The management of high-yield commercial properties enables high recurring cash flows (funds from operations, FFO), sustained increases in the net asset value (NAV) of the company and the distribution of attractive dividends to our shareholders.

VIB pursues a threefold strategy to this end:

DEVELOP-OR-BUY-AND-HOLD-STRATEGY

We continuously expand our portfolio by means of targeted in-house developments and acquisitions in the high-growth regional centres of southern Germany. The company focuses on strong economic sectors that offer attractive future prospects – especially logistics and retail in Germany, both of these segments play a prominent role in the value chain and have been recording steady growth rates for years. We focus on German medium-sized commercial tenants and multinational corporations with high credit ratings, thereby making a substantial contribution to the value retention of VIB's real estate portfolio. We also invest in industrial and office properties in order to ensure broad asset diversification.

We draw on an extensive network of regional partners, both in terms of acquiring existing properties and developing our own. Apart from selecting the right location for our in-house developments, a key element is that our construction projects usually only begin once we have secured reliable rental commitments for a significant portion of the planned property. This approach minimises our project and financing risks and enables speedy and needs-driven completion of the construction project in the interests of the customer.

SUSTAINABLE FINANCING

In terms of financing, we focus on annuity loans and therefore pursue a long-term approach. We continually increase the net asset value (NAV) of our portfolio by repaying these loans on an ongoing basis. Solid financing, coupled with a balanced loan-to-value (LTV) ratio of around 54%, enables us to obtain new capital on attractive terms as and when necessary.

IN-HOUSE PORTFOLIO MANAGEMENT

When it comes to facilities management, we deliberately eschew the services of external providers and rely instead on efficient and effective management by our own staff. Through intensive contact with our tenants, we can respond rapidly to changes in market circumstances and tenant needs. A high degree of tenant loyalty and the long-term rental of our properties to individual solvent tenants also facilitate low administration costs and a vacancy rate that has been very low for several years.

3. STEERING SYSTEM

VIB's Managing Board steers the company with the help of financial and non-financial key indicators that significantly affect the growth of the company's value. These indicators are analysed constantly and form part of monthly and quarterly reporting to the Managing Board. The steering system ensures that deviations from projections are identified at an early stage, thereby allowing countermeasures to be initiated in a timely fashion. Corresponding target/actual comparisons help to develop other potential courses of action. Further specific analyses are performed if required. We also regularly review our overall corporate development and growth – including in comparison to relevant competitors.

The properties that we hold in our portfolio comprise our central asset base. Consequently, analyses and appraisals are prepared on an ongoing basis in order to assess the portfolio. These provide information about the most important indicators, such as rental contracts' remaining terms, tenant structure, vacancy rates and outstanding items.

VIB steers its operating business by applying the following financial and non-financial performance indicators:

PERFORMANCE INDICATORS

KPI	Description	**2016**	2015
Financial performance indicators			
Total operating revenue	Total operating revenue (as per income statement)	EUR 79.9 million	EUR 75.6 million
EBIT	Earnings before interest and tax (excluding valuation result and extraordinary items)	EUR 61.1 million	EUR 57.0 million
EBT	Earnings before tax (excluding valuation result and extraordinary items)	EUR 40.8 million	EUR 36.5 million
FFO	Funds from Operations (FFO)	EUR 35.8 million	EUR 32.6 million
Non-financial performance indicators		**Value as of 31/12/2016**	Value as of 31/12/2015
Vacancy rate	based on effective annual net rent	1.3%	1.8%
Average interest rate on borrowing portfolio	Fixed- and variable-interest borrowings	3.11%	3.67%

4. EMPLOYEES

As of the end of the 2016 fiscal year, the VIB Group employed 31 commercial staff in addition to the three members of the Managing Board (31/12/2015: 31 staff). In addition, 5 industrial staff (31/12/2015: 6 staff) were employed, primarily in part-time employment arrangements associated with facilities management. The resulting expenses are passed on to our tenants via ancillary costs.

In the year under review, the Managing Board comprised Ludwig Schlosser (Chairman/CEO), Holger Pilgenröther (CFO) and Martin Pfandzelter (COO). As of December 31, 2016, Mr Schlosser stepped down from the Managing Board of his own volition for age reasons. Since January 1, 2017, the Managing Board has comprised two members: Martin Pfandzelter (CEO) and Holger Pilgenröther (CFO).

VIB fosters its employees by means of internal and external training courses and professional development opportunities that are geared towards the needs of our core business. As a result, we meet our aim of putting together the right team for the good of our company and for the good of our tenants and business partners. A long-term approach is not only the defining characteristic of our core business, but also of our HR policy. We are proud that many of our employees have been with the company for many years.

BUSINESS REPORT

1. MARKET AND COMPETITIVE ENVIRONMENT

MACROECONOMIC TRENDS

Global economic growth lagged behind expectations in 2016, coming in at 3.1% – which was more or less on a par with the previous year. Global trade also remained sluggish. Although the World Trade Organization (WTO) was still forecasting 2.8% growth in the volume of global trade back in April 2016, it had risen by a mere 1.7% as of the end of the year. Weaker economic performance in emerging countries such as China and Brazil, as well as slower growth in the US compared to the previous year, was cited as the main cause.

The German economy remained strong in the year under review, despite the background of a challenging global economy. The current high degree of uncertainty – such as in terms of the future direction of US policy, the consequences of the Brexit referendum and the implications of the constitutional referendum in Italy – have, thus far, not had any notable impact on the German economy. Factors driving the relatively strong economic growth included the low oil price, low interest rates, high demand for living space and, not least, increasing investment within the public sector. Overall, a 1.9% increase was recorded in gross domestic product (GDP), which was up slightly on the previous year's level (previous year: 1.7%).

On account of the challenging global economic environment, German exports grew by less than expected in the year under review. Whilst exports with European countries increased, there was a noticeable decline in trade volumes with countries outside the European Union. Even though the end-of-year increase in exports came in below expectations at 2.5%, Germany once again held on to its status as the country with the world's largest current account surplus.

Inflation stood at 0.5% in 2016, remaining at the extremely low rate witnessed in the previous year (previous year: 0.3%). This was chiefly due to a continued low average oil price throughout the year, as well as low energy and electricity prices. By contrast, there was a further increase in purchasing power per capita in Germany, although the rise of 1.9% was less than in the year before (previous year: 2.7%). The increase in purchasing power was underpinned by private consumer spending in Germany, which – according to figures published by the German Federal Statistical Office – climbed by 2.0% (previous year: 2.0%).

SECTOR TRENDS

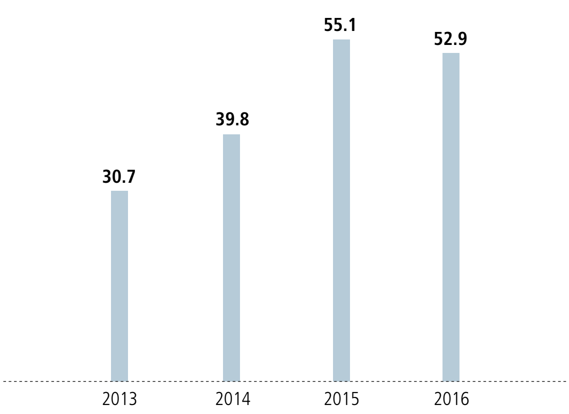
VIB Vermögen AG is a long-term property portfolio management company that focuses primarily on the logistics and retail segments. In Germany, both of these segments play a prominent role in the value chain and have been recording steady growth rates for years. Whereas retail grew by 2.5% in the year under review, logistics revenues shot up by 7.5%. Together, the two segments generated total revenues of around EUR 750 billion in 2016 and therefore accounted for approx. 24% of German gross domestic product (GDP).

The considerable interest in properties, particularly commercial properties, as an investment class continued unabated in the year under review. By virtue of its strong economic performance, continued low interest rates and stable regulatory framework, Germany remains an attractive market for institutional investors.

The positive mood was once again reflected in the transaction volume for commercial properties, even though it came in slightly below the record level of the previous year. With total investments of EUR 52.9 billion, the third-best annual figure in the long-term statistics was nonetheless recorded (coming in behind 2007 and 2015). As in the previous year, this was due to a strong end-of-year surge with several high-volume individual and portfolio transactions. Demand for German commercial properties also remains high amongst foreign investors. With investments of around EUR 24 billion, they accounted for around 45% of the total transaction volume in the year under review.

TRANSACTION VOLUME FOR INDUSTRIAL REAL ESTATE IN GERMANY

IN EUR BILLION



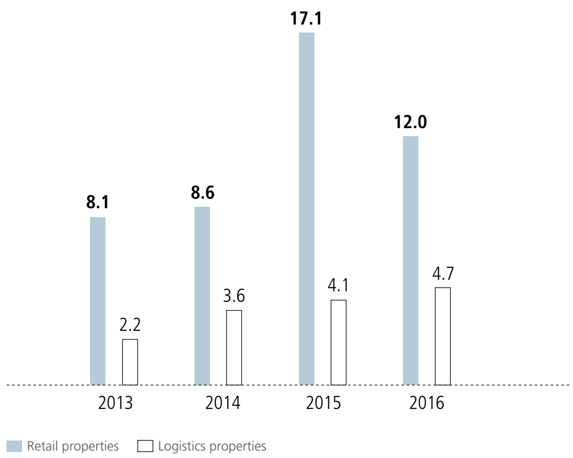
Whilst the transaction volume for retail properties also exhibited a pleasing performance in 2016, it couldn't match the historical peak witnessed in the previous year. The industry is nonetheless satisfied, as the recorded volume of EUR 12.0 billion is still above the long-term average.

The logistics and industrial property market closed the 2016 fiscal year with yet another record performance, thus continuing the upwards trajectory of recent years. With a transaction volume of EUR 4.7 billion, revenues increased by around EUR 600 million, or 15%, year-on-year. The figure recorded in the year under review was an impressive 84% higher than the average of the past five years.

The excellent performance of the German logistics market compared with the rest of the world is also reflected in the regular Logistics Performance Index (LPI) published by the World Bank. This index is based on a survey of the world's largest logistics companies and assesses the performance of the logistics industry in a total of 160 countries across the globe. As was the case in 2010 and 2014, Germany once again took the top spot in 2016. Alongside Germany, the top 10 of the LPI 2016 is dominated by six other European countries, which is evidence of the high standing of the entire European logistics market.

TRANSACTION VOLUMES IN THE LOGISTICS AND RETAIL SECTORS

IN EUR BILLION



2. BUSINESS TRENDS

TARGET/ACTUAL COMPARISON

	Guidance for 2016	Actual 2016 figures
Financial performance indicators		
Total operating revenue	EUR 78.0 million to EUR 82.0 million	EUR 79.9 million
EBIT excluding valuation effects and extraordinary items	EUR 58.0 million to EUR 61.0 million	EUR 61.1 million
EBT excluding valuation effects and extraordinary items	EUR 38.0 million to EUR 40.5 million	EUR 40.8 million
FFO (Funds from Operations)	EUR 33.0 million to EUR 35.5 million	EUR 35.8 million
Non-financial performance indicators	Guidance for 31/12/2016	Actual figures as of 31/12/2016
Vacancy rate	< 5.0%	1.3%
Average interest rate on borrowing portfolio	3.30% to 3.40%	3.11%

The 2016 fiscal year was to our utmost satisfaction. We either achieved or exceeded all the targets we set ourselves:

Total operating revenue of EUR 79.9 million lay in the middle of the EUR 78.0 million to EUR 82.0 million forecast that we set for ourselves. In particular, it was positively influenced by increased rental incomes from properties added to our portfolio in 2016, as well as from properties that only partially influenced annual revenue in 2015.

Our earnings before interest and tax (EBIT excluding valuation effects and extraordinary items) came in at EUR 61.1 million, which was slightly above the guidance of EUR 58.0 million to EUR 61.0 million made at the start of the year. This was primarily attributable to an increase in operating revenue and lower expenses for investment properties.

Earnings before tax (EBT excluding valuation effects and extraordinary items) also exceeded expectations slightly, amounting to EUR 40.8 million (2016 guidance: EUR 38.0 million to EUR 40.5 million). The continued low interest rates were also a contributory factor to this pleasing development, as they led to a small year-on-year decline in VIB's interest expenses in spite of an increase in financial liabilities.

We also achieved or exceeded all of the targets that we had set ourselves in terms of non-financial performance indicators:

In respect of the vacancy rate on the basis of effective annual net rents, we predicted a figure of below 5% as of December 31, 2016. With a vacancy rate of 1.3%, we not only met our guidance but also improved on the already excellent figure of 1.8% as of December 31, 2015. This improvement was due, first and foremost, to our efficient and forward-looking portfolio management.

With a figure of 3.11%, the average interest rate on the portfolio of borrowings as of December 31, 2016, was slightly better than the guidance of 3.30% to 3.40%. Vital in this regard were not only the excellent conditions for new financing agreements but also the newly agreed terms for existing loans whose fixed interest rates were due for renewal in 2016.

We continued to grow in 2016 and invested a total of EUR 77 million in new properties and real estate as well as the modernisation of existing properties (previous year: EUR 56 million).

In September, we acquired a logistics facility in the Bavarian town of Wackersdorf, with an investment volume of EUR 6.6 million. The property is generating an initial yield of 7.0%, is let for 10 years and has a useful area of 9,880 sqm.

With an investment volume of EUR 21.9 million, we also acquired a logistics facility in Uffenheim in October. The initial yield of the property is 8.7%; it has a useful area of 30,200 sqm and is let until the end of 2019.

We also invested in the acquisition of four sites with a total area of approx. 228 thousand sqm in order to be able to benefit from in-house developments in the years ahead. All sites boast excellent infrastructure links and are ideal for the development of further logistics properties.

As part of portfolio optimisation efforts, we sold two smaller properties with a total area of 2,000 sqm in the fourth quarter of the year. The two properties only accounted for a small portion of the overall rental earnings of the VIB Group. The proceeds of both sales exceeded the respective carrying values.

As of December 31, 2016, the property portfolio of the VIB Group comprised a total of 104 properties (31/12/2015: 103 properties) with a total rentable area of 1.04 million sqm (31/12/2015: 1.00 million sqm). The portfolio's vacancy rate fell further to 1.3% (31/12/2015: 1.8%). Due to the increase in our property portfolio, the annualised net rental income rose to EUR 70.8 million as of December 31, 2016 (31/12/2015: EUR 68.0 million). At the same time, the market value of the total portfolio increased to EUR 1,061.8 million as of the balance sheet date (31/12/2015: EUR 969.0 million). The average rental yield of all Group properties remained attractive at 7.14% (31/12/2015: 7.24%).

The mandatory convertible bonds issued in 2014 by VIB Vermögen AG were completely converted on December 5, 2016, after partial debenture bonds had been converted ahead of schedule in the previous year and during the reporting period. This resulted in 1,271,374 new shares during the financial year, which meant that the total number of shares increased to 27,579,779 altogether.

3. EARNINGS, ASSETS AND FINANCIAL POSITION

EARNINGS POSITION

SELECTED INDICATORS OF EARNINGS POSITION

IN EUR THOUSAND	**2016**	2015	Change in %
Revenue	79,549	75,133	+5.9
Total operating revenue	79,899	75,633	+5.6
EBIT	79,119	73,438	+7.7
EBIT (excluding valuation effects and extraordinary items)	61,101	57,028	+7.1
EBT	58,820	52,788	+11.4
EBT (excluding valuation effects and extraordinary items)	40,802	36,510	+11.8
Consolidated net income	49,403	44,047	+12.2
Earnings per share in EUR (undiluted & diluted)	1.71	1.46	+17.1

Revenue rose by 5.9% to EUR 79.5 million in the 2016 fiscal year (previous year: EUR 75.1 million). This was attributable to additional rental incomes from new investments in 2016 and properties purchased in the previous year that only generated rental incomes across an entire year for the first time in 2016. Alongside rental incomes, the item "Revenue" also includes operating costs paid by tenants. Other operating revenue came in at EUR 0.4 million (previous year: EUR 0.5 million). This primarily concerns income from insurance compensation and payments for damages. Operating revenue, which comprises revenue and other operating revenue, rose by 5.6% to EUR 79.9 million (previous year: EUR 75.6 million).

The market valuation of our real estate portfolio as of December 31, 2016, resulted in a EUR 18.0 million increase in the "changes in value for investment properties" item (previous year: EUR 16.4 million). This item includes both increases and reductions to the values of properties. Net value increases came to EUR 20.4 million (previous year: EUR 21.4 million), whereas net value reductions came to EUR 2.4 million (previous year: EUR 5.0 million).

Expenses for investment properties amounted to EUR 13.3 million (previous year: EUR 13.6 million). This slight fall was chiefly due to a decline in costs for renovation and maintenance work. Personnel expenses rose by EUR 0.5 million to EUR 3.8 million in the year under review (previous year: EUR 3.3 million), whereas other operating expenses remained on a par with the previous year at EUR 1.6 million (previous year: EUR 1.6 million). We attribute our efficient cost situation (in comparison to the rest of the sector) to the fact that our own employees manage most of our properties as well as to our systematic cost management in all other areas.

After deducting depreciation and amortisation, we achieved earnings before interest and tax (EBIT) of EUR 79.1 million in the year under review (previous year: EUR 73.4 million). When adjusted for property-related valuation effects, EBIT improved by 7.1% to EUR 61.1 million (previous year: EUR 57.0 million).

Equity-accounted investments, primarily the interest in BHB Brauholding AG, generated earnings of EUR 0.2 million in 2016 (previous year: EUR 0.02 million). Expenses related to the measurement of financial derivatives stood at EUR 0.0 million in the year under review (previous year: EUR 0.1 million).

In 2016, we posted interest income of around EUR 0.05 million (previous year: EUR 0.06 million). Despite the investments made in our real estate portfolio in the year under review and the resulting rise in overall liabilities, interest expenses have remained steady at EUR 20.4 million due to more favourable financing terms (previous year: EUR 20.4 million). The expenses from the guaranteed dividend paid to the shareholders of BBI AG came in at EUR 0.2 million (previous year: EUR 0.2 million).

Our earnings before tax (EBT) improved by 11.4% in the year under review to EUR 58.8 million (previous year: EUR 52.8 million). When adjusted for valuation effects and extraordinary items, EBT was up by 11.8% year-on-year at EUR 40.8 million (previous year: EUR 36.5 million). This result once again emphasises the excellent operating performance of the VIB Group.

Income taxes came in at EUR 9.4 million (previous year: EUR 8.7 million). EUR 3.4 million thereof was attributable to current taxes (previous year: EUR 2.6 million) and EUR 6.0 million thereof was attributable to deferred taxes (previous year: EUR 6.1 million). The income tax rate was 16.0% (previous year: 16.6%).

Consolidated net income improved to EUR 49.4 million and was therefore 12.2% up on the previous year (previous year: EUR 44.0 million). The undiluted and diluted earnings per share both stood at EUR 1.71 (previous year: EUR 1.46).

NET ASSETS

SELECTED INDICATORS OF NET ASSETS

IN EUR THOUSAND	**31/12/2016**	31/12/2015	Change in %
Total assets	1,116,768	1,009,352	+10.6
Investment properties	1,061,773	969,022	+9.6
Net debt (current and non-current financial liabilities ./. bank balances)	574,917	517,393	+11.1
Equity	443,527	406,754	+9.0
Equity ratio (in %)	39.7	40.3	—

The total assets of the VIB Group amounted to EUR 1,116.8 million as of December 31, 2016 (31/12/2015: EUR 1,009.4 million). The increase was mainly due to growth in non-current assets, which rose from EUR 973.1 million to EUR 1,073.4 million. Within this item, investment properties remained the largest asset category at EUR 1,061.8 million (31/12/2015: EUR 969.0 million). Interests in associated companies climbed by EUR 1.6 million to EUR 4.7 million (31/12/2015: EUR 3.1 million).

Current assets stood at EUR 43.3 million as of December 31, 2016 (31/12/2015 EUR 36.3 million). Bank balances and cash in hand comprised the most significant item in this context, rising from EUR 33.1 million to EUR 39.1 million.

Equity rose to EUR 443.5 million as of December 31, 2016 (31/12/2015: EUR 406.8 million), primarily due to the increase in net retained profits. As of the balance sheet date, the equity ratio stood at 39.7% (31/12/2015: 40.3%).

In connection with the complete conversion of the 2014/16 mandatory convertible bond in accordance with the terms and conditions thereof, subscribed capital rose by EUR 1.3 million to EUR 27.6 million (31/12/2015: EUR 26.3 million).

Net retained profits increased by 24.2% to EUR 150.6 million as at the balance sheet date (31/12/2015: EUR 121.2 million). Two opposing effects, in particular, were at work here: on the one hand, the increased net profit for the period (attributable to Group shareholders) in 2016 of EUR 47.2 million (previous year: EUR 40.1 million) and, on the other hand, the dividend distribution to our shareholders of EUR 13.4 million (previous year: EUR 11.8 million). The balance sheet item "Non-controlling interests" increased from EUR 17.9 million to EUR 19.7 million.

Our non-current liabilities stood at EUR 620.7 million at the end of 2016 (31/12/2015: EUR 571.9 million). The largest item was non-current financial liabilities, which climbed by EUR 44.4 million to EUR 572.4 million (31/12/2015: EUR 528.0 million). This increase had been planned for as part of our investment strategy and results from an increase in the Group-wide portfolio of borrowings.

Deferred tax liabilities result primarily from differing valuations between the IFRS and tax values of properties and rose to EUR 39.3 million as of the balance sheet date (31/12/2015: EUR 33.1 million). The year-on-year increase was mainly due to portfolio expansion in the form of new investments and positive adjustments to the values of investment properties.

Current liabilities increased from EUR 30.7 million to EUR 52.6 million. Within this rise, current financial liabilities increased to EUR 41.6 million as of the balance sheet date (31/12/2015: EUR 21.9 million). Other liabilities increased to EUR 9.0 million (31/12/2015: EUR 7.3 million) and mainly related to trade payables.

Our solid financial position enabled us to once again fund a portion of our investments through equity in 2016. Furthermore, we took out new loans in the year under review and repaid outstanding loans as planned. Not least due to the ongoing repayment of our annuity loans, the company's net asset value (NAV) rose significantly to EUR 470.1 million as of the balance sheet date (31/12/2015: EUR 412.8 million).

NET ASSET VALUE (NAV) – NET ASSETS (UNDILUTED)

IN EUR THOUSAND	**31/12/2016**	31/12/2015
Investment properties	1,061,773	969,022
Other assets	6,976	990
Shares in associated companies	4,701	3,052
Assets held for sale	0	0
+/– other assets/liabilities (including minority interests)	–28,416	–25,274
Net financial liabilities	–574,917	–517,393
Capital reserves from mandatory convertible bonds	0	–17,632
NAV/net assets (undiluted)	**470,117**	**412,765**
Number of shares (reporting date)	27,579,779	26,308,405
NAV per share in EUR (undiluted)	**17.05**	**15.69**

NET ASSET VALUE (NAV) – NET ASSETS (DILUTED)

IN EUR THOUSAND	**31/12/2016**	31/12/2015
NAV/net assets (undiluted)	470,117	412,765
Effects from mandatory convertible bonds	0	18,395
NAV/net assets (diluted)	**470,117**	**431,160**
Number of shares (reporting date)	27,579,779	26,308,405
Potential ordinary shares from:		
– Mandatory convertible bonds	0	1,271,407
Number of shares (diluted)	27,579,779	27,579,812
NAV per share in EUR	**17.05**	**15.63**

FINANCIAL POSITION

Our financial management includes the planning, coordination and monitoring of all measures designed to acquire funds (equity and debt financing) and deploy funds (investment, primarily in the expansion of our property portfolio). The primary aims of our financial management are to secure long-term financial stability and a strong cash flow.

