DEVELOPING VALUES

Annual Report
2017

VIB Vermögen AG

KEY GROUP INDICATORS

IN EUR THOUSAND	2017	2016	Absolute change	Change in %
Income statement				
Revenue	83,550	79,549	4,001	5.0
Changes in value for investment properties	17,380	18,018	–638	–3.5
EBT (earnings before tax)	64,453	58,820	5,633	9.6
EBT excluding valuation effects and extraordinary items	47,073	40,802	6,271	15.4
Consolidated net income	53,938	49,403	4,535	9.2
Earnings per share (in EUR), diluted/undiluted	1.87	1.71	0.16	9.2
Balance sheet				
Total assets	1,153,741	1,116,768	36,973	3.3
Investment properties	1,096,724	1,061,773	34,951	3.3
Equity	483,355	443,527	39,828	9.0
Equity ratio (in %)	41.9	39.7		2.2 pt.
Net debt	570,452	574,917	–4,465	–0.8
LTV (loan-to-value ratio, in %)	51.4	53.6		–2.2 pt.
NAV (net asset value), undiluted/diluted	512,547	470,117	42,430	9.0
NAV per share (in EUR), undiluted/diluted	18.58	17.05	1.53	9.0
Other key financials				
FFO (funds from operations)	41,194	35,767	5,427	15.2
FFO per share (in EUR)	1.49	1.30	0.19	15.2
Share price (Xetra closing price, in EUR)	21.20	19.67	1.53	7.8
Number of shares (reporting date: 31/12)	27,579,779	27,579,779	0	0.0
Market capitalisation (reporting date: 31/12)	584,691	542,494	42,197	7.8
Dividend per share (in EUR)	0.60[1]	0.55	0.05	9.1
ICR (interest coverage ratio, interest expense/net basic rents, in %)	24.4	30.0		–5.6 pt.
Average borrowing rate (in %)	2.55	3.11		–0.56 pt.
Real estate KPIs				
Annualised net basic rents	73,615	70,841	2,774	3.9
Vacancy rate (in %)	0.8	1.3		–0.5 pt.
Rentable space (in sqm)	1,060,896	1,042,769	18,127	1.7
Rental yield (in %)	7.09	7.14		–0.05 pt.
Average remaining term of rental agreements (in years)	5.15	5.68	–0.53	–9.3
EPRA performance indicators				
EPRA earnings	37,620	32,587	5,033	15.4
EPRA earnings per share (in EUR)	1.36	1.18	0.18	15.4
EPRA NAV	512,547	470,117	42,430	9.0
EPRA NAV per share (in EUR)	18.58	17.05	1.53	9.0
EPRA vacancy rate (in %)	0.8	1.3		–0.5 pt.
EPRA net initial yield (in %)	6.6	6.6		0.0 pt.
EPRA cost ratio (in %)	12.1	12.4		–0.3 pt.

[1] Management proposal

2017 AT A GLANCE

VIB VERMÖGEN IS SYNONYMOUS WITH HIGH-QUALITY COMMERCIAL PROPERTIES

Our mission is the sustainable development of a high-yield property portfolio. Depending on the market situation, we achieve this mission by means of in-house developments and/or acquisitions of existing properties. We focus chiefly on properties in the segments of logistics/light industry and retail.

As we expand our property portfolio, we not only benefit from our flexible growth strategy, but also from our industry network and close ties to tenants. This ensures that we have access to attractive sites for in-house developments, as well as properties for sale and tenants with excellent credit ratings. At the same time, we always attach considerable importance to strong financing with a long-term focus when pursuing our growth trajectory.

In the future, we will continue to expand our portfolio, the aim being to offer tenants the ideal foundation for their continued development and long-term success. This commitment has stood VIB Vermögen in good stead for more than 20 years. Our focus in this regard lies on sustainably planned, attractive commercial properties.

CONTENTS

LETTER TO THE SHAREHOLDERS

DEAR SHAREHOLDERS,
DEAR LADIES AND GENTLEMEN,

VIB Vermögen can look back on an extremely successful fiscal year 2017. As in the previous fiscal year, we once again improved our figures in all key financial and real estate KPIs. But more on that later.

2017 was characterised by strong growth in the German property market. The robust economy, low interest rates and the country's attractive location in the heart of Europe sustained high demand for property in Germany, with the market for logistics properties deriving particular benefit.

This boom – and the resulting competitive pressure – is, however, driving up property prices and therefore having a direct impact on the yields that can be achieved. This tension has been rising steadily over the past few years, representing a challenge for the entire industry. Here at VIB Vermögen, however, we believe that we are well placed. This is due to our business model, which allows us to respond to changes in market and underlying conditions in a speedy and scalable fashion. Thanks to a healthy mix of acquisitions and high-yield in-house developments, we feel that we are still in a position to continue achieving a high average initial yield of 7%.

By virtue of new investments in our property portfolio, falling interest rates and a historically low vacancy rate, we recorded a pleasing increase of 15% in adjusted earnings before tax (EBT), which climbed to EUR 47.1 million. In light of the decidedly high prices witnessed on the property market, we once again shifted our primary focus to the completion of in-house logistics developments in the year under review. Including the two properties completed last year at Interpark Kösching, the total value of our portfolio stood at approximately EUR 1.1 billion at year end. Thanks to the growth in the property portfolio, coupled with planned rental indexing, revenue rose by 5.0% to EUR 83.6 million.

Our strategy, which is geared towards sustainability, also bore fruit on the financing side. We focus, in particular, on long-term annuity loans in this regard. As expected, we achieved a further reduction in the average interest rate on our total portfolio of borrowings, which led to significant year-on-year savings of approximately EUR 3.0 million in interest expenses.

"IN 2017, WE ONCE AGAIN DEMONSTRATED OUR ABILITY TO GENERATE GROWTH AND ATTRACTIVE RETURNS ON THE BASIS OF HIGH-YIELD IN-HOUSE DEVELOPMENTS. THAT'S HOW WE CREATE VALUE."

MARTIN PFANDZELTER, CEO

"WE ARE DELIGHTED THAT WE ARE ABLE TO PROPOSE A DIVIDEND INCREASE TO OUR SHAREHOLDERS FOR THE NINTH TIME IN A ROW."

HOLGER PILGENRÖTHER, CFO

Operating growth, combined with the sharp fall in interest expenses, resulted in a significant increase in funds from operations (FFO), which climbed by EUR 5.4 million year-on-year to EUR 41.2 million. FFO per share improved from EUR 1.30 to EUR 1.49. Thanks to this pleasing trend, we will be proposing a dividend increase to the Annual General Meeting for the ninth time in a row. Our proposal is to increase the dividend by EUR 0.05, or 9.1%, from EUR 0.55 per share to EUR 0.60 per share.

We would like to say a special thank you to our employees for the pleasing results recorded in the 2017 fiscal year. With their tireless dedication, they pave the way for positive growth at VIB – day in, day out. We also would like to thank our tenants and business partners for a constructive working relationship at all times.

The successful course of business and the existing growth prospects enable us to feel optimistic about our future as a property company. For the current fiscal year, we anticipate revenue of between EUR 85.0 million and EUR 89.0 million, as well as adjusted earnings before tax (EBT) of between EUR 48.0 million and EUR 50.5 million. We also expect a rise in FFO to between EUR 42.0 million and EUR 44.5 million.

We would also like to express our sincere gratitude to you, our shareholders, particularly for the trust that you have shown in us in 2017 and at the last Annual General Meeting. We would be delighted if you were to continue to accompany us as we chart our future course.

Yours faithfully,

Neuburg/Danube, April 24, 2018

Martin Pfandzelter
(Chief Executive Officer)

Holger Pilgenröther
(Chief Financial Officer)

SUPERVISORY BOARD REPORT

DEAR SHAREHOLDERS,

In the 2017 fiscal year, VIB Vermögen AG once again recorded solid growth, achieving a further year-on-year increase in earnings. Thanks to the ongoing expansion and continuous optimisation of its property portfolio and financing structure, the company once again posted significant increases in revenue, EBT, FFO and NAV. As a result, we are pleased to be able to increase the dividend – once again. The Supervisory Board is delighted with this positive performance in all areas and continues to give the Managing Board its unqualified support in terms of further pursuing, and systematically implementing, the chosen growth strategy.

In the 2017 fiscal year, the Supervisory Board examined the position of the company in great detail on an ongoing basis, thereby fulfilling the advisory and controlling functions incumbent upon it according to both the law and the company's articles of incorporation at all times:

SUPERVISION OF MANAGEMENT AND COOPERATION WITH THE MANAGING BOARD

Throughout the entire fiscal year, the Supervisory Board supervised and advised the Managing Board in respect of the management of the company. 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 seven Supervisory Board meetings were held in 2017, 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 revenue and earnings. The details of the meetings were as follows:

- **January 24, 2017:** review of the Supervisory Board remuneration system, property-related issues.
- **March 21, 2017:** discussion of the interim annual financial statements for 2016, variable Managing Board remuneration, risk and controlling report for the period up to December 31, 2016, corporate strategy and planning, share capital as well as authorised and conditional capital, preliminary discussion of the agenda for the Annual General Meeting, property-related issues.
- **April 25, 2017:** adoption of the separate financial statements and consolidated financial statements for the 2016 fiscal year, course of business in the first quarter of 2017, controlling report for the period up to March 31, 2017, proposal for the choice of auditor for the 2017 fiscal year, approval of the agenda of the Annual General Meeting, property-related issues.
- **June 27, 2017:** information concerning the Annual General Meeting, property-related issues.
- **August 8, 2017:** course of business in the first half of 2017, risk management and controlling report for the period up to June 30, 2017, property-related issues.
- **October 24, 2017:** course of business in the first nine month 2017, property-related issues, drawing up the financial calendar for the 2018 financial year.
- **December 12, 2017:** course of business in 2017, property-related issues, comparison of Managing Board remuneration with peer group companies and employee remuneration at VIB (pay ratio).

Important individual developments, particularly the conclusion of potential real estate transactions and development projects, were also discussed at all meetings. 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 small size (for efficiency reasons) of the Supervisory Board in 2017.

f. l. t. r.: JÜRGEN WITTMANN, FRANZ-XAVER SCHMIDBAUER, ROLF KLUG

2017 SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The Supervisory Board reviewed the annual financial statements as of December 31, 2017, 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 the auditor responsible for the audit, Mr Oliver Kanus – at its meeting on April 24, 2018. The review of the 2017 annual financial statements led to no modifications, and an unqualified audit opinion was issued. The annual financial statements as of December 31, 2017, 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 2017 consolidated 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 the auditor responsible for the audit, Mr Oliver Kanus – at its meeting on April 24, 2018. The audit of the 2017 consolidated financial statements also resulted in no amendments, with an unqualified audit opinion being issued and the consolidated financial statements as of December 31, 2017, being approved by the Supervisory Board. At its meeting on March 20, 2018, the Supervisory Board also approved the agenda for the Annual General Meeting on June 28, 2018.

In light of the objective of rotating the auditor on a regular basis, the Supervisory Board will propose to the Annual General Meeting that the company switches, from the long-standing audit company, S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich.

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

Neuburg/Danube, April 24, 2018

On behalf of the Supervisory Board

Franz-Xaver Schmidbauer (Chairman)

OUR BUSINESS MODEL

FLEXIBILITY OF OUR BUSINESS MODEL AS THE CORNERSTONE OF OUR SUCCESS

The market for commercial properties is now witnessing extremely dynamic growth. This harbours enormous opportunities for market players who can respond rapidly enough to the changing underlying conditions. VIB Vermögen AG is confident of its ability to do so – and has structured itself with the flexibility required.

This flexibility plays a vital role for us in three areas:

PROPERTY ACQUISITION:

01 › How can we generate profitable growth for our property portfolio?

SECTOR FOCUS:

02 › In which sector do we see the greatest opportunities for growth?

FINANCING:

03 › Which property financing mix offers optimum yields and long-term security?

The choice is ours. Depending on the market situation, we can decide whether it makes more sense to purchase the next property for the VIB portfolio or develop it ourselves. Whenever property prices rise appreciably, we concentrate increasingly on a strategy of designing and building new properties ourselves. Here, we can draw on our extensive internal expertise, as well as a wide-ranging external network. In terms of in-house developments, we are therefore able to secure sites with high development potential at an early stage and utilise existing land for redensification projects.

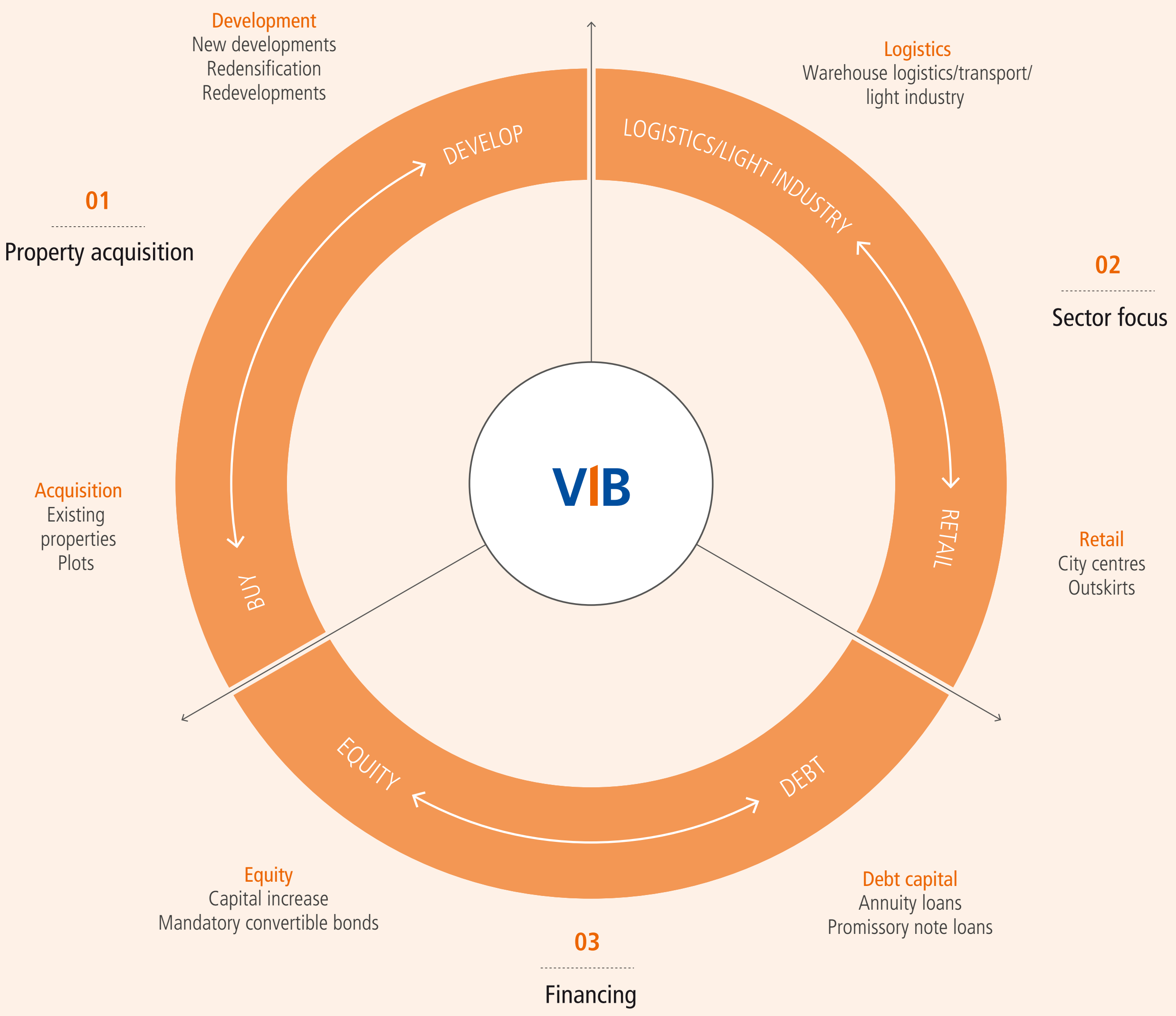
On the other hand, we seize attractive opportunities to purchase existing properties that are either on the free market or that are offered to us via our network partners. Irrespective of the strategy selected, we attach great importance to ensuring that each individual property/project complies with our clearly defined returns criteria.

The sector classification of our properties also plays an essential role. Here, we focus on the sectors of logistics/light industry and retail. We possess considerable experience of both sectors, as well as an intuitive feeling for tenant needs and the latest market trends. When it comes to new investments, we focus on the sector in which we see the greatest potential for reliable tenants and stable rental incomes in the future.

Financing is pivotal to any real estate project. Thanks to our extensive access to the capital market, we can harness both equity and debt financing, striking the right balance between the two. On the debt financing side, we primarily rely on annuity loans, which are ideal for the financing of long-term property projects and offer the benefit that favourable interest rate terms are fixed for an extended period. On the equity side, we utilise the entire spectrum of available capital measures, depending on the market situation.

We will continue to review all three core components of our business model on an ongoing basis, flexibly modifying them to reflect changes in the market. After all, we follow a single objective together with our shareholders – to increase the value of VIB Vermögen as a company.

THE THREE STRATEGIC CORE COMPONENTS OF OUR BUSINESS MODEL



DEVELOPING VALUE WITHIN THE PROPERTY PORTFOLIO OF THE VIB GROUP

We pressed ahead with the further development of our property portfolio in various ways in the 2017 fiscal year: we completed high-yield in-house developments, seized lucrative sale opportunities and created additional rental space on existing sites by means of redensification projects. This work was supplemented by proactive rental and portfolio management, which plays a part in ensuring not only a low vacancy rate, but also satisfied tenants.

CONSTRUCTED AND HANDED OVER ON TIME

In spring 2017, the two rental agreements for the new-build logistics facility on our existing site on Beuthener Strasse in Nuremberg were signed. Construction was completed on schedule at the turn of the year, meaning that some of the newly constructed floor space could be handed over to one of the tenants on the first working day of 2018. The property was completed as part of a redensification project on existing sites. In total, the additional commercial and office space measures some 8,500 sqm. The investment volume stood at approximately EUR 6.5 million.

The rental agreements with the new tenants, both of whom have excellent credit ratings, run for ten years in each case. This helps to ensure that the average rental agreement term remains high.

IN-HOUSE DEVELOPMENTS WITH ATTRACTIVE YIELDS

At the end of the first quarter of 2017 (following a construction period of 12 months), a further in-house development was handed over to a tenant who had previously rented a section of our property on Einsteinstrasse at Interpark Kösching near Ingolstadt. We were able to build a new property in line with this tenant's needs on an existing portfolio site. The newly constructed logistics facility boasts a total useful area of approximately 21,000 sqm. The investment volume is approximately EUR 15.4 million. The rental agreement is set to run for six years.

We completed and handed over another property in the southern section of Interpark at the start of the second half of the year under review, acquiring a Scandinavian technology firm as the tenant for the next ten years. The property, which has an investment volume of roughly EUR 8.7 million, boasts a useful area of approximately 7,100 sqm. The site also offers potential for the construction of additional rentable space.

The initial return on rent stood at around 8% for both in-house developments.

LARGEST DEVELOPER AT INTERPARK

The VIB Group currently has six properties at the Interpark site, with a total useful area of 124,400 sqm.

We also own two further development plots at Interpark with the potential for a further 66,000 sqm or so of useful area – and are working hard to market these plots. As it is becoming ever more apparent that local authorities are pursuing a more restrictive policy in terms of approving new sites for construction, we believe that there are good opportunities for developing the plots at a lucrative rate of return.

SIMULTANEOUS DEVELOPMENTS IN BAVARIA AND BADEN-WÜRTTEMBERG

Last autumn, the opportunity arose for the first time to simultaneously develop properties at two different sites – Interpark and Vaihingen/Enz – in conjunction with the same tenant. For one development, we were able to draw on a site that was already in the pipeline.

This first project was the development of the reserved plot at Kopernikusstrasse 2 at Interpark, where we built a logistics facility with a useful area of approximately 13,000 sqm. The investment volume at the Interpark plot is roughly EUR 10 million. The rental term is nine years, with construction set to be completed at the end of the third quarter of 2018.

In Vaihingen/Enz, we are building another logistics facility with an investment volume of approximately EUR 10.8 million and a useful area of approximately 10,400 sqm. The property is let for nine years, and we expect construction to be completed in the third quarter of 2018.

Both properties together will generate an average initial yield of 7.6%.

PORTFOLIO OPTIMISATION

For strategic reasons, we disposed of two properties during the 2017 fiscal year – and were able to improve on the carrying amounts in both cases. Non-disclosure agreements were signed in respect of the purchase price in both cases. Together, both properties accounted for 0.7% of our net rental income. With the generated sale proceeds of EUR 10 million, we were able to strengthen our internal financing capability and implement further investments and developments.

Generating liquidity for further portfolio expansion and acquiring attractive plots at an early stage remain key components of our strategy. A strong network is essential in this regard, as it allows us to receive lucrative offers for plots and attractive existing properties at an early stage. This is exactly the kind of network that we have established over the past 25 years.

Alongside the development, acquisition and opportunity-driven sale of properties, proactive portfolio management at VIB also includes the possibility of redensification projects at existing developed sites. A further key pillar underpinning the successful development of our property portfolio – with its low vacancy rate – is proactive management of our properties, which is a service that we provide in-house. To provide one example of this, we were able to relet a 9,500 sqm area at our Frankfurt am Main property to a Japanese mechanical components supplier in July 2017. The rental agreement has a term of ten years, offering proof of the tenant's clear commitment to the site.

VIB PROPERTIES AT INTERPARK KÖSCHING

1. GUTENBERGSTRASSE 1, 3, 5
2. EINSTEINSTRASSE 6
3. KOPERNIKUSSTRASSE 28
4. JUNKERSRING 6
5. KOPERNIKUSSTRASSE 2
6. ZEPPELINSTRASSE

2017 DEVELOPMENT
LOGISTICS FACILITY AT JUNKERSRING 6
Rental area: approx. 7,100 sqm
Investment volume: approx. EUR 9 million
Initial yield: approx. 8.3%
Sector: Logistics/Light industry

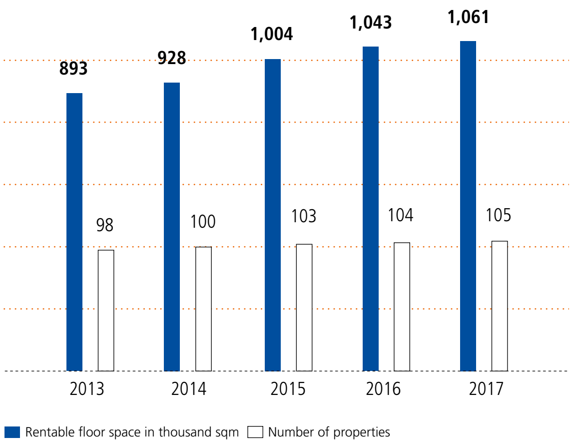
2017 DEVELOPMENT
LOGISTICS FACILITY AT KOPERNIKUSSTRASSE 28
Rental area: approx. 21,000 sqm
Investment volume: approx. EUR 15.4 million
Initial yield: approx. 8%
Sector: Logistics/Light industry

VALUE OF THE PORTFOLIO CLIMBS TO EUR 1.1 BILLION FOR AN AREA OF 1.06 MILLION SQM

As of the balance sheet date of December 31, 2017, we held 105 properties with a useful rentable area of approximately 1,061,000 sqm. The value of the property portfolio, including properties under construction, stood at EUR 1,097 million as of December 31, 2017, which equates to a year-on-year increase of EUR 34.5 million (or 3.3%).

