Annual Financial Report

2020

apoBank

The Health Care Bank

Content

481,000
customers

116,055
members

2,354
employees

59,440
balance sheet total (€m)

Overview of Business Development

Overview of Business Development

Bank data	31 Dec 2020	31 Dec 2019	Change[1] %
Members	116,055	115,884	0.1
Customers[2]	481,000	481,070	0
Employees	2,354	2,448	– 3.8
Locations	84	85	– 1.2

Balance sheet	€m	€m	%
Balance sheet total	59,440	49,603	19.8
Customer loans	38,240	37,291	2.5
Customer deposits	33,241	29,237	13.7

Income statement	€m	€m	%
Net interest income[3]	750.4	691.1	8.6
Net commission income	184.3	175.3	5.1
General administrative expenses	– 720.9	– 683.9	5.4
Operating profit before risk provisioning	184.7	217.7	– 15.1
Risk provisioning from the operating businessh[4]	– 40.1	– 43.5	– 7.9
Risk provisioning with reserve character[5]	– 33.4	– 57.1	– 41.4
Operating result	111.2	117.1	– 5.0
Taxes	– 45.9	– 53.0	– 13.4
Net profit after tax	65.3	64.1	1.9

Key figures	%	%	ppts
Equity ratio (according to CRR)	18.0	16.5	1.5
Common equity tier 1 ratio (according to CRR)	16.3	15.2	1.1
Cost-income ratio[6]	81.2	76.3	4.9

Ratings[7]	Standard & Poor's	Fitch Ratings (group rating)
Long-term rating	AA–	AA–
Short-term rating	A–1+	F 1+
Outlook	negative	negative
Pfandbrief rating	AAA	–

1) Deviations possible due to rounding differences.
2) Indicative value.
3) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies as well as income from profit transfer agreements.
4) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.
5) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and to provisioning reserves.
6) Ratio of operating expenses and operating income. Operating expenses include general administrative expenses as well as other operating expenses. Operating income includes net interest income, net commission income and other operating income.
7) Issuer credit rating as at January 2021.

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To our Members and Clients

Dear Members, Customers and Business Partners,

2020 was an exceptional year, and one that also brought unexpected challenges. The coronavirus pandemic confirmed how important our health care system is, with the new pressures and responsibilities it faced in the past and still faces today.

As your health care bank, we see it as our duty to offer unbureaucratic and effective support to our members and customers – health care professionals and companies in the health care market. We took fast action to provide liquidity to bolster the health care system, for example through our apoJETZT programme and by increasing account credit lines across the board. In addition, thanks to the online platform univiva, we were able to offer our customers a wide range of organisational assistance for practices and pharmacies together with renowned experts.

Our IT migration.

A particular challenge for apoBank in the past year was replacing our entire IT infrastructure. We had to change to a new provider after our old IT system was no longer available following the merger of the previous provider. Despite having carried out comprehensive tests in advance, there were some disruptions following the conversion of our core banking system and our entire hardware. We would like to apologize for the inconvenience this has caused.

Our committed employees are the backbone of our bank. Thanks to them, we were able to help countless members, customers and business partners during this difficult phase. I would like to thank them sincerely for their impressive personal effort and their exceptional flexibility. We are all working hard to assure you, dear readers, of our performance as your health care bank and will be gradually improving our IT applications in the coming months to make them more user-friendly and visually attractive.

Our development.

On the positive side, apoBank continued to perform satisfactorily overall in 2020. We grew our operating income and were therefore able to finance a large part of the investment costs for the IT infrastructure and the Bank’s development from our ongoing business. In the area of start-up financing, we further consolidated our position on the market. Together with the professional associations, we embolden above all young health care professionals to open up their own practice or pharmacy, and accompany them on this path.

As your health care bank, we also contribute our unique knowledge of the industry to support our customers in asset building. Our asset advisory skills are increasingly sought-after. We increased the deposit volume to €10.4 billion. As a result, our net profit remained stable at €64 million. Our aim is to allow our members to share in this positive business development.

Our path to the future.

"We enable health." With this aspiration, we have embarked on an ambitious path. In the past year, we launched our strategy programme "Oskar", a contemporary take on the philosophy of our founder, Richard Oskar Mattern. Just as he created new possibilities for financing pharmacies almost 120 years ago, also in times of upheaval, we devise solutions that make it easier for health care professionals to carry out their profession.

In introducing this strategy programme, our aim is to fulfil two specific goals: On the one hand, we want to complete our transformation into your health care bank so that we can meet the changing needs of health care professionals in the wake of digitalisation and developments in the health care market; on the other hand, we intend to put apoBank on a stronger financial footing in order to give us a competitive edge in the long run.

We are adjusting our advisory approach to make it more comprehensive. In future, our customers will have a personal advisor at their side to support them in all situations, whether private or professional. At the same time, we will retain our national network of branches, which we will be modernizing successively in terms of size, location and design with a view to our customers' changing needs. Meanwhile, we will gradually expand the range of digital and hybrid access channels for customers.

Our aim is to fully satisfy the needs of health care professionals. In addition to offering efficient financing and pension solutions for health care professionals, companies in the health care market, as well as institutional investors and organisations, we will increasingly add further services to support our customers in their everyday working lives beyond the banking business. These non-banking services will also be incorporated into the portfolio of products we offer as part of our advisory concept.

Our progress.

In 2019, we established naontek AG, a subsidiary that develops digital non-banking solutions for us. Its univiva platform offers health care professionals a digital market place where they can find all they need to carry out their profession in the medium to long term. The range of services now goes far beyond organising training courses. It includes independent advice and the procurement of practice equipment, medical technology, marketing for practices, and much more. By the start of 2021, around 30,000 health care professionals had already registered on univiva.

Our first "Zahnpraxis der Zukunft" (dental practice of the future), which opened in Dusseldorf in late 2019, is also doing well. This state-of-the-art practice model for start-ups in dentistry allows us to help health care professionals set up their own practice, as well as gaining extensive experience for expanding our non-banking solutions.

In addition, we are currently trialling a new service for optimizing medical practices under the name optiPrax. optiPrax subjects the economic indicators of a medical practice to a digital market comparison. The aim is to offer customers individual support in evaluating their location and implementing improvement measures. In doing so, we want to give health care professionals all the help we can so that they can spend a greater part of their working time with patients and run their business even more successfully in the future.

Our outlook.

Despite the challenges of the past year, we have made good progress overall on our path. To consolidate our financial basis, we will continue to increase the efficiency of our processes and improve structures. For the health care market and society in general, the coronavirus pandemic will continue to leave its mark in 2021, as will changes to the legal framework. As your apoBank, we will continue to evolve and make further, visible improvements to our products and services for you.

We would be delighted if you continue to accompany us along our way.

Yours sincerely

Ulrich Sommer
Chair of the Board of Directors, Deutsche Apotheker- und Ärztebank

Dusseldorf, 26 March 2021

Report of the Supervisory Board

The Supervisory Board of apoBank fulfilled its duties in accordance with the law, the Articles of Association and the internal rules of procedure in 2020. It exercised its supervisory function and adopted all resolutions within its jurisdiction. This included the audit in accordance with Section 53 of the Cooperative Societies Act (Genossenschaftsgesetz, GenG). In addition, the Supervisory Board examined the separate non-financial report in accordance with Section 289b of the German Commercial Code (HGB). It was assisted in this by Genossenschaftsverband – Verband der Regionen e.V. (Genossenschaftsverband), which it authorized to carry out the review of this report.

At regular meetings, the Board of Directors informed the Supervisory Board as well as the committees of the Supervisory Board about apoBank's business performance, risk, net assets and financial position, earnings situation as well as about special events. In the year under review, the Supervisory Board gained an insight into the Bank's current state of affairs, the status of the IT migration as well as related follow-up work at its four regular meetings. It also held four extraordinary meetings, at which both the IT migration and the follow-up work were addressed in detail. It discussed further details at 17 ordinary and eight extraordinary meetings of the Loan and Risk Committee, the Nomination and Presiding Committee, the Personnel Committee, the Audit Committee and the Remuneration Control Committee. The Nomination and Presiding Committee also and in particular addressed the changes on the Board of Directors. The Supervisory Board received comprehensive reports from the meetings of the respective committees. Also outside of these meetings, the Chair of the Supervisory Board regularly exchanged information and ideas in close consultation with all members of the Supervisory Board and the Board of Directors.

In the year under review, the Nomination and Presiding Committee addressed potential conflicts of interest on the part of members of the Supervisory Board and Board of Directors that could influence their objectivity. At its meetings, the committee assessed these in detail and came to the conclusion that there was only one case of a conflict of interest. The appropriate action was taken to solve this.

The 2020 annual financial statements, including the management report, were audited by the Genossenschaftsverband. The Genossenschaftsverband confirmed the objectivity of the employees involved in the audit to the Audit Committee and the Supervisory Board. The results of this audit will be reported on in the Annual General Meeting on 30 April 2021. According to the unqualified audit certificate issued by the Genossenschaftsverband, the annual financial statements and the management report are in keeping with the law and the Articles of Association. The Supervisory Board received and critically examined the report on the statutory audit. At its joint session with the Board of Directors and the auditors, the Supervisory Board acknowledged the results of the audit and scrutinised the statements made in the auditing report. The Supervisory Board concluded that the annual financial statements were prepared and audited correctly and therefore contributed towards correct accounting. The Supervisory Board was supported by the Audit Committee in monitoring the audit. The Supervisory Board examined and verified the annual financial statements, the management report and the Board of Directors' proposal on the allocation of net profit. The audit did not give rise to objections. The proposal on the allocation of net profit – including profit carried forward – is in accordance with the Articles of Association. The Supervisory Board recommends that the Annual General Meeting approve the financial statements as at 31 December 2020, which were presented by the Board of Directors, and that it pass a resolution on the proposed appropriation of net profit.

There were no changes to the composition of the Supervisory Board in fiscal 2020. Walter Kollbach was re-elected as a shareholder representative. Following this, the Supervisory Board confirmed Prof. Dr. med. Frank Ulrich Montgomery as Chair of the Supervisory Board at its constitutive meeting. At the end of this year's Annual General Meeting, the shareholder representatives Fritz Becker, pharmacist, Dr. med. dent. Peter Engel and Dr. med. Andreas Gassen will leave the Supervisory Board. They are entitled to stand for re-election.

On 19 June 2020, Olaf Klose left the Board of Directors. His tasks were taken over by Holger Wessling. At its extraordinary meeting on 28 September 2020, the Supervisory Board then appointed Jenny Friese to the Board of Directors. This appointment was made under the condition precedent that the responsible authority had no objections. After the ECB declared this to apoBank, Jenny Friese took up her appointment as a member of the Board of Directors on 1 January 2021. Also at the extraordinary meeting on 28 September 2020, the Supervisory Board extended the appointment of Holger Wessling to the Board of Directors until 31 August 2026. On 18 September 2020, the Supervisory Board had already stated its support for the extension of the appointment of Eckhard Lüdering to the Board of Directors until 31 May 2023.

In the challenging environment of the reporting year, apoBank continued to fulfil its purpose of supporting and promoting the commercial interests of health care professionals as outlined in its Articles of Association. The Bank kept its net profit stable. It remains the aim of the Supervisory Board and Board of Directors to have the members benefit from this positive business performance by paying out an appropriate dividend.

In view of the low interest environment, technological innovation, changes in customer behaviour as digitalisation advances, as well as regulatory requirements, 2021 will be another challenging year. With the strategy programme it initiated in 2020, the Bank wants to tighten up its processes and structures and hone its advisory approach. This is a structured way to develop in order to become even more efficient and at the same time more focused on customers and solutions.

The Supervisory Board is convinced that apoBank's business model provides it with a sound basis to achieve this. The Bank remains in a good position to focus on the requirements of players on the health care market and step up its economic support for them.

The Supervisory Board would like to thank the members of the Board of Directors and the entire workforce of apoBank for their good work, their trusting cooperation and their considerable personal commitment in 2020.

Dusseldorf, 26 March 2021

On behalf of the Supervisory Board
Prof. Dr. med. Frank Ulrich Montgomery

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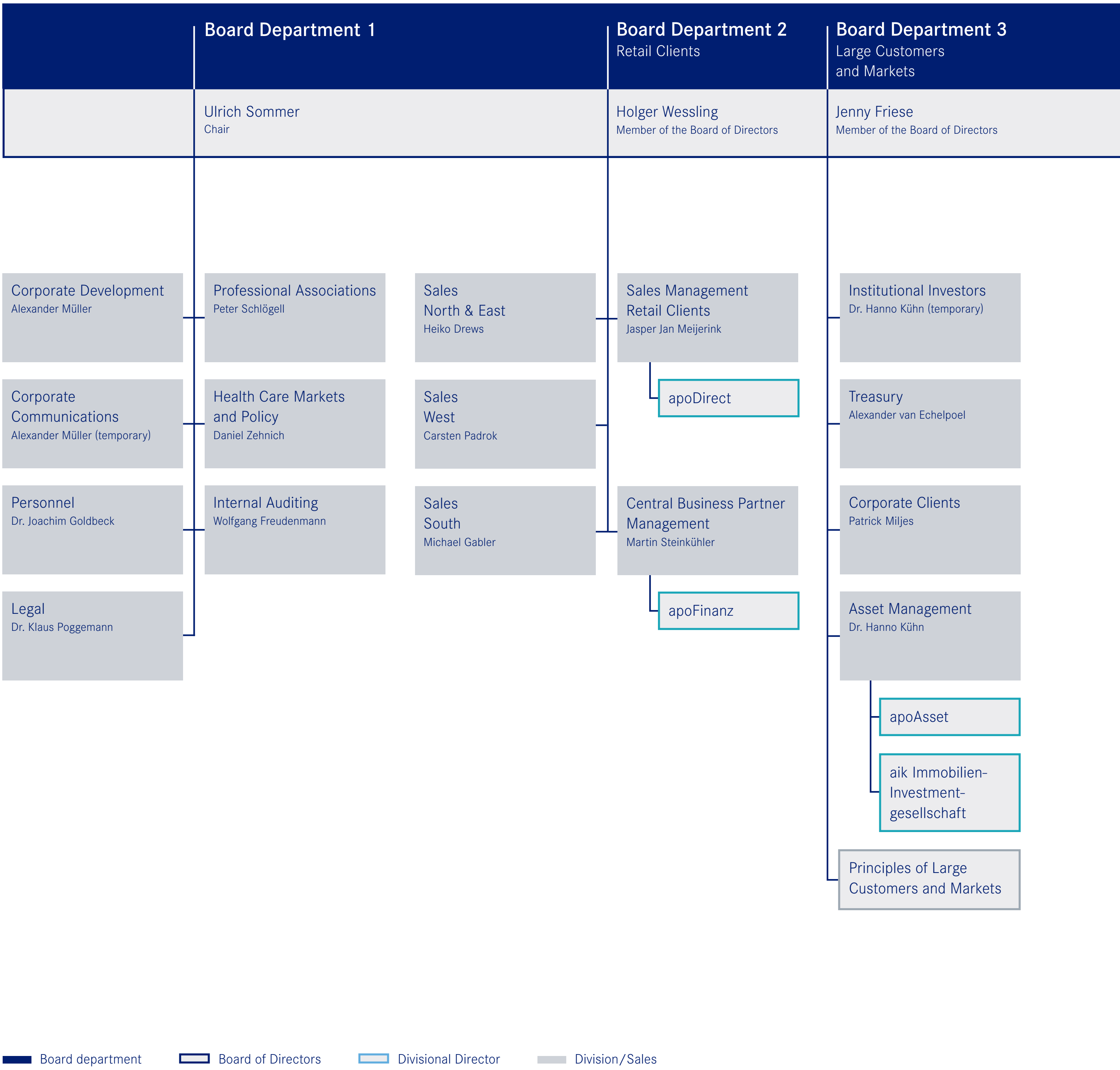
About apoBank

Board Departments

Organisational chart of Deutsche Apotheker- und Ärztebank eG



Board Department 4
Finance and IT

Dr. Thomas Siekmann
Deputy Chair

- Overall Bank Controlling
  Dr. Christan Wiermann
- Finance
  Steffen Kalkbrenner
- **IT and Operations**
  Johannes Kermer
  Divisional Director
  - Information, Organisation, Technology
    Lutz Schirmacher
  - Service and Transaction Bank
    Dominic Toplak
  - Corporate Services
    Dominic Toplak (temporary)
  - apoData

Board Department 5
Risk

Eckhard Lüdering
Member of the Board of Directors

- Loan Management Corporate Clients and Proprietary Investments
  Heribert Vossen
- Loan Management Retail Clients
  Heribert Vossen (temporary)
- Regional Loan Management Dusseldorf
  Heribert Vossen (temporary)
- Regional Loan Management Hanover
  Heribert Vossen (temporary)
- Loan Management Sales Partner Business
  Heribert Vossen (temporary)
- Regional Loan Management Frankfurt
  Heribert Vossen (temporary)
- Regional Loan Management Munich
  Heribert Vossen (temporary)
- Risk Controlling
  Michael Kaiser
- Compliance
  Matthias Schmedt auf der Günne

Unit reporting directly to the Board of Directors | Subsidiary

as at March 2021

Board of Directors

Ulrich Sommer
Chair

Dr. Thomas Siekmann
Deputy Chair

Supervisory Board

Prof. Dr. med. Frank Ulrich Montgomery
Chair
Berlin

Sven Franke[1]
Deputy Chair
Hanover

Ralf Baumann[1]
Langenfeld

Fritz Becker, pharmacist
Remchingen

Marcus Bodden[1]
Essen

Martina Burkard[1]
Würzburg

Mechthild Coordt[1]
Berlin

Dr. med. dent. Peter Engel
Bergisch-Gladbach

Jenny Friese
Member of the Board of Directors

Eckhard Lüdering
Member of the Board of Directors

Holger Wessling
Member of the Board of Directors

Dr. med. Andreas Gassen
Berlin

Günter Haardt [1]
Leubsdorf

Dr. med. Torsten Hemker
Hamburg

Steffen Kalkbrenner [1]
Dusseldorf

WP/StB Walter Kollbach
Bonn

Dr. med. dent. Helmut Pfeffer
Wohltorf

Robert Piasta [1]
Niederkassel

Dr. med. dent. Karl-Georg Pochhammer
Berlin

Christian Scherer [1]
Deidesheim

Friedemann Schmidt, pharmacist
Leipzig

Dietke Schneider [1]
Hanover

Susanne Wegner
Obertshausen

1) Employee representative.