We draw on a raft of financing instruments in order to finance the company. As of the balance sheet date, we had access – just as in the previous year – to undrawn credit and overdraft lines in the amount of EUR 12.4 million.

SELECTED INDICATORS OF FINANCIAL POSITION

IN EUR THOUSAND	**2016**	2015	Change in %
Cash flow from operating activities	58,162	54,230	+7.3
Cash flow from investing activities	–82,270	–56,323	+46.1
Cash flow from financing activities	30,114	–2,582	—
Cash and cash equivalents at end of period	39,117	33,111	+18.1

Cash flow from operating activities came in at EUR 58.2 million in the year under review (previous year: EUR 54.2 million), with the increase primarily attributable to the increase in operating income. FFO (funds from operations) rose from EUR 32.6 million to EUR 35.8 million in the year under review.

FUNDS FROM OPERATIONS (FFO) PER SHARE – INDICATOR OF THE PORTFOLIO'S EARNINGS STRENGTH

IN EUR THOUSAND	**2016**	2015
Earnings before interest and tax	**79,119**	**73,438**
Adjusted for:		
Non-cash earnings/expenses	25	–8
Changes in value for investment properties	–18,018	–16,410
	61,126	**57,020**
Interest and similar expenses	–20,391	–20,433
Other interest and similar expenses	48	62
Earnings from equity-accounted investments	210	19
Expenses from guaranteed dividend	–166	–166
	40,827	**36,502**
Current tax expenses	–3,411	–2,620
	37,416	**33,882**
Minority interest (adjusted for valuation gains/losses)	–1,649	–1,283
FFO in absolute terms	**35,767**	**32,599**
Average number of shares in fiscal year	27,579,779	27,579,812
FFO per share (in EUR)	**1.30**	**1.18**
Share price as of relevant reporting date (in EUR)	19.67	17.10
FFO yield as of relevant reporting date (in %)	**6.61**	**6.90**

The cash outflow from investing activities was up by EUR 26.0 million on the previous year's level to come in at EUR 82.3 million (previous year: EUR 56.3 million). Significant cash outflows resulted from advance payments for the acquisition and development of new properties and sites.

In the year under review, a cash inflow from financing activities of EUR 30.1 million was recorded (previous year: cash outflow: EUR 2.6 million). A cash outflow of EUR 13.9 million was incurred for the dividend payment to the shareholders of VIB Vermögen AG and to non-controlling shareholders (previous year: EUR 12.2 million). The cash inflow from the taking out of financial loans amounted to EUR 88.0 million (previous year: EUR 75.4 million), whereas the cash outflow from the repayment of financial loans stood at EUR 23.7 million (previous year: EUR 46.7 million). Interest payments totalling EUR 20.4 million were made in connection with financial loans in 2016 (previous year: EUR 20.4 million).

In total, cash and cash equivalents increased by EUR 6.0 million as of December 31, 2016, to EUR 39.1 million (31/12/2015: EUR 33.1 million).

4. OVERALL STATEMENT ON THE COMPANY'S BUSINESS POSITION

Our earnings, assets and financial position have continued to develop strongly in 2016 in a stable macroeconomic environment. Not only did we increase revenue and earnings, but we also met or exceeded all forecasts published at the start of 2016. Apart from the solid financial position, the positive economic health of the company is also reflected in a strong equity ratio and further increases in FFO (funds from operations) and NAV (net asset value).

REPORT ON RISKS AND OPPORTUNITIES

RISK REPORT

ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The parent company of the VIB Group, VIB Vermögen AG, is classified as a large corporation pursuant to Section 267 of the German Commercial Code (HGB). Pursuant to Section 290 HGB, in conjunction with Section 293 HGB, VIB Vermögen AG is required to prepare consolidated financial statements These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). It is the responsibility of the Managing Board to prepare the consolidated financial statements and the consolidated management report. This includes the setting up and maintenance of an accounting-related internal control and risk management system.

This system seeks to ensure timely and proper financial reporting in accordance with applicable statutory provisions. The accounting-related internal control and risk management system is incorporated within the company's control and risk management system.

The financial statements are prepared by the Finance and Accounts department under the auspices of the Managing Board. This ensures a uniform and consistent approach when preparing the financial statements. The accounting data is processed using an accounting software program in accordance with a uniform chart of accounts and consistent accounting guidelines, as well as predefined processes and process checks.

The departments involved in the accounting process are fit for purpose, both in a quantitative and a qualitative sense. Any accounting data received or passed on is checked regularly to ensure that it is complete and correct. Automated plausibility checks are performed with the help of the software used. Accounting-related information is shared on an ongoing basis between the Head of Accounts and the Managing Board.

The “dual-control principle” is applied to monitor all key processes. This principle states that no one individual can be responsible for an important process. Instead, suitably qualified personnel must handle the process in order to identify and avert any deviations and control deficiencies.

Once the annual financial statements have been prepared and then audited by the appointed auditor, the annual financial statements and the management report are submitted to the Supervisory Board for review. This review takes place in consultation with the auditor. Once the review has been concluded, the Supervisory Board approves and adopts the annual financial statements.

INTERNAL CONTROL SYSTEM (ICS)

The aim of the ICS set up by the company is to safeguard the company’s assets and boost operating efficiency. In addition, the ICS seeks to ensure the reliability of accounting and reporting, as well as compliance with internal guidelines and legal requirements.

The ICS encompasses all principles, procedures and measures designed to ensure the effectiveness, efficiency and correctness of accounting and to ensure compliance with applicable statutory regulations. The control mechanisms of the ICS ensure that compliant financial statements are prepared that pay due regard to all risks identified and the reliability of accounting and reporting. The key objectives in respect of accounting processes are to identify and assess risks that could jeopardise the compliance of the annual financial statements with applicable regulations.

RISK MANAGEMENT SYSTEM (RMS)

The RMS in place at VIB Vermögen AG makes it possible to identify potential threats at an early stage. This ensures that the Managing Board is informed as soon as possible of the occurrence of a risk scenario, enabling it to take appropriate countermeasures.

Thanks to the use of IT systems with automated access control mechanisms and integrated plausibility checks, the RMS establishes a reliable control structure for the accounting process and ensures maximum data security at all times. Whenever compliance with statutory requirements and voluntarily imposed obligations cannot be ensured, external expertise is also included in the controls. Insofar as the recorded and assessed risks have a bearing on the annual financial statements in accordance with applicable accounting guidelines, they will be taken into consideration in the statements.

The effectiveness of the internal control mechanisms in place at VIB Vermögen AG is reviewed on a regular basis when preparing financial statements, and the controls are optimised as appropriate.

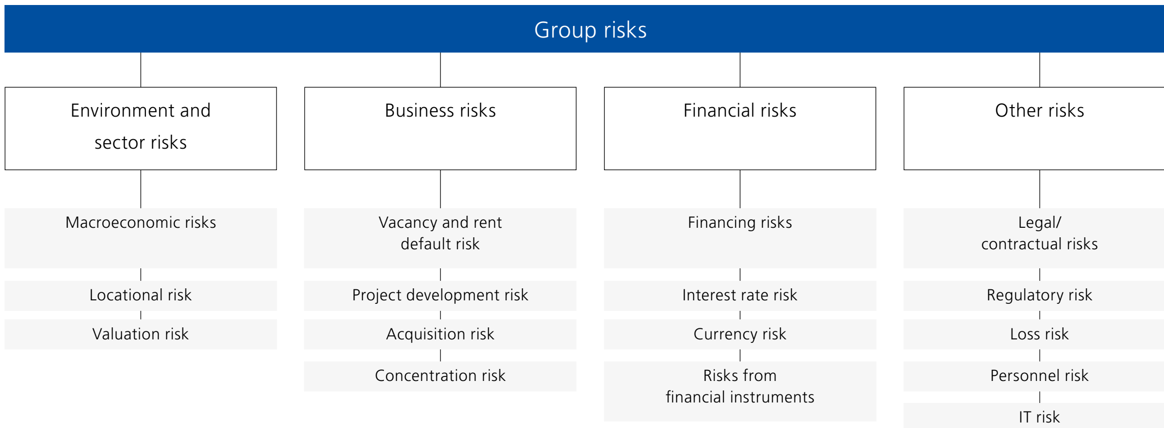
BASIC PRINCIPLES OF RISK MANAGEMENT

Our risk policy supports the objective of enhancing long-term company value through sustainablegrowth. For us, risk refers to the threat of potential losses or forgone profits, both of which can be triggered by both internal and external factors.

Risk management at VIB Vermögen AG forms an integral component of its business strategy, with the Managing Board directing risk policy. In order to identify, manage and counteract potential risks at an early stage, VIB has implemented an efficient risk management system that is closely integrated into the company’s operating procedures and processes – especially controlling and planning processes. The system is also integrated into regular reporting to the Managing and Supervisory Boards in order to ensure that risks across the Group are handled effectively and efficiently at all times.

Risk reporting to the Managing and Supervisory boards occurs on a regular basis – at least, however, twice a year. The Managing Board is also to be informed immediately in the form of unscheduled reports about all new risks categorised as material.

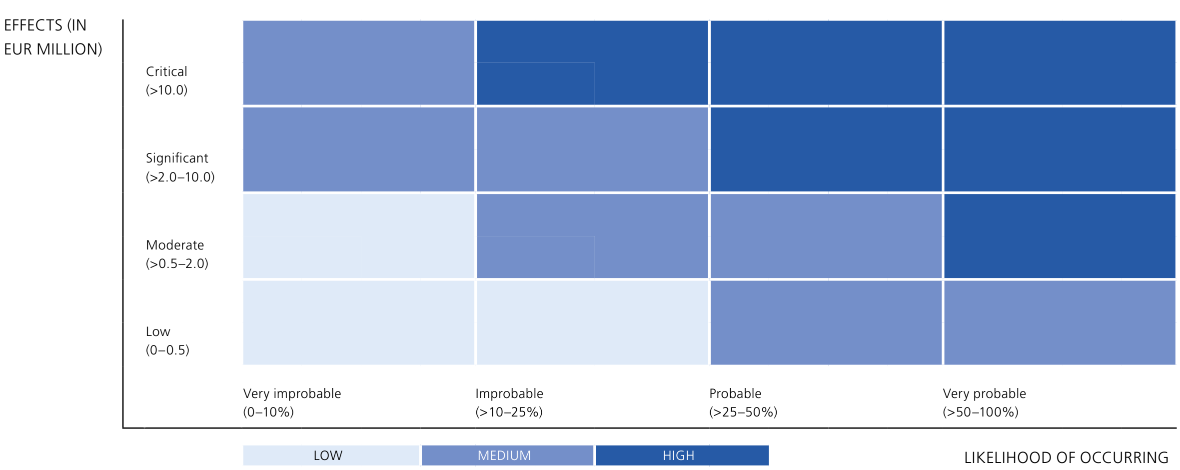
We classify potential risks into four categories that are also applied Group-wide at all subsidiaries.



Once specific risks have been identified and recorded, they are analysed and classified according to their potential loss level and event probability. This is intended to enable conclusions to be drawn about the specific risk potential for VIB (see risk matrix graph):

1. The likelihood of a risk occurring is divided into the classes of "very improbable", "improbable", "probable" and "very probable". These classes reflect the percentage probability with which a loss is expected to occur within a twelve-month period.
2. The potential effect (loss level) states the potential maximum extent of a loss given the occurrence of the loss event. Here, differentiation is made between low, moderate, significant and critical loss extents.
3. Multiplication of the maximum loss level by the event probability generates the risk potential or weighted potential loss amount of the corresponding risk. Risk potential is classified into the three categories of "low", "moderate" and "high" within the VIB Group.

RISK MATRIX OF THE VIB GROUP



As a rule, specific risks at VIB are quantified only if this is also deemed appropriate for internal risk management. On this basis, suitable measures to avert or manage identified risks are determined in close coordination with the Managing Board.

COMPANY RISKS

ENVIRONMENT AND SECTOR RISKS

MACROECONOMIC RISKS

Real estate markets in Germany are closely connected with macroeconomic and financial market trends. As far as the commercial property sector is concerned, an economic slowdown is accompanied by the risk that companies are less prepared to invest, combined with a decline in rent levels and in increased vacancy risk. This risk affects only a small proportion of the company's rental income since the portfolio properties mostly have long-term leases, however. In order to minimise such risk, VIB Vermögen AG focuses on tenants with good credit ratings and on ensuring that its properties can be utilised for alternative purposes.

Should the macroeconomic and industry-specific trends deteriorate significantly, there is also a risk that the value of our real estate portfolio will decline. This risk, however, is mitigated by the strong regional focus of VIB Vermögen AG on the relatively stable southern German property market, as well as balanced sector diversification.

For 2017, we anticipate no significant changes to risks arising from macroeconomic development. For this reason, VIB is of the view that macroeconomic risks are to be categorised as low, as in the previous year.

LOCATION RISK

The location quality of the properties held by the VIB Group is influenced by a variety of factors, such as the state of the transport infrastructure, the purchasing power of the population, the availability of resources, potential workforce, etc. Any deterioration in these factors could have negative implications on the value of the properties and the rental incomes they can generate. By carefully selecting and examining the properties as part of due diligence, VIB counteracts this risk when acquiring properties.

We gauge the risk of a general deterioration of location quality as low, as in the previous year.

VALUATION RISK

An independent property valuation surveyor calculates the market value of all of the VIB Group's properties every year, applying the generally accepted discounted cash flow (DCF) method. The extent to which the real estate portfolio retains its value depends on various factors, including long-term capital market interest rate trends, macroeconomic and sector-specific trends, the properties' general condition, rental income levels and specific location factors.

Adverse changes to these factors could negatively affect the value of the real estate portfolio and the results of the Group's operations. This risk is somewhat limited given our regional focus on the comparatively stable southern German real estate market, and the judicious property selection we apply. Our real estate portfolio also enjoys balanced diversification in terms of sector. Consequently, negative trends in individual economic sectors exert only limited impact on the company's overall portfolio value.

For this reason, the risk of a substantial decrease in the valuation of the real estate portfolio is gauged as moderate, as in the previous year.

BUSINESS RISKS

VACANCY AND RENTAL DEFAULT RISK

As a real estate company, we are subject to a certain level of tenant risk that could entail potential rental default and vacancies. Rental defaults cannot be entirely excluded, especially in an economic downturn and a resulting worsening of the outlook on the commercial property market. The risk also exists that, in the case of unforeseen rent default (such as due to insolvency), it proves impossible to quickly find a new tenant. In the case of short-term rental agreements, the risk also exists that such agreements cannot be extended, and that a new tenant cannot be found quickly. For us, this may be accompanied by temporary vacancies and rental income defaults.

The company minimises such risk by focusing on tenants with good credit ratings and sectoral diversification of its portfolio. Rental arrears are processed as soon as they occur in order to identify tenants' payment difficulties at an early juncture. Priority is also placed on good alternative utilisation options when acquiring properties. This makes it easier to rent them again quickly if rental agreements are terminated.

Taking into account the requisite countermeasures, we currently appraise vacancy and rental default risk as low, as in the previous year.

PROJECT DEVELOPMENT RISK

Our activities as a property developer entail fundamental risks that arise from the acquisition of land and the subsequent construction of properties.

As part of project developments, land was acquired for which site preparation work is being undertaken. Possible value risks could arise in the event of planning permission being declined. Due to our close cooperation with the local agencies responsible and the stage in the process already reached, however, we regard these risks as manageable.

Furthermore, forecast investment and development costs could be exceeded with the consequence that planned financing resources (equity and bank borrowings) might prove insufficient for the financing of a property.

Delays in the completion of the properties cannot be ruled out as part of general construction risk. This would render it impossible to transfer properties to tenants on time. This could result in rent defaults, rent being paid late, and compensation claims.

On larger construction projects, we work together with general contractors with strong credit ratings to actively counter such risks. This largely ensures that properties are completed within planned time and cost parameters. Due to the overall increase in project volume, we gauge potential risk from development projects as moderate (previous year: moderate).

ACQUISITION RISK

We are generally exposed to risk relating to the acquisition of properties and property companies. This may relate to a failure to uncover losses, hidden defects or other obligations that already existed when an asset was purchased. We counter such risk through comprehensive technical, financial and legal due diligence ahead of a transaction, including making recourse to external service providers such as architects, construction engineers, lawyers and tax consultants, where required.

Potential negative consequences arising from such acquisition risk are currently evaluated as low, as in the previous year.

CONCENTRATION RISK

Our portfolio includes some tenants that rent several properties from VIB. This gives rise to a certain level of concentration risk for our business. In order to largely minimise the risk of a potential vacancy or rental default, we focus on tenants with good credit ratings and on long-term rental agreements.

We currently gauge the consequences of a potential concentration risk as low, as in the previous year.

FINANCIAL RISKS

FINANCING RISKS

In times of economic downturn, there is always a risk that it may become more difficult to obtain the funds necessary to finance properties from banks. In an extreme-case scenario, this could mean that the necessary liquidity is not provided by banks or only provided to an insufficient degree. For us, this could mean projects not being completed, which would result in corresponding negative effects on revenue and earnings. In particular, the 2008/2009 economic and financial crisis showed that a deterioration in the macroeconomic situation can result in banks tending towards more restrictive lending policies.

Due to the diversification of our bank portfolio and a strong relationship with financing banks based on mutual trust over many years, we continue to deem this risk as low, as in the previous year.

INTEREST RATE RISK

An increase in the general interest rate level usually leads to a worsening of the financing conditions attached to bank loans. This could not only affect the conclusion of lending agreements for the financing of further properties, but also the agreement of new terms on existing loans after fixed-interest periods have expired.

In order to hedge as effectively as possible against short- and medium-term interest rate fluctuations, VIB mainly takes out annuity loans, the overwhelming majority of which have a fixed-interest period of 10 years, for the financing of real estate projects. Given the current low interest rate level, loans with short-term interest agreements are also being utilised, such as those based on EURIBOR.

We expect no significant change in the interest rate level in Germany in 2017. We currently appraise our interest rate risk as low, as in the previous year.

CURRENCY RISK

Borrowings and loans in foreign currencies are always subject to the risk of currency fluctuations. No significant foreign currency items existed at VIB Vermögen AG as of December 31, 2016.

We therefore currently appraise our currency risk as low, as in the previous year.

RISKS FROM FINANCIAL INSTRUMENTS

To safeguard interest rates in the long term and improve the predictability of interest expenses, VIB has entered into interest rate swaps in respect of certain variable-rate loans. Together with the underlying transactions (bank loans), these interest rate swaps form a hedge relationship (synthetic fixed-interest loans). Potential changes in interest rates and the corresponding changes in value of the swaps have no effect on the income statement of the company, assuming the hedge relationship has been classified as effective.

As in the previous year, we currently evaluate risks from financial instruments as low.

OTHER RISKS

LEGAL AND CONTRACTUAL RISKS

VIB Vermögen AG is subject to general legal risks that may arise from new legislation and changes to the legal framework. Furthermore, the company could incur contractual risks related to the real estate business when entering into agreements with tenants, customers and other business partners (e.g. rental and purchase agreements, service agreements, consultancy agreements, etc.). In order to minimise these risks, all agreements and legally relevant issues are checked internally and, if necessary, externally from a legal standpoint.

We currently appraise the legal and contractual risk as low, as in the previous year.

REGULATORY RISK

An increasing number of measures to regulate and better supervise the financial sector have been implemented across the European Union over recent years. This could also give rise to regulatory measures for listed real estate companies. In this regard, the European Parliament has approved the Alternative Investment Fund Managers Directive that has been, and is being, enacted into national law in individual member states. Following internal and external review, we have arrived at the conclusion that VIB and its subsidiaries are not to be classified as investment assets in the meaning of the German Investment Code (KAGB). Future appraisal by the German Federal Financial Supervisory Authority (BaFin) is awaited, however.

The new EU market abuse regulation "MAR" (Regulation No 596/2014 of the European Parliament and of the Council) came into force on July 3, 2016. For open-market issuers like VIB Vermögen AG, this means an extension of publication obligations and a beefing up of penalties in the event of breaches of this regulation. Through our subsidiary BBI Immobilien AG, which is listed on the regulated market in Munich, we already boast in-depth knowledge of the capital market, especially in relation to the more comprehensive regulation set out in the German Securities Trading Act (Wertpapierhandelsgesetz). We also draw on the help of external capital market specialists, who look at the issue of capital market law in detail and advise us accordingly.

As in the previous year, we regard the risk of negative consequences (in the form of additional costs and administrative requirements) arising from the implementation of the AIFM regulations and the EU market abuse regulation as low.

RISK OF DAMAGE

Damage to, or destruction of, the company's properties constitutes a further risk for the company. Under certain circumstances, this could have negative consequences on the company's earnings, assets and financial position.

We counter these risks through extensive insurance coverage. All-risks insurance polices have been taken out in respect of all properties held by the VIB Group. Alongside classic provisions such as protection against fire, storm and tap water damage, these policies also cover natural hazards such as flooding, landslides, etc. This kind of insurance usually includes a rent default clause for the event that a property can temporarily not be let due to a natural hazard and that VIB loses rental income as a result.

We currently appraise negative consequences arising from unforeseeable and extraordinary loss events as low, as in the previous year.

PERSONNEL RISK

The skills, expertise and motivation of our staff are major factors behind the company's long-term success and profitability. The departure of top-performing individuals could result in a loss of know-how, with the recruitment and integration of replacement technical and managerial staff exerting a negative impact on daily operating business. We counter such risk by developing the expertise of existing staff on a targeted basis in line with requirements, by boosting VIB's attractiveness as an employer, and through a strong management and corporate culture.

Overall, the aforementioned risks are evaluated as low, unchanged compared with the previous year.

IT RISK

All of the VIB Group's significant business processes are based on IT systems. A loss of the data stock or a protracted downtime of IT systems could negatively affect business processes. We continuously enhance our IT systems, including in cooperation with external service providers, in order to protect against such risk. Data of relevance to our business is backed up daily. All important data can therefore be reproduced within a relatively short time in the event of a hardware or software failure.

IT risks have not changed significantly compared with the previous year. We continue to appraise such risk as low.

SUMMARY OF RISK SITUATION

Risk management at VIB is a continuous process that not only identifies new risks, but that also continuously analyses and measures existing risks in order to derive appropriate risk minimisation and risk prevention measures from them. The company's risk situation during the year under review has not changed significantly compared with the previous year. According to our appraisal, no serious risks are currently identifiable with regard to the company's future development or in terms of the company as a going concern.

OPPORTUNITIES REPORT

Our sustainable business success and profitability also depends on the extent to which we identify opportunities at an early stage, and on how we manage and harness them on a forward-looking basis. We aim for a balanced relationship between opportunities and risks – with the objective of creating added value for all stakeholders.

VIB's steering instruments ensure that opportunities are measured and pursued on the basis of their potential, required investments and risk profile. In this regard, we pay equal attention to macroeconomic and sector-specific trends, as well as regional and local trends.

MACROECONOMIC AND SECTOR-SPECIFIC OPPORTUNITIES

As mentioned in the outlook, we believe that the macroeconomic and sector-specific conditions are conducive to VIB Vermögen AG continuing on its sustainable growth trajectory in 2017.

OPPORTUNITIES TO ACQUIRE AND DEVELOP NEW PROPERTIES

Network: We have established a very close network in the southern German region over the past two decades, especially in the areas of logistics and retail property. As before, the company is able to utilise this network in the future to gain early information about attractive project developments, and about property and land sales. This opens up new opportunities to grow revenue and income.

Geographic focus: We intentionally focus our investments on the fast-growing southern German region: most of the properties in our real estate portfolio are located in Bavaria and Baden-Württemberg. As a consequence, the company focuses on the high-growth regions of Germany with strong purchasing power, and which are distinguished by favourable socio-demographic trends.