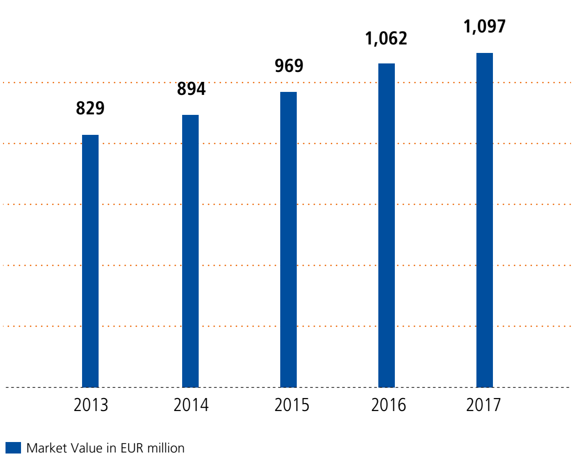
GROWHT IN RENTABLE AREA AND NUMBER OF PROPERTIES

AS OF YEAR-END

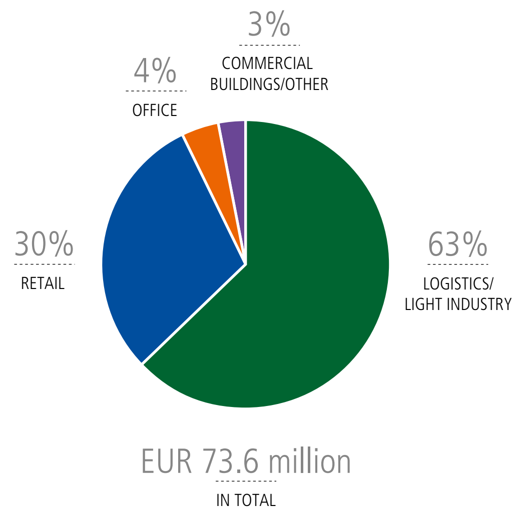


5-YEAR DEVELOPMENT OF THE PORTFOLIO MARKET VALUE

AS OF YEAR-END



ANNUALISED NET RENTAL PROCEEDS BY SECTOR IN 2017

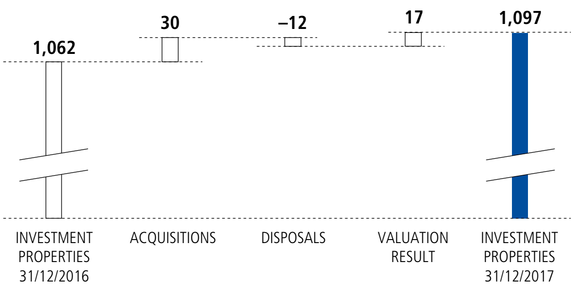


In the year under review, we increased annualised net rental income from EUR 70.8 million to EUR 73.6 million by expanding our portfolio and further reducing the vacancy rate.

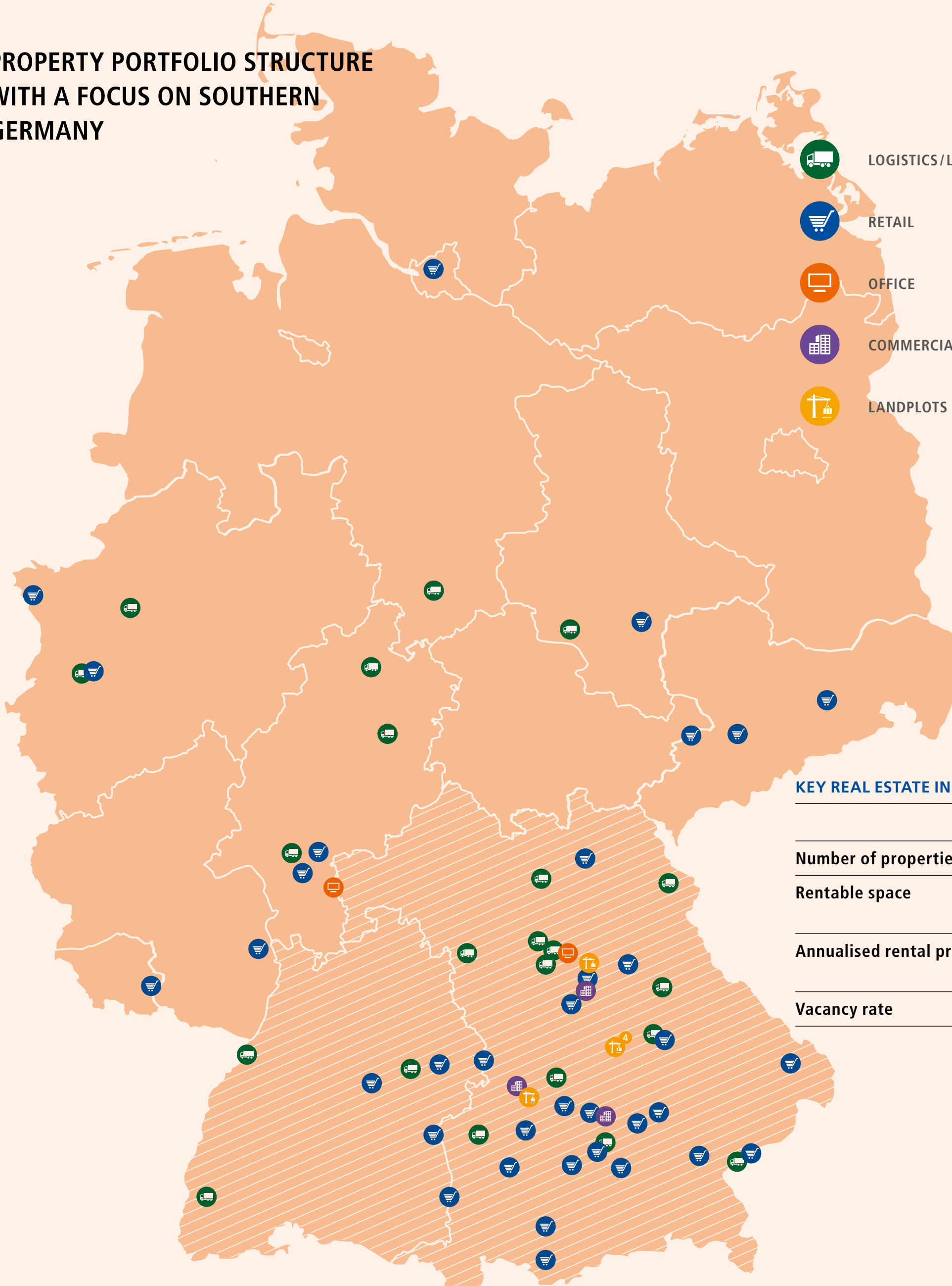
Our focus is on the logistics/light industry sector, which remains a growth industry in both Germany and Europe. Another important sector for us is retail, which accounts for about a third of our portfolio.

DEVELOPMENT OF THE PORTFOLIO MARKET VALUE DURING THE YEAR

IN EUR MILLION



PROPERTY PORTFOLIO STRUCTURE WITH A FOCUS ON SOUTHERN GERMANY



KEY REAL ESTATE INDICATORS AT A GLANCE

	31/12/2017	31/12/2016
Number of properties	105	104
Rentable space	approx. 1,061 thousand sqm	approx. 1,043 thousand sqm
Annualised rental proceeds	EUR 73.6 million	EUR 70.8 million
Vacancy rate	0.8%	1.3%

TOP 10 TENANTS

TENANTS	SECTOR	SHARE OF TOTAL ANNUAL NET RENTS	SITES
Dehner	Retail	9.0%	15
Rudolph Group	Logistics/Light Industry	7.0%	11
Geis Industrie-Service GmbH	Logistics/Light Industry	5.7%	2
Audi AG	Logistics/Light Industry	4.4%	2
Imperial Automotive Logistics GmbH	Logistics/Light Industry	3.6%	1
Loxxess Group	Logistics/Light Industry	3.5%	2
Continental Automotive GmbH	Logistics/Light Industry	3.3%	2
BayWa Bau- und Gartenmärkte GmbH & Co. KG	Retail	3.3%	3
Conti Temic microelectronic GmbH	Logistics/Light Industry	3.3%	1
LIV Logistikimmobilienverwaltung GmbH	Retail	2.9%	2
Top 10 tenants in total		**46%**	**41**

Last updated: December 31, 2017

RENTAL YIELDS AT A HIGH LEVEL

As of the balance sheet date of December 31, 2017, the average rental yield of our property portfolio stood at 7.09%, compared with 7.14% in the previous year. We attach considerable importance to the realistic and sustainable valuation of our portfolio. We therefore have the market value of our portfolio calculated at least once a year by an external property appraiser using the generally accepted discount cash flow method. The value of our portfolio was once again underscored by the prices achieved for the two property sales.

RENTAL YIELD BY SECTOR (BASED ON MARKET VALUES AS OF 31/12/2017)

IN %	
Logistics/Light Industry	7.3
Retail	6.8
Office	7.4
Commercial bulidings/other	5.4
Average rental yield	**7.09**

GROWTH POTENTIAL BASED ON IN-HOUSE DEVELOPMENTS

One benefit of our business model is that we are able to respond quickly and flexibly to any changes in the property market. In the past few years, for example, we have increasingly shifted our focus towards in-house developments, as they enable us to harness potential across the entire value chain. Starting with site acquisition and the selection of a general contractor through to negotiations on the rental price, the profitability of the investment can be optimised at various points of the process.

A HEALTHY SITE PIPELINE

We were also able to add to our site pipeline in the year under review. In light of the aforementioned consideration that approvals for new construction sites are subject to ever more restrictions, we regard this as an important factor in terms of continuing to be able to benefit from the advantages offered by in-house developments.

As of the end of the 2017 fiscal year, the pipeline comprised six plots – with a total potential useful area of approx. 200,000 sqm – that are located in the growth regions of Augsburg, Ingolstadt, Munich and Nuremberg.

OPPORTUNITY-DRIVEN ACQUISITIONS OF EXISTING PROPERTIES

At the same time, we also review offers of completed properties that comply with our investment criteria on an ongoing basis. For us, key factors in this regard include the location of the property, the term of any existing rental contracts, the tenant's credit rating and the occupancy rate. As an asset class, property remains extremely popular on account of the macroeconomic situation. This is driving up prices, especially for properties in desirable locations. Given that we, as a portfolio management company, have a long-term investment horizon, alternative-use options play a significant role for us. This is the only way to guarantee that a property actually generates the returns projected at the time of acquisition.

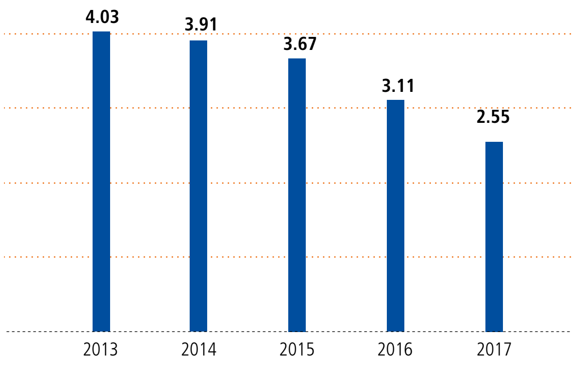
ON THE BASIS OF A SOLID FINANCING STRUCTURE

The third building block of a successful and profitable real estate company is the financing of its property portfolio. Here, we use a healthy mix of the various internal and external financing options. Alongside classic financing in the form of annuity loans, which offer the benefit of highly predictable cash flows, we also employ components such as promissory note loans, the issuance of mandatory convertible bonds and the issuance of new shares by means of capital increases. Depending on the macroeconomic situation, we select the most appropriate financing method, always ensuring maximum value for our shareholders and investors.

As of the end of the year, the average interest rate for the Group's total portfolio of borrowings stood at 2.55%, compared with 3.11% in the previous year.

AVERAGE INTEREST RATE FOR THE LOAN PORTFOLIO

IN %

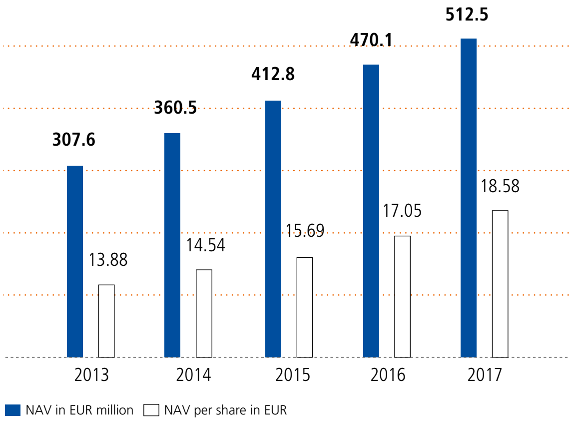


Another indicator of a company's stability is the LTV (loan-to-value) ratio, i.e. the ratio of net debt to total assets. This figure stood at 51.4% as of December 31, 2017, compared to 53.6% as of December 31, 2016.

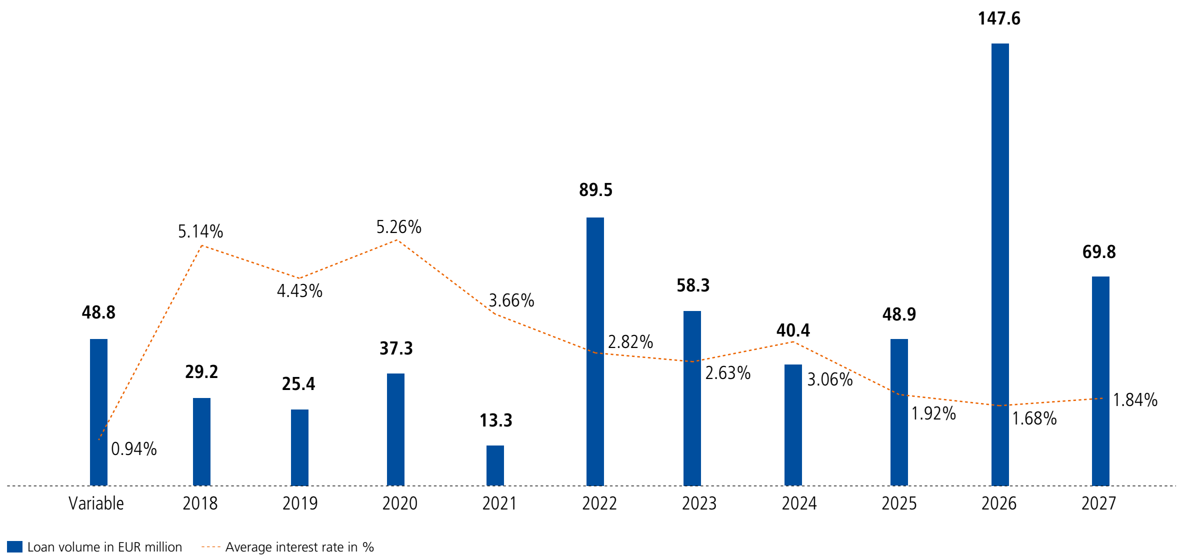
Alongside a long-term and sustainably oriented financing structure, we also attach great importance to a solid equity base. The operating profit generated and our regular loan repayments both contribute to this equity base. As of December 31, 2017, our equity ratio stood at 41.9%, which represents an improvement of 2.2 percentage points against the previous year.

All the aforementioned points influence the net asset value (NAV) of the company. Our balanced financing mix, our sustainable portfolio growth and our stable equity base all have a positive impact on NAV, which stood at EUR 512.5 million as of December 31, 2017.

NAV (NET ASSET VALUE) AND NAV PER SHARE



BREAKDOWN OF LOAN LIABILITIES BY END OF FIXED-INTEREST PERIOD AND AVERAGE INTEREST RATE



SHARE AND INVESTOR RELATIONS

The VIB Vermögen AG share once again performed positively in 2017. The price of our share rose by 8% compared to the previous year, reaching a closing price of EUR 21.20 at the end of the year. The VIB share also continued its growth trajectory at the start of 2018, closing the first quarter with a slight increase of 3.3% at EUR 21.90.

KEY DATA AND SHARE INDICATORS

KEY DATA

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

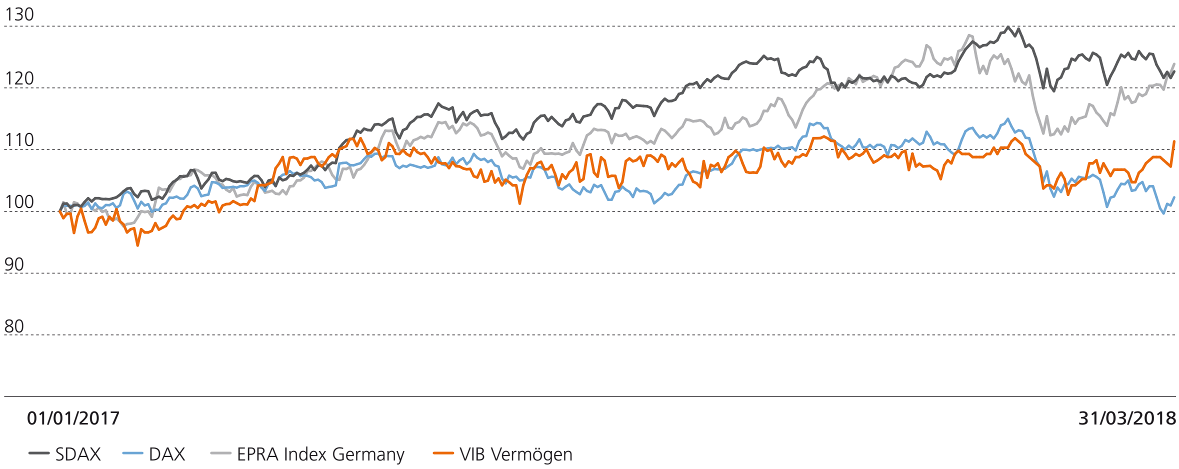
SHARE INDICATORS

Subscribed share capital	EUR 27,579,779
Nominal value per share	EUR 1.00
Number of outstanding shares	27,579,779 shares
Net asset value (NAV) per share (undiluted)	EUR 18.58
Balance sheet equity (consolidated)	EUR 462,034 thousand
Dividend per ordinary share for the 2017 financial year	EUR 0.60*
Closing price for the year (31/12/2016)	EUR 19.67
Closing price for the year (31/12/2017)	EUR 21.20
Annual high	EUR 22.06
Annual low	EUR 18.59
Average daily trading volume in 2017**	17,500 shares
Market capitalisation (31/12/2017)	EUR 585 million

* Management proposal
** Xetra and all exchanges

SHARE PRICE DEVELOPMENT

SINCE 01/01/2017 (INDEXED COMPARISON WITH EPRA AND THE DAX AND SDAX INDICES, IN %)



DEVELOPMENT OF THE FINANCIAL MARKETS

On the whole, 2017 was a good year for the stock markets. Whilst hardly any profits were to be made on the interest rate markets, the prices of shares, commodities and, last but not least, properties rose considerably. The upbeat mood on the financial markets was not even dampened by global factors. Neither the conflict between the United States and North Korea nor the withdrawal of the United States from the Paris Agreement, nor the increasingly protectionist tendencies observed in some countries, could halt the positive development. Developments were also pleasing in Germany, especially as regards the German lead index, the DAX, which climbed to numerous all-time highs last year. The stock market boom, which has already lasted for several years, is due not only to the global economic upswing and rising corporate profits, but also the global surge in liquidity attributable to the ultra loose monetary policy pursued by central banks. As a consequence of the low interest rates, traditional government and corporate bonds only generate meagre returns, whilst the liquidity released by the central banks is being used to invest in shares – the result being rising prices.

In all likelihood, the development of the financial markets in 2018 will hinge on the policy of the central banks. We are already witnessing a moderate rise in interest rates in the United States, whereas the announcement of the ECB to halve its bond-buying programme could also herald a shift in European interest rate policy. It may be many years, however, before we actually see a noticeable rise in interest rates. What's more, the economic outlook remains bright. Therefore, share prices may well rise again in 2018, albeit less dramatically and with more volatility than in previous years.

Whilst the German lead index grew by 10% in 2017, the SDAX posted a much greater increase of 22%. The stock market year was also a good one for real estate companies, with the EPRA Germany industry index climbing by 25% year-on-year.

SUSTAINABLE SHARE PRICE DEVELOPMENT

Whilst the price of the VIB share increased by 8% last year, which was more or less on a par with the DAX (+10%), the sustainable development of VIB Vermögen AG is, in particular, reflected in the five- and ten-year comparisons, with increases of 125% and 148% respectively.

VALUE DEVELOPMENT OVER TIME

	1 year	5 years	10 years
DAX (share price index)	10%	47%	16%
SDAX (share price index)	22%	106%	82%
EPRA Germany	25%	110%	46%
VIB Vermögen AG	8%	125%	148%

SUSTAINABLE DIVIDEND GROWTH FOR THE VIB SHARE

Stocks that pay reliable dividends become ever more important when interest rates are low. That's because the focus of investors shifts increasingly towards dividend payments, alongside potential share price gains, as a substitute for interest rate returns. The VIB share has established itself as exactly this kind of stock. Since it was floated back in 2005, VIB Vermögen AG has always paid a dividend, even during the financial and economic crisis. And that's not all: having increased the dividend for the eighth time in a row last year, we also plan to further increase the dividend for the year under review.

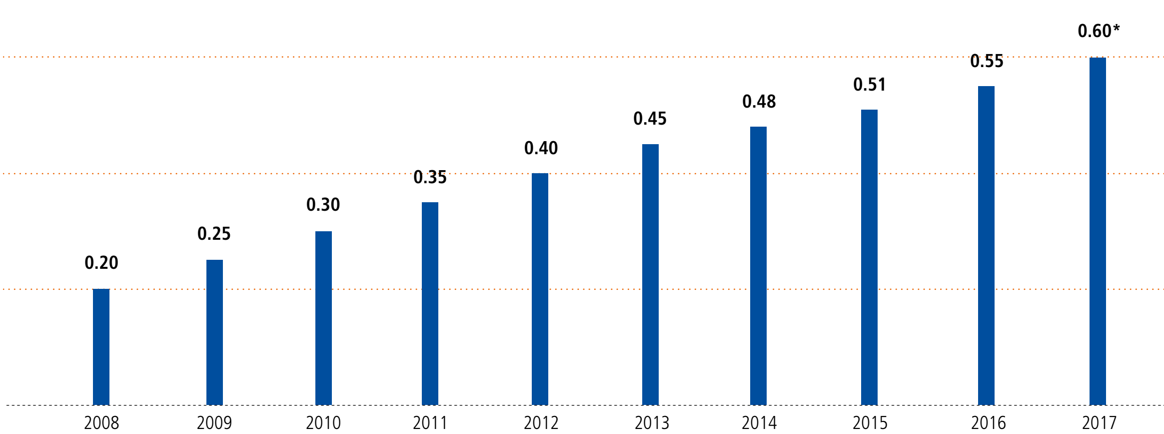
At the Annual General Meeting on June 28, 2018, the Managing and Supervisory Boards will therefore propose that a dividend of EUR 0.60 per share be paid for the 2017 fiscal year. This corresponds to a year-on-year increase of EUR 0.05, or 9.1%, and a total distributable amount of EUR 16.5 million.

The sustainable nature of our dividend policy is reflected especially clearly in a multi-year analysis. The dividend has increased by 50% over a five-year period, with this figure rising to an impressive 200% over a ten-year period. Therefore, an investment in our share pays off in two different ways, especially for shareholders with a long-term commitment to the company; not only has the share price risen, but dividends have increased continuously.

As in previous years, the VIB dividend payment is based on the operating performance of the company, with funds from operations (FFO) acting as the benchmark figure in this context. With a payout ratio of around 40% of generated FFO, we are once again within the long-term target range of 40%–45% for 2017.

DIVIDEND GROWTH PER SHARE

IN EUR



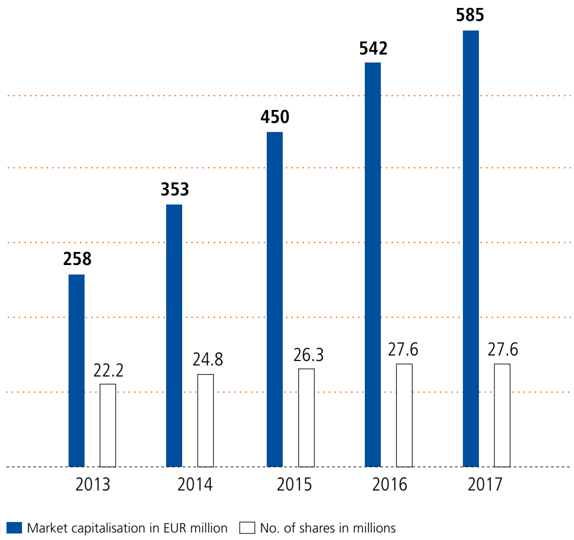
* Management proposal

MARKET CAPITALISATION CLIMBS TO EUR 585 MILLION

The total number of shares remains unchanged against the previous year at 27,579,779. Due to the positive growth in the VIB share price, market capitalisation has risen by 8% to EUR 585 million – without any further capital measures and therefore without any dilution of the existing shareholdings.