Advisory Board

Dipl.-Betriebsw. Wolfgang Abeln, Peetsch

Dr. med. Matthias Albrecht, Berlin

Stephan Allroggen, dentist, Kassel

Ass. Jur. Nico Appelt, Dresden

Dipl.-Kfm. Peter Asché, Würselen

Dr./RO Eric Banthien, Hamburg

Mark Barjenbruch, Hanover

Dr. med. Andreas Bartels, Mainz

Dipl.-Vw. Georg Baum, Berlin

Dr. med. dent. Gert Beger, Bad Kreuznach

Prof. Dr. Andréa Belliger, Geiss

Thomas Benkert, pharmacist, Grafrath

Prof. Dr. Dr. med. dent. Christoph Benz, Munich

Christian Berger, dentist, Kempten

Dr. med. Frank Bergmann, Roetgen

Dr. med. Jörg Berling, Lüneburg

Dipl.-Vw. Christoph Besters, Waldkirch

Ulrich Böger, Dachau

Dr. med. dent. Cornel Böhringer, Ludwigslust

Dr. rer. nat. Roswitha Borchert-Bremer, Bad Schwartau

Frank Dastych, Bad Arolsen

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Dr. med. dent. Michael Diercks, Kronshagen

Dipl.-Kfm. Armin Ehl, Berlin

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Dr. rer. nat. Ralph Ennenbach, Ahrensburg

Dr. med. dent. Wolfgang Eßer, Mönchengladbach

Michael Evelt, Senden

Prof. Dr. Wolfgang Ewer, Kiel

Dr. med. Johannes Fechner, Emmendingen

Ass. Jur. Christian Finster, Bad Schönborn

Prof. Dr. med. Ingo Flenker, Sprockhövel

Bernd Franken, Dusseldorf

Mark Gerrit Friedrich, Leverkusen

Christiaan Johannes Gabrielse, veterinarian, Dinslaken

Prof. Dr. med. Ferdinand M. Gerlach, Marburg

Dr. med. Heidrun Gitter, Bremen

Meike Gorski-Goebel, Dresden

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Dr. med. vet. Karl-Ernst Grau, Sendenhorst

Dr. phil. Jörn Graue, pharmacist, Hamburg

Dr. med. Christiane Groß, Wuppertal

Dr. med. Holger Grüning, Wernigerode

Dr. med. dent. Jürgen Hadenfeldt, Bovenden

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Reiner Haupt, Dinkelsbühl

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Dr. med. Klaus Heckemann, Dresden

Dr. med. Dirk Heinrich, Hamburg

Dr. med. Peter Heinz, Wiesbaden

SR Dr. med. dent. Ulrich Hell, Schiffweiler

Dipl. rer. pol. Hanno Helmker, Bremen

Martin Hendges, dentist, Overath

MdB Rudolf Henke, Aachen

Dr. med. Jörg Hermann, Bremen

Ralf-Matthias Heyder, Teltow

Andreas Hilder, Steinfurt

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Rainer Linke, Kleinmachnow

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Claudia Mairle, veterinarian, Gießen

Lothar Marquardt, dentist, Essen

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Dipl.-Oec. WP/StB Tobias Meyer, Hanover

Dr. med. Christoph Mittmann, Münster

Dr. phil. Marc-Pierre Möll, Berlin

Dr. Hans-Georg Möller, pharmacist, Papenburg

Karl-Heinz Müller, Lage

Lutz Müller, Lehrte

Thomas Müller, Münster

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Dr. med. Katharina Nebel, Vlotho

Dipl.-Vw. Marco Neisen, Berlin

Christian Neubarth, dentist, Hildesheim

MUDr. Peter Noack, Cottbus

Dr. med. dent. Hans-Jürgen Nonnweiler, Kassel

Prof. Dr. med. dent. Dietmar Oesterreich, Stavenhagen

Dr. med. dent. Klaus-Dieter Panzner, Bad Berka

Walter Plassmann, Jersbek

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Axel Rambow, Schwerin

Dr. med. Klaus Reinhardt, Bielefeld

RA Martin Reiss, Berlin

Dr. med. dent. Ingo Rellermeier, Berlin

Dr. med. Claudia Ritter-Rupp, Munich

Dr. med. Bernhard Rochell, Berlin

Dr. med. Annette Rommel, Hörsel

Dr. med. Karl-Friedrich Rommel, Hörsel

Caroline Roos, Hamburg

RA Dr. jur. Helmut Roth, Bad Berleburg

Anke Rüdinger, pharmacist, Berlin

Dr. med. habil. Thomas Schang, Eutin

Dr. Dr. med. dent. Josef Schardt, Waldbrunn

Freiherr Dr. med. Titus Schenck zu Schweinsberg, Stadtallendorf

Günter Scherer, Berlin

Dr. med. Dipl. Oec. med. Monika Schliffke, Ratzeburg

Dr. med. Pedro Schmelz, Bad Kissingen

Dr. med. dent. Jochen Schmidt, Dessau-Roßlau

Dr. jur. Sebastian Schmitz, Mainz

Dr. med. Rüdiger Schneider, Trier

Dr. med. dent. Rüdiger Schott, Sparneck

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Dr. med. Thomas Schröter, Weimar

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Dr. Philipp Siebelt, Meerbusch

Dirck Smolka, dentist, Bonn

Dipl.-Ing. Dr. Hermann Sommer, Starnberg

Dr. med. Dirk Spelmeyer, Coesfeld

RA Harald Spiegel, Bad Segeberg

Dr. med. Eckhard Starke, Offenbach am Main

Dr. med. Eberhard Steglich, Nuthetal

Dipl.-Vw. Helmut Steinmetz, Kiel

Dr. med. Margret Stennes, Berlin

RA Dipl.-Betriebsw. Joachim Stöbener, Hauenstein

Martin Sztraka, dentist, Bremen

Dr. med. vet. Uwe Tiedemann, Lüneburg

Stefan Tilgner, Kleinmachnow

Dr. med. Christoph Titz, Ganderkesee

Dipl.-Ing. Ernst Uhing, Lüdenscheid

Dr. med. dent. Reinhard Urbach, Wolfsburg

Axel Uttenreuther, Munich

Dr. med. Peter Velling, Berlin

Dr. Claudia Vogt, pharmacist, Cologne

Dr. med. Michael Vogt, Berlin

Dr. med. dent. Ursula von Schönberg, Barntrup

Dipl.-Med. Angelika von Schütz, Grimmen

Dr. med. vet. Guntram Wagner, Kratzeburg

Ralf Wagner, dentist, Heimbach

Ulrich Weigeldt, Bremen

Dr. med. dent. Holger Weißig, Gaußig

Dr. med. Lothar Wittek, Moosthenning

Dr. med. dent. Walter Wöhlk, Molfsee

Ralf Wohltmann, Berlin

Dipl.-Oek. Oliver Woitke, Bremen

Prof. Dr. Christiane Woopen, Cologne

Jürgen Ziehl, dentist, Wallerfangen

Honorary Position Holders and Honorary Members

Hermann S. Keller, pharmacist
Honorary Chair of the Supervisory Board,
bearer of apoBank's Karl Winter Medal
and honorary member of apoBank
Mainz

Dr. med. dent. Wilhelm Osing
Honorary Chair of the Supervisory Board
and honorary member of apoBank
Dusseldorf

Klaus Stürzbecher, pharmacist
Bearer of apoBank's Karl Winter Medal
and honorary member of apoBank
Berlin
(† 6 May 2020)

Berthold Bisping
Honorary member of apoBank
Neuss

Dr. med. dent. Wolfgang Eßer
Honorary member of apoBank
Mönchengladbach

Elfriede Girl
Honorary member of apoBank
Munich

Jürgen Helf
Honorary member of apoBank
Meerbusch

Dr. med. Ulrich Oesingmann
Honorary member of apoBank
Dortmund

Dipl.-Betriebswirt Werner Wimmer
Honorary member of apoBank
Meerbusch

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Management Report

Fundamental Features of the Bank

Business model

Aligned to the growing health care market

apoBank is a cooperative full-service bank. Its business policy is geared towards the specific needs of the medical professions and the health care market. As a cooperative, the business purpose of apoBank is to support its members – specifically health care professionals as well as their organisations and institutions – and their economic development. The fair participation of our members in the Bank's economic success over the long term is therefore also central to our goals.

apoBank's business model is designed to sustainably utilise the opportunities presented by the thriving health care market. As the health care bank ("Bank der Gesundheit"), we want to make it easier for health care professionals to follow their calling – this is in line with our mission to enable health. Thanks to our position at the interface to the health care market, we can support our customers on two levels: in banking and in the health care sector.

Servicing customers in two business segments

We provide service to our customers in two business segments. In the Retail Clients business segment, we help academic health care professionals in their different life phases – during their training, throughout their careers and in retirement – to implement their professional and private projects, as well as other selected customers and companies. In the Professional Associations and Large Customers business segment, we support professional associations and institutional organisations in the health care sector, professional capital investors as well as companies and medical care structures in the health care market. These include operators of pharmaceutical, medical, veterinary, dental, inpatient and nursing care structures.

We offer our customers a wide range of financial and advisory services in payment transactions, in the lending, deposit and investment business, in asset management as well as in the custodian business. We also offer them additional services for the different needs in their professional and their private lives. With our subsidiary naontek AG, we support health care professionals by offering services specifically geared to their requirements. The purpose of naontek is to identify and validate new business models in the health care market and ultimately to bring them to market maturity. For instance, naontek has already successfully established the univiva practice portal.

Strategy and goals

We want to be a financial partner of preference to our customers and to take on responsibility in the health care market. To do this, apoBank must be financially stable in the long run, thus strengthening its competitiveness.

To ensure that we are successful in this, we consistently focus on our customers' goals and needs. We believe that a trusting and stable relationship is a precondition for working together successfully. That is why we are establishing the role of "financial advisor" going forward.

We organise our support services based on our customers' specific needs. We provide intensive and personal support to those with complex requirements. In addition, in less complex cases we give our customers fast, direct and simple access to banking services. To achieve this, we are continuing to expand our digital channels and our apoDirect customer centre.

We offer integrated support and advice to our customers as well as solutions to their specific challenges, taking their lifelong needs into consideration. By adopting this holistic, long-term perspective, we are able to deliver the right solutions to customers, at the right time in their lives.

We support our customers from the health care sector with services and products around the topics of career and business start-ups as well as asset management and retirement provision. We want to significantly expand the asset management business, primarily by considerably growing our asset management offering for retail clients.

For this purpose, we apply our own knowledge and the expertise of our associated company Apo Asset Management GmbH, which specialises in the administration and management of securities funds for private and institutional customers from the health care sector. In addition, aik Immobilien-Investmentgesellschaft mbH supports occupational pension funds and pension plans. As a real estate investment company, it pursues an integrated approach that covers all stages of the real estate investment value chain.

At the same time, we want to further consolidate our activities around financing and supporting new businesses. Here, we will leverage our expertise in the financial and health care market even more and will develop services that complement our offerings as a bank and which support health care professionals in their function as business owners.

We also want to continue expanding in our corporate clients business. We act as a strategic partner for the operators of outpatient and inpatient care and for companies in the health care market, such as those in the pharmacy wholesale and dental trade as well as in the pharmaceutical and medical technology industries, and for clearing centres.

We want our members to participate in our business success while at the same time continuously strengthening our capital and reserves in order to finance our growth using our own resources. This includes tangibly and sustainably reducing our costs. A key lever here will be an ongoing increase in efficiency, primarily by optimising processes from end to end.

Due to regulatory specifications, capital requirements will increase significantly going forward, especially in our lending business. We will therefore only add sustainable value by managing profitability and risk in a balanced manner.

We want to make sure that in the future our new IT system will support lasting value enhancement. It forms the basis for consistent digitalisation of our core processes and interfaces with our customers. By doing this, we want to improve apoBank's performance going forward.

Management system

The management of apoBank is based on the annual strategy process, during which the strategic targets and target levels are set for a period of five years. They comprise financial, market-specific and efficiency targets. The financial targets are operationalised in the mid-term planning. This in turn forms the basis of operational business planning for the subsequent financial year.

For the Bank as a whole, the following key financial indicators have been defined.

Profitability:

- Operating profit before risk provisioning: For this key figure, the net balance is calculated for the items of net interest income and net commission income, general administrative expenses, and other operating income.
- Cost-income ratio: This refers to the ratio of operating costs to operating income. It is our strategic objective to achieve a cost-income ratio of under 70%.
- Risk provisioning with reserve character and allocations to reserves: This primarily consists of allocations to the fund for general banking risks, provisioning reserves, allocations to general value adjustments and other reserves.

Liquidity:

- Normative perspective: The key parameter here is the liquidity coverage ratio. To calculate this key figure, highly liquid assets are placed in relation to cash outflows less cash inflows.
- Economic perspective: The liquidity gap analysis is used to measure the economic insolvency risk. It maps all short-term liquidity inflows and outflows for a period of twelve months. Intra-day liquidity analyses complement the short-term risk analysis.
- With the aid of the refinancing analysis we manage the long-term liquidity supply based on an observation period of more than one year.

Risk-bearing capacity:

- Normative perspective: Compliance with the regulatory key equity figures, e.g. total capital ratio, common equity tier 1 (capital) ratio, is monitored over a rolling period of at least three years. We set a strategic target for the total capital ratio of at least 15.5%.
- Economic perspective: The economic capital ratio sets the risk cover potential (in essence the common equity tier 1 ratio as well as economic valuation reserves) against the economic risks (confidence level of 99.9%).

In addition, further performance indicators are implemented in the management system. These are also derived from the Bank's strategy and refer to market-specific indicators such as customer satisfaction, but also structural key indicators such as quotas for women. In addition, the degree to which employees identify with apoBank is monitored here (Organisational Commitment Index, OCI). In 2020, the OCI was 56 (2019: 70). The targeted medium-term level is at least 70. In the year under review, the customer satisfaction rating was 47% (2019: 82%). The Bank is developing measures to counteract this decline and significantly improve customer satisfaction again.

Promotion of equal opportunities for women and men

For apoBank, reconciling work and family life is a central concern. Thanks to our needs-based, practical arrangements, employees at the Bank are able to find a good balance between their work and family obligations. A family service is available to support employees who require childcare.

Additionally, apoBank offers employees places at a childcare facility at its Dusseldorf location. The family service helps employees support family members in need of care.

By means of mobile work and flexible work time models, apoBank enables its workforce to organise their work in alignment with the needs of their individual life stage.

Since 2008, apoBank has been participating in "audit berufundfamilie", an audit which examines to what degree our personnel policy takes into account family needs, and has continued to set itself new goals for a healthy work-life balance for its employees. apoBank received this certificate again in December 2020 for another three years.

The Bank's exemplary promotion of women was awarded the "Top for Woman" seal again in 2020. We offer seminars and programmes for women to help them define where they are at professionally and to plan their careers.

We include apprentices with potential in our career pool. In addition, a special programme fosters young talent in their career development.

Increasing the proportion of women in management defined as a strategic objective

The modern world of work requires companies to be both agile and diverse. This is why employees with different talents, competencies and social skills are needed.

We therefore want to attract women to management positions and promote their further development. Increasing the proportion of women in the two upper management levels is one of our strategic goals.

The Board of Directors has established the following targets staggered over time for this:

Targets for the proportion of women in the top management levels of apoBank

Deadline to reach the target	Proportion of women 1st management level	Proportion of women 2nd management level
By 30 June 2022	20%	25%
By 30 June 2027	25%	30%

The first management level includes the division managers at head office, the market region managers and the regional loan managers.