Sector focus: We are focusing our investments to an increasing extent on the growth sectors of logistics/light industry and retail. We aim to continue to exploit our outstanding knowledge in relation to these sectors in the future in order to facilitate healthy growth for the company.

FINANCING OPPORTUNITIES

Close relationships based on mutual trust that have been built up with our financing banks over many years, coupled with continued low interest rates, give VIB the opportunity to take out new loans – and renew existing ones – on highly attractive terms, thus further reducing the average interest rate on its borrowings. As demonstrated in the fiscal year under review, the average borrowing rate of VIB has fallen considerably to 3.11% on account of the continuing low interest rate climate in Germany. We do not expect to see a significant increase in the general interest rate in the short to medium term. Therefore, we anticipate that we will be able to reduce our average borrowing rate even further.

OPPORTUNITIES FOR A BETTER CAPITAL MARKET POSITION FOR VIB

As shown by the long-term trend in its share price, VIB Vermögen is viewed in an extremely positive light by a wide range of investors. Not least, this is demonstrated by the fact that the VIB share has not only outperformed the major indices of the DAX and SDAX, but – in the long-term trend – has also left ERPA Germany, a comparative index for the property sector, trailing in its wake. Significant reasons for this positive perception lie not only in the sustainable and reliable corporate policy that has been pursued for many years, but also in the fact that VIB always maintains close contact with its investors and analysts. As of the balance sheet date December 31, 2016, the market capitalisation of VIB Vermögens AG was EUR 542.5 million (based on the closing Xetra price as of December 30, 2016), which represents an increase of some 21% compared to the previous year. Assuming that the capital market environment remains stable and that the company continues along its successful growth path, we see an opportunity for VIB to improve its position even further on the capital market.

OPPORTUNITIES FOR STABLE RENT YIELDS

We frequently agree indexed rental contracts, with rent levels pegged to the movements of a consumer price index. Consequently, growth in rental income largely offsets rising costs from general inflation and secures the high long-term profitability of the company's properties.

SUMMARY OF OPPORTUNITIES

VIB's opportunities have not changed significantly compared with the previous year. The company sees further potential for increasing revenue and earnings by acquiring and developing attractive properties, as well as through the continuing favourable interest rate climate.

OUTLOOK

ECONOMIC CONDITIONS IN 2017

According to forecasts issued by the International Monetary Fund, the global economy will grow by 3.4% in 2017, which equates to an increase of 0.3 percentage points on the previous year. In 2017, the German economy will be more or less as robust as it was in 2016. Although growth is forecast to be down slightly on 2016 at 1.4%, this will mainly be due to the lower number of working days in the current year. As in 2016, the German economy will continue to benefit from stable domestic demand, particularly strong growth in private consumption. The positive trend in private consumption is primarily attributable to further growth in employment and wages.

Despite the solid economic outlook for the year ahead, the performance of the financial markets will be marked by some uncertainty due to the many pending political and monetary decisions. Following the end-of-year surge on the stock markets in the final few weeks of 2016, share price fluctuations may once again be witnessed in 2017 due, first and foremost, to the upcoming elections in Europe, the uncertainties surrounding the new US administration and the start of Brexit negotiations. This uncertainty is augmented by the increasing divergence witnessed in the monetary polices of the United States Federal Reserve and the European Central Bank.

The outlook for the German commercial property market, however, remains positive. Real estate services provider Jones Lang LaSalle (JLL) takes the view that Germany will retain its status as a popular investment destination in the year ahead due to the low interest rates and the relatively strong economic and property-sector fundamentals. When it comes to the transaction volume for commercial property, JLL does not anticipate a new record in 2017 but does expect an annual transaction volume of between EUR 45 billion and EUR 50 billion. This would only be marginally below the high level of the previous year of EUR 52.9 billion.

As demonstrated in previous years, it will, however, become increasingly difficult to find adequate properties to meet the continuously high investment demand.

EXPECTED TRENDS AND GROWTH FOR THE VIB GROUP IN 2017

In our 12-month planning, we anticipate that there will be no significant change in either economic or sector-specific conditions in the year ahead. Particularly in our focus sectors of logistics/light industry and retail, we continue to see a good market environment that will enable profitable growth in 2017. Alongside the acquisition of portfolio properties, we also wish to benefit from our expertise in the field of project development.

As part of our growth strategy, we will also continue to attach great importance to a competitive cost situation. Our aim is to strike a balance between effective management of our property portfolio and ensuring that we meet the high quality standards we set ourselves.

In our guidance for the 2017 fiscal year, we take into account all opportunities and risks connected with future development that we regard as significant. The report on opportunities and risks presents a separate account of the opportunities and risks extending above and beyond our corporate planning. A serious change to the macroeconomic conditions or the overall interest rates could affect our ability to meet our guidance.

We for predict the following in respect of our financial performance indicators for the 2017 fiscal year:

- operating revenue of between EUR 81.5 million and EUR 85.5 million (2016: EUR 79.9 million).
- earnings before interest and tax (EBIT), excluding valuation effects and extraordinary items, of between EUR 61.5 million and EUR 64.5 million (2016: EUR 61.1 million).
- earnings before tax (EBT), excluding valuation effects and extraordinary items, of between EUR 43.0 million and EUR 45.5 million (2016: EUR 40.8 million).
- funds from operations (FFO) of between EUR 37.0 million and EUR 39.5 million (2016: EUR 35.8 million).

As far as non-financial key performance indicators are concerned, we anticipate the following for the 2017 fiscal year:

- a vacancy rate based on effective annual net rents of below 5.0% as of December 31, 2017 (31/12/2016: 1.3%).
- an average interest rate on the portfolio of loan borrowings of between 2.5% and 2.8% as at December 31, 2017 (2016: 3.11%).

Neuburg/Danube, April 11, 2017

Martin Pfandzelter
(Chief Executive Officer)

Holger Pilgenröther
(Chief Financial Officer)

GROUP **FINANCIAL STATEMENTS**

DETAILED INDEX

CONSOLIDATED INCOME STATEMENT (IFRS)

FOR THE PERIOD FROM JANUARY 1, 2016, TO DECEMBER 31, 2016

IN EUR THOUSAND	Note	**01/01/–31/12/2016**	01/01/–31/12/2015
Revenue	D. 1	**79,549**	**75,133**
Other operating revenue	D. 2	350	500
Total operating revenue		**79,899**	**75,633**
Changes in value for investment properties	D. 3	18,018	16,410
Expenses for investment properties	D. 4	–13,292	–13,620
Personnel expenses	D. 5	–3,797	–3,303
Other operating expenses	D. 6	–1,647	–1,626
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**79,181**	**73,494**
Depreciation and amortisation	D. 7	–62	–56
Earnings before interest and tax (EBIT)		**79,119**	**73,438**
Profit/loss on equity accounted investments	D. 8	210	19
Income/expenses from measurement of financial derivatives	D. 10	0	–132
Other interest and similar income	D. 11	48	62
Interest and similar expenses	D. 12	–20,391	–20,433
Expenses from guaranteed dividend	D. 13	–166	–166
Earnings before tax (EBT)		**58,820**	**52,788**
Income taxes	D. 14	–9,417	–8,741
Consolidated net income		**49,403**	**44,047**
Group shareholders' share of earnings		47,240	40,119
Non-controlling shareholders' share of earnings	D. 16	2,163	3,928
EARNINGS PER ORDINARY SHARE (IN EUR)			
Profit/loss on continuing operations	D. 17	1.71	1.46
Undiluted earnings per share		**1.71**	**1.46**
DILUTED EARNINGS PER SHARE (IN EUR)			
Profit/loss on continuing operations	D. 17	1.71	1.46
Diluted earnings per share		**1.71**	**1.46**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

FOR THE PERIOD FROM JANUARY 1, 2016, TO DECEMBER 31, 2016

IN EUR THOUSAND	Note	**2016**	2015
Consolidated net income		**49,403**	**44,047**
Other comprehensive income			
Other comprehensive income to be reclassified to the income statement in subsequent periods			
Foreign currency effects from the translation of independent subsidiaries		–1	–45
Income tax effect		0	0
		–1	**–45**
Cash flow hedges – value changes to effective hedges		1,513	1,641
Income tax effect	D. 25	–214	–231
		1,299	**1,410**
Other comprehensive income to be reclassified to the income statement in subsequent periods		**1,298**	**1,365**
Other comprehensive income not to be reclassified to the income statement in subsequent periods			
Actuarial gains/losses from pension plans		–157	–388
Income tax effect	D. 25	26	62
		–131	**–326**
Other comprehensive income not to be reclassified to the income statement in subsequent periods		**–131**	**–326**
Other comprehensive income after tax		**1,167**	**1,039**
Total comprehensive income after tax		**50,570**	**45,086**
Total comprehensive income attributable to			
Group shareholders		48,374	41,140
Non-controlling shareholders		2,196	3,946

CONSOLIDATED BALANCE SHEET (IFRS)

AS OF DECEMBER 31, 2016

ASSETS

IN EUR THOUSAND	NOTE	**31/12/2016**	31/12/2015
Non-current assets			
Intangible assets	D. 19	31	24
Property, plant and equipment	D. 19	6,945	966
Investment properties	D. 20	1,061,773	969,022
Interests in associated companies	D. 21	4,701	3,052
Total non-current assets		**1,073,450**	**973,064**
Current assets			
Receivables and other assets	D. 22	2,697	2,128
Income tax receivables	D. 22	12	33
Bank balances and cash in hand	D. 23	39,117	33,111
Prepayments and accrued income		1,492	1,016
Total current assets		**43,318**	**36,288**
Total assets		**1,116,768**	**1,009,352**

EQUITY AND LIABILITIES

IN EUR THOUSAND	NOTE	31/12/2016	31/12/2015
EQUITY	D. 25		
Subscribed share capital		27,580	26,308
Share premium account		191,218	192,410
Retained earnings		60,261	55,914
Net retained profits		150,582	121,235
		429,641	**395,867**
Cash flow hedges		–5,789	–7,052
Foreign currency translation		–5	–5
Non-controlling shareholders' share of earnings		19,680	17,944
Total equity		**443,527**	**406,754**
Non-current liabilities			
Profit participation capital	D. 26	0	660
Financial liabilities	D. 27	572,404	527,975
Derivative financial instruments	D. 28	7,001	8,513
Deferred taxes	D. 29	39,269	33,074
Pension provisions	D. 30	2,009	1,634
Total non-current liabilities		**620,683**	**571,856**
Current liabilities			
Financial liabilities	D. 31	41,630	21,869
Income tax liabilities	D. 33	441	491
Liabilities to participating interests	D. 34	1,281	827
Other liabilities	D. 35	8,995	7,288
Accruals and deferred income		211	267
Total current liabilities		**52,558**	**30,742**
Total equity and liabilities		**1,116,768**	**1,009,352**

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

FOR THE PERIOD FROM JANUARY 1, 2016, TO DECEMBER 31, 2016

IN EUR THOUSAND	**01/01/– 31/12/2016**	01/01/– 31/12/2015
A. Cash flow from operating activities		
Net income for the year (after tax)	49,403	44,047
+/– Net interest result	20,343	20,371
+/– Income taxes	9,417	8,741
+/– Depreciation/appreciation on fixed assets	62	56
+/– Increase/decrease in provisions	218	309
+/– Fair value changes to investment properties	–18,018	–16,410
+/– Profits/losses from equity accounted investments	–210	–19
+/– Income taxes paid	–3,440	–1,945
Cash flow from operating activities after tax (before interest expense)	**57,775**	**55,150**
+/– Other non-cash expenses/income	–14	–1,502
+/– Changes in inventories, receivables and other assets not attributable to investing activities	–1,044	314
+/– Change in liabilities not attributable to financing activities	1,445	268
Cash flow from operating activities (before interest expense)	**58,162**	**54,230**
B. Cash flow from investing activities		
– Outgoing payments for investments in intangible fixed assets	–21	–30
– Outgoing payments for investments in property, plant and equipment	–6,035	–775
– Outgoing payments for investments in investment properties	–76,971	–55,568
– Outgoing payments to acquire subsidiaries, less cash acquired	0	132
– Outgoing payments for investments in financial fixed assets	–1,503	–101
+ Proceeds from the disposal of fixed assets and investment properties	2,260	19
Cash flow from investing activities	**–82,270**	**–56,323**

IN EUR THOUSAND	**01/01/–31/12/2016**	01/01/–31/12/2015
C. Cash flow from financing activities		
+ Proceeds from the drawing down of borrowings	88,000	75,352
– Payments to company owners and non-controlling shareholders (dividends)	–13,877	–12,229
– Outgoing payments for the redemption of borrowings	–23,730	–46,698
+/– Payments received from non-controlling shareholders	0	1,300
+ Interest received	48	62
+ Dividends received	64	64
– Interest paid	–20,391	–20,433
Cash flow from financing activities	**30,114**	**–2,582**
D. Cash and cash equivalents at end of period		
Net change in cash and cash equivalents		
+/– Cash flow from operating activities	58,162	54,230
+/– Cash flow from investing activities	–82,270	–56,323
+/– Cash flow from financing activities	30,114	–2,582
Change in cash flow	**6,006**	**–4,675**
Cash and cash equivalents at start of period	33,111	37,786
Cash and cash equivalents at end of period	**39,117**	**33,111**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

FOR THE PERIOD FROM JANUARY 1, 2016, TO DECEMBER 31, 2016

IN EUR THOUSAND
Balance 01/01/2016
Net income for the period
Other income
Total income
Reclassifications between shareholders recognised in equity
Transfers to retained earnings
Mandatory convertible bonds
Dividends paid
Non-controlling shareholders' share of capital increase at subsidiary
Asset group held for sale
Balance 31/12/2016

FOR THE PERIOD FROM JANUARY 1, 2015, TO DECEMBER 31, 2015

Balance 01/01/2015
Net income for the period
Other income
Total income
Reclassifications between shareholders recognised in equity
Transfers to retained earnings
Mandatory convertible bonds
Dividends paid
Non-controlling shareholders' share of capital increase at subsidiary
Asset group held for sale
Balance 31/12/2015

Subscribed share capital	Share premium account	Retained earnings	Cash flow hedge reserve	Currency translation reserve	Net retained profits	Share attributable to non-controlling shareholders	Asset group held for sale	**Consolidated equity**
26,308	**192,410**	**55,914**	**–7,052**	**–5**	**121,235**	**17,944**	**0**	**406,754**
0	0	0	0	0	47,240	2,163	0	49,403
0	0	0	1,263	0	–129	33	0	1,167
0	**0**	**0**	**1,263**	**0**	**47,111**	**2,196**	**0**	**50,570**
0	0	0	0	0	0	0	0	0
0	0	4,347	0	0	–4,347	0	0	0
1,272	–1,192	0	0	0	0	0	0	80
0	0	0	0	0	–13,417	–460	0	–13,877
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	**0**
27,580	**191,218**	**60,261**	**–5,789**	**–5**	**150,582**	**19,680**	**0**	**443,527**
24,784	**192,992**	**54,490**	**–8,423**	**0**	**95,178**	**12,594**	**40**	**371,655**
0	0	0	0	0	40,119	3,928	0	44,047
0	0	0	1,371	–45	–306	19	0	1,039
0	**0**	**0**	**1,371**	**–45**	**39,813**	**3,947**	**0**	**45,086**
0	0	–436	0	0	0	436	0	0
0	0	1,860	0	0	–1,860	0	0	0
1,524	–582	0	0	0	0	0	0	942
0	0	0	0	0	–11,896	–333	0	–12,229
0	0	0	0	0	0	1,300	0	1,300
0	0	0	0	40	0	0	–40	**0**
26,308	**192,410**	**55,914**	**–7,052**	**–5**	**121,235**	**17,944**	**0**	**406,754**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

VIB Vermögen AG, Neuburg/Donau, Germany (also referred to below as "VIB AG" or the "company"), has its corporate seat at Luitpoldstrasse C 70 in 86633 Neuburg/Donau, Germany, and is registered in the commercial register of Ingolstadt District Court with commercial register sheet number 101699.

The company's shares are traded in the m:access segment of the Regulated Unofficial Market of the Munich Stock Exchange, and through the Xetra trading system of Deutsche Börse AG, which is headquartered in Frankfurt.

The parent company of the VIB Group, VIB Vermögen AG, is classified as a large corporation pursuant to Section 267 of the German Commercial Code (HGB). The listing of the company's shares in OTC trading is not a listing in the meaning of Section 2 (5) of the German Securities Trading Act (WpHG).

The Group's core competencies are the purchasing, development and management of its own real estate assets and the holding of participating interests in companies with real estate assets. As a portfolio manager for commercial real estate in the southern German region, the VIB Group has been able to establish a high-yielding portfolio of properties over the past few years, with investments focusing on promising high-growth regions in southern Germany.

VIB Vermögen AG is required to prepare consolidated financial statements pursuant to Section 290 in combination with Section 293 of the German Commercial Code (HGB). The consolidated financial statements are prepared voluntarily according to the requirements of the IASB (Section 315a [3] of the German Commercial Code [HGB]), however.

These consolidated financial statements of VIB AG, including figures from the previous year, were prepared in line with International Financial Reporting Standards (IFRS) as applicable in the European Union, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

These consolidated financial statements have been prepared in euros (EUR). All figures, unless otherwise stated, are presented in thousands of euros. Rounding differences may occur. The separate financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies. Carrying amounts based on tax regulations are not included in the consolidated financial statements. The separate financial statements were prepared on the same balance sheet date as the consolidated financial statements.

The nature of expense method has been applied for the consolidated income statement. In addition to the income statement, the statement of comprehensive income, the balance sheet and the cash flow statement, a statement of changes in equity is also provided.

The consolidated balance sheet is categorised according to the term structure of its respective assets and liabilities. Assets and liabilities are classified as being current if they can be realised or redeemed within one year. Trade receivables and trade payables, tax receivables, tax liabilities and inventories are generally reported as current items. Deferred tax assets and liabilities are presented as non-current.

Non-controlling interests form part of consolidated equity.

In order to improve the clarity and transparency of presentation, consolidated balance sheet items and consolidated income statement items are summarised to the extent that it is pertinent and possible to do so. These items are analysed in the notes to the consolidated financial statements and discussed accordingly.

Changes to accounting policies are discussed in the notes. The retroactive application of revised and new standards requires that the results of the previous year and the opening financial statements for this comparable period are adjusted as if the new accounting policies had always been applied, unless a differing regulation exists for the respective standard.

B. APPLICATION OF NEW ACCOUNTING STANDARDS

VIB AG has applied all of the standards (IFRS, IAS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) which applied in the EU on December 31, 2016. The corresponding transitional regulations have been applied. The consolidated financial statements also include further information required under the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

NEW ACCOUNTING PRINCIPLES – IMPLEMENTED –

The company applied the following accounting regulations, which are of relevance for the VIB Group, for the first time in the fiscal year under review. None of the changes have a significant effect on the consolidated financial statements of VIB AG.

In November 2013, the IASB published amendments to IAS 19 Employee Benefits, thereby clarifying the attribution of employee contributions or third-party contributions that are connected with period of service. An exemption was also included for the instance that contributions depend on the number of service years worked. These amendments are to be applied for fiscal years commencing on or after February 1, 2015.

In December 2013, the IASB published Cycle 2010–2012 as part of its "Annual Improvements to IFRS" project. This included minor amendments and clarifications relating to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

In May 2014, the IASB published amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to permissible depreciation and amortisation methods. These amendments clarify which depreciation and amortisation methods are to be applied.

Also in May 2014, the IASB published Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). The amendments clarify the accounting treatment of acquisitions of interests in a jointly controlled operation, where such an operation comprises a business.

In December 2014, the IASB published Disclosure Initiative – Amendments to IAS 1. The amendments aim to eliminate hurdles that preparing parties of financial statements perceive in relation to the exercising of discretion when preparing financial statements.

PUBLISHED ACCOUNTING ANNOUNCEMENTS – NOT YET IMPLEMENTED –

The IASB and the IFRIC have published the following promulgations which did not yet require mandatory application in the 2016 fiscal year, or whose endorsement by the European Union is still outstanding. VIB AG does not apply such accounting regulations until the time when application is mandatory. The following section presents only those new accounting principles which are expected to be applicable to the consolidated financial statements of VIB AG.

IFRS 9

In July 2014, the IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement by publishing the final version of IFRS 9 Financial Instruments. IFRS 9 introduces a standardised approach to classifying and measuring financial assets. The standard makes recourse to cash flow characteristics and the business model according to which they are managed as its basis. It also includes a new impairment model based on anticipated credit defaults. In addition, IFRS 9 comprises new regulations relating to the application of hedge accounting in order to thereby better present an entity's risk management activities, especially concerning the management of non-financial risks. The new standard is applicable to fiscal years commencing on or after January 1, 2018; voluntary application is permitted. VIB AG is currently examining the effects that application of IFRS 9 will have on the company's consolidated financial statements.

It is not currently possible to reliably assess the effects of applying IFRS 9 to the consolidated financial statements for the 2018 fiscal year, as the effects depend on the financial instruments that the Group holds at the time of initial application, the economic conditions prevailing at this time, the choice of accounting methods and future discretionary decisions. The new standard requires the Group to adjust its accounting processes and internal controls in connection with the presentation of financial instruments, although an analysis of the necessary adjustments has not yet been completed. Taking into account its financial items as of December 31, 2016 (please refer to chapter D. 43, "Categories of financial instruments"), the Group does not anticipate that the IFRS 9 regulations on classifying financial assets and liabilities will have a significant effect. The impact of the IFRS 9 guidelines on hedge accounting will depend on whether financial instruments will be used for hedging purposes in the future and, if so, to what extent. The Group currently only uses interest rate swaps to hedge interest rate risks. Based on the 2016 fiscal year, there would be no significant effects.

As things stand, the Group takes the view that impairment losses will probably increase and become more volatile when the impairment model contained within IFRS 9 is applied. Using the impairment losses as of December 31, 2016, as a guide, the VIB Group does not expect any additional impairment losses to be significant.

IFRS 15

In May 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. IFRS 15 governs the instances in which revenues are to be recognised and, if so, in what amounts. Furthermore, preparing parties are required to provide the readers of financial statements with information that is more informative and relevant than before. The application of IFRS 15 is mandatory for all users and applies in respect of almost all contracts with customers. The key exemptions, however, are leasing contracts, financial instruments and insurance contracts. As a consequence, IFRS 15 replaces the standards previously relevant to the recognising of revenue (IAS 18, IAS 11 and IFRIC 13) and their relevant interpretations. Moreover, amendments to IFRS 15 were published in April 2016 that provide clarification and simplification during the transition to IFRS 15. The standard is to be applied for the first time for fiscal years commencing on or after January 1, 2018.

Unlike the guidelines that currently apply, the new standard sets out a single, principle-based five-step model that is to be applied to all contracts with customers. The first step in this five-step model is to identify the contract with the customer (step 1). Step 2 is to identify the performance obligations in the contract. Step 3 is to determine the transaction price, with the standard also stipulating explicit guidelines on handling variable consideration, financing components, payments to the customer and exchange transactions. Once the transaction price has been determined, this transaction price is then allocated to the individual performance obligations (step 4). This is done on the basis of the stand-alone selling prices for the individual performance obligations. The revenue can then be recognised (step 5) insofar as the performance obligations have been met by the company. To meet these obligations, it is necessary that control of the goods/services has been passed to the customer.

Whenever a contract is concluded, IFRS 15 stipulates a need to determine whether the revenue arising from the contract is to be recognised at a specific point in time or over a period of time. First of all, certain criteria need to be applied to clarify whether control in respect of the performance obligation is transferred over a period of time. If this is not the case, the revenue is to be recognised at the point in time at which control is passed to the customer. If, however, control is transferred over a period of time, the revenue may only be recognised over this period of time to the extent that performance progression can be reliably determined using input- or output-based methods.