DEVELOPMENT IN MARKET CAPITALISATION AND NUMBER OF SHARES

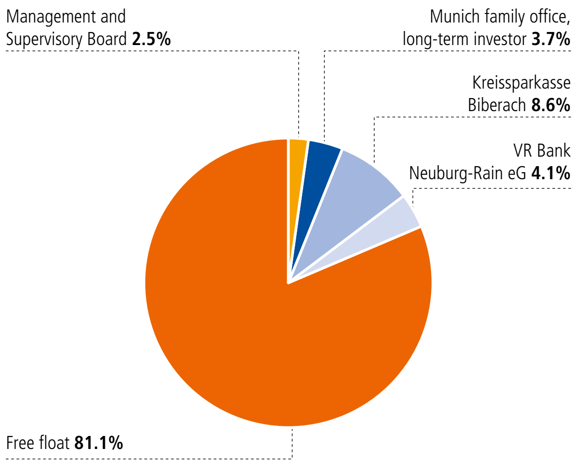
AS OF THE END OF EACH YEAR



BALANCED SHAREHOLDER STRUCTURE

Our shareholder structure is distinguished by a stable ratio of free float to major investors. Our long-term anchor investors are founding investor Raiffeisen-Volksbank Neuburg/Donau eG (now called VR Bank Neuburg-Rain eG) with a 4.1% share of voting rights, Kreissparkasse Biberach with an 8.6% share of voting rights and a Munich-based family office with a 3.7% share of voting rights. The trust held by the Managing and Supervisory Boards in the long-term future development of the company is underscored by their total shareholding of 2.5%. As of the end of the 2017 fiscal year, the free float of VIB Vermögen AG stood at 81.1%.

SHAREHOLDER STRUCTURE



Last updated: 2017 Annual General Meeting

ANALYSTS CONTINUE TO RECOMMEND BUYING THE VIB VERMÖGEN SHARE

During the 2017 fiscal year, our share was regularly analysed by eight national and international research houses. Virtually all the analysts saw positive growth potential for VIB Vermögen in 2017 and recommended the VIB share as "buy". We publish updated analyst opinions on our website soon after they are issued.

ANALYST RECOMMENDATIONS AT A GLANCE

	Date	Recommendation	Share price target (EUR)
Baader Bank AG (André Remke)	21/03/2018	Buy	23.00
Bankhaus Lampe (Dr. Georg Kanders)	21/03/2018	Hold	22.00
Berenberg (Kai Klose)	26/02/2018	Buy	24.00
Degroof Petercam (Herman van der Loss)	21/03/2018	Buy	23.50
Mirabaud (Emmanuel Valavanis)	23/03/2018	Buy	26.00
SRC Research (Stefan Scharff)	21/03/2018	Buy	24.00
Victoria Partners (Bernd Janssen)	16/02/2018	Buy	20.80 – 22.80
Warburg Research (Andreas Pläsier)	22/03/2018	Buy	25.10

HIGH APPROVAL RATE AT THE ANNUAL GENERAL MEETING

The 2017 Ordinary Annual General Meeting was held in Ingolstadt on June 29, 2017. We received overwhelming support from the shareholders on all items on the agenda, which were approved with a large majority. Formal approval was also granted for the actions of the Managing and Supervisory Boards in 2017. A total of 52.6% of the voting-entitled share capital was represented. The 2018 Ordinary Annual General Meeting will be held in Ingolstadt on June 28, 2018.

DIALOGUE WITH THE CAPITAL MARKET

We pursue the aim of addressing as wide a group of shareholders as possible. We therefore fulfil the requirements of a listing in the open market of the Frankfurt Stock Exchange and the m:access quality segment of the Munich Stock Exchange. Continuous, comprehensible and transparent communication is aimed at meeting capital market 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 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 broad public. In the year under review, the Managing Board of VIB Vermögen AG 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 supplemented by roadshows for current and potential investors both in Germany and abroad. 2017 also saw us hold an Investors' Day (including property tour) for the first time at the new premises at VIB corporate head office; the event was attended by major investors and analysts from various countries.

FINANCIAL CALENDAR

May 9, 2018
Publication of the first Interim Report 2018

June 28, 2018
Annual General Meeting in Ingolstadt

August 8, 2018
Publication of the half-year Report 2018

November 7, 2018
Publication of the second Interim Report 2018

IR CONTACT

VIB Vermögen AG
Petra Riechert
Tilly-Park 1
86633 Neuburg/Danube
Germany

Tel: +49(0)8431 9077-952
Fax: +49(0)8431 9077-1952
E-mail: petra.riechert@vib-ag.de

EPRA PERFORMANCE INDICATORS

VIB Vermögen AG has been a member of the European Public Real Estate Association (EPRA) since 2011. Based in Brussels, the organisation represents the interests of major European property companies vis-à-vis the general public and helps them raise their profile.

In recent years, we have been guided by EPRA recommendations in terms of communication with the general public, the capital market and other stakeholders. Last year, we were rewarded for our efforts with the EPRA Bronze Award.

This year, we have once again expanded the scope of our EPRA reporting compared to the previous year in order to increase the transparency and comparability of our indicators. For the first time, we are reporting on all six performance indicators set out by EPRA.

EPRA PERFORMANCE INDICATORS AT A GLANCE

IN EUR THOUSAND	31/12/2017	31/12/2016	CHANGE IN %
EPRA earnings	37,620	32,587	15.4
EPRA NAV	512,547	470,117	9.0
EPRA NNNAV	426,297	379,203	12.4
EPRA vacancy rate	0.8%	1.3%	–0.5pt.
EPRA net initial yield	6.6%	6.6%	0.0pt.
EPRA cost ratio (incl. vacancy costs)	12.1%	12.4%	–0.3pt.

EPRA EARNINGS

The "EPRA earnings" item shows operating revenue adjusted for extraordinary items such as valuation effects on investment properties and earnings from sales activities. Therefore, this figure indicates the extent to which a dividend payment is covered by earnings. Absolute EPRA earnings currently stand at EUR 37,620 thousand, which equates to an increase of EUR 5,033 thousand against the previous year. The rise is attributable both to further expansion of the operating property portfolio – and the accompanying increase in net basic rents – and reductions in cost items, particularly the fall in interest expenses. This trend is also reflected in the increase in EPRA earnings per share, which have climbed from EUR 1.18 to EUR 1.36.

EPRA EARNINGS

IN EUR THOUSAND	2017	2016
Group shareholders' share of earnings	**51,604**	**47,240**
Adjusted for:		
(i) Changes in value for investment properties	–17,380	–18,018
(ii) Earnings from the disposal of investment properties	0	0
(iii) Earnings from the disposal of trading properties	0	0
(iv) Pro rata income tax on disposals	0	0
(v) Badwill/impairments on goodwill	0	0
(vi) Income/expenses from measurement of financial derivatives	0	0
(vii) Transaction costs incurred on the acquisition of participating interests and associates	0	0
(viii) Deferred taxes in relation to EPRA adjustments	2,750	2,851
(ix) Adjustments to items (i) to (viii) in relation to associates	0	0
(x) Minority interests in adjustments to EPRA earnings	646	514
Absolute EPRA earnings	**37,620**	**32,587**
Average number of shares (undiluted)	27,579,779	27,579,779
EPRA earnings per share (in EUR)	**1.36**	**1.18**

Due to the fact that no shares are currently being created through the use of conditional or authorised capital, diluted EPRA earnings per share are identical to the undiluted figure.

EPRA NET ASSET VALUE (NAV)

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

EPRA NAV improved by EUR 42,430 thousand year-on-year to EUR 512,547 thousand. The main reasons for this were the positive consolidated result and the continued value appreciation of the property portfolio. With the number of outstanding shares staying the same, EPRA NAV per share rose from EUR 17.05 per share to EUR 18.58 per share.

EPRA NET ASSET VALUE (NAV)

IN EUR THOUSAND	**31/12/2017**	31/12/2016
Total equity	483,355	443,527
Minority interest	–21,321	–19,680
NAV as shown on the consolidated balance sheet (attributable to Group shareholders)	**462,034**	**423,847**
Dilution effect due to options, convertible bonds and other equity instruments	0	0
Diluted NAV after options, convertible bonds and other equity instruments	**462,034**	**423,847**
plus:		
(i.a) Revaluation of investment properties (if the cost model pursuant to IAS 40 is applied)	n.a.	n.a.
(i.b) Revaluation of investment properties under construction (if the cost model pursuant to IAS 40 is applied)	n.a.	n.a.
(i.c) Revaluation of other assets (owner-occupied properties and interests)	n.a.	n.a.
less:		
(iv) Market value of derivative financial instruments	4,831	7,001
(v.a) Deferred taxes	45,682	39,269
EPRA NAV	**512,547**	**470,117**
Number of outstanding shares (diluted)	27,579,779	27,579,779
EPRA NAV per share (in EUR)	**18.58**	**17.05**

EPRA TRIPLE NET ASSET VALUE (NNNAV)

EPRA NNNAV builds on EPRA NAV, with the latter increasing or decreasing by the previously adjusted-for extraordinary items such as the market valuation of derivative financial investments and deferred taxes.

EPRA NNNAV improved by EUR 47,097 thousand year-on-year to EUR 426,297 thousand, chiefly due to the positive consolidated result and continued value appreciation of the property portfolio. With the number of outstanding shares staying the same, EPRA NNNAV per share rose by EUR 1.71 per share to EUR 15.46 per share.

EPRA TRIPLE NET ASSET VALUE (NNNAV)

IN EUR THOUSAND	**31/12/2017**	31/12/2016
EPRA NAV	**512,547**	**470,117**
plus		
(i) Market value of derivative financial instruments	–4,831	–7,001
(ii) Market value of financial liabilities (after deferred taxes)	–42,456	–53,037
(iii) Deferred taxes	–38,963	–30,876
EPRA NNNAV	**426,297**	**379,203**
Number of outstanding shares (diluted)	27,579,779	27,579,779
EPRA NNNAV per share (in EUR)	**15.46**	**13.75**

EPRA VACANCY RATE

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

Thanks to a further reduction in vacant space in the year under review, the EPRA vacancy rate declined from 1.3% to 0.8% as of the end of the year.

EPRA VACANCY RATE

IN EUR THOUSAND	**31/12/2017**	31/12/2016
Annualised market rent for the total portfolio	74,245	71,763
Vacant properties measured at market values	630	923
EPRA Vacancy Rate	**0.8%**	**1.3%**

EPRA NET INITIAL YIELD

This indicator shows the ratio of annualised net basic rents at the balance sheet date to the market value of investment properties within the portfolio. Non-recoverable operating expenses are deducted from net basic rents, and estimated purchasers' costs are added to the market value of rental properties.

Due to the year-on-year increase in net rental income and the rise in the market value of the property portfolio, the net initial yield fell to 6.60%.

EPRA NET INITIAL YIELD

IN EUR THOUSAND	**31/12/2017**	31/12/2016
Investment properties as per balance sheet	1,096,724	1,061,773
Properties under construction, reserved plots	–52,974	–57,663
Assets held for sale	0	0
Market value of the property portfolio (net)	**1,043,750**	**1,004,110**
Transaction cost reduction (purchasers' costs)	49,180	47,005
Market value of the property portfolio (gross)	**1,092,930**	**1,051,115**
Annualised net basic rent	73,615	70,840
Non-recoverable operating expenses	–1,512	–1,095
Annualised net rental income	**72,103**	**69,745**
Letting incentives	–126	–97
Topped-up annualised rental income	**71,977**	**69,648**
EPRA net initial yield (in %)	**6.60**	**6.64**
Topped-up EPRA net initial yield (in %)	6.59	6.63

EPRA COST RATIO

The EPRA cost ratio describes the ratio of operating and administrative costs to rental income within a one-year period. This indicator provides an insight into the cost-effectiveness of a company's operating and administrative activities.

Due to the year-on-year improvement in the ratio between vacancy costs and net basic rents, the cost ratio declined from 12.4% to 12.1%.

EPRA COST RATIO

IN EUR THOUSAND	**31/12/2017**	31/12/2016
Expenses for investment properties	13,775	13,292
Proceeds from the recovery of operating expenses	–10,034	–9,845
Personnel expenses	3,621	3,797
Other operating expenses	1,785	1,647
Other operating income	–344	–350
EPRA costs incl. vacancy costs	**8,803**	**8,541**
Direct vacancy costs	0	0
EPRA costs excl. vacancy costs	**8,803**	**8,541**
Revenue from net basic rents	**72,764**	**69,139**
EPRA cost ratio (incl. vacancy costs) in %	**12.1**	**12.4**
EPRA cost ratio (excl. vacancy costs) in %	**12.1**	**12.4**

EPRA REPORTING ON THE DEVELOPMENT OF THE PROPERTY PORTFOLIO

ACCOUNTING AS PER IAS 40

Due to the business operations of the company, all properties held to earn rentals are treated as investment properties pursuant to IAS 40. Newly acquired properties are valued at cost. Subsequent measurement is performed at fair value and recognised in profit or loss, less the ancillary costs that would be incurred by a typical potential buyer.

MEASUREMENT INFORMATION

Fair values are measured at least once a year by an independent property appraiser. We have instructed Landestreuhand Weihenstephan GmbH Wirtschaftsprüfungsgesellschaft, Freising, to perform these measurements.

The appraiser receives a set fee for producing the property appraisal, irrespective of the outcome of the appraisal.

The appraiser has produced 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 – "Principles for valuing property") and has valued all properties using the discounted cash flow method. As such, the appraisal conforms with the International Valuation Standards (IVS).

The value of the investment properties shown on the balance sheet corresponds exactly with the values of the same assets as determined by the appraiser.

For more information on the valuation model applied, please refer to pages 87ff. and 111ff. of the Notes.

PORTFOLIO INFORMATION

› Remaining terms of rental agreements

The average remaining term of the company's rental agreements – 5 years and 1 month – underscores the stability of its rental income. This figure is calculated on the basis of annualised net basic rents for the properties let and uses the remaining terms until the first potential opportunity for termination.

NET RENTAL PROCEEDS BY REMAINING TERMS OF RENTAL AGREEMENTS

	SHARE IN %	NET RENT (EUR THOUSANDS)
Rolling	5.1	3,761
1 to 3 years	34.0	25,012
3 to 5 years	16.8	12,341
5 to 7 years	15.3	11,304
7 to 10 years	19.7	14,512
Longer than 10 years	9.1	6,708

› Overview of properties

Please refer to our website (https://www.vib-ag.de/en/real-estate/overview.html), where you will find detailed information in the "Real Estate" section.

› Ownership status

All properties held for rental purposes (investment properties), reserved plots and properties under construction fall fully within the scope of the Group as part of full consolidation and are fully owned by the respective Group companies.

LIKE-FOR-LIKE (LFL) RENTAL GROWTH

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

Adjusted net basic rents for the 2017 fiscal year (EUR 68,801 thousand) rose by EUR 597 thousand (0.9%) against the previous year's level (EUR 68,204 thousand).

This growth can be split into the following categories:

- Contractual indexing — EUR 233 thousand
- Changes in the vacancy rate — EUR 293 thousand
- Changes arising from existing agreements — EUR 71 thousand

INFORMATION ON INVESTMENT PROPERTIES

IN EUR THOUSAND	
New investments/acquisitions	31,959
Developments, properties under construction	–4,416
Subsequent capitalisation of existing properties/LFL	2,151
Other	0
Total investments	**29,694**

CORPORATE GOVERNANCE

For VIB Vermögen AG, good corporate governance – which means responsible, transparent management geared towards long-term value creation – is a key pillar of sustainable commercial success. This is also particularly relevant in terms of day-to-day dealings with our stakeholders, i.e. tenants, shareholders and business partners, as well as actors on the financial and capital markets. On account of its listing as an open-market stock in the m:access quality segment of the Munich Stock Exchange, VIB is not bound by the formal requirements of Sect. 161 of the German Stock Corporation Act (AktG) and is therefore not required to submit a declaration of conformity with the German Corporate Governance Code. In the interests of maximum transparency, however, we wish to outline the fundamental aspects of our corporate governance policy, which are as follows.

INFORMATION ABOUT CORPORATE GOVERNANCE PRACTICES

For VIB Vermögen AG, applicable legislation – especially company and capital market law – the company's articles of incorporation and the rules of procedure of the Supervisory and Managing Boards form the foundation for governance and supervision of the company.

VIB Vermögen AG also believes, however, that good corporate governance entails the application of corporate governance practices that go above and 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 change, is the cornerstone of sustainable company success. A stated aim of the company is to win and retain 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 senior management of VIB Vermögen AG 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 at VIB. 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 of VIB Vermögen AG consists of two members and is directly responsible for managing the company. The Supervisory Board monitors the Managing Board and advises it on the running of the business. In particular, it appoints the members of the Managing Board and is responsible for Managing Board matters. The Supervisory Board of VIB is made up of three members. The professional experience of the Supervisory Board members – who, pursuant to the articles of incorporation, are elected for five-year terms – reflects the activities of VIB Vermögen AG, qualifying them to perform a supervisory and advisory role in respect of the Managing Board of VIB Vermögen AG.

When selecting members of the Supervisory Board, the emphasis is not only on experience, but also on the skills and specialist 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. Resolutions are passed with a majority of the votes cast. The Chairman 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 other 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 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 2017 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 senior management and the company in the 2017 fiscal year.

We do not regard a general age limit for Managing and Supervisory Board members as appropriate. The ability to successfully lead a company or to monitor the Managing Board in the necessary manner from a Supervisory Board position does not, in our view, stop at a certain age.

The company has taken out D&O insurance (directors' and officers' liability insurance) for the Managing and Supervisory Boards. In the event of a claim, an excess of 10% has been agreed upon for Managing and Supervisory Board members alike.

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 for the year, 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 2017 fiscal year. Furthermore, no share option programmes or similar securities-oriented incentive systems are in place for the Managing Board.

Pursuant to statutory requirements, the company provides full disclosure of the total remuneration of the Managing Board in the Notes to the Annual Report and does not produce a separate remuneration report, as VIB Vermögen AG is not bound by statute to the provisions of the German Corporate Governance Code. The same applies in respect of the Supervisory Board, as the company takes the view that no benefit would be derived in either case.

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, pursuant to company law, available in German on our website (www.vib-ag.de). 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, the attendance figures and voting results will be published in the "Investor Relations" section of the company's website (www.vib-ag.de). The next Annual General Meeting will be held on June 28, 2018, 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. This is done by means of publishing corporate news and, where necessary, ad hoc releases. The "Investor Relations" section of the company's website (www.vib-ag.de) also provides an interested audience with more comprehensive information on VIB Vermögen AG. Important dates for shareholders are also listed in a financial calender and published online on an annual basis. The financial reports, the financial calendar and ad hoc/press releases are available for download 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 2017 Management 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), the German Stock Corporation Act (Aktiengesetz) and the International Financial Reporting Standards (IFRS).

The annual financial statements of VIB Vermögen AG and the consolidated financial statements were audited by the audit firm appointed at the 2017 Annual General Meeting – S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg – before being approved and adopted 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 AT VIB VERMÖGEN AG

HOW WE UNDERSTAND SUSTAINABILITY

Ever since VIB Vermögen AG was established in 1993, we have been pursuing our growth strategy in a targeted and successful fashion. In our view, however, successful corporate governance over the long term does not just include economic success, but also means assuming environmental and social responsibility. As with any company, our business activities are shaped by close cooperation with a vast array of different stakeholders, i.e. all internal and external groups that are affected by the actions of the company, whether now or in the future.

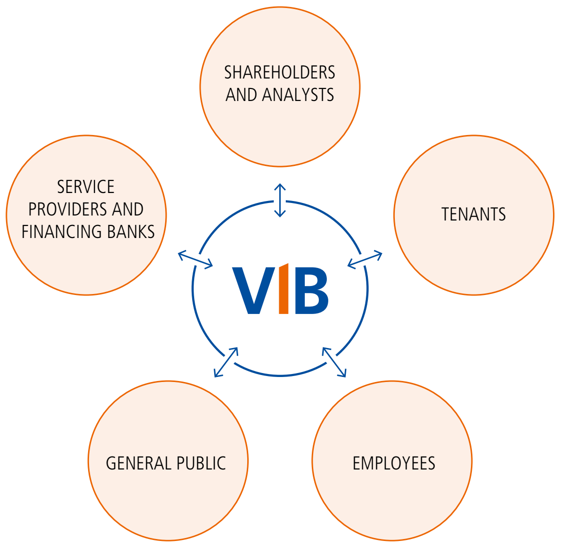
As we are a portfolio manager of commercial properties, our business model is characterised by a long-term planning horizon at many different levels. Our properties are used over several decades, maintenance and modernisation measures are carried out over the entire life cycle and, last but not least, we pursue a financing approach based on long-term annuity loans. Regardless of whether we are buying a property or developing it ourselves, our expansion decisions also take potential long-term factors into account.

A DIALOGUE WITH OUR STAKEHOLDERS

As a real estate company guided by the capital market, we have a variety of relations with a host of stakeholder groups. Regular communication with these groups helps us understand their views and expectations, identify room for improvement and devise specific courses of action.

Our most important stakeholders are linked to our business operations. In particular, these include tenants, shareholders and analysts, as well as public interest groups from the fields of politics, society and the media. Other stakeholders are our service providers and financing banks, as well as our employees – who make an important contribution to the successful development of the company.

VIB STAKEHOLDER APPROACH: 5 CATEGORIES



SHAREHOLDERS AND ANALYSTS

For our private and institutional investors, it is important that they are invested in a company whose business model is geared towards sustainable, long-term value appreciation. As owners and investors, they wish to ensure that their capital commitment is invested both securely and profitably. We meet these expectations. We have recorded continuous growth in both revenue and earnings over the past 20 years – a positive trend that is also reflected in the dividend. The VIB Vermögen AG share is now one of Germany's most reliable dividend-paying stocks.

Alongside shareholders, our analysts represent a key stakeholder group in their capacity as opinion leaders for the financial markets. By systematically collecting, collating and analysing company-related information, they provide transparency for our investors in terms of evaluating VIB Vermögen AG.

We are in direct and open contact with both stakeholder groups – investors and analysts. Alongside the publication of financial reports and company news, information is also exchanged, for instance, at capital market conferences and roadshows, where we present both our property portfolio and our corporate strategy.

TENANTS

Reliable tenants with excellent credit ratings constitute another important stakeholder group for the company. Our tenant base includes both medium-sized, regional companies and multinational corporations. We maintain lasting business relations, based on a spirit of trust, with our tenants, which is reflected in long-term rental agreements and, consequently, predictable rental incomes. A prime example of this is the long-term partnership with the tenant of our inaugural property, the French automotive supplier Faurecia. The rental agreement for this logistics facility, which was developed specially for the customer, has been in place since 1993 and, in 2013, was renewed for another ten years.

With a view to good customer relations, the in-house management of our properties has always been important to us. With an experienced team of property managers, we work closely with our tenants and know their requirements inside out. As a result, we not only gain a clear picture of the condition of our properties, but are also in a position to find tailored solutions. And this is exactly what our tenants value. It is also reflected in the vacancy rate, which has been very low for many years and which most recently stood at a mere 0.8%.

Our tenants in the Logistics/Light Industry segment include companies such as the Rudolph Group, Audi and Continental. In the retail segment, our tenants include companies such as Rewe, Edeka, garden centre chain Dehner and Baywa Gartenmärkte GmbH & Co. KG.

SERVICE PROVIDERS AND FINANCING BANKS

Our service providers expect transparent business relations and a spirit of partnership in which the interests of both parties are given sufficient weight. We are reliant on trust-based partnerships with our general contractors, especially when it comes to developing our own logistics properties. With investment volumes that can exceed EUR 30 million for a single property, it is vital that you have a partner whom you can rely on.