The second management level encompasses the department managers at head office and in the regional loan management units, the regional branch managers and the regional managers of Sales Partner Liaison and Support.

The share of women as at 31 December 2020 was 12% at the first management level (2019: 10%) and 21% at the second level (2019: 21%).

The Bank is intensifying its efforts to find, qualify and deploy suitable female candidates for management positions. To this end, the Board of Directors has adopted a binding personnel development plan for women in management positions. It has been implemented since 2019.

The share of women on the Supervisory Board of apoBank amounted to 20% at the end of the year under review. This year the target was set at 20% for the next five years. Previously, it was 15%. The Supervisory Board has not changed the target share of 0% women on the Board of Directors. On the Board of Directors, the share was in line with the target as at 31 December 2020. The Board brought one woman onto its team as at 1 January 2021. This brings the share of women on the Board to 20%.

In line with the requirements of the European Banking Supervision Authority (EBA), the Board of Directors has adopted a diversity guideline for employees to strengthen the diversity of the workforce and increase the diversity of the pool of successor candidates for Board positions. The EBA specifically assesses diversity in terms of age, education and professional background, geographical origin and gender.

The diversity policy includes aspects of career planning and measures to ensure equal treatment and opportunities for all employees.

Economic Report

Overall economic and industry-specific conditions

Economic recovery interrupted since November

Due to the coronavirus pandemic and the measures introduced to fight it, in the first half of 2020 economies worldwide slid into a deep recession, which the German economy was also not able to avoid. When the pandemic-related restrictions were eased, economies started to recover during the summer months. The Chinese economy in particular was able to return to growth quickly thanks to government support. Besides the economic growth impetus coming from China, the extensive fiscal assistance measures taken by governments and an expansionary monetary policy on the part of the different national central banks ensured that the global economy stabilised. However, a renewed rise in the number of infections since autumn led to contact restrictions being tightened once again in Europe and the US. This was also the reason for the interruption in the economic recovery in Germany since November. For 2020 as a whole, the German Federal Statistical Office estimates a decline in gross domestic product (GDP) in Germany by 5.0%. The suspension of the obligation to apply for bankruptcy (Insolvenzantrags-pflicht) until the end of September and a partial extension until the end of April 2021 led not only to the granting of extensive bridge loans and guarantees but even to fewer company bankruptcies than in 2019 (January to September: −13% compared to the previous year).

GDP growth in % compared to the previous year

	2020 (expected) %	2019 %
Germany	– 5.0	0.6
Euro area	– 7.2	1.3
USA	– 3.4	2.2
Emerging markets	– 2.4	3.6
World economy	– 3.5	2.8

Source: German Federal Statistical Office, IMF

Central banks continue with expansionary monetary policy

Governments and central banks responded to the economic slump early in the year with extensive counter-measures that were prolonged during the course of the year 2020. The European Central Bank (ECB) left its key interest rates unchanged at −0.5% and 0.0%. It expects interest rates to remain low until significantly higher inflation becomes likely. The pandemic emergency purchase programme (PEPP) set up in March was replenished in June, increased again in December to €1,850 billion and extended to the end of March 2022. In addition, the ECB decided in December to expand and extend the refinancing facilities created for the banks and in order to maintain lending. Thus, monetary policy in the euro area remains strongly expansionary. The US Federal Reserve, on the other hand, was able to leverage its room for manoeuvre regarding interest rate policy by decreasing its key interest rates to a corridor of 0.00 to 0.25% to stimulate economic growth.

Financial markets have largely recovered from the coronavirus-related slump

After a strong and sudden collapse starting at the end of February 2020, share prices recovered at an increasing pace between the end of March and the beginning of September. This recovery was interrupted in September, but then continued again in November. At the beginning of 2021, many of the key indices had returned to close to or even above their pre-crisis levels. The expansionary monetary policy of the central banks worldwide had a strong impact on the yields of government bonds. The yields on German Federal bonds with ten-year maturities, for example, fell almost continuously during the course of the year after brief fluctuations during the crisis situation in March. The risk surcharges for peripheral European countries dropped significantly in the second half of the year. US government bonds, by contrast, started trending upwards again as early as the summer. The euro also profited in the increasingly optimistic capital market environment towards the end of the year, gaining in value to reach 1.22 US dollars to the euro at year-end 2020, a level not seen since the beginning of 2018.

Stable situation on real estate market

In spite of the massive economic downturn in 2020, the German real estate market remained stable. The residential segment in particular recorded further above-average growth in prices in the course of the year. As the construction industry – unlike most other economic sectors – was not subject to particularly severe restrictions, there are no indications of statistical distortions being a cause of the stable price trend. In fact, the Bundesbank also sees a pandemic-related structural change in demand for residential space as a reason for the consistently dynamic prices. This is also indicated by the fact that prices outside metropolitan areas continued to increase at a significantly higher rate than within those areas.

The trend in purchase prices and rent for commercial real estate, on the other hand, already started to turn downwards in the run-up to summer. Particularly in the retail segment prices fell when the first lockdown started.

Health care market: Legislation focuses on digitalisation

In 2020, progress was made on a range of draft legislation that promotes digitalisation in the German health care sector. The first medical applications based on the electronic data transmission infrastructure have been available to practices in their day-to-day work since mid-2020. The e-medication plan, the emergency data management system and the initial modules for communications within the medical sector (KIM) can be used for the first time.

After the Digital Health Care Act (Digitale-Versorgung-Gesetz, DVG) and the Digital Health Applications Ordinance (Digitale-Gesundheitsanwendungen-Verordnung, DiGAV) came into force, doctors were able to prescribe the first digital health care apps that could be charged to the statutory health insurers as of October 2020. Health apps for smartphones and tablets are thus becoming part of standard collective health care provision and manufacturers of digital medical products are gaining access to the primary health care market for the first time.

The Patient Data Protection Act (Patientendaten-Schutzgesetz, PDSG) determines the further refinement of this data transmission infrastructure and sets the necessary course for making digital offerings such as e-prescriptions and electronic health records (ePA) usable for all patients while at the same time protecting sensitive health data to the greatest extent possible.

Economic challenges for health care professionals during the coronavirus pandemic

2020 was a challenging year for the outpatient sector. Many pharmacies saw strong increases in growth at the beginning of the pandemic; however, demand dropped off sharply soon afterwards. Depending on their location and range of products and services, pharmacies were affected to different degrees by the coronavirus crisis. Shopping centre and train station pharmacies in particular, but also those that primarily generate their turnover from over-the-counter medicines, were worst affected by the restraint in purchasing behaviour. In September, the insolvency of pharmacy invoicing company AvP Deutschland GmbH resulted in additional financial difficulties for many pharmacists and led to liquidity bottlenecks. The insolvency proceedings began in November. It remains to be seen when and to what extent the outstanding receivables of the pharmacies affected will be settled.

Thanks to the rescue package included in the COVID-19 Hospital Relief Act (COVID19-Krankenhausentlastungsgesetz), the coronavirus crisis has so far had only a moderate impact on the financial situation of panel doctors and psychotherapists in the area of statutory health insurance. Compensatory payments limited total fee losses to 10%. By contrast, there was no compensation for fee losses on private medical services. During the pandemic, a variety of prevailing conditions were eased in order to enable medical treatment to be carried out digitally and to take the pressure off practices.

As a result of declining patient numbers along with a high proportion of self-payer services, dentists saw significant revenue losses, particularly in March and April. It was not until infection rates started to fall and the contact restrictions were eased in May that the volume of services gradually recovered, reaching a level in summer that was slightly below that of the previous year. Dentists were paid 90% of their total remuneration from 2019 as liquidity assistance; however, in the coming years they will have to pay back the entire amounts paid in excess for any non-rendered services.

While veterinary practices recorded a decline in revenue of around 20% in March, their financial situation started to recover in April.

Impact of coronavirus pandemic on the inpatient sector

The day-to-day work of clinics in 2020 was a balancing act between providing COVID-19-related emergency services and postponing plannable operations. To deal with the work load, a large number of regulations, for example regarding mandatory staffing levels, were temporarily suspended. In the medical technology industry, the significant decline in case numbers for elective operations led to considerable decreases in demand. In the initial phase of the pandemic, this was exacerbated by constraints on global supply chains as a result of national export restrictions. In the daycare segment and in short-term care in particular, there were fewer patients. Furthermore, there was a noticeable drop on the nursing care market in the number of referrals from hospitals. The situation was similar in the rehab sector, which was confronted with high levels of capacity risk and became the back-up for acute care hospitals.

The rescue packages for inpatient care were adapted a number of times during the year. Most recently, the Third Civil Protection Act (Drittes Bevölkerungsschutzgesetz), passed in November, introduced a needs-based graduated concept for hospitals. At the point in time this report was prepared, it was not possible to assess to what extent the sophisticated compensatory measures, developed within this concept for beds held vacant, will actually compensate for the loss in revenue due to postponed elective treatments. Financial assistance measures have also been implemented for the nursing care and rehab sector, primarily to balance out higher expenditure.

The coronavirus crisis has exposed the insufficient degree of digitalisation at many hospitals. In September, the German federal government therefore presented draft legislation in the form of the Hospital Future Act (Krankenhauszukunftsgesetz). This proposes an extensive subsidy programme of €3 billion to modernise emergency departments and digital infrastructure.

Business performance

Challenges in the banking sector remain

The prevailing economic conditions for banks remained challenging in the year under review (1 January to 31 December 2020). The persisting low-interest environment, technological innovations, changes in customer behaviour due to digitalisation as well as regulatory requirements have further exacerbated competition among banks. This leads to additional pressure, both on revenue and on costs. The banks are countering this by optimising processes and introducing cost reduction programmes. At the same time, implementation of the regulatory requirements entail considerable one-off costs, and the necessary IT investments are also high.

The coronavirus pandemic is an additional test of endurance. Its further course is uncertain, and the economic impact is also as yet unknown. Accordingly, neither can its consequences for banks be predicted – especially with regard to loan defaults. Confronted with the possibility that the situation may become critical, at least for some banks, the ECB called for those banks under its direct supervision to continue to suspend or limit their dividend pay-outs until at least 30 September 2021. The aim here is to minimise potential negative consequences of the pandemic. In taking this measure, the ECB primarily wants to bolster the stability of the banking sector, so that it can offer sufficient lending to support economic recovery.

Business performance satisfactory under challenging conditions

At apoBank, the year under review was characterised in particular by the migration to a new core banking system and the subsequent necessary adjustments. The migration date was 1 June 2020 after over two years of preparations. After the migration of the IT system, we and our customers experienced unforeseen problems – not all functions of the new system, for example in online banking, ran without error. The Bank is doing its utmost to resolve these issues quickly.

In spite of this, with regard to the earnings situation and against the backdrop of challenging conditions, we rate our business performance in 2020 as satisfactory overall. The Bank succeeded in achieving a net profit after tax to the amount of €65.3 million, which is the same level as the previous year (31 December 2019: €64.1 million).

In accordance with our statutory purpose, we support our members and customers in achieving their professional and private goals by offering specialised banking services. The number of remaining members increased to 116,055 (31 December 2019: 115,884 members).

Growth in the lending business continued. Loans and advances to customers rose again by 2.5% to €38.2 billion (31 December 2019: €37.3 billion). The reason for this rise was consistent demand from our retail and corporate clients. The securities portfolio grew due to the expansion of our liquidity reserve.

We refinanced our lending business primarily via liabilities to customers, which rose by 13.7% to €33.2 billion (31 December 2019: €29.2 billion). Securitised liabilities remained stable at €7.4 billion (31 December 2019: €7.4 billion). Liabilities to banks increased significantly. The reason for this was our participation in a long-term ECB tender. As a result, as at 31 December 2020, the balance sheet total reached €59.4 billion (31 December 2019: €49.6 billion).

Retail clients

Robust performance in retail clients business

In the Retail Clients business segment, we support the professional and private endeavours of pharmacists, physicians, dentists, veterinarians and psychotherapists. The period under review was particularly marked by the challenges to the German health care system resulting from the rapid spread of the coronavirus.

Growth in loan portfolio

The loan portfolio with respect to retail clients increased to €31.8 billion in the period under review (31 December 2019: €31.2 billion). This also includes easy-to-access liquidity assistance we provided to health care professionals to support them during the coronavirus pandemic.

The volume of business start-up financing[1] was €7.2 billion (31 December 2019: €7.5 billion).

The low-interest rate environment continued to ensure high demand for real estate financing. In the year under review, we started working with external partners, in particular online platforms for real estate financing. Overall, our portfolio decreased to €18.4 billion (31 December 2019: €19.1 billion). Investment and private financing amounted to €6.2 billion (31 December 2019: €4.6 billion).

Customer deposits up again

The average volume of demand, savings and term deposits of our retail clients reached €21.8 billion (2019: €19.4 billion).

Securities business with customers expanded

After significant disturbances on the stock markets in the first six months of 2020 due to the global spread of the coronavirus, the situation calmed down in the second half of the year. As at the end of the year, the deposit volume increased to €10.4 billion (31 December 2019: €9.7 billion). The volume of assets managed by us reached €4.4 billion (31 December 2019: €4.1 billion).

Insurance and building society business restrained

The life insurance business was down on the previous year, at €383 million (31 December 2019: €482 million). This decline is related to a lower demand for corresponding pension products.

In the building society business, the total contract volume was €339 million (31 December 2019: €575 million). Building society savings steadily lost their appeal to customers due to the low-interest rate environment.

Professional associations, institutional customers and corporate clients

Collaboration with professional associations representing groups of health care professionals and occupational pension funds

apoBank supports professional associations representing all groups of health care professionals in the areas of finance and health care. These include the associations of panel doctors and panel dentists, the chambers as well as professional organisations.

In the reporting period, apoBank continued to maintain its business relations with the professional associations. The average deposit volume amounted to €3.6 billion (2019: €3.8 billion).

1) Due to to the migration of the IT system, there are shifts in the reporting of start-up financing, real estate financing, investment financing and corporate client loans so that a comparison to the previous year's figures is only possible to a limited extent; some of the figures are indicative.

Individually tailored advisory concept for institutional investors
The customer group of institutional investors comprises occupational pension funds for the health care and other liberal professions, as well as other financial intermediaries. These include for example pension funds, insurance companies and foundations as well as church or municipal health care facilities.

Our range of products and services extends from advice to designing the actual investment solution and, finally, custody of the product.

Continuity in advisory mandates
We provide comprehensive support to our customers in managing their risk and earnings situation. With apoConsult+ we offer them independent advisory services to review their strategic asset allocation and to monitor risk on an ongoing basis. To complement this, we support them with a creditworthiness analysis and other services such as direct portfolio management and custody of their securities. Our tailored services remained in demand in the reporting period.

Depository business remains core business
The depository business is one of the key competencies offered by apoBank. As at the reporting date, we managed 231 funds (31 December 2019: 253); the depository volume increased to €22.5 billion (31 December 2019: €21.8 billion).

Continuous growth in the corporate clients business
In its Corporate Clients business segment, apoBank pools its integrated strategic advisory services for companies in the health care market. These are primarily pharmaceutical wholesalers and companies in the dental trade, pharmaceutical and medical technology corporations as well as private clearing centres. In addition, we support providers of inpatient care such as clinics, rehabilitation facilities and nursing homes. We accompany complex (real estate) projects from the planning phase through to implementation.

We recorded increased demand for financing across almost all segments in 2020 again, in spite of the coronavirus pandemic. The mandatory contact restrictions had a negative impact on the acquisition of new customers. In spite of continued intense competition, the loan volume in the Corporate Clients business area rose again, amounting to €4.9 billion as at the balance sheet date (31 December 2019: €4.3 billion). This also included liquidity assistance for companies in difficulty due to the lockdown.

Net assets, financial position and results

Net interest income up

In spite of the fact that the interest environment remained challenging, we posted a rise in net interest income of 8.6% to €750.4 million (31 December 2019: €691.1 million).

One main reason for the increase was lower interest expenses due to more favourable refinancing conditions.

New lending[1] amounted to €5.8 billion (2019: €7.6 billion). The decline compared to the previous year is mainly due to our decision to increasingly pass on real estate financing to partners.

On the liabilities side, the trend toward short-term demand deposits continued. We still do not charge any custodial fees for retail clients' deposits.

Overall, we slightly exceeded our target performance with regard to net interest income. The reasons for this included higher custodial fees due to the strong inflow of customer deposits as well as the pay-out from our special funds.

The net interest margin was 1.4% (2019: 1.5%).

1) Due to the IT migration, a comparison to the previous year's figures is only possible to a limited extent.

Growth in net commission income

Net commission income rose by 5.1% to €184.3 million (31 December 2019: €175.3 million). We performed well in our asset management business and in our securities business with retail clients. The bottom line was that commission-based business was marginally below our original pre-pandemic expectations.

General administrative expenses higher, as expected

In the reporting period, our general administrative expenses rose by 5.4%. At €720.9 million, these were markedly higher than planned (31 December 2019: €683.9 million). Personnel expenses decreased to €246.9 million (31 December 2019: €260.1 million). They thus remained considerably below the budgeted amount. Operating expenditure including depreciation rose to €474.0 million (31 December 2019: €423.9 million). The main reasons for this were the costs of the IT migration, which made up about a fifth of the administrative expenses, as well as other projects and higher regulatory expenditure. We had been anticipating an increase in operating expenditure; in the end, the rise was even higher than expected.