Finally, the standard contains new and more comprehensive guidelines in respect of the disclosures to be made about the revenues in IFRS financial statements.

The Group is currently conducting a review of the possible implications of applying IFRS 15 on its consolidated financial statements.

The Group currently generates revenues in the following key areas:

› Revenue from rents excluding utilities charges
› Revenue from operating costs

The Group takes the preliminary view that there will be no significant deviations from current practice in respect of the recognition of rental revenue. The Group also comes to the preliminary conclusion that presenting the revenue from operating costs as gross figures continues to be appropriate, as the Group – paying due regard to the standard and the criteria found in the relevant literature – has come to the preliminary conclusion that it continues to act as a principal rather than an agent. The revenues are to be recognised once control in respect of the corresponding services is passed to the customer, meaning that no significant deviations from current practice are expected in terms of the point in time at which revenues are recorded. Taking into account the fact that IFRS 15 requires the transaction price to be allocated to individual performance obligations on the basis of the stand-alone selling prices, the Group is working on the assumption that this allocation will not differ significantly from the breakdown currently deployed.

The senior management team is currently still reviewing the full effect of applying IFRS 15 to the consolidated financial statements, which means that a reliable assessment of the extent of the financial effect can only be issued once this review has been completed. Therefore, the preliminary assessment outlined above may change. The senior management team does not plan any prior application of IFRS 15 and currently intends to use the modified retrospective method stipulated in IFRS 15 at the time of its mandatory initial application.

IFRS 16

In January 2016, the IASB published the IFRS 16 Leases accounting standard. IFRS 16 contains a comprehensive model for identifying leasing agreements and for lessor and lessee accounting. The key aspect of the new standard is that the lessee reports all leases and related rights and obligations on the balance sheet. Therefore, the difference between financing and operating leases required under IAS 17 will no longer apply for the lessee. As far as the lessor is concerned, however, the provisions of the new standard are similar to those of the previous one, IAS 17. Leases will continue to be classified as either finance or operating leases. Application of the new regulations is mandatory for fiscal years commencing on or after January 1, 2019. Voluntary application before this date is permitted, provided that IFRS 15 is also applied.

The Group is currently examining the effects of IFRS 16. As of December 31, 2016, the Group has payment obligations of EUR 107 thousand arising from non-terminable rental and leasing agreements (please refer to chapter D. 39, "Leasing agreements"). Unlike IFRS 16, IAS 17 requires neither the recognition of a right-of-use asset nor a leasing liability for these future payments. Instead, corresponding disclosure obligations are stipulated. The Group is currently examining which contractual agreements constitute leasing agreements within the meaning of IFRS 16. A preliminary assessment indicates that the existing liabilities of EUR 107 thousand arising from rental and leasing agreements do constitute leasing agreements within the meaning of IFRS 16 and that corresponding ROU assets and leasing liabilities would have to be recognised in the event of IFRS 16 being applied unless the exemptions for short-term leasing agreements or low-value assets were to apply in individual cases. A reliable assessment of the extent of the financial effect can only be issued once this review has been completed.

In respect of financing leases where the Group is the lessor, it is not assumed that the application of IFRS 16 will have a significant effect on the consolidated financial statements.

OTHER ACCOUNTING STANDARDS

In September 2014, the IASB published minor amendments to the standards IFRS 5, IFRS 7, IAS 19 and IAS 34 as part of the 2012–2014 cycle of the Annual Improvements to IFRS process. These amendments and clarifications are to be applied for the first time for fiscal years commencing on or after July 1, 2016. No significant effects are anticipated for the VIB Group.

In September 2014, the IASB published amendments to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture. The revision has resulted in a clarification in respect of transactions between investors and associates/joint ventures. The endorsement process was suspended in February 2015 and the coming into force of the amendments postponed indefinitely.

As part of its Disclosure Initiative, the IASB published amendments to IAS 7 Statement of Cash Flows in January 2016. The aim of the amendments is to improve information on changes in an entity's liabilities. The amendments come into force in fiscal years commencing on or after January 1, 2017; prior application is permissible. In the year of first-time application, prior-year comparative disclosures are not required. The company expects that these amendments will lead to extended disclosures in the notes.

In January 2016, the IASB published amendments to IAS 12 Income Taxes – Recognition of deferred tax assets for unrealised losses. With the amendment to IAS 12, the IASB is clarifying that an impairment on debt instruments measured at fair value resulting from changes to market interest rates results in deductible temporary differences. The IASB has also clarified that all deductible temporary differences should be viewed collectively when assessing whether it is likely that sufficient taxable income will be generated in future to enable these differences to be used and recognised. Separate measurements are only to be performed insofar as tax law draws a distinction between different types of taxable income. Furthermore, rules and examples will also be added to IAS 12 that clarify how to determine future taxable income for the purpose of accounting for deferred tax assets. The amendments come into force retroactively for fiscal years commencing on or after January 1, 2017. No significant effects are anticipated for VIB AG.

In June 2016, the IASB published amendments to IFRS 2 Classification and measurement of share-based payment transactions. The amendments include clarifications in respect of how to account for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payments settled net of tax withholdings and how to account for modifications to certain share-based payment transactions. These amendments are to be applied for fiscal years commencing on or after January 1, 2018. No significant effects are anticipated for the company.

In September 2016, the IASB published adjustments to IFRS 4 Insurance Contracts. The adjustments enable two approaches to dealing with the challenges arising from the lack of convergence between the first-time application of IFRS 9 and the standards succeeding IFRS 4. These amendments are to be applied for fiscal years commencing on or after January 1, 2018. No effects are anticipated for the VIB Group.

In December 2016, the IASB published "Annual improvements to the IFRS – 2014–2016 cycle". As part of the IASB annual improvement process, amendments are made to individual IFRSs to iron out inconsistencies, eliminate standards or clarify their content more precisely. The following standards are affected: IFRS 1, IAS 28, IFRS 12 and IFRS 7. The amendments to IFRS 12 are to be applied for the first time for fiscal years commencing on or after January 1, 2017. The remaining amendments are to be applied for the first time for fiscal years commencing on or after January 1, 2018. The company does not expect any significant effects on the consolidated financial statements.

In December 2016, the IASB also announced IFRIC 22 Foreign Currency Transactions and Advance Consideration. This interpretation addresses an application-related question pertaining to IAS 21. Clarification was given in respect of the time at which the exchange rate is to be determined for translating transactions in foreign currencies that contain advance payments made or received. These amendments are to be applied for fiscal years commencing on or after January 1, 2018. No significant effects are anticipated for VIB AG.

Moreover, an amendment to IAS 40 Investment Property was published in December 2016. The amendment to IAS 40 serves to clarify the instances in which the classification of a property as an "investment property" begins or ends when the property is still under construction or in development. The classification of non-completed properties had not been clearly dealt with in the previous list in IAS 40.57, which had been designated as exhaustive. These amendments are to be applied for fiscal years commencing on or after January 1, 2018. There is currently no review of potential effects on the VIB Group.

C. GROUP OF CONSOLIDATED COMPANIES AND ACCOUNTING POLICIES

These consolidated financial statements have been prepared on the assumption of a going concern.

The VIB Group's group of consolidated companies includes VIB Vermögen AG and the subsidiaries over which VIB AG can either directly or indirectly exercise control. As a rule, control is assumed to exist when the majority of voting rights for a subsidiary (including special purpose vehicles) are held by one or several Group companies. Subsidiaries are generally included in the consolidated financial statements (full consolidation) from the date on which control is attained. They are deconsolidated on the date on which control ends.

The investment account is consolidated (eliminated) in accordance with IAS 27 Consolidated and Separate Financial Statements and IFRS 3 Business Combinations. The carrying amount of the participation is offset against the subsidiary's remeasured equity on the acquisition date. All business combinations are accounted for using the acquisition method. Acquisition costs correspond to the fair value of the assets rendered, the equity instruments issued, and the debts resulting or assumed on the transaction date (acquisition date). On initial consolidation, assets, liabilities and contingent liabilities that are identified as part of a business combination are measured at their fair value on the date of acquisition. Goodwill is recognised if the acquisition costs for the acquisition of interests in subsidiaries exceed the proportion of the fair value of the net assets that is attributable to the Group. If the acquisition costs are lower than the fair value of the net assets of the acquired subsidiary, and after the purchase price allocation has been reviewed for correctness, the difference is recognised directly in profit or loss (other operating income). The interests of non-controlling shareholders in Group subsidiaries are carried at the fair value of the assets and liabilities recognised in equity equivalent to the amount due to non-controlling interests.

Expenses and earnings relating to subsidiaries acquired or disposed of during the course of a year are included in the consolidated income statement from the time the control option begins or ends. Intra-Group transactions, balances and unrealised gains from intra-Group transactions are eliminated. Unrealised losses are also eliminated unless the transaction indicates a value impairment of the transferred asset.

The portion of the consolidated equity, consolidated annual earnings and comprehensive income due to non-controlling interests is shown separately from the portions due to the shareholders of VIB Vermögen AG as the parent company.

The separate financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies. The key accounting policies that were applied when preparing these consolidated financial statements are discussed below.

The balance sheet dates of all of the subsidiaries in VIB Vermögen AG's consolidated financial statements are the same as the parent company's balance sheet date.

FAIR VALUE MEASUREMENT

On each balance sheet date, the Group measures certain financial instruments (e.g. derivatives) and certain non-financial assets (e.g. investment properties) at fair value. Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in a normal transaction between market participants at the measurement date. When measuring fair value, it is assumed that the business transaction as part of which the sale of the asset or transfer of the liability occurs either

(a) takes place on the principal market for the asset or liability or
(b) on the most favourable market for the asset/liability if no principal market exists.

The Group must have access to the principal or most favourable market.

The fair value of an asset or liability is measured on the basis of the assumptions that market participants apply as the basis to price the asset or liability. In this context, it is assumed that the market participants operate in their best economic interests.

When measuring the fair value of non-financial assets, the ability of the market participant is taken into account to generate economic benefit through the highest and best use of the asset, or through its sale to another market participant that finds the highest and best use for the asset.

The Group applies valuation techniques that are appropriate under the respective circumstances, and for which sufficient data to measure fair value is available. Both observable and non-observable inputs are utilised in this context.

All assets and liabilities for which fair value is determined, or which are reported in the financial statements, are allocated to the fair value hierarchy described below, based on the inputs for the lowest level which is significant for fair value measurement overall:

Level 1 – Listed (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 – Measurement procedure where the input parameters of the lowest level that is significant for fair value measurement overall can be observed directly or indirectly on the market.

Level 3 – Measurement procedure where the input parameters of the lowest level that is significant for fair value measurement overall cannot be observed on the market.

In the case of assets and liabilities that are recurrently reported in the financial statements, the Group determines whether regroupings between the hierarchy levels have occurred by reviewing the classification at the end of each reporting period (based on the input for the lowest level which is significant for fair value measurement overall).

Together with the Managing Board, the staff who are chiefly responsible for Group financial accounting determine the guidelines and procedures for recurring (e.g. investment properties) and non-recurring (e.g. non-current assets classified as held for sale) fair value measurement.

Recourse is made to an external surveyor to value the real estate portfolio. The related decision in this context is made annually by the Managing Board. Market knowledge, reputation, independence, expertise and compliance with professional standards are the main criteria that are applied to select the valuation surveyor. Following discussions with the external valuation surveyor, the relevant managerial staff who are responsible for real estate valuation and the managers who are responsible for the properties decide which valuation techniques and inputs are to be applied in each specific case. On each balance sheet date, the managerial staff who are responsible for real estate valuation analyse the value changes of assets and liabilities that must be remeasured or reappraised pursuant to Group financial accounting policies. This entails reconciling the significant inputs that are applied in the valuation with contracts and other relevant documents. Fair value changes for each property are reviewed together with the valuation surveyor, and any changes are investigated as to their plausibility.

In order to comply with fair value disclosure requirements, the Group has determined groups of assets and liabilities based on their type, characteristics and risk, as well as levels in the aforementioned fair value hierarchy.

ASSOCIATED COMPANIES

Associated companies are companies – including partnerships – in which the shareholder has a significant influence, but not control. As a result, these are neither subsidiaries nor joint ventures. A significant influence is to be understood as being the opportunity to participate in financial or business policy decisions, although not the ability to take such decisions alone. As a rule, a significant influence is assumed if a participating interest exists of between 20% and 50%.

In line with IAS 28.13, interests in associated companies are accounted for applying the equity method. In the first stage, the participating interest is capitalised at cost. In line with IFRS 3, differences from first-time consolidation are treated according to full consolidation rules. Positive differences constitute goodwill, which is included in the carrying amount of the participating interest in the associated company, and is not amortised. Negative differences are recognised directly in profit or loss as other operating income after a review of the purchase price allocation.

The Group's share of the profits and losses of associates are reported from the date of the acquisition or change of status in the financial result in the income statement, and the share of changes to equity directly under equity. Dividends paid by associated companies reduce their carrying amounts.

As of December 31, 2016, the following companies were carried as associates according to the equity method:

- BHB Brauholding Bayern-Mitte AG (34.2% interest)
- KHI Immobilien GmbH (41.7% interest)

The associates' balance sheet dates harmonise with the balance sheet date of the VIB Group.

ASSETS HELD FOR SALE

Non-current assets are reclassified as assets held for sale if the related carrying amount is to be realised predominantly through a disposal transaction rather than through continued utilisation. For this to be the case, it must be possible to sell the asset immediately in its current condition on terms that are current and normal for the disposal of such assets, and such a disposal must be highly probable. Non-current assets and disposal groups categorised as held for sale are measured at the lower of their carrying amount and fair value less costs of disposal if the measurement rules of IFRS 5 are applicable to the items presented in the disposal group.

SEGMENT REPORTING

In line with IFRS 8.2, companies such as VIB Vermögen AG, in which shares are publicly traded, must prepare segment reports. The so-called management approach is to be utilised for segmentation.

According to IFRS 8.5, a business segment is a distinguishable component of an entity that reports similar non-current income or has comparable economic characteristics. The individual business segments should also differ from the other segments in terms of risks, opportunities and returns.

The VIB Group reported one segment – "Rental and Management of Real Estate Assets" – in the year under review. The Group represents a so-called "one segment company" in this context. The company has refrained from segment reporting for this reason.

RECOGNITION OF REVENUE AND EXPENSES

Revenue is the gross inflow during the period arising in the course of the Group's ordinary activities. Revenues are recognised if a corresponding agreement and convincing verification that the service has been provided exist (generally transfer of risk; in the case of rentals, a contractual agreement and rental period), the amount of revenues can be identified reliably, and it can be assumed that it will be possible to collect the receivable. In the case of long-term agreements (in particular usage fees), revenues are recognised on an accrual basis based on the provisions of the associated agreement; in other words, revenues are generally recognised applying the straight-line method over the term of the agreement, and if service performance is not straight-line, as soon as the performance has been rendered. Revenues from services are recognised when the services are rendered.

Revenues are measured at the fair value of the consideration received or to be received. Rebates, discounts, or taxes connected with the sale of goods and services are deducted from revenues.

Interest income is accrued taking into account the amount of the extended loan outstanding and the applicable interest rate (effective interest rate). The applicable effective interest rate is the interest rate that is utilised to discount the estimated future receipts and payments over the term of the financial asset to the net carrying amount of the asset.

Dividend income from financial assets is reported when the legal claim to payment arises.

Expenses that cannot be accounted for are deferred in the income statement.

BORROWING COSTS

In line with IAS 23, and if the corresponding conditions apply, borrowing costs must be capitalised as part of the costs of an asset if these can be directly allocated to the acquisition, construction or production of a qualifying asset. No borrowing costs were capitalised during the fiscal year elapsed (previous year: EUR 5 thousand).

GOVERNMENT GRANTS

Grants are allocated and deducted from the corresponding expenses in the periods in which the associated costs are incurred. Grants for assets are carried as deferred income.

INCOME TAXES

Income taxes constitute the total of current tax expenses and deferred tax.

The Group identifies current tax expenses based on the taxable income of the companies included as subsidiaries in the consolidated financial statements. Taxable income differs from the net income derived from the income statement, as it excludes income and expenses that will subsequently, or never, be taxable or tax-deductible due to tax regulations (including deferrals). Current tax liabilities for the Group companies are calculated based on the tax rates that apply to the assessment period.

Deferred tax liabilities and assets are formed according to the asset and liability method (IAS 12) for anticipated tax charges and tax relief on the differences between the carrying amounts of the assets and liabilities in the IFRS consolidated financial statements and the tax base, from consolidation measures, and on loss carryforwards that are likely to be realised.

Deferred tax liabilities are formed for all taxable temporary differences. Deferred tax assets for deductible temporary differences and tax losses carried forward that can be utilised in the future are reported to the extent that it is probable that sufficient future taxable surpluses will be available for which the deductible temporary differences can be utilised. No deferred taxes are formed for temporary differences from the recognition of goodwill, or from the first-time recognition of other assets or liabilities (unless this formed part of a business combination or a transaction which impacts either taxable income or net income).

Deferred tax assets and deferred tax liabilities are offset if they relate to the same tax authority.

The carrying amount of the deferred taxes recognised in the financial statements is reviewed annually on the balance sheet date and reduced if it is no longer probable that sufficient taxable income will be available to recover the deferred taxes either in full or in part.

Deferred taxes are recognised in profit or loss, except for items that are carried in other comprehensive income or directly in equity.

Deferred taxes are identified based on tax rates that apply on the date the liability is settled or the asset is realised. The impact of changes in tax rates on deferred taxes is recognised in profit or loss in the period in which the legislation on which the change to the tax rate is based has mostly been passed, unless these relate to items carried directly under equity.

Deferred tax liabilities that result from temporary differences connected with interests in subsidiaries and associates (outside basis differences) are recognised, unless the date of the reversal of the temporary differences can be controlled by the Group, and it is probable that the temporary differences will not be reversed in the foreseeable future.

INTANGIBLE ASSETS (LICENCES, INCL. SOFTWARE)

Purchased intangible assets are recognised at cost. In the case of acquired software, straight-line amortisation over four years is imputed as a result of its limited useful life. Impairment charges are applied to intangible assets if their recoverable amount is less than their amortised cost on the balance sheet date. They are reversed if the reasons for impairment in previous years no longer apply.

GOODWILL

Any goodwill arising on initial consolidation of subsidiaries corresponds to the surplus by which the sum of the consideration transferred and the non-controlling interests in the acquired entity exceeds the fair values of the identified assets and liabilities as measured on the acquisition date. Goodwill and intangible assets with indefinite useful lives are not amortised, in line with IFRS 3 and IAS 38. Instead, pursuant to IAS 36, they are tested annually for impairment (and also during the year if reason exists to suspect impairment), and are written down to their recoverable amount if required (impairment only approach). Goodwill is distributed amongst cash-generating units for impairment tests. All impairments are expensed immediately. They are not reversed at a later date. If a subsidiary is sold, the attributable amount of goodwill is included when determining the profit or loss from the sale.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less depreciation and impairment losses. Costs include all of the expenses directly attributable to the acquisition of the asset.

Property, plant and equipment is depreciated straight-line or according to the anticipated course of the future utilisation of the equipment. In the case of straight-line depreciation, costs are depreciated as follows over the anticipated useful life of the assets:

› Other property, plant and equipment: 3–10 years

The residual carrying amounts, economic useful lives, depreciation methods and residual useful lives are reviewed on each balance sheet date and adjusted as necessary. If the carrying amount of an asset exceeds its estimated recoverable amount (which is the higher of its fair value less costs of disposal and its value-in-use), it is immediately written down to its recoverable amount. Gains and losses from the disposal of assets are calculated as the difference between the income from the sale and the carrying amount, and recognised in profit or loss.

INVESTMENT PROPERTIES

Due to the company's business activities, all properties let to third parties are treated as investment properties pursuant to IAS 40. Investment properties are initially measured at cost. Any government investment subsidies to cover additional expenses from listed buildings as a result of investments in real estate are deducted from the acquisition costs of the corresponding asset pursuant to IAS 20. Subsequent measurement is at fair value through profit or loss, whereby fair value is reduced to reflect incidental purchase costs for a potential, typical purchaser.

The fair values were measured by an independent valuation surveyor (Landestreuhand Weihenstephan GmbH Wirtschaftsprüfungsgesellschaft). The valuation surveyor generally applied the discounted cash flow method to identify the present values.

In the discounted cash flow method, the fair value of a property mostly depends on the following influencing factors:

- expected gross rent
- expected loss of rent from vacant units
- management costs (operating and management costs as well as ground rent not allocable to tenants)
- default risk with regards to rents and assessments
- maintenance expenses
- discount and capitalisation rates

Gross rents include contractual rents and customary rents for short-term vacancies. The capitalisation and discount rates are calculated individually for each property.

The transaction costs for a potential, typical purchaser are reflected through a discount from present value.

Please see note 20 in Chapter D for more information about the discounted cash flow method and the inputs applied.

Inventory land and property under construction is also reported as investment property. Fair value generally applies for valuation in accordance with IAS 40. In addition to other parameters, this includes rental income from current tenancies and appropriate and reasonable assumptions that correspond to what would be agreed between knowledgeable, willing parties for rental income generated from future tenancies according to current market conditions.

Pursuant to IAS 40.53, a rebuttable presumption exists that an entity will be able to measure reliably and on a continuing basis the fair value of an investment property. If the fair value of an investment property under construction cannot be reliably determined as a result of the early stage of the project, it is measured at cost. As soon as VIB is able to identify the fair value, the property is carried at fair value. This occurs when the property is completed, at the latest.

As a result of factors including the early development phase of the properties, the VIB Group was not able to reliably measure the fair value of investment properties under construction. As of December 31, 2016, these were consequently measured at cost in line with IAS 16.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The VIB Group applies impairment losses to the carrying amount of property, plant and equipment, intangible assets, and inventories, if required, to the extent that prospectively permanent impairment has occurred due to particular circumstances.

Intangible assets of indefinite useful life are not amortised, but are instead tested annually for impairment. Assets that are amortised are tested for impairment if corresponding events or changes to circumstances give reason to believe that an asset may be impaired. The impairment is measured as the difference between the lower of the recoverable amount and the carrying amount, and is recognised in profit or loss. The recoverable amount is the higher of the fair value of the asset less cost of sale and the asset's value-in-use. During impairment testing, assets are summarised at the lowest level for which separate cash flows can be identified (cash-generating units). The value-in-use is given by discounting the cash-generating unit's estimated future cash flows.

On each balance sheet date, VIB Vermögen AG reviews whether or not grounds exist to believe that an impairment loss can be reversed. In so doing, the carrying amount of an asset or the cash-generating unit is written up to the re-estimated recoverable amount. The increase in the carrying amount is limited to the carrying amount which would have been determined if no impairment loss had been reported for the asset (or the cash-generating unit) in previous years. Any reversal of an impairment loss is recognised in profit or loss immediately. Goodwill impairment losses are not reversed.

LEASES

Leases are classified as finance leases if, as a result of the conditions of the lease, the major risks and opportunities associated with ownership are transferred to the lessee. All other leases are classified as operating leases.

Lease payments resulting from an operating lease are expensed straight-line over the lease duration, unless another systematic basis better corresponds to the temporal duration of the benefit for the lessee.

TRADE RECEIVABLES

Trade receivables are recognised at fair value. Amortised costs are extrapolated over time applying the effective interest rate method and after deducting valuation allowances. Valuation allowances are applied to trade receivables if objective indications exist that due receivables will not be collected in full. The amount of the valuation allowance is the difference between the carrying amount of the receivable and the cash value of the estimated future cash flow from this receivable, discounted applying the effective interest rate. Such valuation allowances are expensed. Valuation allowances that have been applied to receivables are reversed accordingly if the reasons for which the valuation allowances have been applied in prior periods no longer exist. For more information, please refer to the remarks in this chapter relating to the impairment of financial assets.