On the financing side, we work successfully with regional savings banks and mutual banks from the outset. On a national scale, selected state banks and major property financiers complete our financing portfolio. Annuity loans are a key pillar of our sustainable financing strategy. Due to the stable repayment amounts, this classic form of financing is not only extremely predictable over its term, but the ongoing repayments also increase the net asset value of the company.

THE PUBLIC

As a company guided by the capital market and as a business partner for regional and national firms, VIB Vermögen AG also finds itself in the public eye. It is expected from us that we comply with laws and social norms and that we also meet high ethical and moral standards that go beyond laws and regulations.

As regards the planning and development of new construction projects, both close cooperation with future customers and close consultation with local authorities and communities play an important role. After all, economic interests run parallel not only to location development and the safeguarding/creation of jobs in a region, but also a need to avoid or at least mitigate any potential impacts for local residents.

As a commercial enterprise, we are also conscious of our obligations to the society in which we have been able to grow so successfully for more than 20 years. We want to give something back. Alongside our support in establishing a real estate teaching programme at Ingolstadt University of Applied Sciences, we regularly help charitable centres and initiatives in the region. We also increasingly look towards regional companies and tradespeople when awarding contracts connected to our core business, such as the maintenance and modernisation of our properties.

As a company guided by the capital market, VIB Vermögen AG is expected to maintain exceptionally open and transparent communication with the media. This still very much applies in terms of questions that throw a critical light on our company and our business operations. We attach great importance to a transparent information policy and conduct regular discussions and interviews with press representatives and other multipliers, at both regional and national level.

EMPLOYEES

Our employees are one of the crucial success factors of our business model and play a significant role in our positive course of business on account of their knowledge, dedication and loyalty.

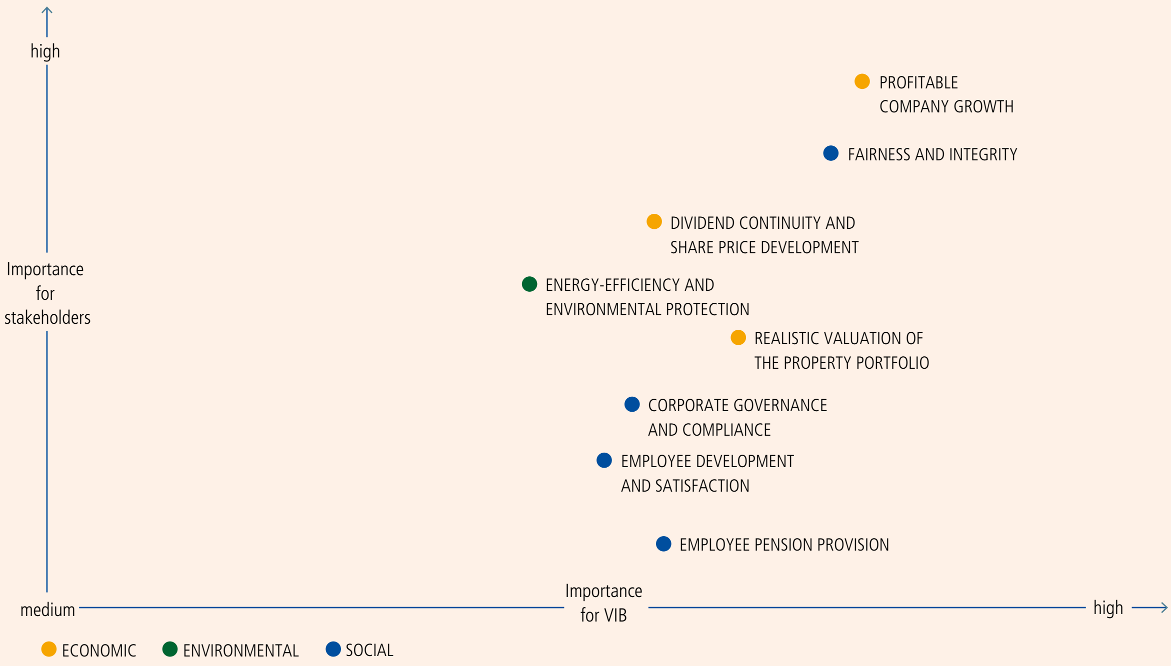
We therefore do everything in our power as an employer to ensure that our employees are happy at the company, can make the most of their talents and deploy their experience and specialist knowledge on our behalf for a long time to come. We offer our workforce an attractive and motivational working environment in our new and modern office space. We are delighted by the long average length of service and low staff turnover, which we also see as evidence of the excellent working environment at VIB Vermögen AG. We also want to help employees safeguard their future, which is why we support all members of staff with an occupational pension scheme.

Furthermore, we also attach great importance to the training and professional development of our people. Alongside the range of trainee programmes and needs-based training and professional development events it offers, VIB Vermögen AG 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. Equal opportunities and diversity also play a role at the company. Alongside a balanced ratio of younger and more experienced colleagues, the share of female employees currently stands at around 70 per cent.

SUSTAINABILITY ISSUES OF MATERIAL IMPORTANCE

As an experienced property developer and portfolio management company, we can look back on a company history spanning nearly 25 years in which we have developed a close-knit network with our key stakeholder groups. On the basis of our day-to-day work and our long-standing dialogue with our stakeholders, we have identified numerous issues that have a notable influence on the sustainable development of VIB. We have presented the eight most significant of these issues in the form of a materiality matrix. In order to take the differing levels of significance of the individual issues into account, we have performed individualised weighting of the issues for different stakeholder groups. The materiality matrix comprises what we regard as the most important economic, environmental and social issues; these play a material role in both the sustainable business success of VIB Vermögen AG and the acceptance of VIB on the part of our stakeholders.

THE MATERIALITY MATRIX OF VIB VERMÖGEN AG



THREE DIMENSIONS OF SUSTAINABILITY

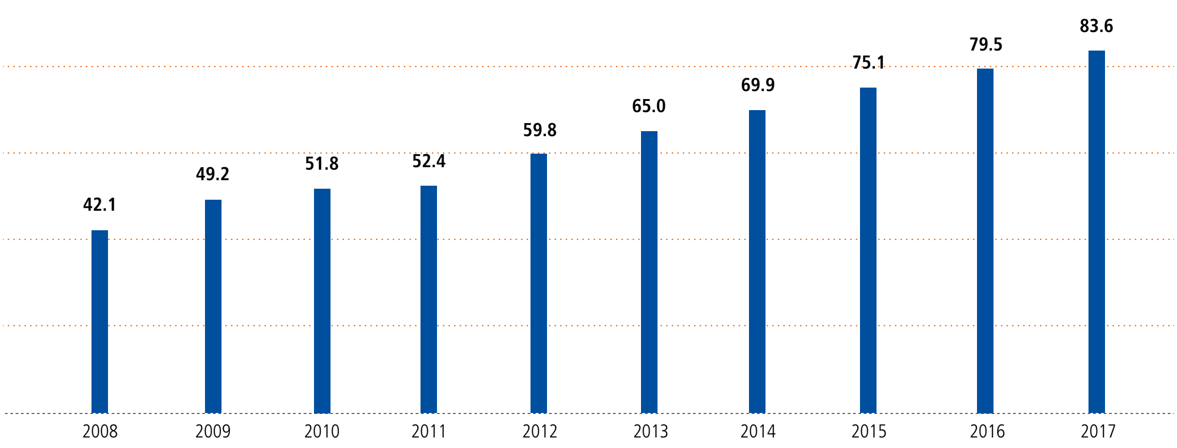
Economic sustainability

In our opinion, the cornerstone of sustainable company development is always built on economic factors, as there can be no lasting positive development in environmental and social issues without economic success.

Profitable growth represents one of the most pivotal economic criteria in this regard. On the one hand, this relates to growth in the revenue (i.e. income) that we generate by letting our properties. After all, only companies that post continuous growth can hold their own in the long term. We have always attached great importance to healthy growth in this regard, which is why our acquisition and development decisions are always taken against the background of profitable individual properties that fit seamlessly into our portfolio as a whole. In recent years, our property portfolio has grown to the tune of approximately EUR 50 million per annum, which equates to "healthy" average growth of five to ten per cent. This selective growth strategy is also important to us in terms of meeting our ambitious profitability targets, as our acquisition and development yields average 7%. When efficient cost management (including the in-house administration of our properties) is factored in, we have recorded continuous increases in profit – to the delight of our shareholders.

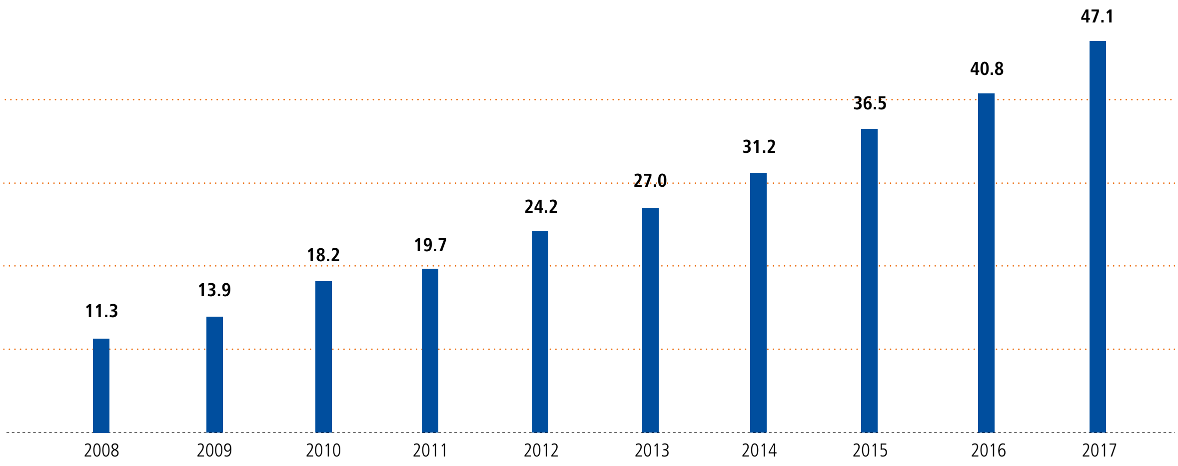
GROWTH IN REVENUE

IN EUR MILLION



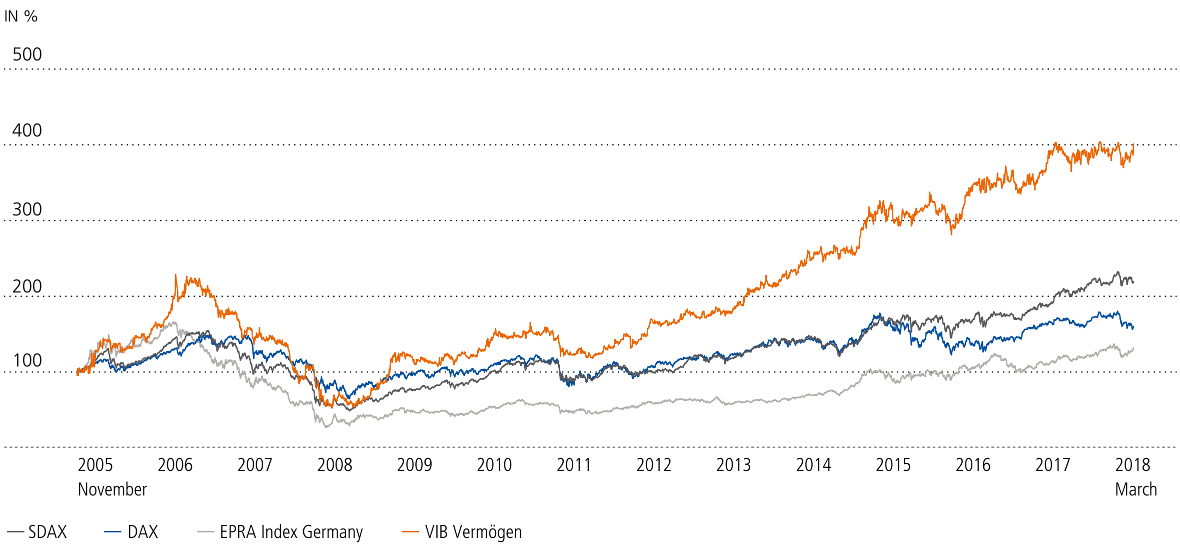
GROWTH IN ADJUSTED EBT

IN EUR MILLION

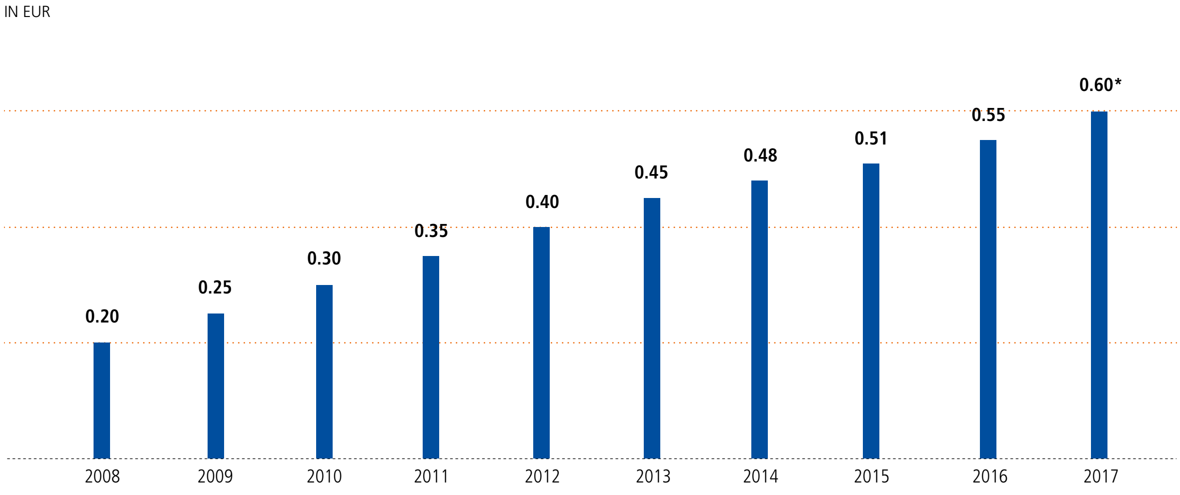


What's more, our investors have cause to be pleased with the development of our share price. Since the company was floated on the stock exchange in 2005, the share price has increased almost fourfold, even outperforming the EPRA Germany property index and the DAX and SDAX comparative indices. Alongside share price development, growth in the dividend also matters to shareholders – and the VIB share has been a reliable stock in this regard for many years. That's because a dividend has been paid every single year since the flotation, even during the global financial crisis. And that's not all: having increased the dividend for the eighth time in a row last year, the management team is now proposing the ninth consecutive dividend increase for the 2017 fiscal year. With a dividend payout of EUR 0.60 per share, this would correspond to an increase of EUR 0.05, or 9.1%, year-on-year.

TREND OF THE VIB SHARE SINCE IPO



DIVIDEND GROWTH PER SHARE



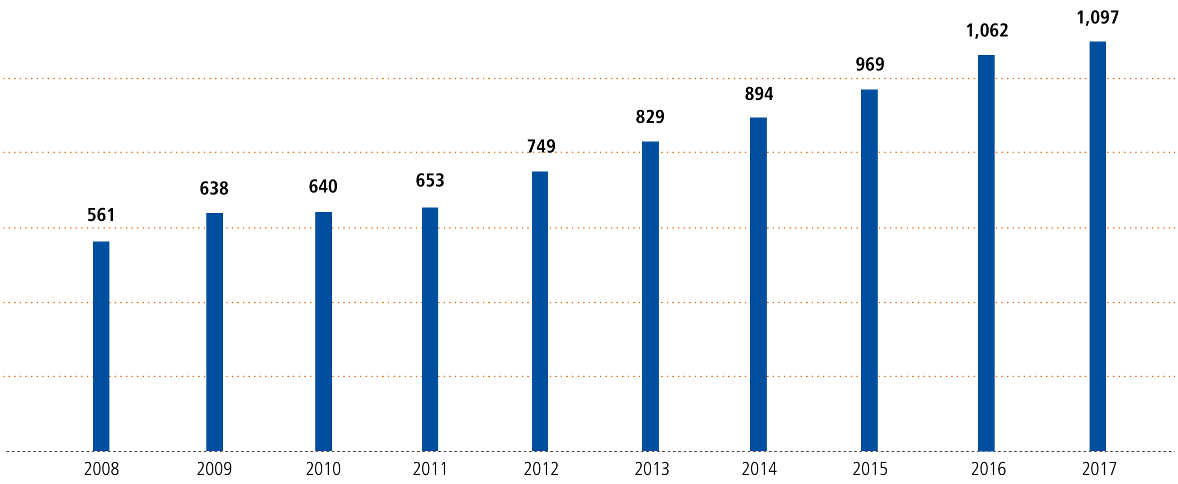
* Management proposal

Our properties constitute our largest and most important asset item. Taking into account newly acquired properties in 2017, the total value of our portfolio stands at roughly EUR 1.1 billion. Alongside the development and acquisition of new properties, it is no less important to maintain the quality standard of existing properties. On average, some 5% of our net rental income goes into corresponding measures such as roof maintenance, building renovations in accordance with the very latest energy standards and the modernisation of retail properties (e.g. the refurbishment of City Center Gersthofen in 2016).

We are also sustainable and transparent in terms of the valuation of our properties and have our portfolio valued once a year by an external property appraiser using the generally accepted discounted cash flow method.

DEVELOPMENT OF INVESTMENT PROPERTIES

IN EUR MILLION



Environmental sustainability

In terms of environmental sustainability, properties offer numerous starting points 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 good alternative usability.

Environmental standards can be implemented particularly efficiently on new-build projects. The development and construction of new logistics properties has always been a core competency of VIB Vermögen AG and, in light of rising property prices, one that we have invested in even more heavily in recent years. Even when selecting the site, we consider important factors such as emission control and soundproofing, optimum use of the infrastructure and the creation of any necessary compensation areas.

During the construction phase, we are able to implement a series of measures that meet high environmental standards while still being cost-effective. Against a background of increasing electricity prices, for instance, it is becoming ever more important to minimise energy consumption, which is why our construction projects generally exceed all requirements of the German Energy Saving Ordinance (Energieeinsparverordnung). At the same time, we employ recyclable materials and renewable resources to the extent permitted by building regulations.

We also prefer the use of state-of-the-art and sustainable building technologies such as:

- Efficient insulation systems and heat pump-based air conditioning (heating in winter, cooling in summer)
- Cutting-edge lighting systems and solar installations for electricity generation
- Rainwater harvesting, roof lights to enable the use of daylight
- Charging stations for electric vehicles

Together, all these measures ensure high standards in terms of environmental sustainability and CO_2 emissions, deliver environmental benefits for our tenants and, last but not least, offer us – as the property owner – excellent alternative usability.

In the past three years alone, VIB has invested some EUR 60 million in the development of three cutting-edge logistics facilities. Two further properties, with an investment volume of some EUR 20 million, are currently under construction and scheduled for completion in mid 2018. Our pipeline includes further reserved plots with an anticipated rentable area of approximately 200,000 sqm, with pre-construction measures already having been carried out in some cases. Here too, it is intended to successively develop a series of properties focused on Logistics/Light Industry over the next few years.

We ourselves set a good example when it comes to sustainability. In March 2017, we moved into our new company head office, which raises the bar in terms of environmental sustainability. 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.

INTERPARK – EINSTEINSTRASSE
Completed in 2015, **Rental area** 55,000 sqm

INTERPARK – JUNKERSRING
Completed in 2017, **Rental area** 7,000 sqm

INTERPARK– KOPERNIKUSSTRASSE
Completed in 2017, **Rental area** 21,000 sqm

VIB HEAD OFFICE IN NEUBURG/DANUBE,
Completed in 2017, **Rental area** 2,700 sqm

Environmental sustainability also plays a central role in the more than 100 properties in our portfolio, with maintenance, modernisation and redensification the watchwords in this regard. With these measures, we not only safeguard the value of the properties themselves, but also maintain the usability and attractiveness of the site for our tenants. Measures include the retrofitting 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.

Regardless of whether they are renting a newly developed or an existing property, our tenants are now keenly aware that economic and environmental aspects are inextricably linked. Whether high-performance heat pumps, high-quality building insulation or energy-efficient lighting systems – anyone who thinks carefully about the sustainability of properties today can transform current cost drivers, such as high energy costs, into the profitability factors of the future.

EXISTING LOGISTICS PROPERTY IN THE MUNICH METROPOLITAN REGION
Site area 66,000 sqm, **Rental area** 27,000 sqm, **Renovation of the roof lights and heating system** Investment volume of EUR 500,000; **Modernisation of the lighting technology and control system** Investment volume of EUR 300,000 – Reduction in annual electricity consumption from 1.4 million kWh to 0.3 million kWh results in considerable savings in overall energy consumption

EXISTING LOGISTICS FACILITY IN THE MUNICH METROPOLITAN REGION
Site area 25,000 sqm, **Rental area** 17,000 sqm, **comprehensive building and roof refurbishment, modernisation of the fire safety system, connection to the district heating grid, etc.:** investment volume EUR 5.0 million

Social sustainability

Within the scope of our business operations, we come into contact with a vast array of social groups. As part of the shared interaction, the focus is not only on economic and environmental issues, but also on social considerations. Our business relations, which are geared towards the long term, are always characterised by mutually responsible and fair dealings.

For us, applicable legislation (particularly company and capital market law), the company's articles of incorporation and the rules of procedure of the Supervisory and Managing Boards form the foundation in terms of devising and practising good and sustainable corporate governance. In addition, there are a raft of internal guidelines and processes that apply across the VIB Group and that require each and every employee to conduct themselves in a legally and ethically upstanding fashion. These include rules on business relations, non-compete covenants and rules on conflicts of interest, rules on the acceptance of gifts and rules on data protection/ information technology.

We also take the view, however, that good corporate governance includes the application of principles that go above and 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 and challenges, is the cornerstone of sustainable company success. This requires a high degree of personal initiative and expertise, as well as a willingness to embrace change, on the part of our employees. Our executives treat their employees with great respect and courtesy 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.

CONCLUSION

Ever since VIB Vermögen AG was founded almost 25 years ago, sustainability has been a core component of the company's day-to-day operations and its values. Our aim is not only to generate added value for our shareholders and tenants; indeed, we are also committed to the general public, our business partners and, last but not least, our employees in everything we do.

For us, responsible and transparent corporate governance is essential for the long-term success of our company. Sustainability aspects are not only taken into consideration in dealings with our stakeholders, but are also at the heart of our growth strategy. Sustainable and profitable growth, on the basis of environmental and social aspects, will continue to shape our actions in the years to come.