Operating result below previous year's level, as expected

The operating result, i.e. the profit before risk provisioning, at €184.7 million, was below the previous year's level, as expected (31 December 2019: €217.7 million). Nevertheless, the decline was ultimately stronger than expected. In addition to net commission income and operating expenditure, another reason for not meeting the budget in other operating income was an increase in the need for provisioning due to a bill received for back taxes.

Income statement

	1 Jan - 31 Dec 2020 €m	1 Jan - 31 Dec 2019 €m	Change %[1]
Net interest income[2]	750.4	691.1	8.6
Net commission income	184.3	175.3	5.1
General administrative expenses	– 720.9	– 683.9	5.4
Balance of other operating income/expenses	– 29.1	35.2	–
Operating profit before risk provisioning	184.7	217.7	– 15.1
Risk provisioning from the operating business[3]	– 40.1	– 43.5	– 7.9
Risk provisioning with reserve character[4]	– 33.4	– 57.1	– 41.4
Operating result	111.2	117.1	– 5.0
Taxes	– 45.9	– 53.0	– 13.4
Net profit after tax	65.3	64.1	1.9

1) Deviations possible due to rounding differences.
2) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies as well as income from profit transfer agreements.
3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.
4) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and to provisioning reserves.

Drop in risk provisioning for the operating business

Risk provisioning for the operating business was at -€40.1 million (31 December 2019: -€43.5 million). This means that risk costs after offsetting were over 40% lower than planned. So far it has not been necessary to carry out special risk provisioning related to consequences of the coronavirus pandemic.

Risk provisioning with reserve character amounted to -€33.4 million (31 December 2019: -€57.1 million). We were able to build almost twice as many reserves as planned.

Stable net profit after tax

The bottom line operating result, at €111.2 million, was slightly below target (31 December 2019: €117.1 million).

Net profit after taxes was at €65.3 million (31 December 2019: €64.1 million), and was thus on target. This result allows for a suitable dividend for members. However, as a bank directly supervised by the ECB, apoBank must continue to observe the current ECB requirements regarding dividend policy. These limit the possibility to pay out dividends and serve to stabilise the banking sector during the coronavirus pandemic.

The return on equity after taxes amounted to 3.5% (2019: 3.6%); the return on investment was 0.11% (2019: 0.13%).

Higher balance sheet total and comfortable liquidity situation

The balance sheet total rose very markedly to €59.4 billion as at 31 December 2020 (31 December 2019: €49.6 billion). Loans and advances to customers rose to €38.2 billion (31 December 2019: €37.3 billion). In connection with the coronavirus pandemic, we provided liquidity assistance in the low triple-digit million range for retail clients. In the case of corporate clients, the liquidity assistance was an amount in the mid-double-digit million range. The securities portfolio reached €8.0 billion (31 December 2019: €5.8 billion). This was due to the expansion of our liquidity reserve.

apoBank's liquidity situation remained comfortable throughout 2020. During the last financial year, we fulfilled the internal and external minimum requirements for our liquidity position. As a well-established market participant with good credit ratings, we secure funds for refinancing through various sources and support ourselves with a broadly diversified customer and investor base. The largest source of refinancing comes from liabilities to customers. In the period under review, these rose considerably to €33.2 billion (31 December 2019: €29.2 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €2.3 billion (31 December 2019: €2.5 billion).

We also issue covered bonds (Pfandbriefe), unsecured bonds (preferred and non-preferred), as well as subordinated issuances which we placed with our institutional clients, members of the cooperative FinanzGruppe and the capital market. Against the backdrop of the uncertain overall economic situation, we also drew down funds from the long-term tender offered by the ECB. This was the main reason why our liabilities to banks increased to €15.4 billion (31 December 2019: €9.6 billion). It is also the main driver for the very marked increase in the balance sheet total.

In the Pfandbrief business, we placed a further benchmark mortgage Pfandbrief at a value of €500 million on the European capital market in January 2020. This issuance served to create a liquidity buffer, and we took advantage of good market opportunities here. It also enabled us to weather the tense market environment from the beginning of March without difficulty.

The total volume of the Pfandbrief portfolio outstanding as at the reporting date of 31 December 2020 rose to €6.7 billion (31 December 2019: €6.3 billion).

In addition, we utilise refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks. In order to fulfil the regulatory requirements for liquidity, we held €6.4 billion in ECB-eligible securities as at the reporting date (31 December 2019: €4.2 billion). The main reason for the significant rise is that we invested existing excess liquidity.

Details on the number of members can be found in the “Business performance” section. The equity capital item is described in the section “Overall capital situation” in the risk management report.

Good rating assessment maintained

apoBank's creditworthiness, in other words its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor's. Standard & Poor's confirmed apoBank's good ratings in January 2021. Senior unsecured bonds are rated AA-. Bonds which are potentially used as a liability in a bail-in are defined by Standard & Poor's as senior subordinated bonds, these are rated A+. The outlook for the issuer credit rating continues to be negative due to the economic and industry-specific risks for German banks.

As apoBank is part of the cooperative FinanzGruppe and a member of the cooperative protection systems, the ratings by Standard & Poor's and Fitch Ratings for the cooperative FinanzGruppe also apply to apoBank.

Summary

In the customer business, the intense competition and the associated pressure on margins continued. The coronavirus pandemic as well as the migration of our IT systems created further difficult conditions for the business activities of the Bank. Nevertheless, we succeeded in increasing both net interest income and net commission income.

By contrast, general administrative expenses increased significantly. After lower risk provisioning from the operating business and lower allocations to reserves, net profit remained stable.

We view the liquidity situation as comfortable in the period under review. We benefited from a widely diversified refinancing base here.

Customer confidence in apoBank is also supported by the stability of the cooperative FinanzGruppe and its integration into the protection systems provided by the Federal Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V., BVR).

Sustainability report

The Bank complies with the legal obligation to publish a non-financial report in accordance with Section 289b HGB by issuing a separate report which follows the guidelines of the German Sustainability Code. The German declaration of conformity can be found at www.apoBank. de/nachhaltigkeit as well as on the website of the German Sustainability Code (www.deutscher-nachhaltigkeitskodex.de).

Risk Management Report

Principles of risk management and risk control

The main objective of apoBank's risk management is to secure the Bank's long-term existence. This includes guaranteeing its ongoing ability to pay out dividends and the option of retaining earnings beyond this to be able to finance its planned business growth.

Risk management at apoBank includes the following essential elements that contribute to achieving the objectives outlined above:
- risk inventory,
- business and risk strategy,
- organisation of risk management,
- the risk-bearing capacity concept including the stress test framework,
- the "Liquiditätstragfähigkeit concept" including the stress test framework,
- risk measurement, limitation and control,
- risk reporting as well as
- recovery governance and the resolution plan.

We discuss each of these items in more detail below. We then provide an overview of the development of the risk situation in 2020 and, pursuant to Article 435 of the Capital Requirements Regulation (CRR), we present the details of our risk management objectives and policy. apoBank's risk management system does not assess opportunities; it deals exclusively with risks.

Risk inventory

In the annual risk inventory, we determine the risk profile of apoBank with its participations and outsourced business operations, taking risk concentrations into account. The core element of the risk inventory is the identification of material risks for the Bank. apoBank considers risks as material when by virtue of their nature, scope and possible interaction, these risks can have significant influence on the Bank's capital and liquidity position. All identified risks are listed in the Bank's risk inventory.

The material risks for apoBank are credit risk, market risk, liquidity risk, business risk and operational risk as shown in the diagram on the following page.

In addition to the material risks, apoBank also examines risks that can have an indirect impact on material risks; these are also shown in the diagram. These risks are considered cross-sectional risks and are thus included in the risk control and risk-measuring procedures of the material risks. In this context, apoBank has identified reputation risk (incl. step-in risks) as well as model risk as being cross-sectional risks.

Credit risk

Credit risk refers to the potential loss that can result from the partial or entire default or the deteriorating credit-worthiness of a borrower or contractual partner, as well as from creditworthiness-related fluctuations in the value of equity positions.

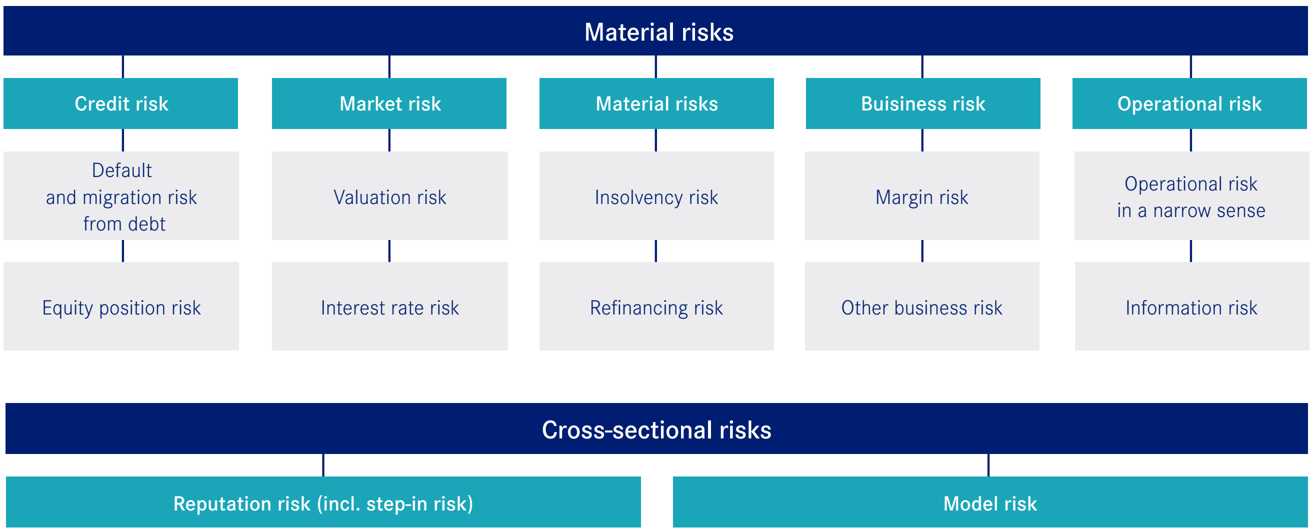
Market risk

Market risk is the potential loss that can occur due to changes in market prices (such as interest rates, credit spreads and exchange rates) and/or market parameters (e.g. market price volatility) for the positions held by apoBank. The impact of these risks is calculated both with regard to the periodic income statement as well as present-value parameters.

Liquidity risk

With respect to liquidity risk, we distinguish between insolvency risk and refinancing risk. Insolvency risk is the risk that apoBank may not be able to meet its current or future payment obligations in whole or in part.

Classification of apoBank’s types of risk



Refinancing risk is understood as being the threat of higher refinancing costs due to higher credit spreads of apoBank and/or changes in the liquidity situation on the money and capital markets.

Insolvency risk is a main component of the Internal Liquidity Adequacy Assessment Process (ILAAP). The refinancing risk is considered in the Internal Capital Adequacy Assessment Process (ICAAP).

Business risk

Within business risk, a differentiation is made between margin risks and other business risk.

Margin risk quantifies the discounting risk from the contracted margins of the concluded transactions.

Other business risks are defined by the Bank as unexpected developments in material and personnel costs, as well as risks from other operating expenses and income that are not already included within operational risk.

Operational risk

apoBank defines operational risk as possible losses resulting from inadequate or failed internal processes or systems, or from human error or as a result of external events. This definition includes legal risks and information risks.

Reputation risk is also explicitly included in this risk category.

Reputation risk

apoBank defines reputation risk as the risk of direct or indirect economic disadvantages due to a loss of trust in the Bank on the part of its members, customers, employees, business partners or the general public. Step-in risks, i.e. the risk of supporting strategic investments above and beyond the contractual obligations, for example, are an implicit part of the risk measurement of reputation risks.

Model risk

Model risk describes the risk that the methods and procedures used may become inaccurate or inappropriate in the course of changing circumstances and that the risk calculated using this model will be inadequate, with regard to both individual risk and risk on an aggregated level.

Business and risk strategy

apoBank's strategic objectives and strategic measures to ensure the Bank's long-term success are defined in the business and risk strategy. The content of this strategy is the outcome of the strategy process, which is carried out annually and additionally as required.

The overarching parameters for the risk appetite of the Bank are defined in the risk strategy. Binding risk guidelines have been specified for all business segments. Compliance with these guidelines is monitored as part of overall bank control. The responsible decision-making bodies are informed in the course of ongoing reporting about compliance with the risk guidelines and the quantitative and qualitative specifications resulting from the risk appetite, such as minimum requirements for ratings, restrictions on maturities or limits.

Organisation of risk management

Organisational principles

The risk management system at apoBank is organised according to the Three Lines of Defence model and ensures that risks are recognised, evaluated, controlled and monitored. In this process, the front-office/sales functions on all hierarchy levels are kept functionally and organisationally separate from the back-office/risk management and risk control functions in order to avoid conflicts of interest and maintain objectivity. The principle of dual control is applied up to the level of the Board of Directors to enhance the reliability of decision-making and processes.

The entire Board of Directors is responsible for the risk inventory, the business and risk strategy, as well as the appropriate organisation and structure of risk management. It is also responsible for the adequate design of the internal capital and liquidity adequacy processes, including limiting the risk appetite with regard to the capital and liquidity position.

The front-office functions at apoBank are responsible for operational management; together with the back-office function, these constitute the first line of defence. They monitor business operations on an ongoing basis and contribute by means of their original (control) task to recognising, evaluating and reducing risks. In addition, the back-office function monitors credit risk in the customer as well as the financial instruments and participations portfolios at the levels of individual borrower, issuer and counterparty.

The risk control function is responsible for the methods and models used to identify, measure and limit risks, as well as for compliance with further requirements, independent monitoring and risk reporting at portfolio level. Together with the compliance function, it constitutes the second line of defence.

The Internal Auditing division is an essential component of the Bank's independent monitoring system and constitutes the third line of defence. It conducts downstream audits of the organisational units involved in the risk management process to check their compliance with the agreed regulations and controls.

apoBank introduced recovery governance to institute the organisational conditions for convening a recovery committee in crisis situations, as well as the function of recovery coordinator.

Accounting management and control

The Bank has its own internal control system related to financial accounting. This consists of principles, procedures and measures that serve to ensure the effectiveness, efficiency and correctness of accounting and compliance with the relevant legal regulations. The internal control system for accounting ensures that business matters are always recorded, processed and recognised properly and entered into the accounts correctly. Internal Auditing monitors the correctness and functional reliability of the processes and systems across all processes and, in particular, evaluates the effectiveness and appropriateness of the accounting-related internal control system.

Issues of particular relevance to risk

As part of risk management, the Bank has defined the following topics related to internal processes to which it attaches particular risk relevance:
• outsourcing,
• lending competence,
• new products process as well as
• change of operational processes or structures

For these topics, the Bank has implemented special procedural and organisational rules, thus accounting for their relevance to risk.

Risk-bearing capacity concept including stress test framework

Risk-bearing capacity concept

The risk-bearing capacity concept is the operational tool of the Internal Capital Adequacy Assessment Process (ICAAP) and serves to monitor the capital adequacy of the Bank on an ongoing basis. It sets the different capital parameters against risk and exposure parameters.

Further components of the risk-bearing capacity concept are a sophisticated monitoring system for the capital ratios as well as limits and applicability criteria for the material risks, and building on these, suitable escalation mechanisms as well as the corresponding reporting.

In line with the regulatory specifications of the ICAAP guidelines of the European Central Bank (ECB), apoBank's risk-bearing capacity concept includes a normative and an economic perspective. Both perspectives aim to ensure the continuing existence of apoBank and enable a sophisticated view of the capital adequacy of the Bank based on different parameters and observation periods. In addition, the two perspectives complement each other in that the respective capital that can be burdened by losses incurred is set against risks pursuant to supervisory or regulatory minimum specifications as well as to economic benchmarks.

In the normative perspective, the capital adequacy is described based on the current and/or expected regulatory and supervisory specifications. The starting point for ongoing monitoring is the annual capital planning. On this basis, the development of the capital performance indicators is monitored over a rolling period of at least three years. In addition to the original planning data, key realisations from regulatory/supervisory developments, the current business performance as well as other measures and matters with identifiable impact on capital or risk-weighted assets (RWA) are taken into account.

In the economic perspective, capital adequacy is considered based on economic standards, taking account of all material risks for the Bank. The risk quantification is based on a reference date.

Internal capital includes all capital positions that are available to the Bank for compensation of future losses. This primarily comprises the parts of the regulatory capital that can be used for loss compensation. This definition of internal capital is deliberately defined more conservatively than the internal economic value that an external investor would pay for the Bank under consideration of its future earnings potential and simultaneous expenditure. Nevertheless, when calculating capital, economic elements such as hidden reserves and burdens in the financial instruments portfolio are considered.