BANK BALANCES AND CASH IN HAND

Bank balances and cash in hand include cash, demand deposits, other current highly liquid financial assets with an original maximum term of three months and current account overdrafts. Current account overdrafts are carried in the balance sheet as bank borrowings under current financial liabilities. Bank balances and cash in hand are measured at amortised cost.

FINANCIAL ASSETS

CLASSIFICATION AND MEASUREMENT

Financial assets (all agreements that lead to the recognition of a financial asset at one company and the recognition of a financial liability or an equity instrument at another company) are allocated to the following categories according to IAS 39:

- Financial assets measured at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of the financial assets upon initial recognition and reviews the classification on each balance sheet date.

1. ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets that are allocated to this category are to be allocated to one of the following sub-categories:

- Financial assets that have been classified as “held for trading” from the outset
- Financial assets that were classified as measured at fair value through profit or loss from initial recognition.

A financial asset is allocated to this category if it was, in principle, acquired with the intention to sell it over the short term or if the financial asset was designated accordingly by the management. Assets in this category are carried as current assets if they are either held for trading or will probably be realised within twelve months of the balance sheet date.

Derivative financial instruments (mainly interest rate swaps at the VIB Group) are carried at fair value. Changes in the value of derivatives that are not hedges are regarded as being “held for trading” and are consequently recognised in profit or loss. If derivatives are included in a cash flow hedge, the fair value adjustments are reported directly in equity taking deferred taxes into account. When derivative financial instruments are included in fair value hedges, the carrying amount of the underlying transaction is adjusted for the profit or loss from the derivative allocable to the hedged risk.

2. LOANS AND RECEIVABLES

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Exceptions include financial assets held for trading and financial assets that the management has designated as at fair value. Loans and receivables arise when the Group directly provides money, goods or services to a debtor without the intention of selling such receivables on. They are allocated to current assets to the extent that the due date of the loans and receivables is not more than twelve months after the balance sheet date. Loans and receivables with longer terms are carried under non-current assets. Loans and receivables are included in the “receivables and other assets” item in the balance sheet.

3. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which the Group’s management has the intention and ability to hold them to maturity. These do not include investments which are measured at fair value through profit or loss, those that are held for trading or those that are to be allocated to loans and receivables.

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that were either allocated to this category or which were not allocated to any of the other categories shown. These are carried under non-current assets to the extent that management does not intend to sell them within 12 months of the balance sheet date.

Financial assets are measured at fair value plus transaction costs on the date they are first recognised. They are derecognised when the rights to payments from the investment have expired or been transferred, and the Group has essentially transferred all of the opportunities and risks that are associated with owning them.

Available-for-sale financial assets and assets in the “measured at fair value through profit or loss” category are measured at fair value after initial recognition. Loans and receivables and held-to-maturity financial investments are carried at amortised cost applying the effective interest method.

Realised and unrealised gains and losses from changes to the fair value of assets in the “measured at fair value through profit or loss” category are recognised in profit or loss in the period in which they arise. Unrealised gains and losses from changes to the fair value of non-monetary securities in the "available-for-sale" category are carried to other comprehensive income. If securities in the "available-for-sale" category are sold or impaired, fair value changes aggregated within other comprehensive income are recognised in profit or loss as gains or losses from financial assets.

The fair values of financial assets that are listed on an active market are based on the current bid rate. If no active market exists for the financial assets, or if these are unlisted securities, the corresponding fair values are measured applying suitable valuation methods. These include references to recent transactions between independent business parties, the use of current market prices for other comparable assets, discounted cash flow methods and, if necessary, special option pricing models.

IMPAIRMENT OF FINANCIAL ASSETS

With the exception of financial assets measured at fair value through profit or loss, financial assets are investigated for indications of impairment on each reporting date. Financial assets are deemed to be impaired if, as a consequence of one or several events occurring after initial recognition of the asset, an objective indication exists that the expected future cash flows from the financial instrument have suffered a negative change.

In the case of equity instruments which are classified as available-for-sale financial assets, any major or sustained downturn in the fair value to below the acquisition costs of these financial instruments is taken into account when determining the extent to which the equity instruments are impaired.

In the case of all other financial assets, objective indications of impairment can exist as follows:

› Significant financial difficulties on the part of the counterparty
› Payment defaults or delays above and beyond the debtor's average credit duration
› Default or delay in interest or redemption payments
› Increased probability that the borrower will enter bankruptcy or other financial reorganisation

In the case of assets measured at amortised cost, the impairment loss corresponds to the difference between the asset's carrying amount and the present value of the expected future cash flows calculated applying the financial asset's original effective interest rate.

Impairment results in the direct application of an impairment loss to the carrying amount of the respective financial asset, with the exception of trade receivables whose carrying amounts are reduced through a valuation account. If a trade receivable to which a valuation allowance has been applied is deemed to be uncollectible, consumption is recognised against the valuation account. Subsequent receipts relating to amounts that have already been written down are also recorded against the valuation account.

In the instance that an available-for-sale financial asset is gauged to be impaired, gains and losses that have been recognised previously in other comprehensive income are to be reclassified to the consolidated income statement in the period under review.

If the level of impairment of a financial asset measured at amortised cost reduces in a subsequent fiscal year, and if such a reduction can be attributed objectively to an event that occurs after recognition of the impairment, the previously recognised impairment is reversed in profit or loss. A reversal of an impairment loss may nevertheless not exceed the amount that would have arisen given continued amortisation of costs without any impairment.

In the case of available-for-sale equity instruments, past impairments recognised in profit or loss are not reversed in profit or loss. Following the application of an impairment loss, any increase in fair value is recognised in other comprehensive income and accumulated within the revaluation reserve.

In the case of available-for-sale debt instruments, reversals of impairment losses are recognised in profit or loss if an increase in the instrument's fair value is attributable to an event that occurred after the impairment was recognised.

DERECOGNITION OF FINANCIAL ASSETS

The Group only derecognises a financial asset if the contractual rights to the cash flows from the financial asset expire or if it transfers the financial asset as well as all opportunities and risks that are essentially connected with ownership of the asset to a third party.

To the extent that the Group neither transfers nor retains all opportunities and risks essentially connected with ownership, but continues to have control over the transferred asset, the Group recognises its remaining interest in the asset, as well as a corresponding liability equivalent to the amounts that are potentially to be paid. In the case that the Group essentially retains all opportunities and risks connected with ownership of a transferred asset, the Group continues to recognise the financial asset and a financial liability.

When a financial asset is fully derecognised, the difference between its carrying amount and the sum of consideration received or to be received, and all cumulative gains or losses that are recognised in other comprehensive income and accumulated within equity, are recognised in consolidated profit or loss.

Where a financial asset is not fully derecognised (e.g. if the Group retains an option to repurchase part of the transferred asset), the Group allocates the earlier carrying amount of the financial asset between the portion that it continues to recognise in line with its continuing investment and the portion that it no longer recognises, based on these portions' relative fair values on the transfer date. The difference between the carrying amount that was allocated to the portion that is no longer recognised, and the sum derived from the consideration that was received for the portion that is no longer recognised, and all cumulative gains or losses that are allocated to it and that were reported in other comprehensive income, are recognised in consolidated profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group deploys a number of derivative financial instruments to manage its interest-rate and foreign currency exchange rate risks. These mainly comprise interest-rate swap transactions.

Derivatives are initially recognised on their contract dates at fair value, and subsequently measured at fair value on each reporting date. Gains or losses deriving from measurement are recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument as part of a hedge.

Derivatives embedded in non-derivative host contracts are treated as free-standing derivatives if

- they meet the criteria of a derivative,
- the financial characteristics and risks are not closely connected with the host contract, and
- the entire contract is not measured at fair value through profit or loss.

CASH FLOW HEDGES

Interest rate swaps are partly utilised when drawing down loans. These are utilised to hedge the fixed interest rate and some of the lending terms set by the bank. The effectiveness of the hedge is ascertained prospectively applying the critical terms match method under IAS 39.AG108. The effectiveness is reviewed retrospectively on each balance sheet date applying an effectiveness test in the form of a so-called dollar offset test. For these financial instruments utilised as cash flow hedges, the unrealised gains and losses from the effective hedge transaction are recognised directly in equity. The ineffective portion is recognised immediately in profit or loss. The amounts accumulated under equity are reported in profit or loss in the periods in which the underlying transaction affects earnings for the period.

EQUITY

The ordinary shares of VIB Vermögen AG are categorised as equity. Expenses directly connected with the issue of new shares are deducted directly in equity from the issue proceeds after deducting income tax. The share premium account, retained earnings, the Group's profit carried forward, the cash flow hedge reserve and the interests of non-controlling shareholders are also allocated to equity.

If a Group company acquires its own shares, the value of the compensation paid, including directly allocable additional costs (net of tax), is deducted from the equity due to the company's shareholders until the shares have been withdrawn, re-issued or sold on. If such shares are subsequently issued or resold, the consideration received is reported in equity that is due to the company's shareholders, net of any directly allocable additional transaction costs and associated income taxes. No Group company held any of its own shares as of the balance sheet date.

PROVISIONS

Provisions are formed according to IAS 37 if a legal or constructive obligation to third parties exists from past events and if this obligation is likely to lead to an outflow of funds for which the amount can be reliably estimated. Provisions are carried in the amount that is required according to the best possible estimate in order to cover all current obligations on the balance sheet date. Future events that could impact the amount required to settle an obligation are taken into account in the provisions to the extent that these can be predicted with sufficient objective certainty and to the extent that such obligations result from past transactions. Expenses for the formation of provisions are disclosed in the income statement. If an outflow of funds is to be expected only after more than one year, the provisions are discounted applying a pre-tax interest rate. In the event of discounting, the increase in the provisions over time is carried as interest expense.

PENSION PROVISIONS

The actuarial valuation of provisions for pensions for company retirement benefits is based on IAS 19. The provision is formed based on the projected unit credit method for defined benefit plans. The differences (so-called actuarial gains and losses) which result at the end of the year between the forecast pension commitments and the actual projected unit credit are carried directly to other comprehensive income, taking into account deferred tax. The service cost contained in the pension expense is reported under personnel expenses, and the interest portion is carried through the income statement under interest and similar expenses.

FOREIGN CURRENCIES

FUNCTIONAL CURRENCY AND REPORTING CURRENCY

The consolidated financial statements are prepared in euros, the parent company's functional currency.

The functional currency of a Group company is the currency of the primary economic environment in which the company operates. The company prepares its separate financial statements in the functional currency. This is the euro for all of the companies with the exception of RV Technik s.r.o, CZ.

Assets (including goodwill and hidden reserves disclosed as part of a purchase price allocation) and liabilities for foreign subsidiaries for which the functional currency is not the euro, are translated in line with IAS 21 at the rate prevailing on the balance sheet date, while income and expenses are translated applying the average rate of exchange. VIB Vermögen AG takes translation differences directly to equity.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated to the functional currency applying the exchange rate on the transaction date. Gains and losses that result from the fulfilment of these transactions and from conversion, at the closing rate, of monetary assets and liabilities in foreign currency are reported in the income statement.

FINANCIAL LIABILITIES

The financial liabilities comprise financial liabilities, profit participation capital (Genussrechte), other liabilities, and derivative financial instruments to be measured at fair value. Except for derivative financial instruments measured at fair value, financial liabilities are measured at amortised cost.

Financial liabilities are initially recognised at fair value. In the case of financial liabilities that are not measured at fair value through profit or loss, they also include transaction costs that are directly attributable to the liability.

Current financial liabilities (that is, liabilities for which repayment is expected within 12 months of the balance sheet date) are carried at their repayment amounts. As part of subsequent measurement, non-current liabilities and finance debt are carried at amortised cost applying the effective interest method. Liabilities from finance leases are carried at the present value of the minimum lease payments.

The fair values of financial liabilities that are listed on an active market are based on the current bid rate. If no active market exists for the financial liabilities, or if these are unlisted securities, the corresponding fair values are measured applying suitable valuation methods. These include references to recent transactions between independent business parties, the use of current market prices for other comparable liabilities, discounted cash flow methods and, if necessary, special option pricing models.

In line with the definition of equity in IAS 32, equity exists from the company's perspective only if the corresponding financial instrument does not evidence a contractual obligation to repay capital or to deliver other financial assets. Repayment obligations from company assets can arise if (non-controlling) shareholders have a right of termination and, at the same time, exercising this right evidences a compensation claim against the company. Any such capital provided by non-controlling interests is carried as a liability, even if this is regarded as equity under the principles of German commercial law. Compensation claims are carried at fair value.

RISK MANAGEMENT

The Group is exposed to various financial risks that derive from its operations and financing activities. The key financial risks for the Group arise from changes in interest rates, and its counterparties' credit ratings and solvency.

Financial risk management within the Group is based on principles stipulated by the management and includes interest rate, market, credit and liquidity risks. Principles and guidelines for other areas, such as liquidity management and the procurement of short- and long-term loans, also exist.

Financial risk management aims to guard against, to the extent necessary, the various risks detailed above and consequently to limit the negative impact on the Group's profit and loss and balance sheet. Taking into account the principle of functional separation, the financial risks to which the Group is exposed are measured, monitored and actively controlled on an ongoing basis applying various measures.

VALUATION UNCERTAINTIES, ASSUMPTIONS, ESTIMATING UNCERTAINTIES

Assumptions must be made when applying the accounting and valuation methods. The most important forward-looking assumptions and other key sources of estimating uncertainties which exist on the balance sheet date – as a result of which a risk exists that could necessitate an adjustment to the carrying amounts of assets and liabilities during the next fiscal year – are discussed below:

- The identification of the fair values for assets and liabilities and the useful lives of assets are based on the management's assessments. This also applies to the identification of impairments for property, plant and equipment, intangible assets and financial assets. At VIB Vermögen AG, this applies in particular to the valuation of investment properties, and also to financial instruments and derivatives.
- Valuation allowances are formed for doubtful receivables in order to take estimated losses from customers' unwillingness or inability to pay into account.
- Estimates must also be made when calculating actual and deferred taxes. In particular, the possibility of generating sufficient taxable income plays a key role in assessing whether or not deferred tax assets can be utilised.
- Discount factors and anticipated developments are the key estimates made in accounting for, and measuring, pension provisions and current provisions.
- VIB Group companies are involved in various proceedings and official proceedings as part of their general business operations, and such proceedings may be initiated or asserted in future. Even if the outcome of the individual proceedings cannot be forecast with certainty as a result of the uncertainties associated with litigation, it is currently expected that no significant negative impact will arise for the Group's results of operations that goes beyond the risks taken into account as liabilities or provisions in the financial statements.

The best possible information about circumstances prevailing on the balance sheet date is generally utilised for such valuation uncertainties. The actual amounts that result may differ from the estimated amounts. The carrying amounts disclosed in the financial statements that are subject to such uncertainties are detailed on the balance sheet or in the related notes.

On the date the consolidated financial statements were prepared, no material changes to the assumptions on which accounting or valuation were based were to be assumed. As things stand, no notable adjustments to the assumptions and estimates or the carrying amounts of the affected assets and liabilities are therefore to be expected in the 2017 fiscal year.

EFFECTS OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

During the fiscal year under review, the Group applied new standards and amendments to existing standards for the first time (see also the remarks in chapter B). Application resulted in no significant effects on the consolidated financial statements of VIB Vermögen AG. The previous year's figures did not need to be adjusted.

INFORMATION ABOUT SUBSIDIARIES

As of December 31, 2016, 12 (previous year: 10) companies were included in the consolidated financial statements of VIB Vermögen AG alongside the parent company.

Companies included in the consolidated financial statements as of December 31, 2016:

Company	Headquarters	Voting rights and equity interest (in %)	
		31/12/16	31/12/15
Merkur GmbH	Neuburg/Danube	100.00	100.00
RV Technik s.r.o., CZ	Pilsen (Czech Republic)	100.00	100.00
VIMA Grundverkehr GmbH	Neuburg/Danube	100.00	100.00
KIP Verwaltung GmbH	Neuburg/Danube	100.00	—
UFH Verwaltung GmbH	Neuburg/Danube	100.00	—
BBI Bürgerliches Brauhaus Immobilien AG	Ingolstadt	94.88	94.88
IPF 1 GmbH	Neuburg/Danube	94.98	94.98
IPF 2 GmbH	Neuburg/Danube	94.98	94.98
ISG Infrastrukturelle Gewerbeimmobilien GmbH	Ingolstadt	75.00	75.00
Interpark Immobilien GmbH	Neuburg/Danube	74.00	74.00
VSI GmbH	Neuburg/Danube	74.00	74.00
IVM Verwaltung GmbH	Neuburg/Danube	60.00	60.00

The interests shown correspond to the proportionate interests attributable to the Group. For more information, please also refer to the list of shareholdings under note 52.

The main business activity of the parent company and of all its subsidiaries consists in the management of commercial real estate.

The companies KIP Verwaltung GmbH and UFH Verwaltung GmbH were newly established in the 2016 fiscal year as wholly owned subsidiaries of VIB Vermögen AG.

The following table contains details about subsidiaries that the Group does not wholly own, and where significant non-controlling interests exist.

Name of subsidiary	Headquarters	Equity interest and voting rights interest of non-controlling shareholders (in %)		Gain or loss attributable to non-controllinginterests (in EUR thousand)		Cumulative non-controllinginterests (in EUR thousand)	
		31/12/16	31/12/15	**2016**	2015	**31/12/16**	31/12/15
BBI Bürgerliches Brauhaus Immobilien AG	Ingolstadt	5.12%	5.12%	344	261	5,048	4,670
Interpark Immobilien GmbH	Neuburg	26.0%	26.0%	704	2,580	5,541	4,837
ISG Infrastrukturelle Gewerbe-immobilien GmbH	Ingolstadt	25.0%	25.0%	463	388	4,297	4,009
Subsidiaries with individually immaterial non-controlling interests						4,794	4,428
Total sum of non-controlling interests						**19,680**	17,944

Summarised financial information about Group subsidiaries where there are significant non-controlling interests is presented below. The summarised financial information corresponds to amounts before intra-Group eliminations.

BBI BÜRGERLICHES BRAUHAUS IMMOBILIEN AG

IN EUR THOUSAND	**31/12/16**	31/12/15
Non-current assets	204,803	202,802
Current assets	4,968	2,485
Non-current liabilities	107,856	110,777
Current liabilities	12,455	11,100
Interest in equity attributable to parent company shareholders	84,883	79,141
Non-controlling shareholders	4,578	4,269

IN EUR THOUSAND	**2016**	2015
Revenue	14,355	14,441
Other income	4,003	882
Expenses	–12,953	–11,362
Net profit for the year	**5,405**	**3,961**
Net profit for the year attributable to parent company shareholders	5,128	3,758
Net profit for the year attributable to non-controlling shareholders	277	203
Total net income for the year	**5,405**	**3,961**
Other comprehensive income attributable to parent company shareholders	612	360
Other comprehensive income attributable to non-controlling shareholders	33	19
Total other comprehensive income	**645**	**379**
Total comprehensive income attributable to parent company shareholders	5,740	4,118
Total comprehensive income attributable to non-controlling shareholders	310	222
Total income	**6,050**	**4,340**
Dividends paid to non-controlling shareholders	—	—
Net cash flows from operating activities	12,593	11,165
Net cash flows from investing activities	1,868	67
Net cash flows from financing activities	–11,924	–9,394
Total net cash flows	**2,537**	**1,838**

INTERPARK IMMOBILIEN GMBH

IN EUR THOUSAND	31/12/16	31/12/15
Non-current assets	45,687	45,031
Current assets	2,126	262
Non-current liabilities	25,396	17,915
Current liabilities	1,106	8,775
Interest in equity attributable to parent company shareholders	15,770	13,766
Non-controlling shareholders	5,541	4,837

IN EUR THOUSAND	2016	2015
Revenue	3,510	1,171
Other income	598	10,979
Expenses	–1,400	–2,227
Net profit for the year	**2,708**	**9,923**
Net profit for the year attributable to parent company shareholders	2,004	7,343
Net profit for the year attributable to non-controlling shareholders	704	2,580
Total net income for the year	**2,708**	**9,923**
Other comprehensive income attributable to parent company shareholders	—	—
Other comprehensive income attributable to non-controlling shareholders	—	—
Total other comprehensive income	**—**	**—**
Total comprehensive income attributable to parent company shareholders	2,004	7,343
Total comprehensive income attributable to non-controlling shareholders	704	2,580
Total income	**2,708**	**9,923**
Dividends paid to non-controlling shareholders	—	—
Net cash flows from operating activities	2,048	2,058
Net cash flows from investing activities	–59	–23,492
Net cash flows from financing activities	12	20,973
Total net cash flows	**2,001**	**–461**

ISG INFRASTRUKTURELLE GEWERBEIMMOBILIEN GMBH

IN EUR THOUSAND	**31/12/16**	31/12/15
Non-current assets	35,939	35,609
Current assets	434	478
Non-current liabilities	18,069	18,980
Current liabilities	1,142	1,098
Interest in equity attributable to parent company shareholders	12,872	12,007
Non-controlling shareholders	4,291	4,002

IN EUR THOUSAND	**2016**	2015
Revenue	2,564	2,574
Other income	362	40
Expenses	–1,073	–1,064
Net profit for the year	**1,853**	**1,550**
Net profit for the year attributable to parent company shareholders	1,390	1,162
Net profit for the year attributable to non-controlling shareholders	463	388
Total net income for the year	**1,853**	**1,550**
Other comprehensive income attributable to parent company shareholders	—	—
Other comprehensive income attributable to non-controlling shareholders	—	—
Total other comprehensive income	**—**	**—**
Total comprehensive income attributable to parent company shareholders	1,390	1,162
Total comprehensive income attributable to non-controlling shareholders	463	388
Total income	**1,853**	**1,550**
Dividends paid to non-controlling shareholders	175	175
Net cash flows from operating activities	2,165	2,162
Net cash flows from investing activities	0	0
Net cash flows from financing activities	–2,214	–2,218
Total net cash flows	**–49**	**–56**

D. NOTES ON THE INCOME STATEMENT AND BALANCE SHEET

The structure of the income statement for the current fiscal year is the same as in the previous fiscal year.

1. REVENUE

The Group's revenues are composed as follows:

IN EUR THOUSAND	2016	2015
Revenue from rents excluding utilities charges	69,139	65,748
Revenue from operating costs	9,845	8,825
Other revenue	565	560
	79,549	**75,133**

The revenue relates almost exclusively to revenue from investment properties.

2. OTHER OPERATING REVENUE

Other operating revenue is composed as follows:

IN EUR THOUSAND	2016	2015
Other operating revenue	336	500
Disposal gains on properties	14	0
	350	**500**

Other operating income in the year under review primarily arises from insurance payouts and other compensation payments.

3. CHANGES IN VALUE FOR INVESTMENT PROPERTIES

IN EUR THOUSAND	2016	2015
Reversals to impairment charges arising from changes in market value (IAS 40)	20,381	21,421
Impairment charges arising from changes in market value (IAS 40)	–2,363	–5,011
	18,018	**16,410**

Rental properties are measured at fair value through profit or loss pursuant to IAS 40. As it is not yet possible to reliably determine the fair value for the properties still being developed, these are measured at amortised cost. Reversals to impairment loss of EUR 20,381 thousand are composed as follows:

IN EUR THOUSAND	2016	2015
Increase in the value of development projects and acquisitions after completion of the development and start of property use	831	13,168
Increase in the value of portfolio properties	19,550	8,253
	20,381	**21,421**

4. EXPENSES FOR INVESTMENT PROPERTIES

The expenses connected with investment properties are composed as follows:

IN EUR THOUSAND	**2016**	2015
Land expenses/operating costs	10,940	10,167
Maintenance expenses	2,352	3,453
	13,292	**13,620**

Expenses for investment properties that did not contribute to generating rental income during the year under review (including in construction, vacancies, etc.) are of minor importance.