99.2%
Letting Rate
HIGHEST LEVEL IN COMPANY HISTORY

↗ EUR **47.1** Million
adjusted EBT
74% INCREASE IN THE PAST 5 YEARS

EUR **1.49**
FFO per share
39% INCREASE IN THE PAST 5 YEARS

EUR **0.60***
DIVIDEND
NINTH INCREASE IN A ROW

* Management proposal

GROUP MANAGEMENT REPORT

Detailed Index

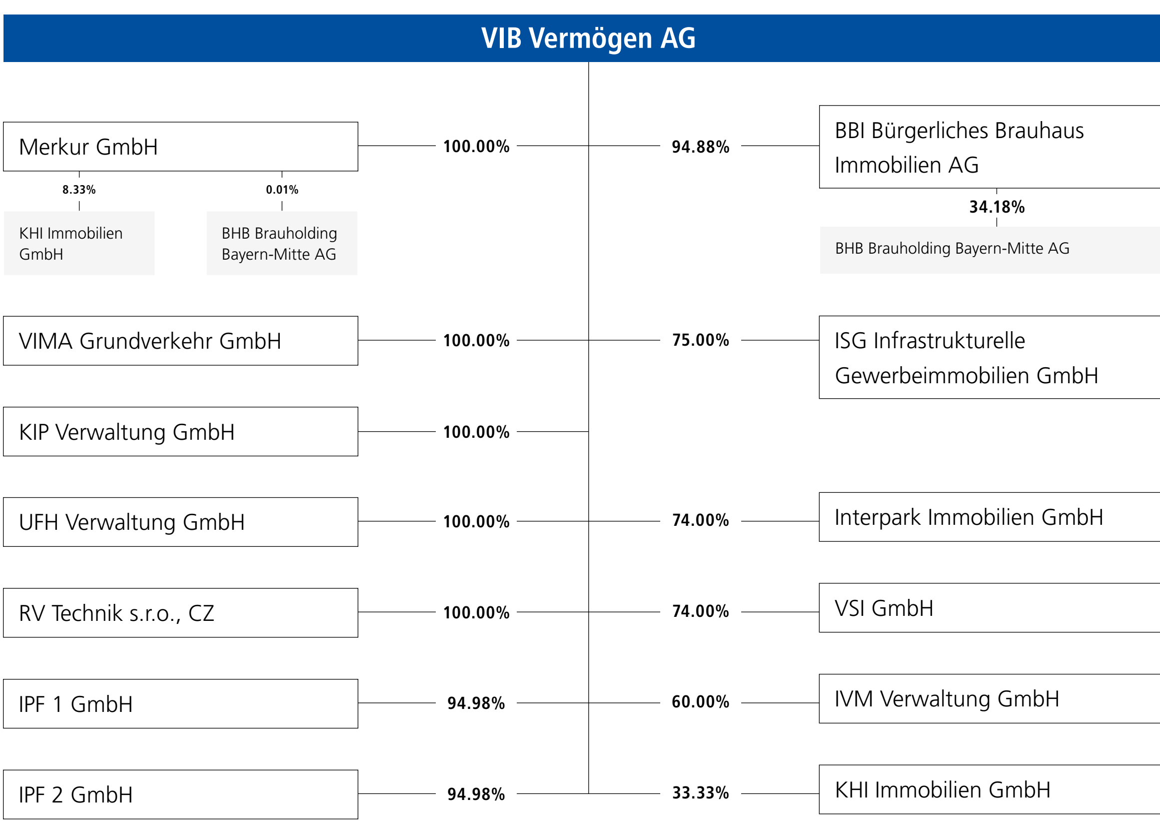
BASIS OF THE GROUP

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 public stock corporation specialising in commercial real estate management that has now been operating successfully for more than 20 years. We focus on logistics/light industry 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, 2017, our portfolio comprised a total of 105 attractive logistics and light industry properties and specialist retail centres, as well as commercial and service centres, with a total rentable area of approximately 1.1 million sqm. Another part of our strategy is that our properties are managed by our own employees, meaning that we always maintain close ties to our tenants. We are assisted with these administrative activities by our wholly owned subsidiary Merkur GmbH.

SUMMARY OF PARTICIPATING INTERESTS AS OF DECEMBER 31, 2017



VIB Vermögen acquired a majority interest in BBI Immobilien AG in 2007. The interest it held as of December 31, 2017, remained unchanged at 94.9% of the share capital of BBI Immobilien AG. Via BBI Immobilien AG, VIB Vermögen AG indirectly holds 34.2% of the shares of 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 outside 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

As a company listed in the open market, 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 property portfolio by means of targeted in-house developments and acquisitions in the high-growth regional centres of southern Germany. Our focus in this regard is on the strong economic sectors of 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 who therefore make a substantial contribution to the value retention of our real estate portfolio. We also invest in industrial and office properties in order to ensure broad asset diversification.

Whether developing new properties or acquiring existing ones, we also harness the network of regional and nationwide partners that we have built up over more than two decades. Selecting the optimum location of a property plays a particularly vital role for us in this regard, irrespective of whether we are acquiring the property or developing it ourselves. A key element of our development strategy is that our construction projects usually only begin once we have secured reliable rental commitments for a significant portion of the property concerned. This approach minimises our project and financing risks and enables speedy and needs-driven completion of construction projects in the interests of customers.

SUSTAINABLE FINANCING

Financing is pivotal to any real estate project. Thanks to our close ties to the financial and capital markets, we are always able to strike just the right balance between equity and debt financing. On the debt financing side, we focus primarily on annuity loans and therefore pursue a sustainable and long-term financing approach. We therefore not only benefit from the continued low interest rates in the long term, but also continually increase the net asset value (NAV) of our portfolio by repaying these loans on an ongoing basis. On the equity side, we use the entire spectrum of available capital measures as required, such as the issuance of mandatory convertible bonds and the carrying out of traditional capital increases.

IN-HOUSE PORTFOLIO MANAGEMENT

When it comes to facilities management, we deliberately eschew the services of external providers and rely instead on efficient 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

Profitable growth is the primary aim of our business model. On this basis, we aim to achieve a continuous increase in the value of the company and, with a view to our stakeholders, safeguard its long-term future. The economic planning and steering of the company is the responsibility of the Managing Board. The underlying conditions are defined in relation to the business strategy and formulated as concrete targets within the scope of annual budget planning. These targets are reviewed on a regular basis using the key performance indicators. If any deviations are identified, the planning requirements are reviewed and, if necessary, modified; specific countermeasures are also instigated.

VIB focuses on the significant financial performance indicators of revenue, adjusted EBT (earnings before tax) and FFO (funds from operations).

Revenue is the primary indicator in terms of measuring company growth. This indicator includes income from let properties and comprises net basic rents and ancillary operating costs paid by tenants. Adjusted EBT is the most important performance indicator in terms of measuring the company's earnings position. It is calculated by deducting interest, depreciation and amortisation from EBITDA. It is adjusted for one-off factors to improve comparability of earnings between reporting periods. For us, FFO is the most important indicator in terms of the operational development of our property portfolio and can be derived from EBIT (earnings before interest and tax). The calculations do not consider potential property-related valuation effects, non-cash expenses and income and other extraordinary effects.

The most important non-financial indicators of VIB are the vacancy rate, the average interest rate on borrowing liabilities and employee satisfaction.

The vacancy rate indicates the share of our commercial space that is not let as of the cut-off date and that is therefore not generating any rental income. The vacancy rate is calculated on the basis of the annualised net rents that our properties are capable of generating.

The average interest rate on our portfolio of loan borrowings is an important indicator in terms of our long-term and sustainable financing strategy. Alongside the sum total of loan borrowings, the average interest rate has a particularly significant influence on the total amount of interest expenses. At the same time, these constitute the largest expense item on our income statement.

Our employees are one of the crucial success factors of our business model and make a significant contribution to our positive course of business on account of their day-to-day hard work. In order to ensure and enhance the satisfaction of our workforce, we provide an attractive working environment and attach considerable importance to needs-oriented training and development.

KEY PERFORMANCE INDICATORS AT A GLANCE

KPI	Description	**2017**	2016
Financial performance indicators			
Revenue	Revenue as per income statement	EUR 83.6 million	EUR 79.5 million
EBT	Earnings before tax (excluding valuation effects and extraordinary items)	EUR 47.1 million	EUR 40.8 million
FFO	Funds from operations (cash inflow from operating activities)	EUR 41.2 million	EUR 35.8 million
Non-financial performance indicators		**Value as of 31/12/2017**	Value as of 31/12/2016
Vacancy rate	Based on annualised net rent	0.8%	1.3%
Average interest rate on borrowing portfolio	Fixed- and variable-interest borrowings	2.55%	3.11%

4. EMPLOYEES

As of the end of the 2017 fiscal year, the VIB Group employed 33 commercial staff in addition to the two members of the Managing Board (31/12/2016: 31 staff). In addition, 5 industrial staff (31/12/2016: 5 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 fiscal year under review, the Managing Board comprised 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 always 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. Sustainability and continuity are not only the defining characteristics 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

The economic situation has improved in many parts of the world. Whereas the global economy recorded growth of 3.2% in the previous year, this figure rose to 3.6% in 2017. According to data published by the International Monetary Fund (IMF), industrial nations posted growth of 2.2%, whilst the growth in developing and emerging countries was significantly higher at 4.6%.

Economic growth in the eurozone, which was at its highest for ten years, was also pleasing. According to the EU Commission, gross domestic product (GDP) in the eurozone climbed by 2.2%, which is chiefly due to increases in consumer spending and investment. The fact that the deficits and debt levels of EU countries are gradually declining is having an increasingly positive impact. In the year under review, Spain was the only country whose budget deficit exceeded the three per cent limit set by the European Union.

The German economy also exhibited robust growth in 2017. According to figures published by the German Federal Statistical Office, gross domestic product (GDP) increased by 2.2% on the 2016 level – the sharpest rise for six years. Key factors underpinning this positive trend were – as in the previous year – consumer spending and investment. Whilst private consumer spending rose by 2.0% (primarily as a result of further falls in unemployment and the rising number of households), there was a slightly more moderate rise of 1.4% in government final consumption expenditure. Within overall investment, particularly strong growth was witnessed in construction investment (+2.6%) and investment in equipment (+3.5%), with the latter relating primarily to machinery, devices and vehicles. The high trade surplus also made a contribution to the positive growth of the German gross domestic product. Even though the surplus was down slightly on the previous year, Germany still has a surplus in excess of EUR 250 billion, putting it ahead of China as the country with the world's largest current account balance.

The inflation rate in Germany rose to its highest level in five years in 2017. On average, goods and services were 1.8% more expensive than in the previous year, with inflation still at 0.5% in 2016. The increase is mainly attributable to price rises for housing, energy and food. According to GfK, the purchasing power of the German population grew by 2.2% in 2017. A pleasing increase of 1.9% was also witnessed in the previous year.

SECTOR TRENDS

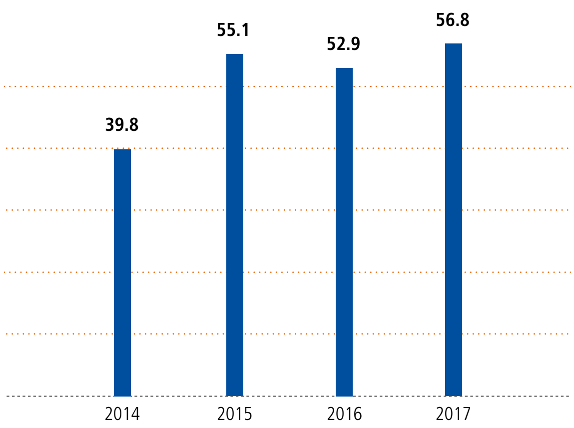
As a long-term property portfolio management company, VIB Vermögen AG focuses primarily on the logistics and retail segments. In Germany, both of these segments play a prominent role in the value chain and have been recording steady growth rates for years. Beaten only by the automotive industry and retail, logistics is the third largest sector of the German economy, employing some three million people. In 2017, revenue generated by the sector nationwide climbed by 1.9% to EUR 263 billion. As the second largest sector of the German economy, retail also plays a vital role. By virtue of falling unemployment figures, the positive consumer outlook and the moderate rise in wages, Germany once again witnessed a sharp increase in retail revenues in the year under review. On the back of the 3.2% rise in 2016, the sector once again posted a pleasing increase of 3.0% in 2017 to reach its current annual revenue of EUR 501 billion. Together, the two segments – logistics and retail – generated total revenues of EUR 764 billion in 2017 and therefore accounted for 23% of German gross domestic product (GDP).

In terms of the German commercial property market, the underlying conditions are highly conducive to further investment. According to Jones Lang LaSalle (JLL), one of Germany's leading real estate service providers, demand remains high, especially given that returns on property far outstrip those of government bonds. The key question for investors is: when will we see an increase in overall interest rates and what implications could this have for the property investment market? The announcement of the European Central Bank (ECB) to halve the volume of its government and corporate bond-buying programme may herald a first step towards a normalisation of monetary policy. JLL takes the view, however, that no real interest rate movement will be seen before mid to late 2019.

A new record was set in 2017 in respect of the transaction volume for commercial properties. The total volume of EUR 56.8 billion represents an increase of EUR 1.7 billion, or 3.1%, on the previous all-time high, which was set just two years ago. When compared to the 2016 figure, the rise comes in at EUR 3.9 billion, or 7.4%. As in previous years, foreign investors are playing an increasingly major role, now accounting for almost 50% of the investment volume. Foreign investors, for example, were the buyers in seven of the ten largest transactions in the year under review. In addition to traditionally well-represented countries of origin such as the United States and the United Kingdom, more and more buyers are coming from Asia.

TRANSACTION VOLUME OF COMMERCIAL PROPERTIES IN GERMANY

IN EURO BILLION

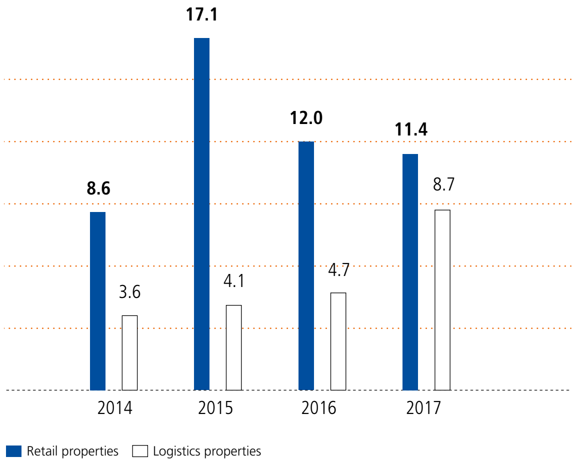


With 44% (or EUR 25.0 billion), office space remains the most popular asset class in Germany. This is followed in second place by retail property with a volume of EUR 11.4 billion, although its share fell from 24% to 20% year-on-year.

By contrast, the German market for logistics and industrial property once again enjoyed an exceptional year. With a transaction volume of EUR 8.7 billion, a sharp rise of 84% was recorded on the 2016 figure. When the 2017 figures are compared with the five-year average (EUR 3.3 billion), this equates to an increase of no less than 166%.

TRANSACTION VOLUMES OF THE LOGISTICS AND RETAIL SECTORS

IN EURO BILLION



2. BUSINESS TRENDS

TARGET/ACTUAL COMPARISON

	Guidance for 2017	Actual 2017 figures
Financial performance indicators		
Total operating revenue	EUR 81.5 million to EUR 85.5 million	EUR 83.9 million
EBIT excluding valuation effects and extraordinary items	EUR 61.5 million to EUR 64.5 million	EUR 64.4 million
EBT excluding valuation effects and extraordinary items	EUR 43.0 million to EUR 45.5 million	EUR 47.1 million
FFO (funds from operations)	EUR 37.0 million to EUR 39.5 million	EUR 41.2 million
Non-financial performance indicators	Guidance for 31/12/2017	Actual figures as of 31/12/2017
Vacancy rate	<5.0%	0.8%
Average interest rate on borrowing portfolio	2.50% to 2.80%	2.55%

VIB can once again look back on a highly successful fiscal year in which all targets set by the company were either attained or surpassed.

Total operating revenue of EUR 83.9 million lay in the middle of the EUR 81.5 million to EUR 85.5 million guidance that we set for ourselves. This figure was positively influenced by the rental income from the two Interpark properties completed in 2017, as well as from properties that only partially influenced annual revenue in 2016.

Earnings before interest and tax (EBIT), excluding valuation effects and extraordinary items, amounted to EUR 64.4 million in the reporting period, which is at the upper end of the guidance of EUR 61.5 million to EUR 64.5 million issued at the start of the year. This positive growth in earnings was chiefly boosted by expenses for investment properties, which increased less sharply than anticipated.

In terms of earnings before tax (EBT), excluding valuation effects and extraordinary items, the guidance of EUR 43.0 million to EUR 45.5 million was exceeded slightly at EUR 47.1 million. The main reason for this positive trend lay in lower interest expenses due to a further fall in the average borrowing rate, as well as lower loan liabilities compared to the previous year.

Alongside our financial targets, we also met or exceeded all our non-financial targets:

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, 2017. With a vacancy rate of 0.8%, we not only met our guidance but also improved on the already excellent figure of 1.3% as of December 31, 2016. This improvement was due, first and foremost, to our efficient and forward-looking portfolio management.

With a figure of 2.55%, the average interest rate on the portfolio of borrowings as of December 31, 2017, came within the anticipated range of 2.50% to 2.80%. 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 2017.

We once again continued to grow in 2017, investing a total of EUR 29.6 million in new properties and sites, as well as in the modernisation of our existing properties (previous year: EUR 77.0 million).

The first quarter of 2017 saw the completion and handover of a logistics property, located at Interpark Kösching, that was developed in-house. The useful area of the property comes to around 21,000 sqm, with an investment volume of EUR 15.3 million. At the start of the third quarter, a further property at Interpark was handed over to the tenant on schedule. This is a logistics facility that was completed with an investment volume of EUR 9.2 million and that boasts a useful area of 6,800 sqm. Long-term rental agreements have been signed with the tenants in each case – and the net initial yields of both properties are approximately 8%.

Within the context of proactive portfolio management, we also disposed of two existing properties in the year under review – a logistics facility with mixed commercial use and a retail property. Together, the two properties had a total useful area of 13,700 sqm. By virtue of the current high market prices, the sale proceeds came in at approx. EUR 10 million.

Another component of our investment strategy involves redensification projects on unused land around existing properties, some of which have been in our portfolio for many years. As there is no need to acquire new land for construction projects of this kind, it is usually possible to generate particularly attractive returns. A new property of this kind was completed at Grundig business park in Nuremberg at the end of the year, with ten-year rental agreements already in place at the start of the construction phase. The new property boasts commercial and office space totalling 8,500 sqm and was completed for EUR 6.7 million.

As of December 31, 2017, the property portfolio of the VIB Group comprised a total of 105 properties (31/12/2016: 104 properties) with a total rentable area of 1.06 million sqm (31/12/2016: 1.04 million sqm). The portfolio's vacancy rate fell further to 0.8% (31/12/2016: 1.3%). Due to the increased size of our property portfolio, the annualised net rental income rose to EUR 73.6 million as of December 31, 2017 (31/12/2016: EUR 70.8 million). At the same time, the market value of the total portfolio increased to EUR 1,096.7 million as of the balance sheet date (31/12/2016: EUR 1,061.8 million). The average rental yield of all Group properties remained attractive at 7.09% (31/12/2016: 7.14%).

3. EARNINGS, ASSETS AND FINANCIAL POSITION

EARNINGS POSITION

SELECTED INDICATORS OF EARNINGS POSITION

IN EUR THOUSAND	2017	2016	Change
Revenue	83,550	79,549	+5.0%
Total operating revenue	83,894	79,899	+5.0%
EBIT	81,822	79,119	+3.4%
EBIT (excluding valuation effects and extraordinary items)	64,442	61,101	+5.5%
EBT	64,453	58,820	+9.6%
EBT (excluding valuation effects and extraordinary items)	47,073	40,802	+15.4%
Consolidated net income	53,938	49,403	+9.2%
Earnings per share in EUR (diluted and undiluted)	1.87	1.71	+9.4%

Revenue rose by 5.0% to EUR 83.6 million in the 2017 fiscal year (previous year: EUR 79.5 million). This was attributable to additional rental incomes from new investments in 2017 and properties purchased in the previous year that only generated rental incomes across an entire year for the first time in 2017. Alongside rental incomes, the item "Revenue" also includes operating costs paid by tenants. Other operating revenue came in at EUR 0.3 million (previous year: EUR 0.4 million). This item chiefly includes revenue from insurance payouts and other compensation payments. Total operating revenue, which comprises revenue and other operating revenue, rose by 5.0% to EUR 83.9 million (previous year: EUR 79.9 million).

The market valuation of our properties and sites as of December 31, 2017, led to changes in value for investment properties of EUR 17.4 million (previous year: EUR 18.0 million). This item includes both increases and reductions to the values of our properties and sites. Net value increases came to EUR 21.0 million (previous year: EUR 20.4 million), whereas net value reductions came to EUR 3.7 million (previous year: EUR 2.4 million).

Expenses for investment properties amounted to EUR 13.8 million (previous year: EUR 13.3 million). This rise was chiefly attributable to higher advance payments for ancillary costs as a result of the increased size of the property portfolio. Personnel expenses declined by EUR 0.2 million to EUR 3.6 million in the year under review (previous year: EUR 3.8 million), whereas other operating expenses came in at EUR 1.8 million (previous year: EUR 1.6 million). We partly 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.

Depreciation and amortisation rose by EUR 0.2 million year-on-year to EUR 0.3 million (previous year. EUR 0.1 million). The reason for the rise is scheduled depreciation on the owner-occupied administration building of VIB Vermögen AG that was completed in 2017. After deducting depreciation, we achieved earnings before interest and tax (EBIT) of EUR 81.8 million in the year under review (previous year: EUR 79.1 million). When adjusted for property-related valuation effects, EBIT improved by 5.5% to EUR 64.4 million (previous year: EUR 61.1 million).

Equity-accounted investments, primarily the interest in BHB Brauholding AG, generated earnings of EUR 0.2 million in 2017 (previous year: EUR 0.2 million). In 2017, we posted interest income of around EUR 0.02 million (previous year: EUR 0.05 million). Due to the low level of overall liabilities and more favourable financing conditions, the item "Interest and similar expenses" fell sharply by EUR 3.0 million, or 14.8%, to EUR 17.4 million (previous year: EUR 20.4 million). The expenses from the guaranteed dividend paid to the shareholders of BBI AG remained on a par with the previous year at EUR 0.2 million.

Our earnings before tax (EBT) improved by 9.6% in the year under review to EUR 64.5 million (previous year: EUR 58.8 million). When adjusted for valuation effects and extraordinary items, EBT came in at EUR 47.1 million, which represents a significant year-on-year rise of 15.4%, or EUR 6.3 million (previous year: EUR 40.8 million). This strong result once again emphasises the excellent operating performance of the entire VIB Group.

Income taxes came in at EUR 10.5 million (previous year: EUR 9.4 million). EUR 4.4 million thereof was attributable to current taxes (previous year: EUR 3.4 million) and EUR 6.1 million thereof was attributable to deferred taxes (previous year: EUR 6.0 million). The income tax rate was 16.3% (previous year: 16.0%).

Consolidated net income improved to EUR 53.9 million and was therefore 9.2% up on the previous year (previous year: EUR 49.4 million). The undiluted and diluted earnings per share both stood at EUR 1.87 (previous year: EUR 1.71).

NET ASSETS

SELECTED INDICATORS OF NET ASSETS

IN EUR THOUSAND	**31/12/2017**	31/12/2016	Change
Total assets	1,153,741	1,116,768	+3.3%
Investment properties	1,096,724	1,061,773	+3.3%
Net debt (current and non-current financial liabilities less bank balances)	570,452	574,917	–0.8%
Equity	483,355	443,527	+9.0%
Equity ratio	41.9%	39.7%	—

The total assets of the VIB Group amounted to EUR 1,153.7 million as of December 31, 2017 (31/12/2016: EUR 1,116.8 million). The increase was due to growth in non-current assets, which rose from EUR 1,073.5 million to EUR 1,110.3 million. Within this item, investment properties – i.e. properties, land and properties under construction – constituted the largest asset category at EUR 1,096.7 million (31/12/2016: EUR 1,061.8 million). Interests in associated companies climbed by EUR 0.6 million to EUR 5.3 million (31/12/2016: EUR 4.7 million).

Current assets stood at EUR 43.4 million as of December 31, 2017 (31/12/2016: EUR 43.3 million). Bank balances and cash in hand comprised the most significant item in this context, despite falling from EUR 39.1 million to EUR 38.0 million.

As a result of the increase in net retained profits, equity climbed to EUR 483.4 million as of December 31, 2017 (31/12/2016: EUR 443.5 million). As of the balance sheet date, the equity ratio stood at 41.9% (31/12/2016: 39.7%).

Subscribed share capital and the share premium account remained unchanged on the previous year at EUR 27.6 million and EUR 191.2 million respectively. As part of the preparation of the annual financial statements (separate financial statements prepared according to the German Commercial Code [HGB]), EUR 5.8 million was added to retained earnings, causing this item to rise to EUR 66.1 million as of December 31, 2017 (31/12/2016: EUR 60.3 million).

Net retained profits increased by 20.3% to EUR 181.2 million as at the balance sheet date (31/12/2016: EUR 150.6 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 2017 of EUR 51.6 million (previous year: EUR 47.2 million) and, on the other hand, the dividend distribution to our shareholders of EUR 15.2 million (previous year: EUR 13.4 million). The balance sheet item "Non-controlling interests" increased from EUR 19.7 million to EUR 21.3 million.