The economic risks are measured at a confidence level of 99.9% and a holding period of 250 days. Diversification effects between the risk types are not taken into account. The risk-bearing capacity calculation results in the economic capital ratio. This is the ratio of internal capital to the measured economic risks.

In addition to the risk appetite limits specified in the traffic light system for the regulatory capital ratios and the economic capital ratio, the Board of Directors decides on a normative and economic Bank-wide limit that is spread in the form of applicability criteria across the exposure classes of risk-weighted assets and material risk types.

Stress test framework

The risk-bearing capacity concept also includes scenario calculations that take account of the effects of unplanned developments on the capital adequacy of the Bank.

In the normative perspective, this takes place in the form of two adverse scenarios that calculate the effects of unusual but plausible developments on the capital adequacy of the Bank over a multi-year period.

The “economic crisis” adverse scenario is guided by the macro-economic premises of the ECB stress test and takes account of the effects of a multi-year economic crisis, under consideration of the individual risk profile of the Bank.

The “business model crisis” adverse scenario maps out unexpected developments in the core markets resulting from the business model of the Bank and complements these with further strategic risks relevant for the Bank.

The economic perspective includes three Bank-wide stress tests that use various scenarios to identify how unusually negative but plausible developments affect the economic capital ratio of the Bank.

In the “health care market crisis” stress scenario, a model of potential structural changes on the German health care market and the resulting impact on apoBank’s business model is set up.

In the “financial market and sovereign crisis” stress scenario, a model is set up of serious distortions on the financial markets with extensive implications for the real economy, based on observations of the debt crisis in Europe as well as historical experience from the financial market crisis of 2008 and 2009.

The “crisis of confidence and real estate” stress scenario examines both the impact of extensive reputational damage and a subsequent loss of customer confidence in apoBank as well as the effects of significant losses in value on the real estate market.

In addition, the Bank addresses current changes in internal and external conditions such as the coronavirus pandemic and uses ad-hoc scenario calculations to consider potential risks. For example, a coronavirus stress scenario was implemented ad-hoc in 2020 to calculate unexpected impacts of the pandemic on the financial situation of the Bank. This ad-hoc stress calculation was further refined as more became known – in particular regarding the consequences of the pandemic for the health care market.

In addition, the Bank carries out reverse stress tests in both perspectives of the ICAAP. These analyse under which circumstances apoBank’s business model would either no longer be economically sustainable or only to a limited degree.

Events are identified that endanger apoBank’s ability to survive and can lead to the business model being no longer or only to a limited extent sustainable.

Non-sustainability or limited sustainability of the business model occurs in the normative capital perspective if the regulatory and supervisory capital requirements are no longer fulfilled, or are fulfilled to a limited extent only.

With regard to the economic capital perspective, non-sustainability of the business model occurs if the minimum requirement applied to the economic capital ratio is no longer fulfilled.

In addition to analysing the effects of individual events, the reverse stress tests also analyse combinations of possible events and are critically examined with regard to possible sensitivities in the risk profile of the Bank.

The “Liquiditätstragfähigkeit concept” including stress test framework

Liquiditätstragfähigkeit concept

The ILAAP guidelines of the ECB designed to assess liquidity adequacy specify how the Liquiditätstragfähigkeit concept is to be structured. We understand the German term Liquiditätstragfähigkeit to mean that sufficient liquidity reserves are available to cover the risks from future payment obligations. Management of Liquiditätstragfähigkeit is an integral part of company control at apoBank and is considered from economic and normative perspectives.

The normative perspective takes account of the rules of the CRR and the national specifications of the Capital Requirements Directive IV (CRD IV), and is based in particular on the liquidity ratios LCR (liquidity coverage ratio) and NSFR (net stable funding ratio). It aims to assess the ability to fulfil the minimum regulatory requirements (plus a management buffer set internally by the Bank). This is carried out both in an actual scenario as well as future-oriented scenarios.

The LCR specifications determine apoBank’s liquidity stock. This is why, in addition to the daily monitoring of the actual key figure, a daily forecast of the LCR takes place. The NSFR is also calculated regularly in order to create transparency regarding fulfilment of the future minimum limits.

An internal limit system reflecting the risk appetite of the Board of Directors ensures that the actual figures and the forecasts of the LCR are adequately monitored.

A longer-term view of both key figures is carried out within the framework of the annual business and mid-term planning.

Economic liquidity control is based on the analysis and juxtaposition of all cash inflows and outflows in a liquidity gap analysis, which is prepared over a rolling period of the following twelve months. The liquidity gap analysis shows the future development of liquidity under different scenarios. In addition to the liquidity gap analysis, the development of liquidity is also tracked on an intraday basis in order to swiftly identify unplanned liquidity events and to limit unplanned liquidity outflows.

In addition, longer-term liquidity management is monitored using a refinancing analysis. Here, the annual gaps on the liabilities side are set against the refinancing potential of the Bank over a period of up to ten years. This is done in order to gain knowledge about its ability to continue as a going concern in the longer term.

Stress test framework

The liquidity gap analysis shows the future development of liquidity in different scenarios. These include the specifications of the business planning in the expected plan scenario, the overarching assumptions of the adverse scenarios as well as the macro-economic and institute-specific Bank-wide stress tests, in line with the ICAAP scenarios. In addition, in order to account for the regulatory specifications, a combined Bank-wide stress test is carried out in the economic liquidity analysis.

For all scenarios it is required that sufficient liquidity stock be available to cover the liquidity outflows. Here, the risk appetite of apoBank is rendered both by the accepted survival period, which is reflected in the limit system, and by the stress parameters applied.

The liquidity stock consists of liquid securities, cash reserves and overnight deposits with banks or the ECB. In addition to the scenario analyses, a further factor that determines the required volume of liquidity stock is the assurance that all pledged requirements are fulfilled.

In the analysis of Liquiditätstragfähigkeit, too, reverse stress tests complement the risk analyses. The ability of apoBank to continue as a going concern is examined from a liquidity-oriented perspective.

In the liquidity perspective, apoBank becomes unable to continue with its business model when the minimum requirements are no longer fulfilled. In the normative perspective, these are the LCR, the LCR forecast as well as the NSFR, and in the economic perspective the survival period under stress.

Risk measurement, limitation and control

Risk concentrations

apoBank also reviews the risk concentrations associated with the above-mentioned material risks at least once a year. Here, the Bank differentiates between strategic and specific risk concentrations.

Strategic risk concentration follows from apoBank's business model and relates to the health care sector, with a focus on the associated customer business. The Bank defines specific risk concentration as the risk of potential negative consequences resulting from an undesired, uneven risk distribution among customers or within regions/countries, industries or products, or above and beyond these.

Concentrations are analysed and monitored within the material risk types (intra-risk concentration) as well as between the material risk types (inter-risk concentration). They are incorporated into the Bank's risk appetite framework (RAF) when there is a fundamental need for control.

Credit risk

In credit risk management, a distinction is made between the business segments of Retail Clients, Professional Associations and Large Customers, Treasury, and Participations. The unexpected loss (UEL) for credit risks as recognised in the risk-bearing capacity is determined based on portfolio data and taking into account concentration effects, and is limited at a Bank-wide level.

In addition, in the case of credit risk the volume is limited and monitored at individual borrower level and also at portfolio level, depending on the extent of control needed. Here, both individual risk and material risks from group exposures or the risk category are taken into account. In order to monitor regional distribution of credit exposure at overall portfolio level, apoBank uses a system of country limits.

The risks are limited depending on fundamental country-specific macroeconomic data, the current creditworthiness of the respective country and apoBank's equity situation.

Credit risk is measured based on specific internal and external rating systems, the results of which are rendered comparable using a master scale. The quality of the internal rating systems is constantly monitored; they are validated on an annual basis and improved, if required. The validation results are documented annually for each rating model.

apoBank regularly agrees on collateral with its customers in the lending business. In particular, eligible collateral includes the assignment of receivables (such as earned income) and life insurance benefits, guarantees, the pledging of securities, the assignment or pledging of assets as well as mortgages. A proportional valuation limit (loan-to-value ratio) is assigned to each bankable collateral which can be evaluated based on its properties and other factors.

In order to reduce the counterparty risk from derivative transactions, master netting agreements (offsetting of opposite positions) are concluded and apply across products. In addition, apoBank uses collateral management (collateral for open positions) for derivatives.

Retail Clients business segment
The Retail Clients business segment primarily consists of loans to health care professionals, cooperations in outpatient care and smaller companies in the health care sector if these companies' risks can be assigned to health care professionals.

To manage this business segment, apoBank makes use of apoRate, a rating procedure which has been specially developed in-house and tailored to apoBank customers, in addition to customer-specific economic analyses. On this basis and combined with our excellent expertise in the health care professions segment, established over many years, these tools are suitable risk and early warning indicators. They are the basis for early detection of potential payment disruptions.

Standardised processes of intensive loan management and problem loan management are applied when dealing with customers in this business segment. If the detected risks have a visible impact on the customer's creditworthiness, these customers are subject to a process of intensive loan management with the objective of transferring them back to standard loan management as soon as possible.

Problem loan management comprises a catalogue of measures that we develop together with the customer, which serves to resolve their liquidity or earnings problems. The customer is primarily looked after by the regional loan management's special customer service teams. Their responsibility is to support the customer during the recovery phase or – if a recovery is not possible – to pursue the termination of the commitment.

A risk provisioning dataset is automatically generated in the apoRiVo system for any customer that is transferred into the special customer management category. The level of risk provisioning is always initially determined automatically by the system and for each customer individually based on the debt they are capable of taking on. If no capacity for debt was identified or if it is unlikely that the loan can be repaid, the unsecured portion is generally used for risk provisioning. The same applies when - due to the customers' age - the information on income or asset status as influencing factors does not provide a legitimate basis for calculation.

The Problem Loan and Receivables Management department at headquarters supports the regional loan management teams and the branches in asserting apoBank's claims against debtors in arrears.

Professional Associations and Large Customers business segment

apoBank allocates to the Professional Associations and Large Customers business segment loans it makes to institutional health care organisations, larger medical care structures, health care companies and other institutional clients.

Sophisticated rating procedures are used in this business segment. Commitments to institutional organisations in the health care sector concern loans to legal entities of public law, mainly to professional organisations and associations of the health care professions.

According to the CRR, this business segment is part of the exposures to institutions; it is evaluated using a rating model designed by apoBank. Due to the special characteristics of these customers, the rating procedure focuses on the operator of the respective entity in addition to qualitative aspects.

Health care company loans are primarily granted to enterprises in the area of inpatient and outpatient health care as well as retailers for pharmaceutical, dental or medical products as well as to private medical clearing centres in the health care sector. The Corporates rating model offered by CredaRate GmbH is applied to assess the risk of those companies.

apoBank uses CredaRate GmbH's Commercial Real Estate rating model for commercial real estate financing exposures in the medical sector. The model evaluates relevant corporation-specific and real estate-specific risk factors in order to accurately assess the borrower's creditworthiness.

Treasury business segment

The investment of available funds in the money and capital markets is used for liquidity and balance sheet structure management at apoBank. These money and capital market investments as well as derivative transactions are combined in the financial instruments portfolio. In addition to classical securities and money market instruments for liquidity management, it also and in particular includes derivatives to manage the Bank's interest rate risk. apoBank also invests to a limited extent in start-up financing and co-investments in fund products sold to customers.

The VR bank rating of DZ BANK as well as external ratings for public debtors (government bonds, among others) are the primary tools used for assessing creditworthiness in the Treasury business segment. apoBank has also established various early risk detection tools and processes.

Participations and Corporate Center business segment

This business segment consists of the participations and Corporate Center business areas. The participations business area is responsible for the acquisition, management and sale of participations. Depending on the business purpose, we differentiate here between strategic participations and financial participations.

The Corporate Centers support the Board of Directors in the management of the Bank by advising and supporting it in the areas of strategy, risk management and control.

In addition, the Corporate Centers assist the business segments in their activities.

Market risk

The market risks faced by apoBank are integrated into general risk management. This is based on a sophisticated system of risk measurement and risk control. The market risks of apoBank primarily lie in its overall interest rate risk and the valuation risk that results from changes in the credit spreads in the Treasury business segment.

Currency risks are hedged to the greatest extent possible. apoBank is not subject to any material foreign currency risk overall; it is therefore not necessary to allocate the parameters involved to individual currencies. apoBank's business and risk strategy does not allow for active trading of securities, for example, to exploit short-term fluctuation in prices.

In order to reduce market risk and hedge its transactions, apoBank regularly employs interest and currency derivatives both at the level of individual transactions (micro hedges) and at Bank-wide level (strategic interest rate risk management). In addition, portfolio hedges cover the risks of multiple underlying transactions of the same type via one or more hedging instruments. Furthermore, interest rate derivatives are concluded at Bank-wide level as part of strategic interest rate risk management to align the interest cash flow with a strategic benchmark. To secure the exchange rate of foreign currency items, apoBank uses forward foreign exchange transactions, FX and cross currency swaps. The portfolio valuation units concern the FX forward transactions, FX swaps as well as syndicated loans in foreign currencies.

Interest rate risk

The Bank-wide strategic interest rate risk management is based on an integrated management approach which includes both periodic and present-value parameters. Our management objective is to achieve a moderate interest rate risk position at Bank-wide level and thus to continuously develop interest income. The allocation takes place via extensive interest rate simulations over several budget years and their impact on the Bank's future net interest income. The interest rate risk position, which results primarily from the Bank's customer business, focuses on the long term using derivative management instruments.

A key component in determining the present-value risk is the value at risk (historic simulation), which is calculated based on a large number of possible interest rate scenarios over a long period of time. In combination with the economic risk limit derived from the economic risk-bearing capacity, this control parameter results in our interest rate risk position.

Another key indicator for monitoring the present-value interest rate risk from a regulatory perspective is the Basel II interest rate risk coefficient. It provides information on the relationship between the loss of present value in the event of an ad hoc shock of +/– 200 basis points and the Bank's regulatory capital.

The periodic interest rate risk is monitored using interest rate simulations that quantify the effects of adverse interest rate developments on the net interest income of the Bank. Here, precisely defined early warning limits allow for early counteraction to be taken if necessary.

Valuation risk of financial instruments

We also calculate a value-at-risk based on a historical simulation to measure the valuation risk of the financial instruments. We differentiate between operational control, by which the value at risk is parameterised based on the market performance of the previous 250 days, and strategic control within the framework of economic risk-bearing capacity. As in the case of interest rate risk, the parameters here are based on a longer history, which also includes the financial crisis.

The valuation risk model used is validated by backtesting methods (mark-to-model and mark-to-market backtesting).

Liquidity risk

The highest priority of liquidity risk management at apoBank is to guarantee the solvency of the Bank at all times, taking account of regulatory and economic requirements.

apoBank has a liquidity stock that on the one hand covers all payment obligations (economic liquidity stock) and on the other hand fulfils the regulatory requirements (normative liquidity stock). The securities in the liquidity stock can be sold or used as collateral at any time. This ensures maximum fungibility of the Bank's assets, both in the event of a regulatory as well as an economic crisis, and thus secures its solvency. In order to determine the required liquidity reserves, we compare the effects of the economic stress scenarios on liquidity against the results of the normative LCR calculation. The requisite with the highest liquidity outflows represents the bottleneck and indicates the liquidity reserve that must be held.

In addition, by means of regular issuances, apoBank ensures that refinancing options on the unsecured and secured money and capital markets are available in the long term. The refinancing planning is linked to the business planning process and the specifications of the business and risk strategy. Key aspects of refinancing planning are maintaining an adequate maturity structure, as well as sufficient diversification. A key refinancing source of apoBank are covered bonds (Pfandbriefe). In order to fulfil the statutory requirements set for issuers of covered bonds, the security of their recovery is monitored and controlled on a daily basis. The loans in the cover pool are always selected defensively.

Suitable instruments are used to ensure that the specifications set out in the business and risk strategy with regard to the risk appetite are fulfilled at all times. These include a consistent limit system for the LCR and the survival period under stress, the setting of minimum limits for the LCR forecast, and the intra-day liquidity position as well as upper limits for the maximum long-term refinancing gap and for the volume of the pledged assets.

Our liquidity contingency plan, which is revised annually, ensures a fast and coordinated response to possible crisis events.

The costs of the liquidity reserve to be held by apoBank are to be borne by the responsible business areas. To assign the liquidity risks and costs according to their source and offset them, apoBank uses an internal liquidity price allocation system.

In addition to the insolvency risk, apoBank regularly calculates the refinancing risk. The calculation is carried out using the liquidity value at risk, with the focus on the long-term continuing operation of the Bank. The liquidity gap analysis is used to calculate the open liquidity gaps that are subject to a possible change in value. The risk is calculated by offsetting the gaps against risk-adjusted spread premiums.

Business risk

Generally, it is not possible to limit business risks via financial instruments that can be traded on the market. Regardless of this, the risk measurement shows by way of low historical plan/actual deviations that the planning process is supported by appropriate premises.

Both cost risk and other income statement-related risk are assessed by means of a value-at-risk approach (variance-covariance method) based on historical deviations from targets. Cost risks are constantly monitored and controlled through a defined cost management process.