5. PERSONNEL EXPENSES

IN EUR THOUSAND	**2016**	2015
Wages and salaries	3,143	2,951
Social security contributions	654	352
	3,797	**3,303**

The VIB Group employed an average of 37 employees excluding the Managing Board members (previous year: 37).

6. OTHER OPERATING EXPENSES

Other operating expenses rose slightly from EUR 1,626 thousand in 2015 to EUR 1,647 thousand. This item chiefly comprises general administration, legal and consultancy costs, as well as investor relations expenses and individual impairment losses on trade receivables.

7. DEPRECIATION AND AMORTISATION

IN EUR THOUSAND	**2016**	2015
Amortisation	14	11
Depreciation	48	45
	62	**56**

8. PROFIT/LOSS ON EQUITY ACCOUNTED INVESTMENTS

The income from investments is due to the following participating interests in associated companies:

IN EUR THOUSAND	**2016**	2015
VIMA Grundverkehr GmbH	0	–2
KHI Immobilien GmbH	–13	–11
BHB Brauholding Bayern-Mitte AG	223	32
	210	**19**

The income from investments is recognised pursuant to IAS 28.11 and includes both the share of the profit and loss of the interest held and adjustments to the carrying amounts of the shares due to impairment losses.

9. GAIN/LOSS ON DECONSOLIDATION

No shares in subsidiaries were sold in the fiscal year under review. Therefore, the gain/loss on deconsolidation amounted to EUR 0 thousand (previous year: EUR 0 thousand).

10. INCOME/EXPENSES FROM MEASUREMENT OF FINANCIAL DERIVATIVES

In the 2016 fiscal year, no expenses were incurred in connection with the measurement of foreign currency derivatives. In the previous year, an amount of EUR –132 thousand was recorded in this regard. The derivative expired at the end of the previous year.

11. OTHER INTEREST AND SIMILAR INCOME

Other interest and similar income in the amount of EUR 48 thousand (previous year: EUR 62 thousand) is mostly due to interest on current account balances and demand deposits as well as loans extended comprising part of financial assets.

12. INTEREST AND SIMILAR EXPENSES

Interest and similar expenses in the amount of EUR 20,391 thousand (previous year: EUR 20,433 thousand) are mostly due to interest on bank borrowings and interest payments on interest rate swaps.

The interest expense for financial liabilities that are not measured at fair value through profit or loss amounted to EUR 18,464 thousand in the fiscal year under review (previous year: EUR 18,618 thousand).

13. EXPENSES FROM GUARANTEED DIVIDEND

This expense results from the dividend guaranteed to outstanding shareholders as set out in the profit and loss transfer agreement with BBI Immobilien AG and reduces earnings in the amount of EUR 166 thousand (previous year: EUR 166 thousand). The cash settlement was set at EUR 0.74 (gross) per ordinary share.

14. INCOME TAXES

Income taxes are composed as follows:

IN EUR THOUSAND	**2016**	2015
Current income tax expense	3,411	2,620
Deferred income tax expense	6,006	6,121
Expense from taxes on income	**9,417**	**8,741**

The current tax expense mostly comprises corporation tax including the solidarity surcharge.

The deferred tax expense arises primarily from deferred taxes on the valuation differences on investment properties.

The differences between the reported tax expense and the expected tax expense are reported in the statement of reconciliation below. The expected income tax expense arises from the earnings before taxes multiplied by the expected tax rate. The anticipated income tax rate includes statutory German corporation tax as well as the solidarity surcharge due on this amount. As a result of the further reduction in trade tax, this is not included in this tax rate. The anticipated tax rate is consequently 15.825%. Any trade tax effects are reported as reconciliation issues.

IN EUR THOUSAND	**2016**	2015
Earnings before income taxes	58,820	52,788
Anticipated income tax rate: 15.825%		
Anticipated income tax expense	9,308	8,354
Prior years' taxes (current and deferred)	4	115
Use of non-capitalised loss carryforwards	–14	0
Tax impact of subsidiaries and equity accounted investments	–33	–3
Tax effects from deconsolidation gains	0	0
Corporation tax on compensation payment	26	26
Tax rate differences (trade tax)	0	0
Tax-free income (especially Section 8b KStG)	21	18
Non-tax-deductible expenses	21	16
Tax effects from mandatory convertible bonds (interest and issue costs)	99	222
Other	–15	–7
Reported income tax expense	**9,417**	**8,741**
Effective tax rate	16.01%	16.56%

15. PROFIT/LOSS ON DISCONTINUED OPERATIONS

In the 2016 fiscal year, no earnings components exist arising from discontinued operations.

16. NON-CONTROLLING SHAREHOLDERS' SHARE OF EARNINGS

The consolidated net income in the amount of EUR 49,403 thousand includes shares attributable to non-controlling shareholders (BBI Immobilien AG, IPF 1 GmbH, IPF 2 GmbH, ISG Infrastrukturelle Gewerbeimmobilien GmbH, Interpark Immobilien GmbH, VSI GmbH, IVM Verwaltung GmbH) in the amount of EUR 2,163 thousand (previous year: EUR 3,928 thousand).

17. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated based on the following information:

IN EUR THOUSAND	**2016**	2015
Ergebnis		
Consolidated net income	49,403	44,047
Less: earnings attributable to non-controlling interests	–2,163	–3,928
Basis for undiluted earnings per share	**47,240**	**40,119**
Less: profit/loss on discontinued operations	0	0
Basis for undiluted earnings per share for continuing operations	**47,240**	**40,119**
Impact of potentially dilutive shares	0	0
Basis for diluted earnings per share	**47,240**	**40,119**
Less: profit/loss on discontinued operations	0	0
Basis for diluted earnings per share for continuing operations	**47,240**	**40,119**
Number of shares		
Weighted average number of shares in circulation for undiluted earnings per share	27,579,779	27,579,812
Impact of potentially dilutive shares	0	0
Weighted average number of shares in circulation for diluted earnings per share	27,579,779	27,579,812
Undiluted earnings per share (in EUR)	**1.71**	**1.46**
Undiluted earnings per share for continuing operations (in EUR)	**1.71**	**1.46**
Diluted earnings per share (in EUR)	**1.71**	**1.46**
Diluted earnings per share for continuing operations (in EUR)	**1.71**	**1.46**

Following the conclusion of the appeal proceedings relating to the review of the appropriateness of the guaranteed dividend for the outstanding BBI shareholders and the exchange ratio for the exchange of BBI shares for VIB shares, it will no longer be possible to exchange shares. In addition, no potential dilutive shares will arise in the future as a consequence (see section 25 Conditional capital).

DIVIDENDS PAID

In the 2016 fiscal year, and according to the resolution of the Annual General Meeting on June 30, 2016, an amount of EUR 13,417,286.55 (previous year: EUR 11,896,274.88) was disbursed from the 2015 net retained profit of VIB Vermögen AG. This corresponds to a dividend of EUR 0.51 per share (previous year: EUR 0.48 per share).

The Managing and Supervisory Boards of VIB Vermögen AG will propose to the shareholders at the company's Annual General Meeting for the 2016 fiscal year that a dividend of EUR 0.55 per share be disbursed from the net retained profit of VIB Vermögen AG (total of EUR 15,168,878.45).

18. FAIR VALUE MEASUREMENT

The following table shows the fair value measurement of the Group's assets and liabilities by hierarchy levels.

QUANTITATIVE INFORMATION ABOUT THE FAIR VALUE MEASUREMENT OF ASSETS BY HIERARCHY LEVELS AS OF DECEMBER 31, 2016

			Fair value measurement applying		
IN EUR THOUSAND	Measurement date	Total	prices listed on activemarkets (Level 1)	significant observable inputs (Level 2)	significant non-observ-able inputs (Level 3)
Assets measured at fair value:					
Investment properties (note 20)					
Logistics/light industry	31/12/16	603,570	—	—	603,570
Retail	31/12/16	327,620	—	—	327,620
Office	31/12/16	37,660	—	—	37,660
Commercial buildings/other	31/12/16	35,260	—	—	35,260
Assets held for sale	31/12/16	0	—	—	0
Liabilities measured at fair value:					
Derivative financial liabilities (Note 29)					
Interest rate swaps	31/12/16	7,001	—	7,001	—
Forward currency contract (CHF)	31/12/16	0	—	0	—
Liabilities for which fair value is reported in the notes:					
Interest-bearing loans (note 43)					
Fixed-interest loans	31/12/16	637,141	—	637,141	—

QUANTITATIVE INFORMATION ABOUT THE FAIR VALUE MEASUREMENT OF ASSETS BY HIERARCHY LEVELS AS OF DECEMBER 31, 2015

			Fair value measurement applying		
IN EUR THOUSAND	Measurement date	Total	prices listed on activemarkets (Level 1)	significant observable inputs (Level 2)	significant non-observ-able inputs (Level 3)
Assets measured at fair value:					
Investment properties (note 20)					
Logistics/light industry	31/12/15	555,720	—	—	555,720
Retail	31/12/15	321,790	—	—	321,790
Office	31/12/15	36,700	—	—	36,700
Commercial buildings/other	31/12/15	36,930	—	—	36,930
Assets held for sale	31/12/15	0	—	—	0
Liabilities measured at fair value:					
Derivative financial liabilities (Note 29)					
Interest rate swaps	31/12/15	8,513	—	8,513	—
Forward currency contract (CHF)	31/12/15	0	—	0	—
Liabilities for which fair value is reported in the notes:					
Interest-bearing loans (note 43)					
Fixed-interest loans	31/12/15	566,937	—	566,937	—

No regroupings occurred between the levels of the measurement hierarchies in the period under review.

19. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

19.1 INTANGIBLE ASSETS

IN EUR THOUSAND	Other rights	Total
Cost as of 01/01/2016	**167**	**167**
Additions	21	21
Disposals	0	0
Balance 31/12/2016	**188**	**188**
Amortisation/impairment as of 01/01/2016	**143**	**143**
Additions	14	14
Balance 31/12/2016	**157**	**157**
Carrying amount 31/12/2016	**31**	**31**
Carrying amount 01/01/2016	**24**	**24**

IN EUR THOUSAND	Other rights	Total
Cost as of 01/01/2015	**137**	**137**
Additions	30	30
Disposals	0	0
Balance 31/12/2015	**167**	**167**
Amortisation/impairment as of 01/01/2015	**133**	**133**
Additions	10	10
Balance 31/12/2015	**143**	**143**
Carrying amount 31/12/2015	**24**	**24**
Carrying amount 01/01/2015	**4**	**4**

19.2 PROPERTY, PLANT AND EQUIPMENT

IN EUR THOUSAND	Land and buildings	Other property, plant and equipment	Advance payments made and property under construction	Total
Cost as of 01/01/2016	**710**	**1,134**	**28**	**1,872**
Additions	4	544	5,487	6,035
Disposals	0	–15	0	–15
Reclassified to investment properties	0	0	0	0
Balance 31/12/2016	**714**	**1,663**	**5,515**	**7,892**
Amortisation/impairment as of 01/01/2016	**0**	**906**	**0**	**906**
Additions	0	48	0	48
Disposals	0	–7	0	–7
Balance 31/12/2016	**0**	**947**	**0**	**947**
Carrying amount 31/12/2016	**714**	**716**	**5,515**	**6,945**
Carrying amount 01/01/2016	**710**	**228**	**28**	**966**

IN EUR THOUSAND	Land and buildings	Other property, plant and equipment	Advance payments made and property under construction	Total
Cost as of 01/01/2015	**20**	**1,096**	**0**	**1,116**
Additions	706	40	28	774
Disposals	0	–2	0	–2
Reclassified to investment properties	–16	0	0	–16
Balance 31/12/2015	**710**	**1,134**	**28**	**1,872**
Amortisation/impairment as of 01/01/2015	**0**	**863**	**0**	**863**
Additions	0	45	0	45
Disposals	0	–2	0	–2
Balance 31/12/2015	**0**	**906**	**0**	**906**
Carrying amount 31/12/2015	**710**	**228**	**28**	**966**
Carrying amount 01/01/2015	**20**	**233**	**0**	**253**

20. INVESTMENT PROPERTIES

IN EUR THOUSAND	**2016**	2015
Investment properties, measured at fair value	1,004,110	951,140
Property under construction, measured at amortised cost	57,663	17,882
	1,061,773	**969,022**

INVESTMENT PROPERTIES, MEASURED AT FAIR VALUE

IN EUR THOUSAND	**2016**	2015
Carrying amount 01/01	**951,140**	**876,310**
Changes to consolidation scope	0	0
Additions	28,216	39,485
Disposals	–2,220	–23
Reclassified from property under construction	8,956	18,958
Unrealised increases in market value	20,381	21,421
Unrealised deductions in market value	–2,363	–5,011
Carrying amount 31/12	**1,004,110**	**951,140**

The investment properties (IAS 40) relate to properties held for rental and value appreciation purposes deriving from the Group's core business. The Group measures the properties on the basis of the fair value model. An external valuation surveyor, Landestreuhand Weihenstephan GmbH, Wirtschaftsprüfungsgesellschaft, Freising, was appointed for this purpose.

The properties relate predominantly to commercial real estate assets that are largely rented to renowned tenants on a long-term basis. The properties are subdivided into the categories of logistics/light industry, retail, office, and commercial buildings and other.

At the Group, no restrictions exist relating to the disposability of investment properties, and no contractual obligations exist to purchase, construct or develop investment properties. Moreover, no significant contractual obligations exist relating to repairs, maintenance and improvements.

Note 18 includes information concerning the fair value hierarchy for investment properties measured at fair value.

The changes in the fair values per category are as follows:

IN EUR THOUSAND	Logistics/ light industry	Retail	Office	Commercial buildings/ other	Total
Carrying amount 01/01/2016	**555,720**	**321,790**	**36,700**	**36,930**	**951,140**
Changes to consolidation scope	0	0	0	0	0
Additions	27,881	216	119	0	28,216
Disposals	0	0	0	–2,220	–2,220
Reclassified from property under construction	7,647	1,309	0	0	8,956
Unrealised market value changes-recognised in profit or loss for the period	12,322	4,305	791	600	18,018
Carrying amount 31/12/2016	**603,570**	**327,620**	**37,610**	**35,310**	**1,004,110**

IN EUR THOUSAND	Logistics/ light industry	Retail	Office	Commercial buildings/ other	Total
Carrying amount 01/01/2015	**498,330**	**305,270**	**36,070**	**36,640**	**876,310**
Changes to consolidation scope	0	0	0	0	0
Additions	23,240	14,624	1,621	0	39,485
Disposals	–5	–18	0	0	–23
Reclassified from property under construction	18,150	808	0	0	18,958
Unrealised market value changes-recognised in profit or loss for the period	16,005	1,106	–991	290	16,410
Carrying amount 31/12/2015	**555,720**	**321,790**	**36,700**	**36,930**	**951,140**

The unrealised gains and losses recognised in profit or loss for the period are reported under the “changes in value for investment properties” item.

The applied measurement methods and significant inputs for investment properties measured at fair value are as follows:

Category	Measurement method	Significant non-observable input parameters	Range/value * 2016	Range/value * 2015
Logistics/ light industry real estate	Discounted cash flow method	Estimated rent per sqm and month	EUR 3 – EUR 14 (weighted average: EUR 5)	EUR 3 – EUR 14 (weighted average: EUR 5)
		Estimated management costs per sqm and month	EUR 0.23 – EUR 1.47 (weighted average: EUR 0.37)	EUR 0.23 – EUR 1.61 (weighted average: EUR 0.37)
		Discounting rate	6.05% – 9.60%	6.15% – 9.70%
Retail properties	Discounted cash flow method	Estimated rent per sqm and month	EUR 5 – EUR 12 (weighted average: EUR 8)	EUR 5 – EUR 12 (weighted average: EUR 8)
		Estimated management costs per sqm and month	EUR 0.06 – EUR 1.49 (weighted average: EUR 0.70)	EUR 0.06 – EUR 1.49 (weighted average: EUR 0.71)
		Discounting rate	5.75% – 7.60%	5.80% – 7.70%
Office real estate	Discounted cash flow method	Estimated rent per sqm and month	EUR 5 – EUR 12 (weighted average: EUR 8)	EUR 5 – EUR 12 (weighted average: EUR 8)
		Estimated management costs per sqm and month	EUR 0.62 – EUR 1.37 (weighted average: EUR 0.90)	EUR 0.62 – EUR 1.39 (weighted average: EUR 0.89)
		Discounting rate	6.25% – 8.30%	6.35% – 8.40%
Commercial buildings/other	Discounted cash flow method	Estimated rent per sqm and month	EUR 2 – EUR 28 (weighted average: EUR 9)	EUR 2 – EUR 28 (weighted average: EUR 8)
		Estimated management costs per sqm and month	EUR 0.19 – EUR 2.66 (weighted average: EUR 0.84)	EUR 0.19 – EUR 2.66 (weighted average: EUR 0.79)
		Discounting rate	4.10% – 8.05%	4.20% – 8.05%

* The average values presented in the table are derived from the arithmetic average of the respective values of a category.

The properties are generally valued applying the discounted cash flow (DCF) method. The model comprises two phases: during the first phase (detailed planning period over 10 years), periodic cash surpluses are calculated and then discounted to the measurement date. For the second phase, which follows the detailed planning period, a residual value (disposal proceeds) is calculated by capitalising a sustainably achievable cash surplus into perpetuity. This residual value is also discounted to the measurement date. The gross present value of the property comprises the sum of the discounted cash surpluses from the detailed planning phase and the discounted disposal proceeds. This is converted into a net present value (net disposal price) by deducting potential buyers' incidental purchase costs (transaction costs): land purchase tax, as well as notary and land registry costs.

The calculation of the income surpluses generally comprises all incoming and outgoing payments relating to the property. Incoming payments include contractually agreed gross rents taking any rental adjustment clauses into consideration. A standard market rent that takes into account rental increases that are expected over the course of time is applied to spaces that become vacant on a short-term basis, as well as for periods after rental contracts expire. Outgoing payments comprise property management costs: mainly administrative expenses, operating costs that cannot be charged on to the tenant, maintenance expenses, ground rents, and costs in relation to guarantees, doubtful debts, contingent losses and so on. During the detailed planning period, management costs are calculated on the basis of cost rates that reflect the anticipated costs. These cost rates are based on actual costs incurred in previous periods.

Identifiable structural vacancies and any maintenance backlogs are reflected through corresponding discounts from the gross present value.

Yields derived from the real estate market are used to discount the cash flows anticipated for the detailed planning period and the residual value (disposal proceeds). The starting point is the "gross initial yield", i.e. the ratio of the contractual rent to the sale price of the property excluding incidental purchase costs. Taking the gross initial yield, the net initial yield is determined as a property-specific rate of interest. The net initial yield shows the ratio of the incoming payment surpluses to the total investment, which comprises the purchase price plus incidental purchase costs. The specific circumstances pertaining to the individual property being valued (location, age, condition, rentability) are factored in by applying property-specific additions or deductions to the net initial yield. The capitalisation rate used to determine the residual value (disposal proceeds) usually deviates from the rate used to discount the incoming payment surpluses during the detailed planning period and the residual value on the measurement date due to growth deductions and ageing additions.

When observed on an isolated basis, significant increases (reductions) in the estimated rent would result in a significantly higher (lower) fair value for the respective property. In contrast, a significant increase (decrease) in management costs would feed through to a considerably lower (higher) fair value. When observed on an isolated basis, a markedly higher discounting rate (and capitalisation rate) would result in a significantly lower (higher) fair value. In general, a modification to the assumptions relating to the expected market rent gives rise to a corresponding change to the discounting rate (and capitalisation rate).

PROPERTY UNDER CONSTRUCTION, MEASURED AT AMORTISED COST

IN EUR THOUSAND	2016	2015
Carrying amount 01/01	**17,882**	**17,904**
Additions	48,788	16,172
Disposals	–18	0
Exchange rate effects	–33	–80
Reclassified to investment properties measured at fair value	–8,956	–18,958
Reclassified to assets held for sale (IFRS 5)	0	0
Reclassified from assets held for sale (IFRS 5)	**0**	**2,844**
Carrying amount 31/12	**57,663**	**17,882**

Property under construction relates predominately to developed land plots with buildings under construction and undeveloped portfolio land plots measured at amortised cost.

The investment properties are encumbered with land charges and mortgages in connection with the long- and short-term financial liabilities taken out for financing.

The book value of assets under construction serves as the best approximation of fair value.

21. INTERESTS IN ASSOCIATED COMPANIES

The investments in companies included in the consolidated financial statements as associated companies were included in the consolidated financial statements in line with the equity method set out in IAS 28 and were recognised at the corresponding remeasured equity.

All interests in associates are regarded as immaterial when taken individually.

IN EUR THOUSAND	2016	2015
Carrying amount of Group interests in associates	**4,701**	**3,052**

Summarised information for associates that are individually immaterial:

IN EUR THOUSAND	2016	2015
Group interest in profit or loss from continuing operations	74	116
Group interest in earnings after tax from discontinued operations	—	—
Group interest in other comprehensive income	—	—
Group interest in total comprehensive income	**74**	**116**

22. RECEIVABLES AND OTHER ASSETS

IN EUR THOUSAND	2016	2015
Trade receivables	1,443	1,104
Other assets	1,254	1,024
	2,697	**2,128**

The trade receivables stem mostly from current renting, as well as the capitalisation of claims arising from the settlement of incidental costs due from tenants.

Individual valuation allowances were required in the amount of EUR 44 thousand (previous year: EUR 44 thousand).

Other assets primarily relate to maintenance reserves, VAT reimbursement claims, insurance payments and short-term loans extended.

All accounts receivable and other assets have a residual term of less than one year.

The changes in valuation allowances are shown in the following table:

IN EUR THOUSAND	2016	2015
Balance – start of year	44	339
Additions	44	37
Consumed in derecognition	–13	–319
Reversals	–31	–13
	44	**44**

When determining whether trade receivables are impaired, every change in credit rating since the time when the payment deadline was granted through to the balance sheet date is taken into account. No notable concentration in credit risk exists, as the customer base is broadly distributed and no correlations exist. Correspondingly, the Managing Board believes that no risk provisions are required over and above the valuation allowances already reported.

The present value of the trade receivables corresponds to their carrying amount. Additions to valuation allowances during the fiscal year are carried in the income statement under other operating expenses, with reversals carried under other operating income.

The receivables from income taxes of EUR 12 thousand (previous year: EUR 33 thousand) result from corporation and trade tax rebates at Merkur GmbH.

23. BANK BALANCES AND CASH IN HAND

This item is utilised to disclose cash in hand and bank balances with a term of less than three months, as well as financial securities with an original term of less than three months.

24. ASSETS HELD FOR SALE

There are currently no assets held for sale.

25. EQUITY

SUBSCRIBED SHARE CAPITAL

The subscribed share capital of VIB Vermögen AG amounts to EUR 27,579,779.00 (previous year: EUR 26,308,405.00) and is divided into 27,579,779 ordinary bearer shares (previous year: 26,308,405). During the fiscal year, no (0) shares were issued from approved capital, and 1,271,374 shares were issued from conditional capital.

In the fiscal year elapsed, creditors of the 2014/16 mandatory convertible bond exercised their right of early conversion of individual bonds, giving rise to 420,979 new shares. The 2014/16 mandatory convertible bond was fully converted in December 2016 in accordance with its terms. This gave rise to a further 850,395 new shares.

SHARE PREMIUM ACCOUNT

The share premium account arises from the share premium of VIB Vermögen AG (adjusted to reflect capital raising costs after tax).