Non-current liabilities stood at EUR 640.1 million as of December 31, 2017 (31/12/2016: EUR 620.7 million). The largest item was non-current financial liabilities, which climbed by EUR 14.9 million to EUR 587.3 million (31/12/2016: EUR 572.4 million).

Deferred tax liabilities result primarily from differing valuations between the IFRS and tax values of properties and rose to EUR 45.7 million as of the balance sheet date (31/12/2016: EUR 39.3 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 decreased from EUR 52.6 million to EUR 30.3 million. This is chiefly due to a decline in current financial liabilities and bank loans, which fell from EUR 41.6 million to EUR 21.1 million. Other liabilities decreased by EUR 1.6 million to EUR 7.4 million (31/12/2016: EUR 9.0 million) and mainly relate to trade payables.

Our solid financial position enabled us to once again fund a large portion of our investments through equity in 2017. Furthermore, we took out new loans in the year under review and repaid loans as planned when they became due. Not least due to the ongoing repayment of our annuity loans, the company's net asset value (NAV) rose significantly to EUR 512.5 million as of the balance sheet date (31/12/2016: EUR 470.1 million).

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

IN EUR THOUSAND	**31/12/2017**	31/12/2016
Investment properties	1,096,724	1,061,773
Other assets	8,298	6,976
Interests in associated companies	5,276	4,701
Assets held for sale	0	0
+/– other assets/equity and liabilities (including minority interests)	–27,299	–28,416
Net financial liabilities	–570,452	–574,917
Share premium from mandatory convertible bond	0	0
NAV/net assets (undiluted)	**512,547**	**470,117**
Number of shares (reporting date)	27,579,779	27,579,779
NAV per share in EUR (undiluted)	**18.58**	**17.05**

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

IN EUR THOUSAND	**31/12/2017**	31/12/2016
NAV/net assets (undiluted)	512,547	470,117
Effects from equity instruments (mandatory convertible bonds)	0	0
NAV/net assets (diluted)	**512,547**	**470,117**
Number of shares (balance sheet date)	27,579,779	27,579,779
Potential ordinary shares from:		
– Equity instruments (mandatory convertible bonds)	0	0
Number of shares (diluted)	27,579,779	27,579,779
NAV per share in EUR (diluted)	**18.58**	**17.05**

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. 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	**2017**	2016	Change
Cash flow from operating activities	59,416	58,162	+1,254
Cash flow from investment activities	–21,748	–82,270	+60,522
Cash flow from financing activities	–38,806	30,114	–68,920
Cash and cash equivalents at end of period	37,979	39,117	–1,138

Cash flow from operating activities came in at EUR 59.4 million in the year under review (previous year: EUR 58.2 million).

FFO (funds from operations) – i.e. cash inflow from operating activities – rose from EUR 35.8 million to EUR 41.2 million in the year under review.

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

IN EUR THOUSAND	**2017**	2016
Earnings before interest and tax (EBIT)	**81,822**	**79,119**
adjusted for:		
Income/expenses (non-cash effective)	–43	25
Depreciation and amortisation	271	0
Changes in value for investment properties	–17,380	–18,018
	64,670	**61,126**
Interest and similar expenses	–17,378	–20,391
Other interest and similar income	23	48
Profit/loss on equity-accounted investments	152	210
Expenses from guaranteed dividends	–166	–166
	47,301	**40,827**
Effective tax expense	–4,419	–3,411
	42,882	**37,416**
Minority interest (adjusted for valuation gains/losses)	–1,688	–1,649
FFO in absolute terms	**41,194**	**35,767**
Average number of shares in fiscal year	27,579,779	27,579,779
FFO per share	**1.49€**	**1.30€**
Share price on the respective closing date	21.20€	19.67€
FFO yield on the respective closing date	**7.03%**	**6.61%**

Cash outflow from investment activities amounted to EUR 21.7 million in the period under review, compared with EUR 82.3 million in the prior-year period. The main reasons for the fall are smaller outgoing payments for investments in investment properties, as well as the cash inflow associated with the sale of two portfolio properties during the reporting period.

A cash outflow from financing activities of EUR 38.8 million was recorded (previous year: cash inflow of EUR 30.1 million). Whereas a cash inflow was witnessed in 2016 due to the taking out of bank loans of EUR 88.0 million, this figure was much lower in 2017 at EUR 39.5 million. Furthermore, the repayment of financial liabilities in 2017 came in at EUR 45.1 million, which was significantly higher than the previous year's level of EUR 23.7 million. Interest payments totalling EUR 17.4 million were made in connection with financial loans in 2017 (previous year: EUR 20.4 million).

In total, cash and cash equivalents decreased by EUR 1.1 million to EUR 38.0 million as of December 31, 2017.

4. OVERALL STATEMENT ON THE COMPANY'S BUSINESS POSITION

Our earnings, assets and financial position have continued to develop strongly in 2017 in a stable macroeconomic environment. Not only did we increase revenue and earnings, but we also met or exceeded all projections published at the start of 2017. 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.

All key procedures and processes are carried out by people with appropriate professional qualifications. In order to identify and avert possible errors and deviations, the dual-control principle is applied to all key procedures and processes. This principle states that no single individual can be responsible for an important procedure or process.

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.

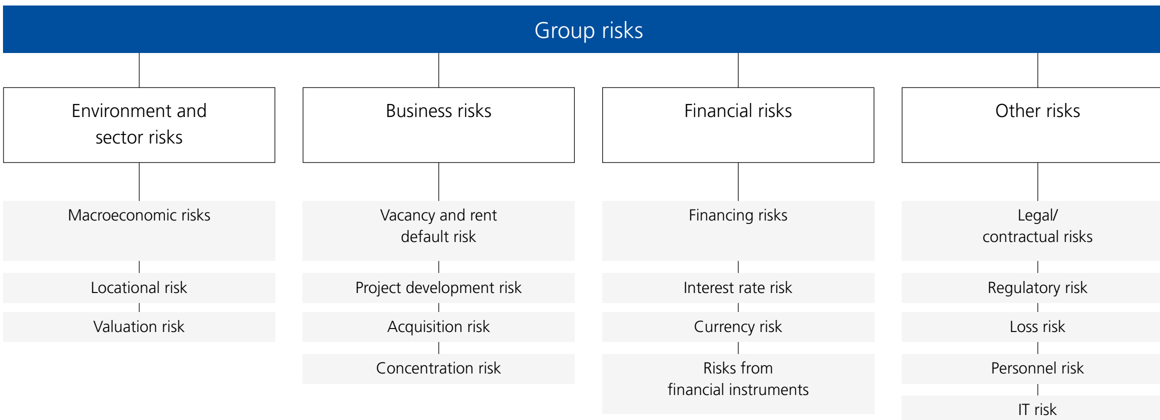
BASIC PRINCIPLES OF RISK MANAGEMENT

Our risk policy supports the objective of enhancing long-term company value through sustainable growth. 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, as well as reporting to the Managing and Supervisory Boards.

Risk reporting 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.

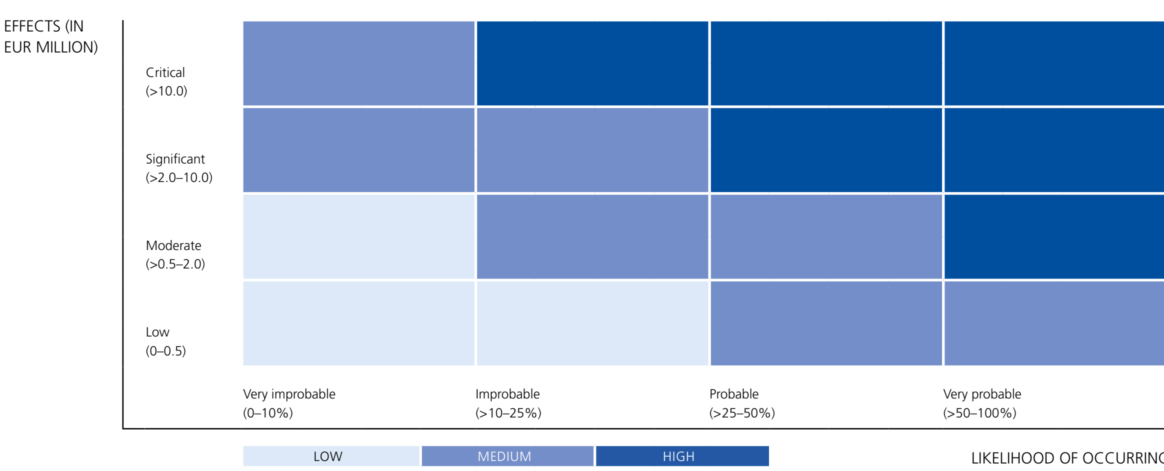
We classify potential risks into four categories that are also applied Group-wide at all subsidiaries.



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 harmful event 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 harmful 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 within the VIB Group are quantified only if this is also deemed appropriate for internal risk management. On this basis, suitable measures to manage or avert 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 an increased vacancy risk.

However, this risk affects only a small proportion of the company's rental income since the portfolio properties mostly have long-term leases. 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. A macroeconomic risk, however, is mitigated by the focus of VIB on the economically strong southern German region, as well as by sector diversification.

For 2018, we anticipate no significant changes to the underlying macroeconomic conditions in Germany. For this reason, we are of the view that macroeconomic risks are to be categorised as low, as in the previous year.

LOCATION RISK

The location quality of our properties 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, the potential available workforce, etc. Any deterioration in these factors could have negative implications on the value of the properties and the rental incomes they can generate. VIB counteracts any location risks by performing comprehensive due diligence ahead of any land purchase or property acquisition.

We gauge the risk of a general deterioration of the location quality of our properties 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 discounted cash flow (DCF) method. The extent to which the real estate portfolio retains its value depends on various factors, including returns on the property market, 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. We only see a limited risk in this regard, due to our sector diversification, our regional focus on the economically strong southern German region and our focus on development projects and property acquisitions in good locations.

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

BUSINESS RISKS

VACANCY AND RENTAL DEFAULT RISK

As a long-term portfolio manager, we are subject to a certain rental default and vacancy risk. Rental defaults are possible, 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.

Given the fact that we focus on tenants with excellent credit ratings and the fact that our employees maintain very close ties to our tenants, we only see a low risk here. 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 let them again quickly if rental agreements are terminated.

Taking into account the requisite countermeasures, we currently appraise any disproportionate 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 risks could arise in the event of planning permission being declined. Due to our close cooperation with the local agencies responsible, however, we regard these risks as manageable.

Furthermore, intended 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 always 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 for the VIB Group 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 us. 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.

VIB currently gauges 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 banks may pursue a more restrictive lending policy, meaning that companies only have access to insufficient capital or are unable to access capital at all. For VIB, this could mean planned projects not being completed or being delayed, which would make it impossible to rule out corresponding negative effects on revenue and earnings.

Due to the strong equity base of VIB and a relationship with financing banks based on mutual trust over many years, we continue to deem a financing 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, we mainly take 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, we also utilise loans with short-term interest agreements, such as those based on EURIBOR.

We expect no significant change in the interest rate level in Germany in 2018. We therefore currently appraise our interest rate risk as low, as in the previous year.

CURRENCY RISK

Loans and credit granted to, and interests in, foreign subsidiaries are always subject to the risk of currency fluctuations. No significant foreign currency items existed at VIB Vermögen AG as of December 31, 2017.

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

RISKS FROM FINANCIAL INSTRUMENTS

To safeguard favourable 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 (synthetic fixed-interest borrowings). Any potential interest rate changes – and the corresponding changes in the value of the swaps – have no impact on the company's income statement as long as the hedge is classed 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 could 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

As a public stock corporation, VIB Vermögen AG is subject to a raft of laws and regulations in Germany, such as the German Stock Corporation Act (Aktiengesetz), the German Securities Trading Act (Wertpapierhandelsgesetz) and the German Commercial Code (Handelsgesetzbuch). Over the past few years, more and more measures have been taken at European Union level in order to improve investor protection and the regulation and supervision of the financial sector, including measures taken in light of the economic and financial crisis in 2008.

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 its subsidiary BBI Immobilien AG, which is listed on the regulated market in Munich, VIB already boasts in-depth knowledge of the capital market, especially in relation to the comprehensive regulations set out in the German Securities Trading Act (Wertpapierhandelsgesetz).

We also deal with many other capital market regulations and regulatory issues, such as the AIFM (Alternative Investment Fund Manager) Directive and MIFID II (Markets in Financial Instruments Directive), which came into force on January 3, 2018. All key issues are analysed and evaluated on a regular basis by the Managing Board and specialist departments, with appropriate measures to avert and reduce potential risks instigated where necessary. We also draw on the services of external specialists as required, who advise us on all relevant legal and regulatory issues.

We currently appraise a regulatory risk as low, as in the previous year.

RISK OF DAMAGE

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

We counter these risks through extensive insurance coverage. All-risks insurance polices have generally been taken out in respect of all properties held by VIB. Alongside classic provisions such as protection against fire, storm and tap water damage, these policies also cover natural hazards such as flooding. 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.

On May 15, 2017, a retail property owned by BBI AG, a subsidiary of VIB Vermögen AG, was completely destroyed by fire. Comprehensive insurance cover – with a sufficiently high coverage amount – is in place for the property concerned. Until the property is completely rebuilt, BBI will receive payments in lieu of rent from the insurer (for a maximum period of 36 months), meaning that no loss of earnings is expected, either for BBI Immobilien AG or for VIB Vermögen AG. Speedy reconstruction of the property is planned in conjunction with the tenant.

By reviewing the coverage amounts of the entire portfolio on a regular basis, including with the help of an external insurance appraiser, any potential risk of underinsurance is kept to a minimum at VIB.

VIB appraises potential 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 potentially 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 personnel risk is regarded as low, as in 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 risks are currently identifiable that could jeopardise the future of the company as a going concern.

OPPORTUNITIES REPORT

Alongside efficient risk management, sustainable business success also depends on our ability to identify opportunities at an early stage and harness them in a targeted manner. In this regard, 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 2018.

OPPORTUNITIES TO DEVELOP AND AQUIRE 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. The company will be able to continue utilising 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 earnings.

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

Sector focus: We are focusing our investments to an increasing extent on the growth sectors of logistics and retail. We aim to continue to exploit our extensive experience in 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, will – in our view – once again provide an opportunity to take out new loans, and renew existing ones, on attractive terms in the current fiscal year. Even though interest rates are rising slightly in the United States, and the ECB's programme of buying government and corporate bonds is set to expire, no significant rise in interest rates is anticipated in the short to medium term. With this in mind, we expect that the average interest rate on our borrowing liabilities will come down further in the 2018 fiscal year.

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 in the long-term trend has not only outperformed the major indices of the DAX and SDAX, but – in the same period – has also left EPRA 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. The market capitalisation of VIB Vermögen AG amounted to EUR 585 million on the balance sheet date of December 31, 2017 (based on the Xetra closing price as of 30/12/2017), reflecting an increase of around 8% compared with the previous year's reporting date. Assuming that the capital market environment remains stable and that the company continues along its successful growth path, we see an opportunity for VIB, as a successful real estate company, to further consolidate its position on the stock 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 due to 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 growth potential in terms of revenue and earnings by developing and acquiring attractive properties, as well as through the continuing favourable interest rate climate.

OUTLOOK

UNDERLYING ECONOMIC AND SECTOR-SPECIFIC CONDITIONS FOR 2018

According to projections issued by the International Monetary Fund (IMF), the global economy will continue to grow at a modest rate. Global economic output is projected to increase by 3.7% in 2018, which is more or less on a par with the rise witnessed in the year under review. The outlook is also positive for the eurozone. By virtue of the stable underlying conditions, the EU Commission foresees solid economic growth of 2.1% for the coming year.

Leading economic research institutes also take the view that the positive economic trend will continue in Germany. Key factors in this regard are the sustained high level of domestic demand, rising investments and strong demand for German exports. Growth of 2.5% in gross domestic product is expected in the current year. For 2019 and 2020, experts predict slower growth of 1.7% and 1.5% respectively. Limiting factors may be the increasingly high utilisation of production capacity and the shortage of labour.

Following another successful year on the financial markets – with numerous record highs on the stock exchanges – the policy pursued by central banks will once again play a crucial role in the year ahead. That's because the global surge in stock markets witnessed in recent years has, in part, been driven by the ultra loose monetary policy adopted by central banks. With the slight rise in interest rates in the United States and the expiry of the ECB programme to buy government and corporate bonds, a change in interest rate policy now seems to have been initiated. It may be several years, however, before we actually see a noticeable rise in interest rates. Therefore, many financial market experts assume that the share price-boosting effect associated with low interest rates may persist for a while to come. In line with this theory, the financial sector once again expects rising share prices in 2018, albeit to a lesser extent and with greater volatility than in previous years.

Thanks to the strong economic environment and low interest rates, positive conditions have prevailed for many years on the German commercial property market. According to property service provider Jones Lang LaSalle (JLL), demand for commercial properties will remain high, not least due to the still significant edge in returns on property compared with alternative investments such as government bonds. Thanks to the strong underlying conditions, the transaction volume for commercial properties may reach EUR 55 – 60 billion in 2018, a similarly high level to the one witnessed in 2017.

EXPECTED TRENDS AND GROWTH FOR THE VIB GROUP IN 2018

In our twelve-month planning for the current fiscal year, we continue to work on the basis of stable economic and sector-specific underlying conditions. In our focus sector of logistics, in particular, we see a strong market environment that is able to facilitate further growth by means of profitable in-house developments and targeted acquisitions. We will also continue to invest in redensification projects, thus optimising the efficiency of our existing portfolio as a whole.

The corporate planning on which our guidance is based assumes positive revenue growth on the basis of existing properties, as well as development projects that are already under way at Interpark and in Vaihingen/Enz and that will be completed by the end of the year, thus generating additional rental income. Furthermore, this guidance does not include any further development projects and property acquisitions/disposals. Based on these assumptions, the Managing Board anticipates revenue of EUR 85.0 million to EUR 89.0 million for the 2018 fiscal year (2017: EUR 83.6 million).

Alongside sustainable revenue growth, we also continue to attach great importance to a competitive cost situation. On the one hand, this means efficient management of our portfolio by our own employees. On the other, we have a high quality standard in terms of our properties, which is why we invest in the modernisation and maintenance of our portfolio on an ongoing basis. What's more, we expect a further decline in interest expenses, given the favourable interest rate environment and taking into account the aforementioned assumptions about the development of our real estate portfolio. For 2018, we forecast EBT, excluding valuation effects and extraordinary items, of between EUR 48.0 million and EUR 50.5 million (2017: EUR 47.1 million). We also expect FFO to rise to between EUR 42.0 million and EUR 44.5 million in the current fiscal year (2017: EUR 41.2 million).

Excluding further development projects and property acquisitions, we expect the vacancy rate to be in the low single-digit percentage range in the current fiscal year (31/12/2017: 0.8%). By virtue of the favourable interest rate environment, we also expect a further moderate decline in the average interest rate on our loan borrowings (31/12/2017: 2.55%).

Our employees play a key role in the success of our business model. To enable us to carry on relying on a highly qualified and highly motivated workforce, we will once again ensure an attractive working environment, as well as needs-based training and professional development programmes, in the year ahead.

Our guidance for the current fiscal year aims to give as realistic a picture as possible of the anticipated course of business. The report on opportunities and risks contained within this Annual Report presents a separate account of all opportunities and risks extending above and beyond this corporate planning. A serious change to the macroeconomic conditions, the overall interest rates or the German commercial property market could affect our ability to meet our guidance.

Neuburg/Danube, April 12, 2018

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, 2017, TO DECEMBER 31, 2017

IN EUR THOUSAND	Note	**01/01/– 31/12/2017**	01/01/– 31/12/2016
Revenue	D.1	**83,550**	**79,549**
Other operating income	D.2	344	350
Total operating income		**83,894**	**79,899**
Changes in value for investment properties	D.3	17,380	18,018
Expenses for investment properties	D.4	–13,775	–13,292
Personnel expenses	D.5	–3,621	–3,797
Other operating expenses	D.6	–1,785	–1,647
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**82,093**	**79,181**
Depreciation and amortisation	D.7	–271	–62
Earnings before interest and tax (EBIT)		**81,822**	**79,119**
Profit/loss on equity accounted investments	D.8	152	210
Other interest and similar income	D.11	23	48
Interest and similar expenses	D.12	–17,378	–20,391
Expenses from guaranteed dividends	D.13	–166	–166
Earnings before tax (EBT)		**64,453**	**58,820**
Income taxes	D.14	–10,515	–9,417
Consolidated net income		**53,938**	**49,403**
Group shareholders' share of earnings		51,604	47,240
Non-controlling shareholders' share of earnings	D.16	2,334	2,163
EARNINGS PER ORDINARY SHARE (IN EUR)			
Profit/loss on continuing operations	D.17	1.87	1.71
Undiluted earnings per share		**1.87**	**1.71**
DILUTED EARNINGS PER SHARE (IN EUR)			
Profit/loss on continuing operations	D.17	1.87	1.71
Diluted earnings per share		**1.87**	**1.71**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

FOR THE PERIOD FROM JANUARY 1, 2017, TO DECEMBER 31, 2017

IN EUR THOUSAND	Note	**2017**	2016
Consolidated net income		**53,938**	**49,403**
Other income			
Other comprehensive income to be reclassified to the income statement in subsequent periods			
Foreign currency effects from the translation of independent subsidiaries		–53	–1
Income tax effect		0	0
		–53	**–1**
Cash flow hedges – value changes to effective hedges		2,170	1,513
Income tax effect	D.25	–316	–214
		1,854	**1,299**
Other comprehensive income to be reclassified to the income statement in subsequent periods		**1,801**	**1,298**
Other comprehensive income not to be reclassified to the income statement in subsequent periods			
Actuarial gains/losses Pension plans		1	–157
Income tax effect	D.25	0	26
		1	**–131**
Other comprehensive income not to be reclassified to the income statement in subsequent periods		**1**	**–131**
Other comprehensive income after tax		**1,802**	**1,167**
Total comprehensive income after tax		**55,740**	**50,570**
Total comprehensive income attributable to			
Group shareholders		53,356	48,374
Non-controlling shareholders		2,384	2,196

CONSOLIDATED BALANCE SHEET (IFRS)

AS OF DECEMBER 31, 2017

ASSETS

IN EUR THOUSAND	NOTE	**31/12/2017**	31/12/2016
Non-current assets			
Intangible assets	D.19	14	31
Property, plant and equipment	D.19	8,284	6,945
Investment properties	D.20	1,096,724	1,061,773
Interests in associated companies	D.21	5,276	4,701
Total non-current assets		**1,110,298**	**1,073,450**
Current assets			
Receivables and other assets	D.22	4,138	2,697
Income tax receivables	D.22	0	12
Bank balances and cash in hand	D.23	37,979	39,117
Prepayments and accrued income		1,326	1,492
Total current assets		**43,443**	**43,318**
Total assets		**1,153,741**	**1,116,768**

EQUITY AND LIABILITIES

IN EUR THOUSAND	NOTE	31/12/2017	31/12/2016
Equity	D. 25		
Subscribed share capital		27,580	27,580
Share premium account		191,218	191,218
Retained earnings		66,071	60,261
Net retained profits		181,208	150,582
		466,077	**429,641**
Cash flow hedges		–3,985	–5,789
Foreign currency translation		–58	–5
Non-controlling shareholders' share of earnings		21,321	19,680
Total equity		**483,355**	**443,527**
Non-current liabilities			
Financial liabilities	D.27	587,296	572,404
Derivative financial instruments	D.28	4,831	7,001
Deferred taxes	D.29	45,682	39,269
Pension provisions	D.30	2,288	2,009
Total non-current liabilities		**640,097**	**620,683**
Current liabilities			
Financial liabilities	D.31	21,135	41,630
Income tax liabilities	D.33	784	441
Liabilities to participating interests	D.34	827	1,281
Other liabilities	D.35	7,352	8,995
Accruals and deferred income		191	211
Total current liabilities		**30,289**	**52,558**
Total equity and liabilities		**1,153,741**	**1,116,768**