The margin risk is quantified using a value-at-risk approach based on a historic simulation, which is calculated based on a large number of possible interest scenarios over a long period of time.

Operational risk

The starting point for controlling operational risk is the identification of potential operational risks by the local risk managers based on self-assessments. The local risk managers are also responsible for developing, implementing and monitoring measures to control all significant operational risks identified.

Risk Controlling verifies the plausibility of the self-assessment results, compiles and analyses them, and then presents them to the Board of Directors. The key data on the losses incurred from operational risks are recorded in the central risk event database.

Legal risks from standard operations are reduced using standardised contracts. The effects of insurable risks are alleviated by obtaining suitable insurance coverage, if this is economically reasonable.

The measurement of unexpected losses from operational risks in the economic risk-bearing capacity is based on the standard regulatory approach.

Risk reporting

apoBank has a standardised reporting system that covers developments in the business areas as well as the material risks of the Bank. It is the basis for detailed analyses of the economic and risk position of the Bank, for deriving and evaluating alternative actions as well as deciding on risk control and limitation measures.

The Bank's risk management report is a key component of risk reporting. It serves to inform the Board of Directors especially about the ICAAP and ILAAP results, including developments in the material risk types. Further addressees of the risk report are the Supervisory Board of the Bank as well as the Joint Supervisory Team of the European banking supervision authority. The valuation risk in the financial instruments portfolio is monitored daily and reported weekly to the Board of Directors in the proprietary trading report.

Issues within the financial instruments portfolio that are relevant for early warning are reported on an ad hoc basis to a specific group of recipients.

As monitoring bodies, the Supervisory Board and its Loan and Risk Committee are informed regularly about the current economic situation and risk position of the Bank as well as about risk control and limitation measures. The Loan and Risk Committee advises on the granting of loans and also discusses significant investment decisions, the sale and purchase of properties and the acquisition and divestment of participations. The committee held a total of four meetings in the 2020 financial year.

Recovery governance and the resolution plan

Pursuant to the legal and regulatory requirements of the Recovery and Liquidation Act (Sanierungs- und Abwicklungsgesetz, SAG) and the Minimum Requirements for the Design of Recovery Plans (Mindestanforderungen and die Ausgestaltung von Sanierungsplänen, MaSan), the Bank has a recovery plan that was further refined according to a regular schedule in the year under review, as well as corresponding governance.

As a Single Supervisory Mechanism Institute (SSM institute) supervised directly by the ECB, apoBank is subject to direct liquidation monitoring by the European authority for liquidation, the Single Resolution Board (SRB). To allow the European liquidation authority to establish a resolution plan, apoBank submitted the relevant information in the year under review.

Details on the development of the risk position in 2020

Overall capital situation

Since 2019, apoBank has aligned its ICAAP with the binding ICAAP guidelines of the ECB. In the ICAAP, a sophisticated approach comprising a normative and an economic perspective is taken towards controlling the capital situation. In order to comprehensively monitor the capital adequacy, the correlations between the two perspectives are taken into account.

Capital situation – normative perspective
In 2020, apoBank's capital ratios were above the binding and recommended minimum capital requirements both on each reporting date and in the rolling three-year capital forecast also carried out on the same dates. Compared to the previous year, the capital ratios rose considerably as at 31 December 2020. The Bank rates its improved capital situation as good overall.

As at the balance sheet date, the total capital ratio of apoBank pursuant to the CRR amounted to 18.0% (31 December 2019: 16.5%) and the common equity tier 1 capital ratio was at 16.3% (31 December 2019: 15.2%). apoBank's equity ratios as at 31 December 2020 thus clearly exceeded the internal targets. The minimum requirements, internal warning thresholds and target ratios are also complied with in the rolling three-year capital forecast.

Regulatory capital amounted to €2,720 million as at 31 December 2020, a substantial increase on the previous year's figure (31 December 2019: €2,519 million). This rise was mainly driven by growth in common equity tier 1 capital, which climbed from €2,325 million at the end of 2019 to €2,459 million.

Risk-bearing capacity (normative perspective)

as at 31 December 2020	€m	Total capital ratio %
Regulatory capital	2,719.6	
Risk-weighted assets (RWA)	15,095.1	18.0

Risk-bearing capacity	Actual risk €m	Utilisation of applicability criteria %
Sovereign states	1.8	not relevant
Institutes	608.9	72.5
Companies	3,564.5	83.5
Retail business	8,599.0	87.7
Participations	753.2	88.6
Other assets	281.2	93.9
Other RWA[1]	1,286.4	93.2

1) RWA for operational risk, market risk positions, credit valuation adjustment (CVA) and settlement risk.

The increase in common equity tier 1 capital was mainly due to three effects: On the one hand, our equity position was considerably strengthened by allocations to the fund for general banking risks from the 2019 earnings. In addition, in December apoBank reallocated reserves according to Section 340f of the HGB, of which only a small share could be declared as regulatory capital (tier 2 capital), in the amount of €50 million to reserves according to Section 340g of the HGB. Furthermore, the common equity tier 1 capital was considerably unburdened by a change in supervisory legislation that came into force in the last quarter of the year regarding the treatment of intangible assets.

By contrast there was a burdening effect due to the decline in offsettable members' capital contributions to €1,197 million (31 December 2019: €1,222 million).

Tier 2 capital increased significantly overall to €261 million (31 December 2019: €194 million). Here, it was mainly the regulatory changes that led to decreased assignability of uncalled liabilities to capital as well as the above mentioned reallocation of reserves according to Section 340f of the HGB that led to a decrease in tier 2 capital. This decrease was more than compensated for by emissions of subordinated capital amounting to a total volume of €112 million that were assignable as tier 2 capital.

Risk-weighted assets were almost at the level of the previous year, amounting to €15,095 million as at 31 December 2020 (31 December 2019: €15,294 million). The utilisation rate of the Bank-wide limit of €17,450 million was 86.5% as at 31 December 2020.

The continued expansion of the lending business both with retail and corporate clients effected an increase in the RWAs. By contrast, the reduction in equity-binding securities decreased the burden on the RWAs. With respect to the retail exposures , there were a number of different opposing effects. This applies to parameter modifications to our rating models specified by supervisory legislation and agreed upon with supervisory authorities with the aim of developing the rating models further.

The leverage ratio pursuant to transitional arrangements amounted to 4.7% (31 December 2019: 4.4%); it therefore continued to be very significantly above the regulatory minimum requirement of 3.0%.

Capital situation – economic perspective
In the economic perspective of the ICAAP, the internal target ratio was complied with on all reporting dates in the past year.

The economic capital ratio, which represents the relation between the risk cover potential and the economic risks, was at 146.5%. This is significantly below the level in the previous year (31 December 2019: 177.0%) but once again above the internal target ratio.

Risk-bearing capacity (economic perspective)

as at 31 December 2020	€m	Economic capital ratio %
Risk cover potential	2,944.3	
Bank-wide risk position	2,009.2	146.5

Material risks	Actual risk €m	Limit utilisation %
Credit risk	1,110.6	88.8
Liquidity risk	430.5	87.9
Operational risk	69.6	58.0
Market risk	288.7	96.2
Business risk	109.9	91.6

Risk cover potential amounted to €2,944 million, and was thus at the same level as the previous year (31 December 2019: €2,932 million).

With a stable risk cover potential, the decline in the economic capital ratio results from an increase in the economic risks (unexpected losses, UELs) measured based on a confidence level of 99.9%. As at the end of the year under review, they amounted to €2,009 million, significantly up by €352 million on the previous year's figure. Details on the development of the individual economic risks are presented and explained in the following paragraphs. As at 31 December 2020, the utilisation rate of the Bank-wide limit of €2,320 million decided upon by the Board of Directors was 86.6%. Utilisation of the Bank-wide limit was thus slightly higher than in the previous year (31 December 2019: 82.9%).

Credit risk

The UEL from credit risks faced by apoBank was €1,111 million as at the end of December 2020 (31 December 2019: €869 million). The threshold

The rating system of apoBank

Meaning	Rating class (BVR master scale)	Probability of default %	External rating class[1]
Commitments with **excellent** creditworthiness, no risk factors (standard loan management)	**0A**	0.01	Aaa
	0B	0.02	Aa1
	0C	0.03	Aa2
	0D	0.04	
	0E	0.05	Aa3
Commitments with **good** creditworthiness, individual risk factors (standard loan management)	**1A**	0.07	A1
	1B	0.10	A2
	1C	0.15	
	1D	0.23	A3
	1E	0.35	Baa1
	2A	0.50	Baa2
Commitments with **low** risks (standard loan management)	**2B**	0.75	Baa3
	2C	1.10	Ba1
Commitments with **greater** risks (intensive loan management)	**2D**	1.70	Ba2
High-risk commitments (problem loan management)	**2E**	2.60	Ba3
	3A	4.00	B1
	3B	6.00	B2
High-risk commitments (problem loan management)	**3C**	9.00	B3
	3D	13.50	
	3E	30.00	Caa1 to C
Commitments **threatened by default** (according to CRR definition) – Commitments overdue by more than 90 days – Commitments with a loss provision from last or this year (problem loan management) – Write-offs – Insolvency – Commitments of customers in the probationary period after all reasons for default have ceased to be valid (4W)	**4A to 4E** **4W**	100.00 100.00	D
No rating			

1) According to Moody's rating system. The internal apoBank rating classes (BVR master scale) are compared with the external rating classes based on the probability of default. As the BVR master scale is broken down into very small categories and contains more rating classes than Moody's, not all external rating classes are matched with an internal one.

value criterion for credit risk derived from the Bank-wide economic risk-bearing capacity limit was complied with on all reporting dates.

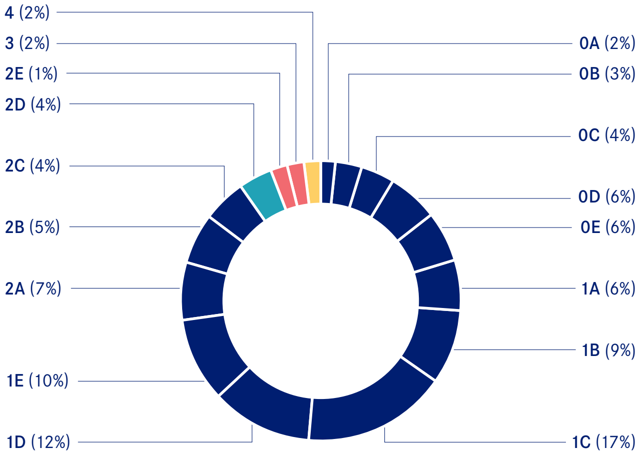
UEL grew by around 28% year on year. The reason for this rise lies mainly in the financial instruments portfolio, where securities were purchased to optimise the costs of holding liquidity reserves. In the customer business, the increase is mainly due to growth in loans.

The key developments in credit risks for the individual business segments are presented below.

Rating class distribution in the retail clients portfolio

Volume distribution based on drawdowns

Total of €33.399 millon[1]

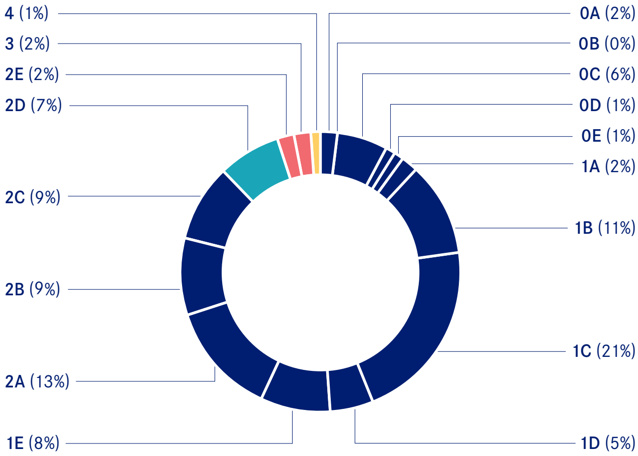


1) Percentages rounded.

Rating class distribution in the professional associations and large customers portfolio

Volume distribution based on drawdowns

Total of €5.617 millon[1]



1) Percentages rounded.

Retail Clients business segment

In the retail clients portfolio, drawdowns rose to €33.4 billion (31 December 2019: €32.8 billion) due to new business.

The rating structure shows a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group. The rating coverage is complete. The portfolio is highly diversified: With around 242,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

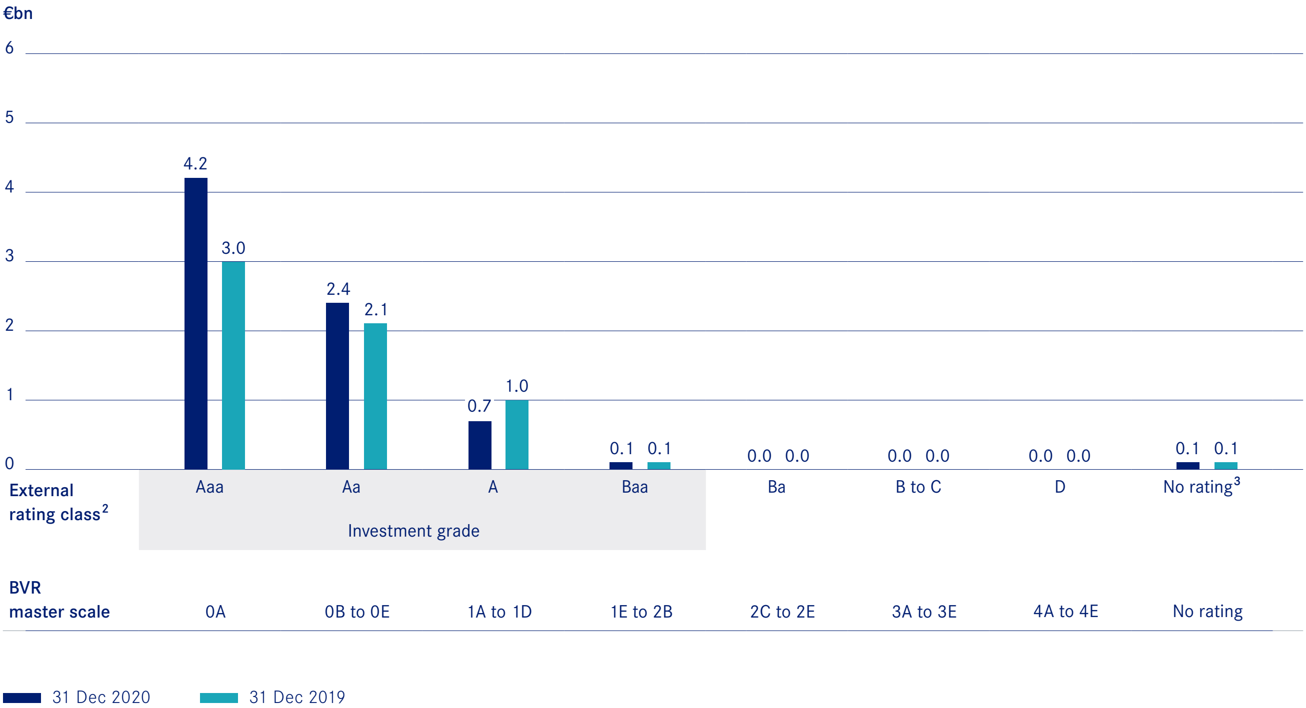
After offsetting new and no longer necessary precautionary measures, value adjustments to the amount of €19.0 million were made in the last financial year. This amount is considerably higher than the previous year's figure and below the budgeted amount.

Professional Associations and Large Customers business segment

Drawdowns in the professional associations and large customers portfolio increased by €0.2 billion to €5.6 billion as at 31 December 2020 (31 December 2019: €5.4 billion). The rating distribution of the portfolio is balanced and the rating coverage is 100%.

After offsetting of the newly made and no longer required provisioning measures, value adjustments were made for the professional associations and large customers portfolio to the amount of €27.2 million in the year under review. This is significantly higher than the previous year's level and the budgeted amount. The main reasons for exceeding the budgeted amount were two defaults from the second quarter of 2020.

Total exposure of financial instruments portfolio by rating class[1]



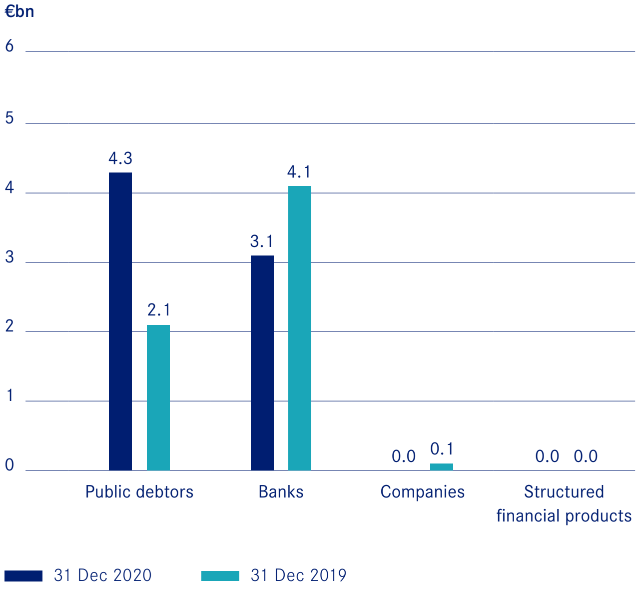
1) Total exposure is generally the book value (loan drawdowns or credit equivalent amount). The exposure for the INKA funds is determined by looking at the underlying assets; the exposure is accounted for on a cost value basis.
2) The letter ratings shown here comprise all rating classes of the respective rating segment (i.e. Aa comprises Aa1 to Aa3, for example).
3) The unrated exposures are mainly composed of interbank and fund items.