Due to the early and final exchange of individual bonds by holders of the 2014/16 mandatory convertible bond, an amount of EUR 79 thousand was released to share premium account from the debt component that was added in the previous years. The shares that were newly issued by the exchange reduce the share premium account by EUR 1,271 thousand.

RETAINED EARNINGS

As part of the preparation of its annual financial statements as of December 31, 2016 (separate financial statements prepared according to the German Commercial Code [HGB]), the Managing Board of VIB Vermögen AG added EUR 4,347 thousand to retained earnings.

NET RETAINED PROFITS

The Group's net retained profits derive from the previous year's net retained profits less the distribution for 2015 (EUR 13,417 thousand), the allocations to the retained earnings of the parent company (EUR 4,347 thousand) plus the current consolidated net income from the 2016 fiscal year that is due to Group shareholders (EUR 47,240 thousand) and the corresponding other earnings (excluding the cash flow hedge reserve) from the statement of other comprehensive income (EUR –129 thousand).

CASH FLOW HEDGES

The cash flow hedge reserve is utilised to report the market value of cash flow hedge derivatives (including deferred tax) to the extent that these serve to hedge (interest) cash flows for specific underlying transactions.

FOREIGN CURRENCY TRANSLATION

This reserve includes the differences from the conversion of foreign currencies at the foreign subsidiaries to the Group's functional currency.

NON-CONTROLLING SHAREHOLDERS' SHARE OF EARNINGS

The interest for non-controlling shareholders is attributable to the interests in BBI Immobilien AG, IPF 1 GmbH, IPF 2 GmbH, ISG Infrastrukturelle Gewerbeimmobilien GmbH, Interpark Immobilien GmbH, VSI GmbH and IVM Verwaltung GmbH.

This item changed as follows:

IN EUR THOUSAND	**2016**	2015
Balance – start of year	17,944	12,594
Issue of VIB shares as part of share exchange	0	0
Purchase of shares of non-controlling shareholders	0	0
Reclassifications between shareholders recognised in equity	0	437
Distribution to shareholders	–460	–333
Share of annual earnings	2,163	3,928
Non-controlling shareholders' share of other comprehensive income	33	18
Non-controlling shareholders' share of capital increase (previous year: Interpark GmbH)	0	1,300
Balance – end of year	**19,680**	**17,944**

With regard to material non-controlling interests, please refer to the section "Information on subsidiaries" in Chapter C.

AUTHORISED CAPITAL

AUTHORISED CAPITAL 2013:

The Annual General meeting on July 3, 2013, adopted a resolution to create further authorised capital (Authorised Capital 2013) in the amount of EUR 2,136,430.00. None of this has been utilised to date. The authorisation granted to the Managing Board to issue, with Supervisory Board assent, new shares in return for cash and non-cash capital contributions, and the possibility of simplified exclusion of subscription rights, runs until July 2, 2018.

AUTHORISED CAPITAL 2015:

The Annual General meeting on July 1, 2015, adopted a resolution to create further authorised capital (Authorised Capital 2015) in the amount of EUR 2,478,390.00 None of this has been utilised to date. The authorisation granted to the Managing Board to issue, with Supervisory Board assent, new shares in return for cash and non-cash capital contributions, and the possibility of simplified exclusion of subscription rights, runs until June 30, 2020.

The total available authorised capital consequently stands at EUR 4,614,820.00.

CONDITIONAL CAPITAL

The Annual General Meeting on July 3, 2013, adopted a resolution to create conditional capital (2013) in the amount of EUR 2,136,430. Of this conditional capital, an amount of EUR 451 remained at the end of the previous year. No further use was made of this capital in the year under review. As at the end of 2016, the remaining amount was unchanged at EUR 451.

The Annual General Meeting on July 2, 2014, adopted a resolution to create further conditional capital (2014) in the amount of EUR 2,215,133. As at the end of 2015, there was still a remaining amount of EUR 1,271,540. Due to the full conversion of the remaining bonds from the 2014/16 mandatory convertible bond issue in the amount of EUR 1,271,374 in the fiscal year under review, this conditional capital was almost fully exhausted as of December 31, 2016. As at the end of 2016, there was still a remaining amount of EUR 166.

The Annual General Meeting on July 1, 2015, adopted a resolution to create further conditional capital (2015) in the amount of EUR 2,478,390. None of this conditional capital had been used as of December 31, 2016. The 2015 conditional capital is still available in full.

DEFERRED TAXES ON INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

The following table shows individual details of the deferred taxes on expenses and income taken directly to equity:

IN EUR THOUSAND	**2016**			2015		
	Before tax	Taxes	After tax	Before tax	Taxes	After tax
Foreign currency effects from the translation of independent subsidiaries	–1	0	–1	–45	0	–45
Mark-to-market valuation of cash flow hedges	1,512	–214	1,298	1,641	–231	1,410
Actuarial gains/losses on pension plans	–157	26	–131	–388	62	–326
Income and expenses taken directly to equity	**1,354**	**–188**	**1,166**	**1,208**	**–169**	**1,039**

26. PROFIT PARTICIPATION CAPITAL

VIB Vermögen AG issued profit participation rights with a repayment amount of EUR 675 thousand in 2003. An amount of EUR 15 thousand from this has already been repaid in previous years. The profit participation certificates bear interest of 5% in the event of profits. The profit participation certificates participate in losses, and in the event of liquidation or insolvency proceedings, they are served after other creditors have been satisfied.

The profit participation certificates have an indefinite term. The holders of the profit participation certificates and VIB Vermögen AG can terminate the profit participation rights at the earliest three years from the date of their issue with a two-year notice period to the year-end.

All profit participation rights agreements were terminated on the due date on December 31, 2016. Repayment will occur one day after the 2017 Ordinary Annual General Meeting. The liability of EUR 660 thousand still outstanding from the repayment of profit participation rights as of the end of the fiscal year was reclassified to other liabilities.

27. NON-CURRENT FINANCIAL LIABILITIES

IN EUR THOUSAND	**2016**	2015
Remaining term of between 1 and 5 years	83,544	104,363
Remaining term of more than 5 years	488,860	423,612
	572,404	**527,975**

Financial liabilities with a term of more than 12 months are from the following companies:

IN EUR THOUSAND	**2016**	2015
Non-current financial liabilities		
VIB Vermögen AG	396,034	352,279
BBI Bürgerliches Brauhaus Immobilien AG	93,261	96,687
Interpark Immobilien GmbH	23,421	16,150
VSI GmbH	16,254	17,033
ISG Infrastrukturelle Gewerbeimmobilien GmbH	16,197	17,281
IPF 2 GmbH	13,282	13,923
IPF 1 GmbH	12,451	13,053
IVM Verwaltung GmbH	1,504	1,569
	572,404	**527,975**

The non-current financial liabilities are secured by land charges on the investment properties, and the assignment of rental claims.

28. LIABILITIES ARISING FROM DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises interest rate swaps to manage risk and to optimise interest expenses connected with bank loans drawn down.

The cash flows and their effects on profit or loss are expected to occur in the 2016 to 2020 reporting periods.

IN EUR THOUSAND	**2016**	2015
Derivative financial instruments		
Interest rate swaps (payer swaps)	7,001	8,513
	7,001	**8,513**

29. DEFERRED TAXES

Deferred tax results from differing valuations between the IFRS and tax values for Group companies and consolidation measures.

The deferred tax liabilities and the deferred tax assets are distributed among the following items:

IN EUR THOUSAND	2016	2015
Deferred tax assets		
Derivative assets	1,011	1,225
Pension provisions/other	132	95
Liabilities connected to mandatory convertible bonds	0	146
Intra-Group profit elimination	46	41
Total deferred tax assets	**1,189**	**1,507**
Deferred tax liabilities		
Investment properties	40,458	34,581
Total deferred tax liabilities	**40,458**	**34,581**
Offsetting of deferred tax assets and liabilities	–1,189	–1,507
Carrying amount after offsetting		
Deferred tax assets	**0**	**0**
Deferred tax liabilities	**39,269**	**33,074**

Deferred tax assets and deferred tax liabilities were offset insofar as they relate to the same tax authority.

Losses carried forward on December 31, 2016, were reported as follows:

- Trade tax EUR 14,764 thousand (previous year: EUR 13,019 thousand)
- Corporation tax EUR 36 thousand (previous year: EUR 86 thousand).

No deferred tax was capitalised for trade losses due to the expanded scope of tax reduction.

No deferred tax liabilities were recognised for EUR 64,661 thousand of outside basis differences since the parent company is able to control a reversal, and reversal is currently not anticipated.

30. PENSION PROVISIONS

Provisions for pensions include company retirement benefit commitments to beneficiaries and their surviving dependants. The pension commitments are based on individual contractual benefit commitments. The beneficiaries can generally claim a fixed old-age and invalidity pension when they reach pensionable age (63 to 65) depending on their period of service. Other benefits are not planned after the end of employment contracts. The pensions' values are linked to the inflation index. No plan assets in the meaning of IAS 19 exist.

The Group's commitments from retirement benefit plans totalling EUR 2,009 thousand as disclosed on the balance sheet correspond to their projected unit credit value.

The projected unit credit values of the defined benefit obligations changed as follows:

IN EUR THOUSAND	**2016**	2015
Balance 01/01	**1,634**	**1,325**
Newly acquired pension entitlements	247	0
Interest expense	37	25
Pensions paid	–66	–104
Actuarial gains/losses		
due to changes in demographic assumptions	**0**	**0**
due to changes in financial assumptions	136	–88
due to experience-related adjustments	21	476
Balance 31/12	**2,009**	**1,634**

Calculated actuarial assumptions

IN %	**2016**	2015
Discounting rate	1.41 –1.90	2.06 – 2.64
Pension trend	0.0 – 2.00	1.50 – 2.00
Life expectancy at age 65		
Men	20 years	20 years
Women	23 years	23 years

The salary trend was carried at 0.0% (as was the case for the probability of staff turnover).

A quantitative sensitivity analysis for the most important assumptions as of December 31, 2016, generates the following results:

- A 1 percentage point increase in the discount rate results in a EUR –243 thousand decrease in the DBO, and a EUR 3 thousand increase in the interest cost.
  A 1 percentage point decrease in the discount rate results in a EUR 301 thousand increase in the DBO, and a EUR –24 thousand decrease in the interest cost.
- A 1 percentage point increase in pension growth results in a EUR 213 thousand increase in the DBO, and a EUR –5 thousand decrease in the interest cost.
  A 1 percentage point decrease in pension growth results in a EUR –182 thousand decrease in the DBO, and a EUR –12 thousand decrease in the interest cost.

This sensitivity analysis was conducted using a method that extrapolates the effects of realistic modifications to the most important assumptions on the defined benefit obligation until the end of the reporting period.

The following amounts are expected to be paid out over the coming years as part of the defined benefit obligation:

IN EUR THOUSAND	**2016**	2015
Over the next 12 months	66	65
Between 2 and 5 years	402	363
Between 5 and 10 years	475	476
Expected outgoing payments	**943**	**904**

The average duration of the defined benefit obligation amounted to 20.87 years at the end of the reporting period (previous year: 17).

31. CURRENT FINANCIAL LIABILITIES

Current financial liabilities mostly relate to current bank borrowings. This item includes current account credit lines that can be terminated at short notice, short-term loans, and redemption payments for long-term loans due within one year of the balance sheet date.

Current financial liabilities are from the following companies:

IN EUR THOUSAND	**2016**	2015
VIB Vermögen AG	34,145	13,401
BBI Bürgerliches Brauhaus Immobilien AG	3,426	4,382
ISG Infrastrukturelle Gewerbeimmobilien GmbH	1,085	1,047
Interpark Immobilien GmbH	887	1,025
IPF 1 GmbH	601	580
IPF 2 GmbH	641	619
VSI GmbH	**779**	**753**
IVM Verwaltung GmbH	65	62
Merkur GmbH	1	0
	41,630	**21,869**

The current financial liabilities are secured by land charges and the assignment of rental claims.

32. PROVISIONS

The amounts carried as provisions relate to transactions from the 2016 fiscal year or earlier years that have led to a current obligation by the company and that are expected to lead to an outflow of resources. Uncertainty exists, however, surrounding the date on which these will become due and the exact amount of the liability.

No obligations entailing significant uncertainties existed as of December 31, 2016. As a consequence, all corresponding amounts are reported among liabilities.

33. INCOME TAX LIABILITIES

The reported income tax liabilities of EUR 441 thousand (previous year: EUR 491 thousand) relate to current tax liabilities for 2016 relating to VIB AG (EUR 416 thousand), UFH GmbH (EUR 8 thousand), IPF 2 GmbH (EUR 3 thousand), ISG GmbH (EUR 6 thousand), VSI GmbH (EUR 6 thousand) and IVM GmbH (EUR 1 thousand).

34. LIABILITIES TO PARTICIPATING INTERESTS

The reported liabilities relate to liabilities of fully consolidated companies to their non-controlling shareholders. This instance relates to interest-bearing liabilities on the part of VSI GmbH. This item also contains liabilities of VIB Vermögen AG and Merkur GmbH towards KHI Immobilien GmbH arising from a claim for payment in the share premium.

35. OTHER LIABILITIES

IN EUR THOUSAND	**2016**	2015
Trade payables	1,964	914
Other current liabilities	7,031	6,374
	8,995	**7,288**

36. SEGMENT REPORTING

Please refer to the comments under section C regarding the scope of segment reporting.

Pursuant to IFRS 8, VIB Vermögen AG defines its primary business area, as in the previous year, as the utilisation and development of its own real estate portfolio (real estate segment).

One reporting segment pursuant to IFRS 8 was calculated since the Group's business activities are restricted almost exclusively to the rental of properties to predominantly commercial tenants in Germany. This segment comprises all of the VIB Group's operating activities.

As business activities are geared almost exclusively to Germany, no secondary, "Regions" reporting format is presented in the company's internal reporting. The company has consequently refrained from such segmentation. Internal reporting to the Managing Board is in line with this reporting.

37. CASH FLOW STATEMENT

The consolidated cash flow statement shows how the VIB Group's cash and cash equivalents have changed in the year under review and the previous year. In line with IAS 7, cash flows are presented as cash flows from operating, investing and financing activities.

The cash and cash equivalents in the amount of EUR 39,117 thousand (previous year: EUR 33,111 thousand) comprise the balance sheet item cash and cash equivalents, which includes cheques, cash on hand and bank balances as well as financial securities with an original term of three months or less.

The cash flow statement starts with consolidated net profit/loss. Cash flow from operating activities shows surplus income before any funds are tied up. Cash flow from operating activities also includes working capital changes. In this context, interest income and interest expenses are allocated to cash flow from financing activities.

38. OTHER FINANCIAL LIABILITIES AND CONTINGENT LIABILITIES

Contingent liabilities comprise existing or future liabilities which are based on past events, but for which an outflow of resources is not deemed to be probable. According to IAS 37, these liabilities are to be listed in the notes to the financial statements. No contingent liabilities required recognition as of December 31, 2016, or in the previous year.

Shares in the provident fund of Bürgerliches Brauhaus Ingolstadt GmbH were transferred to BHB Brauholding Bayern-Mitte AG in 2010. BBI Bürgerliches Brauhaus Immobilien AG is indirectly liable on the basis of subsidiary liability for the provision of company pensions in an amount of EUR 19 thousand (previous year: EUR 19 thousand). Utilisation is not anticipated as of the balance sheet date due to business and financial circumstances.

As of the balance sheet date, an order obligation of EUR 35,468 thousand (previous year: EUR 26,765 thousand) exists from investment projects and land purchase agreements that have already commenced.

39. LEASES

VIB VERMÖGEN AG AS LESSOR

As part of its operating business activities, VIB Vermögen AG leases the investment properties carried on its balance sheet as part of operating leases.

For fiscal years from 2017, VIB AG will receive the following minimum lease payments from uncancellable existing rental agreements.

IN EUR THOUSAND	**2016**	2015
Due within one year	69,410	66,959
Due within 1 to 5 years	203,983	203,770
Due in more than 5 years	135,163	161,008
	408,556	**431,737**

The minimum lease payments include the contractually agreed payments from tenants (excluding ancillary costs) through to the end of the contract or the earliest possible termination date.

The company reported through the income statement EUR 30 thousand (previous year: EUR 30 thousand) of contingent rental payments in the fiscal year under review.

VIB VERMÖGEN AG AS LESSEE

If leases are to be classified as operating leases, the rental payments are distributed on a straight-line basis over the term of the lease in the earnings for the period, and are included in other operating expenses.

On the balance sheet date, the Group carried outstanding obligations from operating leases that were due as follows:

IN EUR THOUSAND	**2016**	2015
Remaining term of up to 1 year	62	156
Remaining term of 1–5 years	45	21
Remaining term > 5 years	0	1
	107	**178**

Payments from operating leases relate to vehicles and office equipment. Leases are concluded for an average term of three to four years. The lease agreements do not include any conditional rental payments or price adjustment clauses. As a rule, extension and purchase options are not utilised.

Operating leases incurred expenses of EUR 168 thousand in the 2016 financial year (previous year: EUR 160 thousand).

40. LIQUIDITY AND INTEREST RATE RISK

Liquidity risk reflects a scenario in which the Group is unable to pay its own liabilities. The Group manages its liquidity centrally so that it has sufficient funds available at all times in order to service its liabilities when they fall due. As of December 31, 2016, the Group had at its disposal undrawn credit lines in an amount of EUR 12,449 thousand (previous year: EUR 12,450 thousand).

The following table shows when the financial liabilities are due. The table is based on undiscounted cash flows. Financial liabilities are allocated to the earliest band of maturities in which the Group can be obligated to make a payment, even if the Group expects that part of the liabilities will only have to be paid later than the earliest date on which they are due.

IN EUR THOUSAND	Financial loans with variable interest (principal and interest payments)	Financial loans with fixed interest (principal and interest payments)	Trade payables	Other financial liabilities	Derivative financial instruments	Total
Liquidity analysis as of 31/12/2016						
Due in 1–12 months	1,765	54,770	1,964	6,612	2,062	**67,173**
Due in 12–60 months	12,334	120,051	0	0	4,932	**137,317**
Due in > 60 months	22,594	619,819	0	0	0	**642,413**
Liquidity analysis as of 31/12/2015						
Due in 1–12 months	2,142	37,665	915	6,081	1,765	**48,568**
Due in 12–60 months	8,247	144,694	0	0	6,124	**159,065**
Due in > 60 months	32,580	523,264	0	0	0	**555,844**

The average interest rate on the variable-rate financial loans amounted to 1.05% as of December 31, 2016 (previous year: 1.15%). The average interest rate on the fixed-rate financial loans amounted to 3.22% as of December 31, 2016 (previous year: 3.86%).

Changes to interest rates are presented in sensitivity analyses in line with IFRS 7. These show the effects of changes in the market interest rates on financial income and expenses and on equity. No significant concentration of interest rate risks exists in the Group.

The Group takes out non-current bank borrowings at fixed and variable interest rates. Changes in market interest rates for bank borrowings with fixed interest rates only impact earnings if they are measured at fair value. Measurement is always at amortised cost. As a result, non-current liabilities to banks with fixed interest rates are not subject to any risks of interest rate changes within the meaning of IFRS 7. Non-current bank borrowings with variable interest rates are, in part, hedged against the risk of interest rate changes using interest rate swaps; to this extent, no interest rate risk exists. The changes in the market value of the interest rate swaps are included in the statement of changes in shareholders' equity. The volume and term of the interest rate swaps are geared to the repayment structure for financial borrowings.

Changes in market interest rates for interest rate swaps classified as hedges impact the hedge reserve under equity and are consequently taken into account in equity-related sensitivity calculations.

Changes in the market interest rate impact the interest result for short-term variable-interest bank loans, for which interest payments are not intended to be underlying transactions as part of a hedge, and are consequently taken into account in the earnings- and equity-related sensitivity calculations.

If the market interest level had been 100 basis points higher (lower) in 2016, earnings would have been approximately EUR 387 thousand (previous year: EUR 735 thousand) lower (higher) and equity (before the earnings effect) would have been around EUR 1,160 thousand (previous year: EUR 1,626 thousand) higher (lower).

41. FOREIGN CURRENCY RISKS

The foreign currency risks of VIB Vermögen AG arise primarily from receivables and liabilities between German and foreign Group companies that are not denominated in the functional currency. In order to present market risks, IFRS 7 calls for sensitivity analyses that show the impact of hypothetical changes in relevant risk variables on earnings and equity.

The carrying amount of the Group's monetary assets and liabilities denominated in foreign currencies on the December 31, 2016 balance sheet date was as follows:

IN EUR THOUSAND	**31/12/2016**	31/12/2015
Assets in CZK	2,839	2,838
Liabilities in CZK	0	0

If the euro had been 10% stronger against the Czech koruna (CZK), equity would have been EUR 52 thousand lower (previous year: EUR 61 thousand).

42. DEFAULT RISKS

The maximum default risk is reflected by the carrying amount of each financial asset on the balance sheet. An analysis of carrying amounts by balance sheet items and categories as per IFRS 7 is presented in the "Notes to the balance sheet". No other material off-balance-sheet default risks exist.

No de facto default risk exists relating to cash and cash equivalents and derivative financial instruments, as these are held by banks with excellent credit ratings as certified by ratings agencies. The following considerations consequently focus on "Loans and receivables". This affects the following balance sheet items: non-current and current financial investments, trade receivables and other receivables and assets.

The following table quantifies the loans and receivables that have been written down individually as well as the overdue loans and receivables not yet written down:

IN EUR THOUSAND	Non-current and current financial and	Trade receivables	Other financial receivables other assets
Loans and receivables – 31/12/2016			
Gross carrying amount	0	1,487	829
of which overdue but not value-adjusted	0	0	0
of which impaired	0	111	0
Loans and receivables – 31/12/2015			
Gross carrying amount	0	1,104	763
of which overdue but not value-adjusted	0	0	0
of which impaired	0	121	0

In the case of the trade receivables and other receivables and assets that were neither value-adjusted nor in default, no signs existed on the balance sheet date that the debtors would fail to fulfil their payment obligations.

The fair values of the cash and cash equivalents, current receivables and liabilities roughly correspond to their carrying amounts. This is due, in particular, to these instruments' short terms.

43. CATEGORIES OF FINANCIAL INSTRUMENTS

The following table shows by category the carrying amounts and fair values of all of the Group's financial instruments reported in the consolidated financial statements.

No fair value is stated for financial instruments whose carrying amounts represent appropriate approximations of fair value.

2016

IN EUR THOUSAND
ASSETS
Non-current financial assets
Loans
Receivables and other assets
Trade receivables
Other financial assets
Bank balances and cash in hand
EQUITY AND LIABILITIES
Profit participation capital
Variable-rate loans
Fixed-interest loans
Hedge accounting derivatives
Derivatives without hedge accounting
Liabilities to participating interests
Trade payables
Other financial liabilities
of which aggregated according to IAS 39 measurement categories
Financial assets
Loans and Receivables (LaR) (measured at amortised cost)
Financial liabilities
Financial liabilities at cost (FLAC) (measured at amortised cost)
Financial liabilities held for trading (FLHfT)(measured at fair value through P&L)
Derivatives with cash flow hedge (measured at fair value directly in equity)

Measurement categories as per IAS 39 and IFRS 7	IFRS 13 fair value category	Carrying amount as of 31/12/2016	Fair value as of 31/12/2016	of which at amortised cost	of which measured at fair value through profit or loss	of which measured at fair value through equity
LaR	n.a.	0	n.a.	0	—	—
LaR	n.a.	1,443	n.a.	1,443	—	—
LaR	n.a.	829	n.a.	829	—	—
LaR	n.a.	39,117	n.a.	39,117	—	—
FLAC	n.a.	660	n.a.	660	—	—
FLAC	Level 2	29,930	n.a.	29,930	—	—
FLAC	Level 2	584,104	637,141	584,104	—	—
CF hedge	Level 2	7,001	7,001	—	—	7,001
FLHfT	Level 2	0	0	—	0	—
FLAC	n.a.	1,281	n.a.	1,281	—	—
FLAC	n.a.	1,964	n.a.	1,964	—	—
FLAC	n.a.	5,952	n.a.	5,952	—	—
		41,389				
		623,891				
		0				
		7,001				

2015

IN EUR THOUSAND
ASSETS
Non-current financial assets
Loans
Receivables and other assets
Trade receivables
Other financial assets
Bank balances and cash in hand
EQUITY AND LIABILITIES
Profit participation capital
Variable-rate loans
Fixed-interest loans
Hedge accounting derivatives
Derivatives without hedge accounting
Liabilities to participating interests
Trade payables
Other financial liabilities
of which aggregated according to IAS 39 measurement categories
Financial assets
Loans and Receivables (LaR) (measured at amortised cost)
Financial liabilities
Financial liabilities at cost (FLAC) (measured at amortised cost)
Financial liabilities held for trading (FLHfT)(measured at fair value through P&L)
Derivatives with cash flow hedge (measured at fair value directly in equity)

As far as items for which no fair values are stated in the tables above are concerned, the management has determined that the carrying amounts almost correspond to their fair values due to their short terms or standard market interest rate.