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

FOR THE PERIOD FROM JANUARY 1, 2017, TO DECEMBER 31, 2017

IN EUR THOUSAND	**01/01/–31/12/2017**	01/01/–31/12/2016
A. Cash flow from operating activities		
Net income for the year (after tax)	53,938	49,403
+/– Net interest result	17,355	20,343
+/– Income tax expense	10,515	9,417
+/– Depreciation/appreciation on fixed assets	271	62
+/– Increase/decrease in provisions	279	218
+/– Fair value changes to investment properties	–17,380	–18,018
+/– Earnings attributable to associated companies	–152	–210
+/– Income taxes paid	–4,064	–3,440
Cash flow from operating activities after tax (before interest expense)	**60,762**	**57,775**
+/– Other non-cash expenses/income	–10	–14
+/– Changes in inventories, receivables and other assets not attributable to investing activities	325	–1,044
+/– Change in liabilities not attributable to financing activities	–1,661	1,445
Cash flow from operating activities (before interest expense)	**59,416**	**58,162**
B. Cash flow from investing activities		
– Outgoing payments for investments in intangible fixed assets	0	–21
– Outgoing payments for investments in property, plant and equipment	–1,599	–6,035
– Outgoing payments for investments in investment properties	–29,652	–76,971
– Outgoing payments for investments in financial fixed assets	–941	–1,503
+ Proceeds from the disposal of fixed assets and investment properties	10,444	2,260
Cash flow from investing activities	**–21,748**	**–82,270**

IN EUR THOUSAND	**01/01/– 31/12/2017**	01/01/– 31/12/2016
C. Cash flow from financing activities		
+ Proceeds from the drawing down of borrowings	39,500	88,000
– Payments to company owners and non-controlling shareholders (dividends)	–15,912	–13,877
– Outgoing payments for the redemption of borrowings	–45,103	–23,730
+/– Payments received from non-controlling shareholders	0	0
+ Interest received	23	48
+ Dividends received	64	64
– Interest paid	–17,378	–20,391
Cash flow from financing activities	**–38,806**	**30,114**
D. Cash and cash equivalents at end of period		
Net change in cash and cash equivalents		
+/– Cash flow from operating activities	59,416	58,162
+/– Cash flow from investing activities	–21,748	–82,270
+/– Cash flow from financing activities	–38,806	30,114
Change in cash flow	**–1,138**	**6,006**
Cash and cash equivalents at start of period	39,117	33,111
Cash and cash equivalents at end of period	**37,979**	**39,117**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

FOR THE PERIOD FROM JANUARY 1, 2017, TO DECEMBER 31, 2017

IN EUR THOUSAND
Balance 01/01/2017
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 31/12/2017

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

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

Subscribed share capital	Share premium account	Retained earnings	Cash flow hedge reserve	Currency translation reserve	Net retained profits	Share attributable to non-controlling shareholders	**Consolidated equity**
27,580	**191,218**	**60,261**	**–5,789**	**–5**	**150,582**	**19,680**	**443,527**
0	0	0	0	0	51,604	2,334	53,938
0	0	0	1,804	–53	1	50	1,802
0	**0**	**0**	**1,804**	**–53**	**51,605**	**2,384**	**55,740**
0	0	0	0	0	0	0	0
0	0	5,810	0	0	–5,810	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	–15,169	–743	–15,912
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	**0**
27,580	**191,218**	**66,071**	**–3,985**	**–58**	**181,208**	**21,321**	**483,355**
26,308	**192,410**	**55,914**	**–7,052**	**–5**	**121,235**	**17,944**	**406,754**
0	0	0	0	0	47,240	2,163	49,403
0	0	0	1,263	0	–129	33	1,167
0	**0**	**0**	**1,263**	**0**	**47,111**	**2,196**	**50,570**
0	0	0	0	0	0	0	0
0	0	4,347	0	0	–4,347	0	0
1,272	–1,192	0	0	0	0	0	80
0	0	0	0	0	–13,417	–460	–13,877
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**	**443,527**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2017 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 Tilly-Park 1, 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 and tax liabilities 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, 2017. 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 VIB Vermögen AG, for the first time in the fiscal year under review. None of the changes have a significant effect on the consolidated financial statements of the company.

As part of its Disclosure Initiative, the IASB published amendments to IAS 7 Statement of Cash Flows in January 2016. The amendments require additional disclosures in the Notes concerning financial liabilities arising from financing activities, the aim being to improve information on changes in the company's liabilities. Please refer to the disclosures in Chapter D. 37, "Cash flow statement". As the new rules are to be applied prospectively, no comparative disclosures need to be made in the year of first-time application.

In January 2016, the IASB also published amendments to IAS 12 Income Taxes – Recognition of deferred tax assets for unrealised losses. The amendments provide clarity on the following points:

- If fixed-interest securities are measured at a fair value below the tax value due to a rise in the market interest rate, this results in a temporary difference;
- When estimating future taxable income, valuations of assets above their IFRS carrying amounts may be imputed if these valuations are probable;
- Assessments of the value of deferred tax assets should be based on the taxable income before the reversal of any deductible temporary differences. The only relevant taxable income is taxable income that can be offset against expenses/losses arising from the reversal of deductible temporary differences.

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. This does not result in any significant effects for the VIB Vermögen AG Group.

In December 2016, the IASB published individual amendments to the standards IFRS 1, IAS 28, IFRS 12 and IFRS 7 as part of the 2014–2016 cycle of the Annual Improvements to IFRS process. The amendments to IFRS 12 are to be applied for the first time for fiscal years commencing on or after January 1, 2017, whereas the amendments to the remaining standards are not applicable until fiscal years commencing on or after January 1, 2018. This does not result in any significant effects for the consolidated financial statements of VIB Vermögen AG.

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 2017 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. However, IFRS 9 does not currently replace the regulations on portfolio fair value hedges against interest rate risks. The part of the IFRS 9 project that originally dealt with this issue has been further pursued as a special project of the IASB agenda entitled “Macro Hedges”, as more time is needed.

The effects of applying IFRS 9 to the consolidated financial statements 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 (please refer to Chapter D. 43, “Categories of financial instruments”).

During the fiscal year, VIB AG analysed the effects that initial application of IFRS 9 will have on the company’s consolidated financial statements. First of all, the following areas of IFRS 9 were identified as being relevant to the company:

- Classification and measurement pursuant to IFRS 9
- The impairment model used in IFRS 9
- Hedge accounting

Taking into account its financial items as of December 31, 2017, the Group has determined that the classification and measurement regulations set out in IFRS 9 will not result in a significant initial application effect in respect of financial assets and liabilities. There are currently no financial assets that have previously been measured at amortised cost and that are now to be measured at fair value pursuant to IFRS 9.

The new expected-loss impairment model set out in IFRS 9 may lead to impairment being recognised earlier and being more volatile than in comparison with the incurred-loss model set out in IAS 39. The Group holds financial assets that are valued at amortised cost and that are subject to the expected-loss model of IFRS 9. The examination has shown that applying the IFRS 9 impairment model for financial assets at the time of initial application of IFRS 9 will not lead to any significant adjustments compared to the previous impairment model.

The Group applies IFRS 9 retrospectively (IAS 8), taking into account the special transitional regulations of IFRS 9. Pursuant hereto, the prior-year figures are not adjusted; instead, any effects are recognised in retained earnings as of January 1, 2018.

In terms of hedge accounting, the company will probably continue to apply the regulations of IAS 39, as it is permitted to do. The Group currently only uses interest rate swaps to hedge interest rate risks. In the view of VIB AG, the existing hedges also meet the hedge accounting requirements of IFRS 9. Even if IFRS 9 were to be applied prospectively from January 1, 2018, there would still be no effect arising from initial application of the regulations.

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 has conducted a review of the possible implications of applying IFRS 15 on its consolidated financial statements.

The Group generates revenues in the following key areas:

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

VIB AG takes the 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 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 Group plans 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, 2017, the Group has payment obligations of EUR 83 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 83 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 Sales or contributions of assets between an investor and its associate/joint venture (amendments to IFRS 10 and IAS 28). 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.

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 VIB Group did 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 the VIB Group.

Moreover, an amendment to IAS 40 Investment Property was published in December 2016. The amendment to IAS 40 serves to clarify the cases in which transfers can be made to or from investment property. Transfers are permissible pursuant to the amendment when there is evidence of change of use:

- As a consequence of the change of use, it must be demonstrated that the property meets or ceases to meet the criteria for classification as an investment property.
- The mere intention of the company to change the property's use is not enough to justify a transfer.
- The list of possible evidence in IAS 40.57 has been deemed non-exhaustive.

These amendments are to be applied for fiscal years commencing on or after January 1, 2018. No significant effects are currently anticipated for the Group.

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. This interpretation states that the tax treatment of certain circumstances and transactions may depend on future recognition by the tax authorities or fiscal courts. Whilst IAS 12 Income Taxes governs how current and deferred taxes are to be recognised, IFRIC 23 supplements the provisions of IAS 12 in terms of considering uncertainties in the income tax treatment of circumstances and transactions. These amendments are to be applied for fiscal years commencing on or after January 1, 2019. There is currently no review of potential effects on the VIB Group.

In October 2017, the IASB published Prepayment Features with Negative Compensation (Amendments to IFRS 9) in order to address concerns about how certain financial instruments with prepayment features are classified according to IFRS 9 Financial Instruments. In addition, the IASB clarifies an aspect of the accounting for financial liabilities following a modification. These amendments are to be applied for fiscal years commencing on or after January 1, 2019. There is currently no review of potential effects on the VIB Group.

In October 2017, the IASB also published Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). This clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments are to be applied for fiscal years commencing on or after January 1, 2019. There is currently no review of potential effects on the VIB Group.

In December 2017, the IASB published the amendments as part of the 2015–2017 cycle of the Annual Improvements to IFRS process that have arisen from the circumstances examined in this cycle. The amendments relate to the standards IFRS 3, IFRS 11, IAS 12 and IAS 23. These amendments are to be applied for fiscal years commencing on or after January 1, 2019. There is currently no review of potential effects on the VIB Group.

In February 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). If a plan amendment, curtailment or settlement occurs to a defined-benefit plan, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the current actuarial assumptions used for the required remeasurement of the net liability (asset). In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. These amendments are to be applied for fiscal years commencing on or after January 1, 2019. There is currently no review of potential effects on the VIB Group.

C. GROUP OF CONSOLIDATED COMPANIES AND ACCOUNTING POLICIES

The consolidated financial statements are prepared using the going concern principle.

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 prepared using 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 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 cannot 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.

An external surveyor is contracted 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, 2017, 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 0 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 TAX

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, INCLUDING 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:

- Business premises (own) 30 – 35 years
- Other property, plant and equipment 3 – 12 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, Freising). The valuation surveyor generally applied the discounted cash flow method to identify the fair 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 and categorised individually for each property (please refer to Chapter D. 20, "Investment 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 unable to reliably measure the fair value of investment properties under construction. As of December 31, 2017, 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/CGUs). The value-in-use is given by discounting the CGU'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. 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.

3. 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.

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 twelve 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. Each 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 twelve 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, ESTIMATION UNCERTAINTIES

Assumptions must be made when applying the accounting and valuation methods. The most important forward-looking assumptions and other key sources of estimation 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 2018 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). First-time application resulted in no significant effects on the consolidated financial statements of VIB Vermögen AG. The first-time application of the amendments to IAS 7 results in additional disclosures on financial liabilities in the Notes. Please refer to the disclosures in Chapter D. 37, "Cash flow statement". A presentation of prior-year figures is not required.

INFORMATION ABOUT SUBSIDIARIES

As of December 31, 2017, 12 (previous year: 12) companies were included in the consolidated financial statements of VIB Vermögen AG alongside the parent company.

Subsidiaries included in the consolidated financial statements as of December 31, 2017:

Headquarters	Headquarters	Voting rights and equity interest (in %)	
		31/12/17	31/12/16
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	100.00
UFH Verwaltung GmbH	Neuburg/Danube	100.00	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 is the management and letting of commercial real estate.

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-controlling interests (in EUR thousand)		Cumulative non-controlling interests (in EUR thousand)	
		31/12/17	31/12/16	**2017**	2016	**31/12/17**	31/12/16
BBI Bürgerliches Brauhaus Immobilien AG	Ingolstadt	5.12	5.12	404	344	5,501	5,048
Interpark Immobilien GmbH	Neuburg	26.0	26.0	626	704	5,777	5,541
ISG Infrastrukturelle Gewerbeimmobilien GmbH	Ingolstadt	25.0	25.0	513	463	4,635	4,297
Subsidiaries with individually immaterial non-controlling interests						5,408	4,794
Total sum of non-controlling interests						**21,321**	19,680

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	**31/12/17**	31/12/16
Non-current assets	206,134	204,803
Current assets	8,235	4,968
Non-current liabilities	104,528	107,856
Current liabilities	12,874	12,455
Interest in equity attributable to parent company shareholders	92,005	84,883
Non-controlling shareholders	4,963	4,578

IN EUR THOUSAND	**2017**	2016
Revenue	14,439	14,355
Other income	4,173	4,003
Expenses	–12,071	–12,953
Net profit for the year	**6,541**	**5,405**
Net profit for the year attributable to parent company shareholders	6,206	5,128
Net profit for the year attributable to non-controlling shareholders	335	277
Total net income for the year	**6,541**	**5,405**
Other comprehensive income attributable to parent company shareholders	918	612
Other comprehensive income attributable to non-controlling shareholders	49	33
Total other comprehensive income	**967**	**645**
Total comprehensive income attributable to parent company shareholders	7,124	5,740
Total comprehensive income attributable to parent company shareholders	384	310
Total income	**7,508**	**6,050**
Dividends paid to non-controlling shareholders	—	—
Net cash flows from operating activities	12,573	12,593
Net cash flows from investing activities	1,044	1,868
Net cash flows from financing activities	–12,105	–11,924
Total net cash flows	**1,512**	**2,537**

INTERPARK IMMOBILIEN GMBH

IN EUR THOUSAND	**31/12/17**	31/12/16
Non-current assets	46,151	45,687
Current assets	1,700	2,126
Non-current liabilities	24,639	25,396
Current liabilities	992	1,106
Interest in equity attributable to parent company shareholders	16,443	15,770
Non-controlling shareholders	5,777	5,541

IN EUR THOUSAND	**2017**	2016
Revenue	3,606	3,510
Other income	221	598
Expenses	–1,418	–1,400
Net profit for the year	**2,409**	**2,708**
Net profit for the year attributable to parent company shareholders	1,783	2,004
Net profit for the year attributable to non-controlling shareholders	626	704
Total net income for the year	**2,409**	**2,708**
Other comprehensive income attributable to parent company shareholders	—	—
Other comprehensive income attributable to parent company shareholders	—	—
Total other comprehensive income	**—**	**—**
Total comprehensive income attributable to parent company shareholders	1,783	2,004
Total comprehensive income attributable to non-controlling shareholders	626	704
Total income	**2,409**	**2,708**
Dividends paid to non-controlling shareholders	390	—
Net cash flows from operating activities	2,826	2,048
Net cash flows from investing activities	–251	–59
Net cash flows from financing activities	–2,927	12
Total net cash flows	**–352**	**2,001**

ISG INFRASTRUKTURELLE GEWERBEIMMOBILIEN GMBH

IN EUR THOUSAND	**31/12/17**	31/12/16
Non-current assets	36,469	35,939
Current assets	374	434
Non-current liabilities	17,151	18,069
Current liabilities	1,177	1,142
Interest in equity attributable to parent company shareholders	13,886	12,872
Non-controlling shareholders	4,629	4,291

IN EUR THOUSAND	**2017**	2016
Revenue	2,566	2,564
Other income	544	362
Expenses	–1,058	–1,073
Net profit for the year	**2,052**	**1,853**
Net profit for the year attributable to parent company shareholders	1,539	1,390
Net profit for the year attributable to non-controlling shareholders	513	463
Total net income for the year	**2,052**	**1,853**
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	1,539	1,390
Total comprehensive income attributable to non-controlling shareholders	513	463
Total income	**2,052**	**1,853**
Dividends paid to non-controlling shareholders	175	175
Net cash flows from operating activities	2,179	2,165
Net cash flows from investing activities	0	0
Net cash flows from financing activities	–2,232	–2,214
Total net cash flows	**–53**	**–49**

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	2017	2016
Revenue from rents excluding utilities charges	72,764	69,139
Revenue from operating costs	10,034	9,845
Other revenue	752	565
	83,550	**79,549**

The revenue relates almost exclusively to revenue from the letting of investment properties.

2. OTHER OPERATING INCOME

Other operating income is composed as follows:

IN EUR THOUSAND	2017	2016
Other operating income	344	336
Gains from the sale of properties	0	14
	344	**350**

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	2017	2016
Reversals to impairment charges arising from changes in market value (IAS 40)	21,048	20,381
Impairment charges arising from changes in market value (IAS 40)	–3,668	–2,363
	17,380	**18,018**

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 of properties still being developed, these are measured at amortised cost.

Reversals to impairment losses of EUR 21,048 thousand are composed as follows:

IN EUR THOUSAND	2017	2016
Increase in the value of development projects and acquisitions after completion of the development and start of property use	3,632	831
Increase in the value of portfolio properties	17,416	19,550
	21,048	**20,381**

4. EXPENSES FOR INVESTMENT PROPERTIES

The expenses connected with investment properties are composed as follows:

IN EUR THOUSAND	**2017**	2016
Land expenses/operating costs	11,547	10,940
Maintenance expenses	2,228	2,352
	13,775	**13,292**

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	**2017**	2016
Wages and salaries	2,879	3,143
Social security contributions	742	654
	3,621	**3,797**

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

6. OTHER OPERATING EXPENSES

Other operating expenses rose slightly from EUR 1,647 thousand in 2016 to EUR 1,785 thousand. This item chiefly comprises general administration, legal and consultancy costs, as well as investor relations expenses and Supervisory Board remuneration.

7. DEPRECIATION AND AMORTISATION

IN EUR THOUSAND	**2017**	2016
Amortisation	17	14
Depreciation	254	48
	271	**62**

The rise in amortisation and depreciation on property, plant and equipment from EUR 48 thousand in the previous year to EUR 254 thousand in the year under review relates primarily to the opening of the newly built, owner-occupied administration building in the second quarter of the year under review.

8. PROFIT/LOSS ON EQUITY-ACCOUNTED INVESTMENTS

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

IN EUR THOUSAND	**2017**	2016
KHI Immobilien GmbH	–12	–13
BHB Brauholding Bayern-Mitte AG	164	223
	152	**210**

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 2017 fiscal year, no expenses were incurred in connection with the measurement of foreign currency derivatives.

11. OTHER INTEREST AND SIMILAR INCOME

Other interest and similar income in the amount of EUR 23 thousand (previous year: EUR 48 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 17,378 thousand (previous year: EUR 20,391 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 15,462 thousand in the fiscal year under review (previous year: EUR 18,464 thousand).

13. EXPENSES FROM GUARANTEED DIVIDENDS

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 TAX

Income taxes are composed as follows:

IN EUR THOUSAND	2017	2016
Current income tax expense	4,419	3,411
Deferred income tax expense	6,096	6,006
Income tax expense	**10,515**	**9,417**

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	2017	2016
Earnings before income taxes	64,453	58,820
Anticipated income tax rate: 15.825 %		
Anticipated income tax expense	10,200	9,308
Prior years' taxes (current and deferred)	–5	4
Use of non-capitalised loss carryforwards	0	–14
Tax impact of subsidiaries and equity accounted investments	–24	–33
Tax effects from deconsolidation gains	0	0
Corporation tax on compensation payment	26	26
Tax rate differences (trade tax)	10	0
Tax-free income (especially Sect. 8b KStG)	26	21
Tax-neutral effects from write-downs of positive first-time consolidation processes (IAS 12.22c)	217	0
Non-tax-deductible expenses	18	21
Tax effects from mandatory convertible bonds (interest and issue costs)	0	99
Other	47	–15
Reported income tax expense	**10,515**	**9,417**
Effective tax rate	16.31%	16.01%

15. PROFIT/LOSS ON DISCONTINUED OPERATIONS

In the 2017 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 53,938 thousand includes shares attributable to non-controlling shareholders (BBI Immobilien AG, IPF 1 GmbH, IPF 2 GmbH, ISG Infrastrukturelle Gewerbe-immobilien GmbH, Interpark Immobilien GmbH, VSI GmbH, IVM Verwaltung GmbH) in the amount of EUR 2,334 thousand (previous year: EUR 2,163 thousand).

17. EARNINGS PER SHARE

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

IN EUR THOUSAND	**2017**	2016
EARNINGS		
Consolidated net income	53,938	49,403
Less: earnings attributable to non-controlling interests	–2,334	–2,163
Basis for undiluted earnings per share	**51,604**	**47,240**
Less: Profit/loss on discontinued operations	0	0
Basis for undiluted earnings per share for continuing operations	**51,604**	**47,240**
Impact of potentially dilutive shares	0	0
Basis for diluted earnings per share	**51,604**	**47,240**
Less: Profit/loss on discontinued operations	0	0
Basis for diluted earnings per share for continuing operations	**51,604**	**47,240**
Number of shares		
Weighted average number of shares in circulation for undiluted earnings per share	27,579,779	27,579,779
Impact of potentially dilutive shares	0	0
Weighted average number of shares in circulation for diluted earnings per share	27,579,779	27,579,779
Undiluted earnings per share (in EUR)	**1.87**	**1.71**
Undiluted earnings per share for continuing operations (in EUR)	**1.87**	**1.71**
Diluted earnings per share (in EUR)	**1.87**	**1.71**
Diluted earnings per share for continuing operations (in EUR)	**1.87**	**1.71**

Following the conclusion of the appeal proceedings relating to the review of the appropriateness of the guaranteed dividend for the outside 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 2017 fiscal year, and according to the resolution of the Annual General Meeting on June 29, 2017, an amount of EUR 15,168,878.45 (previous year: EUR 13,417,286.55) was disbursed from the 2016 net retained profit of VIB Vermögen AG. This corresponds to a dividend of EUR 0.55 per share (previous year: EUR 0.51 per share).

The Managing and Supervisory Boards of VIB Vermögen AG will propose to the shareholders at the company's 2018 Annual General Meeting that a dividend of EUR 0.60 per share for the 2017 fiscal year be disbursed from the net retained profit of VIB Vermögen AG (total of EUR 16,547,867.40).