Treasury business segment
The risk volume of the financial instruments portfolio managed by the Treasury business segment amounted to €7.4 billion on the balance sheet date and was thus considerably above the previous year's figure (31 December 2019: €6.3 billion). Lower inventories in the money market products and on inter-bank accounts were more than compensated for by an increase in securities in the liquidity management portfolio of public debtors in particular. Especially at the beginning of the coronavirus pandemic, the Bank used the existing market opportunities and optimised its liquidity management portfolio.

The risk volume of the derivatives in the financial instruments portfolio was stable at €0.1 billion (31 December 2019: €0.1 billion). apoBank uses derivatives primarily to hedge against interest rate risks stemming from the customer business. As at the balance sheet date, the nominal volume amounted to €26.9 billion (31 December 2019: €29.7 billion).

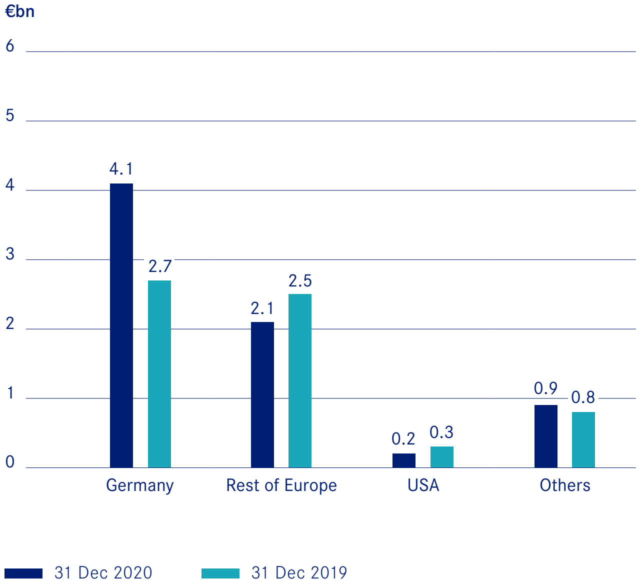
As in the previous year, around 99% of the financial instruments portfolio was rated in the investment grade range as at 31 December 2020. As at the balance sheet date, risk provisioning after offsetting with a release volume of €5.8 million was around €8.7 million better than the €2.9 million planned for the year.

Total exposure of financial instruments portfolio by sector[1]



1) Deviations possible due to rounding differences.

Total exposure of financial instruments portfolio by country[1]



1) Deviations possible due to rounding differences.

Participations business segment
The book values of the participations were stable at €0.2 billion as at the balance sheet date (31 December 2019: €0.2 billion).

In the reporting period, no risk provisioning was made in the participations portfolio after offsetting.

Market risk

The UEL from market risks faced by apoBank was at €430 million as at 31 December 2020 (31 December 2019: €556 million). The threshold value derived from the Bank-wide risk-bearing capacity limit for the market risk was complied with on all reporting dates.

The decrease in risk mainly results from the fact that the calculation of interest rate risk was changed to an "internal interest perspective" in 2020 to bring it into line with regulatory legislation. This was done by extracting the components of the margin from the interest rate cash flow and allocating them to business risk. By contrast, the valuation risk rose due to higher levels of securities in the liquidity management portfolio.

The results of the present-value regulatory stress calculations, which are carried out monthly, confirm a moderate interest rate risk at Bank-wide level. apoBank remained below the regulatory reporting limit of 20% of regulatory capital (Basel II interest risk coefficient) throughout 2020. The Basel II interest rate risk coefficient was 10.4% as at 31 December 2020 (31 December 2019: 11.7%).

The following table shows the changes in present value in the banking book with respect to the individual interest scenarios.

Changes in present value in the banking book

	Ad hoc interest scenario		
	Interest increase (+ 200 BP)	Interest decrease (– 200 BP)	Basel II-Interest rate risk coefficient
	€m	€m	%
31 Dec 2018	– 328	– 10	12.9
31 Dec 2019	– 297	+89	11.7
31 Dec 2020	– 284	+55	10.4

When calculating the interest rate risks in the banking book, apoBank makes modelling assumptions for certain items of the customer business in order to determine the cash flows based on fixed-interest periods. In the assets business, this affects in particular the drawing behaviour of the customers on open credit lines, contractually agreed special redemption payments and statutory loan termination rights. For open credit lines and contractually agreed special redemption payments, cash flows are adjusted based on historical data. Statutory loan termination rights are modelled based on option models.

In the liabilities business, the cash flows for customer balances are modelled without a specific interest rate adjustment date. Here, in accordance with the concept of moving averages, cash flows based on fixed-interest periods are generated for basic amounts that are derived from historical data.

Liquidity risk

The UEL from refinancing risks faced by apoBank was €70 million as at 31 December 2020 (31 December 2019: €36 million). The threshold value derived from the Bank-wide economic risk-bearing capacity limit for the refinancing risk was complied with on all reporting dates.

The increase in the refinancing risk accounted for in the risk-bearing capacity compared to the end of the previous year primarily results from securities purchases in the liquidity management portfolio, which extended capital commitment terms on the assets side.

Business risk

The UEL from apoBank's business risk was €289 million as at 31 December 2020 (31 December 2019: €85 million). The threshold value for business risk derived from the Bank-wide economic risk-bearing capacity limit was complied with on all reporting dates.

Overall, the measured risks fluctuated only slightly. As described in the paragraph on market risk, the internal interest perspective was introduced in 2020 and some components of the margin were allocated to the business risk. For this reason, business risk rose compared to the previous year; this results in a decrease of the same amount in the market risk.

Operational risk

The UEL from apoBank's operational risk was at €110 million as at 31 December 2020 (31 December 2019: €111 million). The threshold value for operational risk derived from the Bank-wide economic risk-bearing capacity limit was complied with on all reporting dates.

In the reporting period, the operational losses were markedly above those of the previous year. Here, as in the previous years, the main factors were legal risks, in particular provisions made for possible back taxes.

Overall liquidity situation

apoBank uses the above mentioned ILAAP to analyse and assess its liquidity position from both a normative and economic perspective. The main aim of the ILAAP is to ensure that apoBank is solvent at all times. In order to provide a stable supply of liquidity, both perspectives and their correlations are assessed in detail.

Liquidity supply in the year under review was guaranteed at all times, mainly due to the continued growth in deposits.

Liquidity situation – normative perspective
As at 31 December 2020, apoBank's LCR was 185.7% (31 December 2019: 140.0%). Thus, the minimum requirement of 100% was met in full. The LCR forecast also shows that the internal and external minimum limits for the observation periods defined will be complied with at all times.

The net stable funding ratio (NSFR), at 117.9% (31 December 2019: 112.8%), was significantly above the future minimum level of 100%.

Liquidity situation – economic perspective
The economic analyses centre around the liquidity forecasts of the liquidity gap analysis. Here, the expected liquidity development in the planned scenario as well as the expected liquidity development in the combined stress scenario are analysed and limited. In the 2020 reporting period, the limits of the liquidity gap analysis were complied with each day. This is also the case for the internal minimum limits relating to the intraday liquidity as well as the long-term maturities structure.

Compliance with the Pfandbrief cover pool limits was also assured each day throughout 2020.

Disclosure of risk management objectives and policies pursuant to Article 435 of the CRR

Risk management declaration pursuant to Article 435 (1) (e) of the CRR

apoBank's risk management system is geared towards our individual risk profile and the implementation of our risk strategy.

The risk management system, including the controlling and monitoring methods, takes all material risks for apoBank into account. Our risk management system is designed to ensure compliance with the risk guidelines set out in the risk strategy for each of the business segments, in addition to identifying, evaluating, limiting and monitoring the material risks.

Our risk-bearing capacity concept and our Liquiditätstragfähigkeit concept consider all risks that are material for these concepts; these are set against the respective capital items and liquidity reserves in the relevant capacity calculations. The two risk-bearing capacity concepts thus help apoBank to secure its long-term existence, which is the highest priority in risk management. We therefore consider our risk management system to be appropriate and effective.

The appropriateness and effectiveness of our risk management system is also reflected in the result of the ECB's supervisory review and evaluation process, which finds our minimum capital requirement to be below the industry average.

The risk management objectives and the management of risks are described both at a Bank-wide level and in terms of the material risks in the risk management report, which is part of the management report. It also contains information about our risk profile and the key performance indicators. The report gives a comprehensive overview of our risk management, and it shows in the context of our two capacity concepts how apoBank's risk profile and risk tolerance interact.

Disclosure pursuant to Article 435 (2) (a) to (c) of the CRR

Number of executive and supervisory functions held by members of apoBank's boards

The members of the Board of Directors do not hold any further executive mandates apart from their tasks on the Board; however, they hold six supervisory board mandates (as at 31 December 2020). The Supervisory Board members hold an additional five executive mandates as well as two supervisory mandates (as at 31 December 2020). This was determined based on the application of the simplification provisions pursuant to Sec. 25c (2) sentence 3 ff of the KWG (German Banking Act) and Sec. 25d (3) sentence 3 ff of the KWG.

Strategy for the selection of the members of apoBank's boards and their actual knowledge, expertise and professional experience

The members of the Board of Directors are selected by the Supervisory Board, in compliance with the general law on equal treatment (Allgemeines Gleichbehandlungsgesetz) and on the basis of their professional qualifications. The shareholder representatives on the Supervisory Board are selected at the Annual General Meeting; the employee representatives on the Supervisory Board are selected by the employees, in both cases taking account of the relevant legal requirements.

According to the legal requirements, the Supervisory Board must be configured such that its members collectively have the necessary knowledge, skills and professional experience for the proper performance of the required duties. The management team as a whole must also have a broad spectrum of knowledge, skills and experience that are necessary to understand the activities of the Bank. The strategy for selecting the members of the boards aims to ensure, maintain and further develop the individual and collective qualification of the boards. To achieve this, the Supervisory Board has prepared and approved role and competence profiles for the Board of Directors and the Supervisory Board. These profiles lay out the personal and professional requirements for each board member as well as for the boards overall. A detailed evaluation of the members' professional suitability and a corresponding targeted consolidation of competencies are the subject of the regular suitability evaluation in accordance with EBA/GL/2017/12, which can also be carried out on an as-needs basis. To ensure that future members of the Supervisory Board and Board of Directors fulfil the requirements placed on them to the greatest extent possible, the role profiles in particular are to be used in the selection process. The relevant documents can be made available to potential Supervisory Board members, the workforce and the Annual General Meeting before the election.

The principle of parity co-determination is followed at apoBank, i.e. its Supervisory Board consists of an equal number of employee and shareholder representatives. The employee representatives contribute to the committee work in particular practical expertise and comprehensive experience of the internal processes of apoBank, based on their many years of experience in positions of responsibility. On the shareholder side, the representatives of the health care professions hold leading positions in the major organisations in the health care sector (such as associations, chambers and pension funds). They have extensive knowledge in leading large organisations and with respect to the capital market, risk management and accounting. They also have many years of experience both from their service on the Supervisory Board of apoBank and on committees of other companies. In addition, Supervisory Board members receive systematic targeted training on a regular or as-needed basis by both external and internal lecturers in specific bank management and legal issues.

The professional careers of the members of the Board of Directors are presented in detail on the apoBank website. Pursuant to Sec. 25c of the KWG, the executives of an institution must be professionally competent for managing it, suitably reliable and are required to dedicate a sufficient amount of time to their responsibilities. Professional competence implies that they have sufficient theoretical and practical knowledge in the relevant businesses, as well as management experience. With the approval of the members of the Board of Directors, the responsible supervisory authority confirmed their professional competence and reliability.

Diversity strategy for the selection of the members of apoBank's boards, targets and relevant objectives of the strategy as well as level of target achievement

Diversity is a key prerequisite for apoBank's successful management and future viability. Based on its diversity policy, apoBank supports diversity in education and professional background, gender as well as age in its selection of candidates for the Board of Directors and Supervisory Board. Due to the domestic character of its customer and market structure, internationality is not a target criterion for the selection of members of the Board of Directors and the Supervisory Board.

When defining its diversity goals, apoBank draws upon relevant benchmark results, such as those published by the European Banking Authority (EBA). In the annual suitability evaluation, apoBank assesses and documents the fulfilment of the qualitative and quantitative goals. External reporting takes place pursuant to the statutory regulations with respect to the targeted proportion of women on the Board of Directors and Supervisory Board.

Forecast report

The economy and the health care market

Prospects for the global economy remain uncertain

How the German economy develops in 2021 will continue to be impacted by the coronavirus pandemic. On condition that the advances in medicine allow for an easing of measures to contain the pandemic, the Bundesbank (German Federal Bank) expects there to be strong growth in the German economy from spring onwards. This would be boosted by the reopening of shops, restaurants and other places of consumption as well as an increase in consumer spending from the very high levels of savings built up during the pandemic. Under this scenario, gross domestic product would increase by 3% after an estimated decrease of 5.5% in 2020. According to this calculation, the pre-crisis level would be returned to at the beginning of 2022. The Bundesbank expects inflation to increase again in 2021.

If the pandemic progresses adversely, however, the economy would not return to its pre-crisis level until the end of 2023. Depending on how the economy performs in 2021, an increase in company insolvencies is to be expected when the current assistance packages are repaid and the obligation to apply for bankruptcy (Insolvenzantragspflicht) is fully reinstated. For the current year 2021, the Bundesbank expects a core inflation rate (excluding energy and food) of slightly higher than 1%. Forecasts for 2021 are subject to high levels of uncertainty due to the pandemic.

The health care market under the influence of the coronavirus pandemic

The structural trends that have been observed in the outpatient sector for years now are continuing. These are salaried employment, part-time work, cooperation models, networking and dovetailing of sectors. The coronavirus pandemic will have only a moderate impact on whether and when health care professionals set up their own practice or pharmacy, as start-up businesses have a lead time of up to two years. The economic situation of health care professionals will primarily depend on how the pandemic progresses, on the behaviour of customers and patients as well as on any further measures introduced by the government.

What is certain is that the impact of the pandemic will play a role in the pharmacy sector until at least mid-April 2021. By then, based on the coronavirus directive on protective masks (Coronavirus-Schutzmasken-Verordnung) the Federal Ministry of Health will have distributed around 400 million protective masks to some 27 million high-risk people through the pharmacies. From the perspective of apoBank experts, the extent to which visits to doctors or specialists will be postponed during the second wave of the pandemic and whether there will be catch-up effects in face-to-face consultations between doctors and patients remains to be seen. The National Association of Statutory Health Insurance Physicians is calling for an urgent extension of the coronavirus rescue package. Doctors will play a key role in the upcoming coronavirus vaccination drive, not only in terms of administrating the vaccines themselves but also in educating and motivating patients to get vaccinated.

The impact of the pandemic will also continue to be felt by dentists in 2021: Although the federal government decided to grant further liquidity assistance in 2021– as laid down in the Act of Improved Care Provision (Versorgungsverbesserungsgesetz) – this support remains purely loan-based. Assistance granted for declines in dental services provided in 2020 will thus not yet be repayable in 2021, but excess payments by the health insurance companies to the associations of panel dentists will have to be fully reimbursed in 2022 and 2023. On the positive side, it is not planned to cap the volume of dental services that can be provided in 2021 and 2022, thus enabling potential catch-up effects to take place. In addition, the associations of panel dentists can support practices and dental medical care centres that have been newly established or taken over, if they have fallen into difficulty due to the pandemic-related decline in dental services.

In the inpatient sector, the operational management of hospitals will be determined by the restricted ability to plan patient care until a high degree of vaccination has been reached. Space and staff capacity will remain key competitive factors with regard to possible catch-up effects in elective operations in combination with increasing case severity.

Health policy beyond the coronavirus pandemic

The coronavirus crisis hit the German health care system at a point where health care policy-makers had just begun to address structural reforms. These include a reform of emergency care, a reform of cross-sectoral care and in particular the implementation of electronic data transmission infrastructure in the health care sector. In addition, reform of hospital structures and hospital remuneration has been on the agenda of the Federal Ministry of Health for a long time. The trajectory the pandemic is taking makes it seem unlikely that all of these health policy goals can be achieved before the German federal elections in 2021. However, the cornerstones have already been laid for a reform of nursing care and the digital modernisation of health care and nursing care, which could come into force before the end of this legislative period.