The fair value of fixed-interest loans and derivative financial instruments is stated at the amount at which the respective instrument could be exchanged between business partners that were willing to enter into agreement concerning a current transaction (except forced disposal or liquidation).

Measurement categories as per IAS 39 and IFRS 7	IFRS 13 fair value category	Carrying amount as of 31/12/2015	Fair value as of 31/12/2015	of which at amortised cost	of which measured at fair value through profit or loss	of which measured at fair value through equity
LaR	n.a.	0	n.a.	0	—	—
LaR	n.a.	1,104	n.a.	1,104	—	—
LaR	n.a.	763	n.a.	763	—	—
LaR	n.a.	33,111	n.a.	33,111	—	—
FLAC	n.a.	660	n.a.	660	—	—
FLAC	Level 2	33,487	n.a.	33,487	—	—
FLAC	Level 2	516,357	566,937	516,357	—	—
CF hedge	Level 2	8,513	8,513	—	—	8,513
FLHfT	Level 2	0	0	—	0	—
FLAC	n.a.	827	n.a.	827	—	—
FLAC	n.a.	914	n.a.	914	—	—
FLAC	n.a.	5,421	n.a.	5,421	—	—
		34,978				
		557,666				
		0				
		8,513				

The methods and assumptions applied to calculate fair value are as follows:

- The fair values of the Group's fixed-interest loans are calculated applying the discounted cash flow method. This is based on the discounting rate that reflects the issuer's debt funding rate at the end of the period under review. The proprietary risk of non-satisfaction was categorised as low as of December 31, 2016.
- The Group enters into derivative financial instruments with various parties, especially banks with good credit ratings. Derivatives measured applying a valuation method comprising observable market input parameters mainly comprise interest rate swaps and forward currency contracts. The most frequently applied valuation methods include option pricing and swap models utilising present value calculations. These models include a range of variables such as business partners' credit ratings, cash and forward currency exchange rates and yield curves. Derivative positions are marked to market as of December 31, 2016; the default risk for the Group and the bank is classified as low in this context.

The VIB Group has pledged financial assets in the amount of EUR 51,949 thousand (this amount corresponds to the carrying amount of the shares held in BBI Immobilien AG) as security for current account credit lines granted. The carrying amount of the collateral is less than fair value.

The following net gains and losses were reported for the individual categories of financial assets and liabilities in the income statement and statement of comprehensive income:

IN EUR THOUSAND	**2016**	2015
Loans and receivables	13	24
Bank balances and cash in hand	48	62
Assets and liabilities measured at fair value through profit or loss	0	–132
of which: held for trading	0	–132
Available-for-sale financial assets	0	0
Financial liabilities measured at amortised cost	–18,526	–18,788
Derivative financial instruments designated and effective as hedging instruments (cash flow hedges)	–414	–174
of which in consolidated profit or loss	–1,927	–1,815
of which in other comprehensive income	1,513	1,641

The net gains/losses comprise interest expenses, interest income, dividends, impairment losses and reversals of impairment losses, as well as valuation gains/losses on financial instruments. Commissions and fees for financial liabilities that are measured at cost depressed earnings by EUR 62 thousand.

As part of its risk management, the company mostly utilises interest rate swaps to hedge against interest rate risks from variable-interest loans. It mostly utilises cash flow hedges, which compensate for the risks from future changes in interest cash flows.

Impairment losses of EUR 44 thousand relating to financial assets were expensed during the period (previous year: EUR 37 thousand). The impairment losses relate to specific valuation allowances applied to trade receivables. Reversals of valuation allowances applied to trade receivables amounted to EUR 31 thousand (previous year: EUR 13 thousand).

44. CAPITAL RISK MANAGEMENT

The Group manages its capital with the aim of maximising income for its stakeholders by optimising its debt to equity ratio. This ensures that all of the Group companies can operate on a going concern basis.

The Group’s capital structure comprises liabilities, cash and cash equivalents and the equity due to investors in the parent company. This comprises issued shares and reserves.

Capital management aims to ensure a going concern and generate an adequate return on equity.

Capital is monitored based on economic equity. Economic equity comprises the equity as recognised on the balance sheet. Liabilities are defined as being non-current and current financial liabilities, provisions and other liabilities.

Balance sheet equity and the total assets are as follows:

IN EUR THOUSAND	31/12/2016	31/12/2015
Equity in EUR thousand	443,527	406,754
Equity as a % of total capital	39.7	40.3
Liabilities in EUR thousand	673,241	602,598
Liabilities as a % of total capital	60.3	59.7
	1,116,768	**1,009,352**

45. THE COMPANY'S BOARDS

During the 2016 fiscal year, the company's Managing Board comprised:

Ludwig Schlosser, Chief Executive Officer, mathematics graduate (Diplom-Mathematiker), Neuburg/Danube (left the company with effect from December 31, 2016)
Activities in controlling bodies as of December 31, 2016 were as follows:

- Chairman of the Supervisory Board of BBI Bürgerliches Brauhaus Immobilien AG, Ingolstadt
- Chairman of the Supervisory Board of BHB Brauholding Bayern-Mitte AG, Ingolstadt
- Chairman of the Supervisory Board of VR Bank Neuburg-Rain eG, Neuburg

Martin Pfandzelter, Chief Operating Officer, business administration graduate (Diplom-Kaufmann), Neuburg/Donau (Chief Executive Officer as of January 1, 2017)
As of December 31, 2016, Mr Pfandzelter performs no functions on controlling bodies

Holger Pilgenröther, Chief Financial Officer, business studies graduate (Diplom-Betriebswirt), Neuburg/Danube
As of December 31, 2016, Mr Pilgenröther performs no functions on controlling bodies.

At the Annual General Meeting held on June 30, 2016, the previous Supervisory Board members were confirmed in office and re-elected.

In the 2016 fiscal year, the Supervisory Board comprised the following members:

- Mr Franz-Xaver Schmidbauer, engineering graduate (Diplom-Ingenieur), Managing Director of FXS Vermögensverwaltung GmbH (Chairman)
- Mr Jürgen Wittmann, Sparkasse Ingolstadt Eichstätt (Ingolstadt Eichstätt savings bank) Managing Board member (Deputy Supervisory Board Chairman)
- Mr Rolf Klug, businessman

The elected Supervisory Board members have never served on the Managing Board of VIB AG.

46. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The statement relating to the German Corporate Governance Code, which is required pursuant to Section 161 of the German Stock Corporation Act (AktG), was issued for BBI Bürgerliches Brauhaus Immobilien Aktiengesellschaft by its Managing and Supervisory Boards in December 2016 (and previously in May 2016), and was made accessible to shareholders on the website (www.bbi-immobilien-ag.de).

The Managing and Supervisory Boards of BBI Bürgerliches Brauhaus Immobilien AG issued a corporate governance declaration within the meaning of Section 289a of the German Commercial Code (HGB) and published this in the management report of BBI Bürgerliches Brauhaus Immobilien AG.

47. MANAGING BOARD REMUNERATION

During the year under review, members of the Managing Board of the parent company VIB Vermögen AG received current remuneration of EUR 1,359 thousand (previous year: EUR 1,305 thousand), of which EUR 780 thousand came in the form of performance-related remuneration (previous year: EUR 740 thousand). In addition, pension contributions of EUR 254 thousand (previous year: EUR 8 thousand) were made. Therefore, total remuneration for the Managing Board members of VIB Vermögen AG came to EUR 1,613 thousand (previous year: EUR 1,313 thousand) in the year under review.

The Supervisory Board determines Managing Board compensation, taking into account individual performance and market trends.

48. SUPERVISORY BOARD REMUNERATION

Total compensation for the Supervisory Board for VIB Vermögen AG amounted to EUR 189 thousand in the fiscal year under review (previous year: EUR 156 thousand).

49. AUDITOR'S FEES

The expenses reported in the 2016 fiscal year for the auditor of the parent company relating to audit services amount to EUR 112 thousand for 2016 and EUR 110 thousand for 2015. A total of EUR 8 thousand (previous year: EUR 8 thousand) was reported for other certification services.

50. EVENTS AFTER THE REPORTING DATE

In Interpark in Kösching, VIB AG completed an additional in-house development before the end of the first quarter of 2017. This project involved the construction of a logistics facility with a useful area of some 21,000 sqm on a 40,000 sqm site which was handed over to the tenant, a well-known company from the logistics sector, as of 1 April 2017. The investment volume is approximately EUR 15.4 million.

No further events occurred after the end of the 2016 fiscal year that have a material impact on the earnings, assets or financial position.

51. RELATED PARTIES

VIB Vermögen AG prepares these consolidated financial statements as the uppermost controlling company. These consolidated financial statements are not included in any higher-level consolidated financial statements.

Balances and business transactions between VIB Vermögen AG and its subsidiaries and related entities and parties have been eliminated as part of consolidation and are not examined in these Notes. Details of business transactions between the Group and other related entities and parties are disclosed as follows.

The company once again concluded several loans with Sparkasse Ingolstadt as part of its business activities. Supervisory Board member Jürgen Wittmann is a managing board member of Sparkasse Ingolstadt. The company's total exposure amounts to EUR 33.6 million (previous year: EUR 26.8 million). The loans extended were entered into at standard market terms.

Please refer to notes 47 and 48 in this chapter for information about compensation of staff in key positions (Managing Board members).

52. LIST OF SHAREHOLDINGS PURSUANT TO SECT. 314 (2) OF THE GERMAN COMMERCIAL CODE (HGB)

The following comprise the company's significant direct or indirect shareholdings:

	Share capital in %	Equity Result in EUR thousand	Company Result in EUR thousand
Merkur GmbH, Neuburg a. d. Donau	100.00	4,201	39
VIMA Grundverkehr GmbH, Neuburg a. d. Donau	100.00	7,217	–34
KIP Verwaltung GmbH, Neuburg/Danube	100.00	6,164	–36
UFH Verwaltung GmbH, Neuburg/Danube	100.00	494	294
RV Technik s.r.o., Pilsen (Czech Republic)	100.00	35	–1
IPF 1 GmbH, Neuburg	94.98	967	942
IPF 2 GmbH, Neuburg	94.98	820	795
BBI Bürgerliches Brauhaus Immobilien AG, Ingolstadt *	94.88	50,233	5,597
ISG Infrastrukturelle Gewerbeimmobilien GmbH, Ingolstadt	75.00	7,077	929
Interpark Immobilien GmbH, Neuburg/Danube	74.00	10,704	1,590
VSI GmbH, Neuburg a. d. Donau	74.00	2,100	544
IVM Verwaltung GmbH, Neuburg/Danube	60.00	1,092	235
BHB Brauholding Bayern-Mitte AG, Ingolstadt **	34.18	10,758	207
KHI Immobilien GmbH, Neuburg/Danube ***	41.67	3,997	–30

* Profit/loss before profit-and-loss-transfer
** Indirect interest
*** Direct and indirect interest

53. EMPLOYEES

The company employed an average of 37 staff in the 2016 fiscal year (previous year: 37 employees).

54. AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR PUBLICATION PURSUANT TO IAS 10.17

The Managing Board approved these consolidated financial statements for publication on April 11, 2017. The Supervisory Board's task is to review the consolidated financial statements and declare whether it approves the consolidated financial statements.

Neuburg/Danube, April 11, 2017

Martin Pfandzelter
(Chief Executive Officer)

Holger Pilgenröther
(Chief Financial Officer)

AUDIT OPINION

We have audited the consolidated financial statements prepared by VIB Vermögen AG, Neuburg/Danube, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, together with the Group management report for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the consolidated management report in accordance with IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch: German Commercial Code) are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit such that misstatements, whether due to fraud or error, materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit also includes assessing the annual financial statements of the companies included in the consolidated financial statements, the definition of the scope of consolidation, the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the supplementary requirements of the German Commercial Law as stipulated by Section 315a (1) HGB, and give a true and fair view of the Group's net assets, financial position and results of operations in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, complies with legal provisions, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Augsburg, April 11, 2017

S&P GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Dr. Burkhardt-Böck	Kanus
German Public Auditor	German Public Auditor

The audit opinion may only be used outside of this audit report with our prior consent. The publication or reproduction of the consolidated financial statements and/or Group management report of VIB AG, Neuburg/Danube, in a version different from the approved version (including translation into other languages) requires our prior opinion, if our audit opinion is cited or a reference to our audit is drawn; please also refer to paragraph 328 of the German Commercial Code (HGB).

GLOSSARY

ANNUITY LOANS › Annuity loans refer to loans with constant payments (installments) for their entire term. The installments comprise both a redemption payment and interest. As a result, the remaining debt is repaid step by step each time an installment is paid, thus reducing the amount of interest paid in each installment. At the end of the term, the loan is repaid in full. An annuity loan has numerous advantages compared to other types of loans. The agreement of constant installments over the term of the loan means that this type of credit financing allows the future cash flows to be easily forecast. The changes in the remaining debt can be precisely determined and this decreases constantly over the term of the loan. In addition, annuity loans typically have long terms, which means that the monthly repayments can be kept constant.

ASSOCIATED COMPANY › A company is an associated company when it is subject to the significant influence of a group company which holds a participating interest in it. According to the German Commercial Code (Handelsgesetzbuch, HGB), this is always assumed when the group company holds an equity interest with voting rights of at least 20% (Section 311 HGB). The significant influence is shown by representation on the Supervisory Board and participation in key company decisions. Associated companies are carried in the consolidated financial statements at equity within the meaning of Section 312 HGB. In so doing, the respective value of the participating interest is recognised in income and adjusted for proportionate earnings from participating interests, based on what are generally annually amortised costs. The annual earnings of the associated company are carried separately in the consolidated income statement.

CASH FLOW › KPI for analysing equities or companies. The cash flow is mostly calculated by adding the net income, amortisation/depreciation, changes in non-current provisions and income taxes. It shows the cash available within a specific accounting period. It is used in investment accounting, which aims to provide quantifiable data to be used in decision-making when assessing pending investment projects. The cash flow is also a key indicator for balance sheet and financial analysis. There is no uniform definition. The DVFA/SG cash flow attempts to provide a uniform definition.

CASH FLOW HEDGE › Financing instrument to hedge the company against cash flow fluctuations as defined in IAS 39.

CORPORATE GOVERNANCE › Corporate governance is the sum total of organisational and business-specific ways in which companies are managed and monitored. For this purpose, corporate governance offers a legal and factual framework, particularly concerning the inclusion of a company within its environment. The goal of good corporate governance is to strengthen the competiveness of the company and thus to increase its long-term value. The issues covered include the functional roles of the Managing and Supervisory Boards, the way they work together and their relations with shareholders and stakeholders.

COVENANTS › Covenants are non-standardised loan conditions. A distinction is made between affirmative covenants, which require the borrowing party to do or refrain from something, and financial covenants, which grant creditors an extraordinary right to cancel the loan in the event of infringement or the deterioration of certain KIPs.

EBIT › EBIT is a corporate indicator and stands for “earnings before interest and taxes”.

EBIT MARGIN › The EBIT margin shows the percentage of earnings from operations before interest, taxes and the financial result that a company was able to record per unit of total operating revenue. This indicator therefore provides information on a company's earnings power and profitability. The EBIT margin is suitable for use as a relative indicator in international, cross-industry comparisons of companies.

EBITDA › EBITDA stands for "earnings before interest, taxes, depreciation and amortisation." This figure is cash flow-like, as the write-downs not reflected in liquidity are added to the operating income in a similar manner to calculations for the indirect cash flow.

EBT › Abbreviation for "earnings before tax".

EBT MARGIN › Ratio between total operating revenue and earnings before tax. Is used as a comparative indicator for companies' earnings power in international comparisons, as income taxes are not taken into account.

EQUITY METHOD › A valuation method for interests in companies for which a significant influence can be exercised in their business policy (associated companies). The proportionate net profits/losses for the company are included in the carrying amount of the interests. In the case of disbursements, the carrying amount is reduced by the proportionate amount.

FAIR VALUE › Market value at which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.

FINANCE LEASING › Transfer of an asset from the lessor to the lessee for a basic lease period which cannot be terminated.

FUNDS FROM OPERATIONS (FFO) › In the real estate sector, funds from operations (FFO) are a key performance indicator to assess the operative business development. The ratio contains the earnings before depreciations, amortisations and taxes, without sales revenues for properties, development projects and valuation yield. This figure shows, how much cash flow is generated in the operative business.

IAS › International Accounting Standards, see IFRS

IFRS › Abbreviation for "International Financial Reporting Standards", formerly "International Accounting Standards" (IAS). These accounting standards have been compulsory for listed companies in the EU since January 2005. The IFRS are developed by the IASB (International Accounting Standards Board), a private accounting body.

INTEREST RATE SWAP › Exchange of fixed or variable interest commitments for two nominal capital amounts for a fixed period.

LTV › Loan to value (LTV) is defined as the ratio between the assets and the net debts (=financial debts less bank balance).

M:ACCESS › m:access is a market segment of the Munich Stock Exchange for medium-sized enterprises. It which is conceived as a stock exchange regulated market across various segments. Access is obtained via an IPO, listing or segment change. Due to the target group, listing requirements and follow-up admission rules are specifically designed with the needs of small and medium-sized companies in mind.

MANDATORY CONVERTIBLE BOND › A mandatory convertible bond is a special type of common convertible bond that obligates the investor to convert the bond into shares no later than at the end of the retention period. It therefore has the character of a bond, as it pays a coupon during the retention period but is liquidated with new shares no later than at the end of the retention period.

NAV › Abbreviation for "Net Asset Value". This is the value of all of a company's tangible and intangible assets, less liabilities. This figure reflects the company's fundamental value, but does not provide any information on the company's potential future prospects.

FINANCIAL CALENDAR

May 10, 2017
Publication of the first interim report 2017

June 1, 2017
m:access Analysts Conference, Munich

June 29, 2017
Annual General Meeting in Ingolstadt

August 9, 2017
Publication of the 2017 half-year Report

September 7, 2017
SRC-Forum Frankfurt

September 18, 2017
Berenberg/Goldman Sachs Conference, Munich

September 19, 2017
Mandarin Gestion International Investment Conference, Munich

September 20, 2017
Baader Investment Conference, Munich

September 27, 2017
Degroof/Petercam Real Estate Seminar, Brussels

November 9, 2017
Publication of the second interim Report 2017

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KEY GROUP INDICATORS

5-YEAR OVERVIEW

IN EUR THOUSAND	01/01–31/12/2012	01/01–31/12/2013	01/01–31/12/2014	01/01–31/12/2015	**01/01–31/12/2016**	Change in %
Income statement						
Revenue	59,809	64,958	69,869	75,133	79,549	+5.9
Total operating revenue	60,461	65,711	70,536	75,633	79,899	+5.6
Changes in value for investment properties	6,100	7,199	7,529	16,410	18,018	+9.8
EBIT (earnings before interest and tax)	49,974	54,241	59,124	73,438	79,119	+7.7
EBIT excluding valuation effects	43,874	47,042	51,595	57,028	61,101	+7.1
EBT (earnings before tax)	30,446	35,099	38,306	52,788	58,820	+11.4
EBT excluding valuation effects and extraordinary items	24,224	26,987	31,179	36,510	40,802	+11.8
Consolidated net income	25,540	29,036	32,404	44,047	49,403	+12.2
Earnings per share [1] (undiluted/diluted, in EUR)	1.09	1.16	1.23	1.46	1.71	+17.1
Balance sheet	31/12/2012	31/12/2013	31/12/2014	31/12/2015	**31/12/2016**	
Total assets	788,096	864,693	942,199	1,009,352	1,116,768	+10.6
Equity	272,833	319,884	371,655	406,754	443,527	+9.0
Equity ratio (in %)	34.6	37.0	39.4	40.3	39.7	−0.6 pt.
Net debt	440,549	473,368	484,560	517,393	574,917	+11.1
LTV (loan-to-value ratio, in %)	58.3	56.6	53.7	53.1	53.6	+0.5 pt.
Gearing (in %)	188.9	170.3	153.5	148.1	151.8	+3.7 pt.
NAV (net asset value), undiluted	279,264	307,568	360,480	412,765	470,117	+13.9
NAV per share [2] (net asset value, undiluted, in EUR)	13.07	13.88	14.54	15.69	17.05	+8.7
NAV, diluted	302,903	349,236	400,403	431,160	470,117	+9.0
NAV per share [3] (diluted, in EUR)	12.79	13.52	14.52	15.63	17.05	+9.1
Other key financials	01/01–31/12/2012	01/01–31/12/2013	01/01–31/12/2014	01/01–31/12/2015	**01/01–31/12/2016**	
FFO (funds from operations)	22,001	24,803	28,592	32,599	35,767	+9.7
FFO per share [1] (in EUR)	1.03	1.07	1.13	1.18	1.30	+10.2
	31/12/2012	31/12/2013	31/12/2014	31/12/2015	**31/12/2016**	
Share price (Xetra closing price, in EUR)	9.23	11.66	14.24	17.10	19.67	+15.0
Number of shares [2] (reporting date: 31/12)	21,364,306	22,151,331	24,783,906	26,308,405	27,579,779	+4.8
Market capitalisation	197,193	258,285	352,923	449,874	542,494	+20.6
Average number of shares during the fiscal year [1]	21,400,197	23,263,868	25,411,653	27,579,812	27,579,779	0
ICR (interest coverage ratio: interest expense/net basic rents, in %)	39.8	36.6	34.4	31.7	30.0	−1.7 pt.
Average borrowing rate (in %)	4.13	4.03	3.91	3.67	3.11	−0.56 pt.
Annualised net basic rent	54,622	59,606	62,717	68,027	70,841	+4.1
Vacancy Rate (in %)	2.2	1.9	2.7	1.8	1.3	−0.5 pt.
EPRA performance indicators [4]			01/01/–31/12/2014	01/01–31/12/2015	**01/01–31/12/2016**	
EPRA Earnings			25,502	29,056	32,587	+12.2
EPRA Earnings per share (in EUR)			1.00	1.05	1.18	+12.4
			31/12/2014	31/12/2015	**31/12/2016**	
EPRA NAV			400,403	431,160	470,117	+9.0
EPRA NAV per share (in EUR)			14.52	15.63	17.05	+9.1
EPRA Vacancy Rate (in %)			2.7	1.8	1.3	−0.5 pt.

[1] Average number of shares during the fiscal year
[2] Shares in issue as of the reporting date
[3] Number of shares as of the reporting date including potential shares from mandatory convertible bonds
[4] EPRA performance indicators shown for the first time for the 2014 fiscal year

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