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, 2017

			Fair value measurement applying		
IN EUR THOUSAND	Measurement date	Total	prices listed on active markets (Level 1)	significant observable inputs (Level 2)	significant observable inputs (Level 3)
Assets measured at fair value					
Investment properties (note 20)					
Logistics/Light Industry	31/12/17	645,900	—	—	645,900
Retail	31/12/17	322,910	—	—	322,910
Office	31/12/17	38,460	—	—	38,460
Commercial buildings/other	31/12/17	36,480	—	—	36,480
Assets held for sale	31/12/17	0	—	—	0
Liabilities measured at fair value					
Derivative financial liabilities (Note 28)					
Interest rate swaps	31/12/17	4,831	—	4,831	—
Forward currency contract (CHF)	31/12/17	0	—	0	—
Liabilities for which fair value is reported in the notes					
Interest-bearing loans (note 43)					
Fixed-interest loans	31/12/17	602,061	—	602,061	—

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 active markets (Level 1)	significant observable inputs (Level 2)	significant observable 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	—

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 01/01/2017	**188**	**188**
Additions	0	0
Disposals	0	0
Balance 31/12/2017	**188**	**188**
Amortisation/impairment as of 01/01/2017	**157**	**157**
Additions	17	17
Balance 31/12/2017	**174**	**174**
Carrying amount 31/12/2017	**14**	**14**
Carrying amount 01/01/2017	**31**	**31**

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**

19.2 PROPERTY, PLANT AND EQUIPMENT

IN EUR THOUSAND	Land and buildings	Other property, plant and equipment	Advance payments made and fixed assets under construction	Total
Cost as of 01/01/2017	**714**	**1,663**	**5,515**	**7,892**
Additions	6,845	269	–5,515	1,599
Disposals	0	–44	0	–44
Reclassified to investment properties	0	0	0	0
Balance 31/12/2017	**7,559**	**1,888**	**0**	**9,447**
Amortisation/impairment as of 01/01/2017	**0**	**947**	**0**	**947**
Additions	154	99	0	253
Disposals	0	–37	0	–37
Balance 31/12/2017	**154**	**1,009**	**0**	**1,163**
Carrying amount 31/12/2017	**7,405**	**879**	**0**	**8,284**
Carrying amount 01/01/2017	**714**	**716**	**5,515**	**6,945**

IN EUR THOUSAND	Land and buildings	Other property, plant and equipment	Advance payments made and fixed assets 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**

20. INVESTMENT PROPERTIES

IN EUR THOUSAND	**2017**	2016
Investment properties, measured at fair value	1,043,750	1,004,110
Property under construction, measured at amortised cost	52,974	57,663
	1,096,724	**1,061,773**

INVESTMENT PROPERTIES, MEASURED AT FAIR VALUE

IN EUR THOUSAND	**2017**	2016
Carrying amount 01/01	**1,004,110**	**951,140**
Additions	135	28,216
Disposals	–9,500	–2,220
Reclassified from property under construction	30,253	8,956
Unrealised increases in market value	21,048	20,381
Unrealised deductions in market value	–2,296	–2,363
Carrying amount 31/12	**1,043,750**	**1,004,110**

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, Wirtschaftsprüfungs-gesellschaft, 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 01/01/2017	**603,570**	**327,620**	**37,610**	**35,310**	**1,004,110**
Changes to consolidation scope	0	0	0	0	0
Additions	116	19	0	0	135
Disposals	–3,000	–6,500	0	0	–9,500
Reclassified from/to property under construction	32,662	–3,392	983	0	30,253
Unrealised market value changes recognised in profit or loss for the period	12,552	5,163	–133	1,170	18,752
Carrying amount 31/12/2017	**645,900**	**322,910**	**38,460**	**36,480**	**1,043,750**

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**

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* 2017	Range/value* 2016
Logistics/ Light Industry real estate	Discounted cash flow method	Estimated rent per sqm and month	3.00 EUR–15.00 EUR (weighted average: 5.00 EUR)	3.00 EUR–14.00 EUR (weighted average: 5.00 EUR)
		Estimated management costs per sqm and month	0.23 EUR–1.35 EUR (weighted average: 0.38 EUR)	0.23 EUR–1.47 EUR (weighted average: 0.37 EUR)
		Discounting rate	5.95%–9.50%	6.05%–9.60%
Retail properties	Discounted cash flow method	Estimated rent per sqm and month	5.00 EUR–12.00 EUR (weighted average: 8.00 EUR)	5.00 EUR–12.00 EUR (weighted average: 8.00 EUR)
		Estimated management costs per sqm and month	0.06 EUR–1.50 EUR (weighted average: 0.70 EUR)	0.06 EUR–1.49 EUR (weighted average: 0.70 EUR)
		Discounting rate	5.75%–7.50%	5.75%–7.60%
Office real estate	Discounted cash flow method	Estimated rent per sqm and month	6.00 EUR–12.00 EUR (weighted average: 8.00 EUR)	5.00 EUR–12.00 EUR (weighted average: 8.00 EUR)
		Estimated management costs per sqm and month	0.64 EUR–1.36 EUR (weighted average: 0.91 EUR)	0.62 EUR–1.37 EUR (weighted average: 0.90 EUR)
		Discounting rate	5.90%–8.20%	6.25%–8.30%
Commercial buildings/other	Discounted cash flow method	Estimated rent per sqm and month	2.00 EUR–28.00 EUR (weighted average: 9.00 EUR)	2.00 EUR–28.00 EUR (weighted average: 9.00 EUR)
		Estimated management costs per sqm and month	0.19 EUR–2.66 EUR (weighted average: 0.87 EUR)	0.19 EUR–2.66 EUR (weighted average: 0.84 EUR)
		Discounting rate	4.00%–8.00%	4.10%–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 (lower) 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	**2017**	2016
Carrying amount 01/01	**57,663**	**17,882**
Additions	29,559	48,788
Disposals	–2,528	–18
Exchange rate effects	–96	–33
Reclassified to investment properties measured at fair value	–30,253	–8,956
Impairment charges relating to reserved plots due to a decrease in market values	–1,371	0
Carrying amount 31/12	**52,974**	**57,663**

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.

If internal or external sources of information indicate that the recoverable amount of a single asset (plot) is lower than its carrying amount, then the asset concerned will be written down accordingly.

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	2017	2016
Carrying amount of Group interests in associates	**5,276**	**4,701**

Summarised information for associates that are individually immaterial:

IN EUR THOUSAND	2017	2016
Group interest in profit or loss from continuing operations	68	74
Group interest in earnings after tax from discontinued operations	—	—
Group interest in other comprehensive income	—	—
Group interest in total comprehensive income	**68**	**74**

22. RECEIVABLES AND OTHER ASSETS

IN EUR THOUSAND	2017	2016
Trade receivables	1,400	1,443
Other assets	2,738	1,254
	4,138	**2,697**

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 52 thousand (previous year: EUR 44 thousand).

Other assets primarily relate to maintenance reserves, 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	2017	2016
Balance – start of year	44	44
Additions	50	44
Consumed in derecognition	–15	–13
Release	–27	–31
	52	**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 fair 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 (corporation and trade tax rebates) had been settled as of the end of the year. In the previous year, a receivable of EUR 12 thousand was recorded.

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 27,579,779.00) and is divided into 27,579,779 ordinary bearer shares (previous year: 27,579,779). During the fiscal year, no new shares were issued from authorised capital, and no new shares were issued from conditional capital.

SHARE PREMIUM ACCOUNT

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

RETAINED EARNINGS

As part of the preparation of its annual financial statements as of December 31, 2017 (separate financial statements prepared according to the German Commercial Code [HGB]), the Managing Board of VIB Vermögen AG added EUR 5,810 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 2016 (EUR 15,169 thousand), the allocations to the retained earnings of the parent company (EUR 5,810 thousand) plus the current consolidated net income from the 2017 fiscal year that is due to Group shareholders (EUR 51,604 thousand) and the corresponding other earnings (excluding the cash flow hedge reserve and foreign currency translation) from the statement of other comprehensive income (EUR 1 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	**2017**	2016
Balance – start of year	19,680	17,944
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	0
Distribution to shareholders	–743	–460
Share of annual earnings	2,334	2,163
Non-controlling shareholders' share of other comprehensive income	50	33
Non-controlling shareholders' share of capital increase	0	0
Balance – end of year	**21,321**	**19,680**

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 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 2017, 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. No further use was made of this capital in the year under review. As at the end of 2017, the remaining amount was unchanged at 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 by December 31, 2017. 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	**2017**			2016		
	Before tax	Taxes	After tax	Before tax	Taxes	After tax
Foreign currency effects from the translation of independent subsidiaries	–53	0	–53	–1	0	–1
Mark-to-market valuation of cash flow hedges	2,170	–316	1,854	1,512	–214	1,298
Actuarial gains/losses on pension plans	1	0	1	–157	26	–131
Income and expenses taken directly to equity	**2,118**	**–316**	**1,802**	**1,354**	**–188**	**1,166**

26. PROFIT PARTICIPATION CAPITAL

All profit participation rights agreements existing in the past were terminated on the due date of December 31, 2016, and recognised under other liabilities. Repayment occurred one day after the 2017 Annual General Meeting.

27. NON-CURRENT FINANCIAL LIABILITIES

IN EUR THOUSAND	**2017**	2016
Remaining term of between 1 and 5 years	122,637	83,544
Remaining term of more than 5 years	464,659	488,860
	587,296	**572,404**

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

IN EUR THOUSAND	**2017**	2016
Non-current financial liabilities		
VIB Vermögen AG	403,615	396,034
BBI Bürgerliches Brauhaus Immobilien AG	89,798	93,261
Interpark Immobilien GmbH	22,514	23,421
VSI GmbH	15,461	16,254
ISG Infrastrukturelle Gewerbeimmobilien GmbH	15,074	16,197
IPF 2 GmbH	12,618	13,282
IPF 1 GmbH	11,829	12,451
KIP Verwaltung GmbH	10,000	0
Merkur GmbH	4,931	0
IVM Verwaltung GmbH	1,456	1,504
	587,296	**572,404**

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 2018 to 2020 reporting periods.

IN EUR THOUSAND	**2017**	2016
Derivative financial instruments		
Derivative financial instruments	4,831	7,001
	4,831	**7,001**

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	**2017**	2016
Deferred tax assets		
Derivative assets	695	1,011
Pension provisions/other	141	132
Intra-Group profit elimination	49	46
Total deferred tax assets	**885**	**1,189**
Deferred tax liabilities		
Investment properties	46,567	40,458
Total deferred tax liabilities	**46,567**	**40,458**
Offsetting of deferred tax assets and liabilities	–885	–1,189
Carrying amount after offsetting		
Deferred tax assets	**0**	**0**
Deferred tax liabilities	**45,682**	**39,269**

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

Losses carried forward on December 31, 2017, were reported as follows:

- Trade tax EUR 15,229 thousand (previous year: EUR 14,764 thousand)
- Corporation tax EUR 217 thousand (previous year: EUR 36 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 79,972 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) 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 2,288 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	2017	2016
Balance 01/01	**2,009**	**1,634**
Newly acquired benefit entitlements	320	247
Interest expense	36	37
Pensions paid	–76	–66
Actuarial gains/losses		
due to changes in demographic assumptions	0	0
due to changes in financial assumptions	–54	136
due to experience-related adjustments	53	21
Balance 31/12	**2,288**	**2,009**

Calculated actuarial assumptions:

IN %	2017	2016
Discounting rate	1.58–2.06	1.41–1.90
Pension trend	0.0–2.00	0.0–2.00

As in the previous year, the 2005 G guideline tables by Klaus Heubeck were used as a basis for the mortality tables.

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, 2017, generates the following results:

- A 1 percentage point increase in the discount rate results in a EUR –292 thousand decrease in the DBO, and a EUR 20 thousand increase in the interest cost. A 1 percentage point decrease in the discount rate results in a EUR 368 thousand increase in the DBO, and a EUR –12 thousand decrease in the interest cost.
- A 1 percentage point increase in pension growth results in a EUR 293 thousand increase in the DBO, and a EUR 12 thousand increase in the interest cost. A 1 percentage point decrease in pension growth results in a EUR –245 thousand decrease in the DBO, and a EUR 2 thousand increase 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	2017	2016
Over the next 12 months	104	66
Between 2 and 5 years	410	402
Between 5 and 10 years	514	475
Expected outgoing payments	**1,028**	**943**

The average duration of the defined benefit obligation amounted to 18 years at the end of the reporting period (previous year: 20.87).

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	**2017**	2016
VIB Vermögen AG	13,368	34,145
BBI Bürgerliches Brauhaus Immobilien AG	3,495	3,426
ISG Infrastrukturelle Gewerbeimmobilien GmbH	1,123	1,085
Interpark Immobilien GmbH	907	887
IPF 1 GmbH	622	601
IPF 2 GmbH	664	641
VSI GmbH	833	779
IVM Verwaltung GmbH	53	65
Merkur GmbH	70	1
	21,135	**41,630**

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 2017 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, 2017. As a consequence, all corresponding amounts are reported among liabilities.

33. INCOME TAX LIABILITIES

The reported income tax liabilities of EUR 784 thousand (previous year: EUR 441 thousand) relate to current tax liabilities for 2017 relating to VIB AG (EUR 703 thousand), Merkur GmbH (EUR 7 thousand), UFH GmbH (EUR 37 thousand), IPF 1 GmbH (EUR 6 thousand), IPF 2 GmbH (EUR 4 thousand), ISG GmbH (EUR 6 thousand), Interpark GmbH (EUR 6 thousand) and VSI GmbH (EUR 15 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.

35. OTHER LIABILITIES

IN EUR THOUSAND	**2017**	2016
Trade payables	1,278	1,964
Other current liabilities	6,074	7,031
	7,352	**8,995**

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 37,979 thousand (previous year: EUR 39,117 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.

RECONCILIATION OF FINANCIAL LIABILITIES PURSUANT TO IAS 7

			Non-cash			
IN EUR THOUSAND	31/12/16	Cash	Addition/ disposal	Interest	Re-classification	31/12/17
Development of financial liabilities						
Non-current financial liabilities	572,404	–5,603	0	0	20,495	587,296
Current financial liabilities	41,630	0	0	0	–20,495	21,135
Total financial liabilities	**614,034**	**–5,603**	**0**	**0**	**0**	**608,431**

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, 2017, 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 14 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 45,087 thousand (previous year: EUR 35,468 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	2017	2016
Due within one year	72,732	69,410
Due within 1 to 5 years	200,458	203,983
Due in more than 5 years	112,336	135,163
	385,526	**408,556**

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 233 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	2017	2016
Remaining term of up to 1 year	36	62
Remaining term of 1 to 5 years	47	45
Remaining term > 5 years	0	0
	83	**107**

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 100 thousand in the 2017 financial year (previous year: EUR 168 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, 2017, the Group had at its disposal undrawn credit lines in an amount of EUR 12,449 thousand (previous year: EUR 12,449 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 (Repayments and interest payments)	Financial loans with fixed interest (Repayments and interest payments)	Trade payables	Other financial liabilities	Derivative financial instruments	Total
Liquidity analysis as of 31/12/2017						
due in 1–12 months	2,739	31,273	1,278	5,202	2,043	**42,535**
due in 12–60 months	15,188	152,231	0	0	2,892	**170,311**
due in > 60 months	43,510	598,446	0	0	0	**641,956**
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**

The average interest rate on the variable-rate financial loans amounted to 0.94% as of December 31, 2017 (previous year: 1.05%). The average interest rate on the fixed-rate financial loans amounted to 2.69% as of December 31, 2017 (previous year: 3.22%).

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 2017, earnings would have been approximately EUR 325 thousand (previous year: EUR 387 thousand) lower (higher) and equity (before the earnings effect) would have been around EUR 810 thousand (previous year: EUR 1,160 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, 2017 balance sheet date was as follows:

IN EUR THOUSAND	**31/12/2017**	31/12/2016
Assets in CZK	1,465	2,839
Liabilities in CZK	0	0

If the euro had been 10% stronger against the Czech koruna (CZK), equity would have been EUR 83 thousand lower (previous year: EUR 52 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 – 31/12/2017			
Gross carrying amount	0	1,452	2,738
of which overdue but not value-adjusted	0	0	0
of which impaired	0	280	0
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

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.

2017

IN EUR THOUSAND
Assets
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
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)
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 31/12/2017	Fair value as of 31/12/2017	of which at amortised cost	of which at fair value through profit or loss	of which at fair value through equity
LaR	n. a.	1,400	n. a.	1,400	—	—
LaR	n. a.	2,738	n. a.	2,738	—	—
LaR	n. a.	37,979	n. a.	37,979	—	—
FLAC	n. a.	0	n. a.	0	—	—
FLAC	Level 2	48,826	n. a.	48,826	—	—
FLAC	Level 2	559,605	602,061	559,605	—	—
CF hedge	Level 2	4,831	4,831	—	—	4,831
FLAC	n. a.	827	n. a.	827	—	—
FLAC	n. a.	1,278	n. a.	1,278	—	—
FLAC	n. a.	5,202	n. a.	5,202	—	—
		42,117				
		615,738				
		4,831				

2016

IN EUR THOUSAND
Assets
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
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)
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 31/12/2016	Fair value as of 31/12/2016	of which at amortised cost	of which at fair value through profit or loss	of which at fair value through equity
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
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				
		7,001				

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, 2017.
› 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 items are marked to market as of December 31, 2017; 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	**2017**	2016
Loans and receivables	35	13
Bank balances and cash in hand	23	48
Assets and liabilities measured at fair value through profit or loss	0	0
of which: held for trading	0	0
Available-for-sale financial assets	0	0
Financial liabilities measured at amortised cost	–15,602	–18,526
Derivative financial instruments designated and effective as hedging instruments (cash flow hedges)	254	–414
of which in consolidated profit or loss	–1,916	–1,927
of which in other comprehensive income	2,170	1,513

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 140 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 52 thousand relating to financial assets were expensed during the period (previous year: EUR 44 thousand). The impairment losses relate to specific valuation allowances applied to trade receivables. Reversals of valuation allowances applied to trade receivables amounted to EUR 15 thousand (previous year: EUR 31 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	**31/12/2017**	31/12/2016
Equity	483,355	443,527
Equity as a % of total capital	41.9	39.7
Liabilities	670,386	673,241
Liabilities as a % of total capital	58.1	60.3
	1,153,741	**1,116,768**

45. THE COMPANY'S BOARDS

During the 2017 fiscal year, the company's Managing Board comprised:

Martin Pfandzelter, Chief Executive Officer,
business administration graduate (Diplom-Kaufmann), Neuburg/Danube
As of 31/12/2017, Mr Pfandzelter performs no functions on controlling bodies.

Holger Pilgenröther, Chief Financial Officer,
business studies graduate (Diplom-Betriebswirt), Neuburg/Danube
As of 31/12/2017, Mr Pilgenröther performs no functions on controlling bodies.

In the 2017 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 2017 (and previously in December 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 1,109 thousand (previous year: EUR 1,359 thousand), of which EUR 745 thousand came in the form of performance-related remuneration (previous year: EUR 780 thousand). In addition, pension contributions of EUR 323 thousand (previous year: EUR 254 thousand) were made for serving and former Managing Board members. Therefore, total remuneration for the Managing Board members of VIB Vermögen AG came to EUR 1,432 thousand (previous year: EUR 1,613 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 of VIB Vermögen AG amounted to EUR 185 thousand in the fiscal year under review (previous year: EUR 189 thousand).

49. AUDITOR'S FEES

The expenses reported in the 2017 fiscal year for the auditor of the parent company relating to audit services amount to EUR 111 thousand for 2017 and EUR 112 thousand for 2016. A total of EUR 8 thousand (previous year: EUR 8 thousand) was reported for other certification services.

50. EVENTS AFTER THE REPORTING DATE

As part of a transaction imposing a legal obligation arising from a notarial purchase agreement in respect of the acquisition of a plot of land – with a transfer of ownership, benefits and encumbrances – in 2018, the company has incurred financial purchase price payment obligations of up to EUR 26.2 million, which will become due for payment in the 2018 fiscal year.

No further events occurred after the end of the 2017 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 Eichstätt as part of its business activities. Supervisory Board member Jürgen Wittmann is Chief Executive Officer of Sparkasse Ingolstadt Eichstätt. The company's total exposure amounts to EUR 48.2 million (previous year: EUR 33.6 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/Danube	100.00	4,260	59
VIMA Grundverkehr GmbH, Neuburg/Danube	100.00	7,710	–7
KIP Verwaltung GmbH, Neuburg/Danube	100.00	6,025	–139
UFH Verwaltung GmbH, Neuburg/Danube	100.00	1,366	872
RV Technik s.r.o., Pilsen (Czech Republic)	100.00	1,423	1
IPF 1 GmbH, Neuburg	94.98	997	972
IPF 2 GmbH, Neuburg	94.98	993	814
BBI Bürgerliches Brauhaus Immobilien AG, Ingolstadt *	94.88	50,233	5,843
ISG Infrastrukturelle Gewerbeimmobilien GmbH, Ingolstadt	75.00	7,336	959
Interpark Immobilien GmbH, Neuburg/Danube	74.00	10,814	1,610
VSI GmbH, Neuburg/Danube	74.00	2,726	625
IVM Verwaltung GmbH, Neuburg/Danube	60.00	991	99
BHB Brauholding Bayern-Mitte AG, Ingolstadt **	34.18	10,809	237
KHI Immobilien GmbH, Neuburg/Danube ***	41.67	5,137	–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 2017 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 12, 2018. The Supervisory Board's task is to review the consolidated financial statements and declare whether it approves the consolidated financial statements.

Neuburg/Danube, April 12, 2018

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, 2017, 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 12, 2018

S&P GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Kanus	Stauber
(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).

FINANCIAL CALENDAR

May 9, 2018
Publication of the first Interim Report 2018

June 28, 2018
Annual General Meeting in Ingolstadt

August 8, 2018
Publication of the half-year Report 2018

November 7, 2018
Publication of the second Interim Report 2018

IR CONTACT

VIB Vermögen AG
Petra Riechert
Tilly-Park 1
86633 Neuburg/Danube
Germany

Tel: +49 (0)8431 9077-952
Fax: +49 (0)8431 9077-1952
E-mail: petra.riechert@vib-ag.de

IMPRINT

Publisher

VIB Vermögen AG
Tilly-Park 1
86633 Neuburg/Danube
Germany

Tel: +49 (0)8431 9077-0
Fax: +49 (0)8431 9077-1952

Concept, Design and Text

Kirchhoff Consult AG

Print

Omb2 Print GmbH, Munich

Pictures

Picture Library
of VIB Vermögen AG

KEY GROUP INDICATORS 5-YEAR OVERVIEW

IN EUR THOUSAND	2013	2014	2015	2016	**2017**
Income statement					
Revenue	64,958	69,869	75,133	79,549	83,550
Changes in value for investment properties	7,199	7,529	16,410	18,018	17,380
EBT (earnings before tax)	35,099	38,306	52,788	58,820	64,453
EBT excluding valuation effects and extraordinary items	26,987	31,179	36,510	40,802	47,073
Consolidated net income	29,036	32,404	44,047	49,403	53,938
Earnings per share (in EUR), diluted/undiluted	1.16	1.23	1.46	1.71	1.87
Balance sheet					
Total assets	864,693	942,199	1,009,352	1,116,768	1,153,741
Investment properties	828,993	894,214	969,022	1,061,773	1,096,724
Equity	319,884	371,655	406,754	443,527	483,355
Equity ratio (in %)	37.0	39.4	40.3	39.7	41.9
Net debt	473,368	484,560	517,393	574,917	570,452
LTV (loan-to-value ratio, in %)	56.6	53.7	53.1	53.6	51.4
NAV (net asset value), undiluted/diluted	307,568	360,480	412,765	470,117	512,547
NAV per share (in EUR), undiluted/diluted	13.88	14.54	15.69	17.05	18.58
Other key financials					
FFO (funds from operations)	24,803	28,592	32,599	35,767	41,194
FFO per share (in EUR)	1.07	1.13	1.18	1.30	1.49
Share price (Xetra closing price, in EUR)	11.66	14.24	17.10	19.67	21.20
Number of shares (reporting date: 31/12)	22,151,331	24,783,906	26,308,405	27,579,779	27,579,779
Market capitalisation (reporting date: 31/12)	258,285	352,923	449,874	542,494	584,691
Dividend per share (in EUR)	0.45	0.48	0.51	0.55	0.60[1]
ICR (interest coverage ratio, interest expense/net basic rents, in %)	36.6	34.4	31.7	30.0	24.4
Average borrowing rate (in %)	4.03	3.91	3.67	3.11	2.55
Real estate KPIs					
Annualised net basic rents	59,606	62,717	68,027	70,841	73,615
Vacancy rate (in %)	1.9	2.7	1.8	1.3	0.8
Rentable space (in sqm)	893,080	928,012	1,003,959	1,042,769	1,060,896
Rental yield (in %)	7.33	7.25	7.24	7.14	7.09
Average remaining term of rental agreements (in years)	6.73	6.64	6.26	5.68	5.15
EPRA performance indicators					
EPRA earnings		25,502	29,056	32,587	37,620
EPRA earnings per share (in EUR)		1.00	1.05	1.18	1.36
EPRA NAV		400,403	431,160	470,117	512,547
EPRA NAV per share (in EUR)		14.52	15.63	17.05	18.58
EPRA vacancy rate (in %)		2.7	1.8	1.3	0.8
EPRA net initial yield (in %)			6.7	6.6	6.6
EPRA cost ratio (in %)			14.0	12.4	12.1

[1] Management proposal

VIB VERMÖGEN AG
Tilly-Park 1
86633 Neuburg an der Donau
Germany

Tel.: +49 (0)8431 9077-0
Fax: +49 (0)8431 9077-1952

info@vib-ag.de
www.vib-ag.de