A positive development are the regulations passed at the end of 2020 in the Act on Strengthening Local Pharmacies (Apothekenstärkungsgesetz): The bonus ban on prescription medications, which had been long discussed, is now being implemented, and pharmacies will receive €150 million per year for new pharmaceutical services, the specifics of which will have to be discussed in 2021. The long-term fixing of courier service remuneration is a further step towards strengthening pharmacies against industrial mail-order retail. The e-prescription planned for mid-2021 has the potential to fundamentally transform the pharmacy market. The mail-order retailers, in particular those from neighbouring EU countries, hope that the introduction of the e-prescription will bring the desired breakthrough in the area of prescription medication. But there may also be market shifts with regard to local pharmacies. Here, the decisive factor is where patients will go to get their e-prescriptions filled. For pharmacies, it is important in 2021 to position themselves strategically, to implement new, digital applications and thus tap into additional sales channels.

Digitalisation as an engine for the health care market

Technological innovations and the process of digitalisation that is being promoted by the legislature will further increase the dynamism in the market. The pandemic has demonstrated how fast and easy it is to set up digital health care and service models in the health care sector. However, many regulations set up to promote services such as video consultations have been introduced on a temporary basis only. With this in mind, the federal government has introduced a third digitalisation act. The Act for the Digital Modernisation of Care and Nursing (Gesetz zur digitalen Modernisierung von Versorgung und Pflege) stipulates that telemedical services should be further expanded in 2021 and the use of digital applications in day-to-day care should be strengthened. In addition to the digital health applications, digital nursing care applications that can be claimed through social nursing care insurance are to be introduced. This will make the German health care market increasingly attractive for specialised national and international IT developers.

Digital connectivity between those involved in the health care sector will also be strongly promoted in 2021. Since 1 January 2021, anybody who holds statutory health insurance is entitled to an electronic patient record, which gives all concerned an overview of the patient's treatment process. From October 2021 at the latest, all panel doctors must have the technical set-up installed to generate electronic certificates of incapacity to work. This means that all panel doctors will automatically be connected up to the main communications modules in the medical sector (KIM) and that universal interconnectedness is secured. With the introduction of the e-prescription app in July 2021, communications between doctors and pharmacists will be further digitalised. As of 1 January 2022, all prescriptions must be issued electronically. In combination with video consultation and the remuneration of the courier services, the entire process can thus take place digitally, from diagnosis, to the writing of the prescription, and right through to delivery of the medication. This has already led to the creation of new business models, for example pharmaceutical wholesalers, in the form of platforms that are designed to become the central digital go-to locations for patients.

Business performance

Competition in the banking sector remains intense. Banks will continue to focus on making optimum use of their resources, fine-tuning their business models and driving forward their digitalisation strategies. This is even more important in view of the fact that the consequences of the pandemic are not yet fully predictable; we expect them to affect the risk provisioning of banks. Securing lasting profitability as well as adequate capitalisation remain the decisive factors in banks' future success.

Continued development of apoBank's business model

In 2021, stabilising and optimising the Bank's technical functionalities will initially take top priority. In addition, we are working on restoring our damaged reputation resulting from the early difficulties with the IT system and the decline in customers' satisfaction with apoBank. The aim is to return to focusing completely on the customer business.

Due to the special nature of our business model, we are not expecting to experience any significant burdens as a result of the pandemic.

At the same time, apoBank continues to develop its clearly defined business model. We will continue to pursue our strategy to selectively grow the business with health care professionals, their organisations and enterprises in the health care market. The Bank supports its customers strategically on two levels: in banking and in the health care market. Building on our expertise in both markets, we aim in the long term to develop additional products and services around the management of their businesses to create even greater benefits for our customers and members. With our mission "We enable health", we aim to play a key role in the German health care market as well as to consolidate and expand customer loyalty with our value-added services. We follow an integrated approach and offer our customers complementary services and solutions above and beyond banking for their different professional and private needs, for example in optimising the business management and organisation of their practices. Here, we will build and leverage a network of complementary providers in addition to our own offerings.

Going forward, we also want to further optimise structures and processes in the Bank and make them leaner in order to improve our operating performance. To achieve this, we will develop further measures that will be brought together in a multi-year strategy programme. The aim is to bring long-lasting improvement in revenues, expenditure, processes and our capital resources. This will lead to shifts in our income statement in the coming years.

Selective growth in the customer business in a challenging environment

Business planning at apoBank is based on selectively growing the customer business.

In the retail clients business, we expect positive impetus in the areas of start-up and investment financing. Self-financed new lending in the real estate business, on the other hand, will decline. Increasingly, margins on private home loans are not covering costs. Here we are acting cautiously in the interests of our owners. For example, we want to increasingly pass enquiries about real estate financing on to partners. We want to further expand the assets and pensions business with our retail customers. Our focus here is gradually shifting towards private asset management.

We want to continue to grow in the corporate clients business. Here, we will be strengthening our marketing efforts with regard to enterprises in the health care market, hospitals, nursing care facilities and medical care structures. We are doing this to expand our status as a house bank. In addition, we plan to offer more consulting services for institutional investors. The focus here will be on independent advice based on a comprehensive range of solutions.

Overall, the balance sheet total will fall strongly again in 2021 as we are likely to repay the long-term tender of the ECB that we drew down in 2020.

Earnings situation in 2021

We forecast the development of the key income statement items as follows:

Overall, we expect net interest income to be stable. Opposing effects play a role here. On the one hand, we are planning a minimal decline in our loan portfolio; on the other hand, refinancing costs will remain low due to the continuing low interest level. In addition, a pay-out from our special funds to finance the strategy programme is also a possibility.

We plan to noticeably increase net commission income. We want to gradually raise the deposit volume through better customer penetration in the investment business as well as with new customers and mandates, and to increase returns in asset management. We also want to generate additional profit contributions in the depository business and with advisory services for institutional clients.

General administrative expenses are affected by the investment costs for the strategy programme. Nevertheless, we are planning only a very slight increase in general administrative expenses. Here, the operating expenditure will remain stable in the current financial year, while personnel expenses will rise considerably.

As a result, we expect the cost-income ratio to decrease only slightly.

On balance, we therefore expect that the operating income for 2021, i.e. profit before risk provisioning, will increase significantly once again.

In the 2021 financial year as a whole, risk provisioning for the operating business derived from the standard risk costs is anticipated to almost double the figure of the previous year.

The Bank again plans to make risk provisioning with reserve character for 2021, although at a significantly lower level.

For the 2021 financial year, we expect net profit to be on the level of the previous year. This would enable us to distribute an appropriate dividend to our members.

Capital and liquidity situation

We expect that the total capital ratio will stabilise at above 16% by the end of 2021. In addition to a higher capital deduction item as well as the decreased assignability of uncalled liabilities to capital, the expected decline in the ratio results from an increase in capital requirements due to the growing (corporate clients) lending business as well as adjustments to creditworthiness in the retail portfolio.

In our opinion, apoBank's liquidity situation will remain comfortable, since it is supported by a broadly diversified customer and investor base.

Opportunities and risk report

The main prerequisites for continuing to consolidate and expand our market position are the success of our customer advisory activities as well as acceptance among our customers. This means we have an opportunity to achieve our strategic objectives more quickly, in particular those defined in our selective growth strategy for our customer business, and to hone our business model.

With the aim of further refining our business model for our customers, we introduced a new IT system in June 2020. With this new system, we hope to achieve greater process efficiency going forward as well as develop new products and services. There were various unforeseen problems in the immediate aftermath of the IT migration and not all functions of the new system ran without error. This resulted in a large number of customer enquiries and complaints. A key focus in the current financial year will therefore be to reconsolidate apoBank's reputation with our customers and to optimise the applications for them. Although many problems have been solved, we cannot fully estimate the impact our customers' reactions will have on business performance in the current year. The migration to the new IT system therefore remains associated for the time being with extraordinary follow-up risks for the current financial year.

In addition, the low interest rates and intense competition continue to have a negative impact on the earnings situation of the Bank – with correspondingly negative effects on the development of margins in the lending, deposits and commission business. The spread of coronavirus and the resulting restrictions on public life are having huge consequences for the global economy. So far, we do not see a noticeable impact on our asset, earnings and risk situation. Nevertheless, it is not clear at this point in time how this will look in the future.

With its strategy programme, the Bank wants to tighten up and optimise its processes and structures and refine its sales approach. This is associated with opportunities for higher profitability and improved cost efficiency going forward. However, these strategic measures come with investment costs that will temporarily burden our income statement.

In the course of finalising Basel III and as a consequence of the expected coming into force of the output floor rule, the calculation of capital requirements is likely to become extensively standardised for apoBank and thus less risk-based. The capital relief from the application of the internal regulatory risk measuring models will be restricted to a great extent; however, there is an interim period for the increased capital requirements based on the output floor rule. As a result of this change, the proven above-average risk quality of our loan portfolio by nationwide comparison is being taken less and less into account when calculating risk-weighted assets.

The extent of regulatory requirements the financial industry faces in the area of sustainability will also increase. This is likely to result in adaptations to internal bank processes. Compliance with consumer and data protection requirements in particular can impact customers' trust in apoBank. In the future, this could create opportunities to stand out, for example in investment and lending.

Additional uncertainties arise from the opportunities and risks associated with the ongoing digitalisation of the banking business, as well as banking processes in particular, and the resulting opportunities for future-proof business models. On the one hand, this leads to new access channels for customers that are promising in terms of earnings, but on the other hand, providers from outside the industry ("fintechs" or "BigTechs") are pushing into the market and staking claims on banks' traditional branches of business. With the increasing number of new financial IT companies, fresh business opportunities are also opening up for the financial industry.

Digitalisation leads to increasing risk of cybercrime, which both fintechs and banks must protect themselves against. The focus is therefore increasingly on IT security.

In addition, new risks may result from the growth in use of customer data, which form the core of new business models. Here, opportunities arise from new business ideas, but these also entail risks if the data are used improperly or if they are misappropriated.

Changes in the health care market as an opportunity

Opportunities and risks can also result from changes in the health care market, which is apoBank's core market.

While the number of self-employed health care professionals is declining, new opportunities are emerging around setting up a practice or pharmacy as well as branch and cooperation models. Outpatient and inpatient care are also converging more and more. Health care corporations and financial investors are increasingly becoming providers in the areas of medicine, dental medicine, nursing care and rehabilitation. Medical care centre models in particular are the focus of the long-term growth and expansion plans of many market participants. There is a general need for advisory services and financing in this area.

Our specialised advisory services counteract the downward trend in the numbers of self-employed health care professionals by helping to reduce reservations about opening their own practice. We work closely with the professional associations here. At the same time, we are expanding our product and advisory offerings and developing complementary products and services in such areas as business management in order to generate even more benefit for our customers and members. In addition, we want to cover the specific advisory and financing requirements of outpatient medical care structures. In the corporate clients business, market potential is steadily growing for health care companies that offer outpatient or inpatient nursing care (hospitals, nursing care facilities, etc.), as well as for companies in the health care market (pharmaceuticals, medical technology, diagnostics, etc.).

The wide range of areas in which technological innovation is taking place as well as advancing digitalisation are permanently changing the provision and administration processes involved in health care services. In addition, it is leading to new and alternative platforms and health care offerings, for example ordering platforms, telemedicine and video consultations. A growing number of established and new companies are discovering the health care market and its potential for digital business models that are often also based on innovative key technologies such as data analysis and artificial intelligence. This opens up new business and cooperation opportunities for us in the retail and corporate clients area.

Opportunities also arise in particular from expanding our offerings at the interface between the health care market and the financial market. This allows us to leverage new sources of income and provide our customers and members with additional benefit based on our expertise in both markets. We develop – also in cooperation with external partners – value-added offerings for our customers, i.e. services that give health care professionals greater freedom to work with their patients.

From the point of view of apoBank, the health care market offers more opportunities than risks.

Our business model and our specialisation in the health care market give us the opportunity to develop in a changing environment and thus position ourselves successfully in the banking and health care markets.

4

Annual Financial Statements

Balance Sheet

Assets

	(Notes)	31 Dec 2020 €	31 Dec 2019 €
1. Cash reserves		**11,193,635,289.19**	**4,570,460,477.71**
a) Cash on hand		25,486,745.00	29,058,760.00
b) Cash in central banks		11,168,148,544.19	4,541,401,717.71
Including: in the German Federal Bank (Bundesbank)		(11,168,148,544.19)	(4,541,401,717.71)
c) Cash in post office giro accounts		0.00	0.00
2. Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks		**0.00**	**0.00**
3. Loans and advances to banks	**(2, 13, 14, 17, 22, 26)**	**1,264,391,555.55**	**1,225,075,544.92**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,264,391,555.55	1,225,075,544.92
Including: due on demand		(1,109,369,247.81)	(862,113,577.14)
Including: lending against securities		(0.00)	(0.00)
4. Loans and advances to customers	**(2, 13, 14, 17, 22, 26, 47, 48)**	**38,240,147,650.60**	**37,291,003,160.24**
a) Mortgage loans		10,090,689,954.21	10,443,972,455.18
b) Local authority loans		184,605,828.35	195,001,917.37
c) Other receivables		27,964,851,868.04	26,652,028,787.69
Including: lending against securities		(0.00)	(0.00)
5. Debt securities and other fixed-interest securities	**(3, 5, 14, 15, 16, 17, 19, 22, 26, 47, 48)**	**6,792,637,588.35**	**4,609,889,722.26**
a) Money market instruments		83,514,414.15	50,031,002.31
aa) of public issuers		0.00	0.00
Including: acceptable as collateral by the Bundesbank		(0.00)	(0.00)
ab) of other issuers		83,514,414.15	50,031,002.31
Including: acceptable as collateral by the Bundesbank		(83,514,414.15)	(50,031,002.31)
b) Bonds and debt securities		6,407,245,456.81	4,256,512,062.63
ba) of public issuers		3,184,382,802.95	1,193,115,301.93
Including: acceptable as collateral by the Bundesbank		(3,184,382,802.95)	(1,193,115,301.93)
bb) of other issuers		3,222,862,653.86	3,063,396,760.70
Including: acceptable as collateral by the Bundesbank		(3,101,652,743.06)	(2,937,901,177.00)
c) Own debt securities		301,877,717.39	303,346,657.32
Nominal amount		(300,024,500.00)	(300,193,600.00)
6. Shares and other non-fixed-interest securities	**(3, 5, 16, 17, 18, 19, 22)**	**1,172,118,017.51**	**1,190,106,136.82**
6a. Trading assets	**(4, 16)**	**0.00**	**0.00**
7. Participating interests and capital shares in cooperatives	**(6, 14, 16, 20, 22, 30)**	**233,447,934.72**	**233,504,049.44**
a) Participations		233,275,887.33	233,332,002.05
Including: in banks		(113,185.48)	(113,185.48)
Including: in financial services institutions		(13,292,807.39)	(13,292,807.39)
b) Capital shares in cooperatives		172,047.39	172,047.39
Including: in cooperative banks		(0.00)	(0.00)
Including: in financial services institutions		(0.00)	(0.00)
8. Shares in affiliated companies	**(6, 14, 16, 20, 22, 30)**	**9,501,477.77**	**13,690,287.32**
Including: in banks		(0.00)	(0.00)
Including: in financial services institutions		(1,292,236.21)	(1,317,236.21)
9. Trust assets	**(21)**	**51,130.18**	**51,130.18**
Including: fiduciary loans		(0.00)	(0.00)
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	**(8, 22)**	**167,024,290.95**	**139,419,612.02**
a) Internally-generated industrial and similar rights and assets		0.00	0.00
b) Concessions, industrial property rights and similar rights and assets acquired for a consideration, as well as licenses to such rights and assets		167,024,290.95	1,539,267.50
c) Goodwill		0.00	0.00
d) Payments in advance		0.00	137,880,344.52
12. Tangible assets	**(7, 22, 48)**	**126,520,497.63**	**133,662,531.64**
13. Other assets	**(23)**	**210,865,014.02**	**169,869,090.17**
14. Prepayments and accrued income	**(24)**	**29,411,230.72**	**26,753,531.96**
a) from issuing and loan transactions		14,809,358.47	17,967,561.44
b) Others		14,601,872.25	8,785,970.52
15. Deferred tax assets	**(25)**	**0.00**	**0.00**
Total assets		**59,439,751,677.19**	**49,603,485,274.68**

Liabilities

	(Notes)	31 Dec 2020 €	31 Dec 2019 €
1. Liabilities to banks	**(9, 29, 30, 47)**	**15,379,310,516.17**	**9,635,989,404.56**
a) Registered mortgage Pfandbriefe issued		167,967,672.80	157,929,847.21
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		15,211,342,843.37	9,478,059,557.35
Including: due on demand		(199,690,757.50)	(149,306,560.40)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
2. Liabilities to customers	**(9, 29, 30, 47)**	**33,240,761,139.37**	**29,237,013,212.22**
a) Registered mortgage Pfandbriefe issued		1,214,570,011.67	1,265,362,829.25
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		94,642,449.62	93,454,205.03
ca) with an agreed notice period of three months		94,428,170.32	90,422,786.18
cb) with an agreed notice period of more than three months		214,279.30	3,031,418.85
d) Other liabilities		31,931,548,678.08	27,878,196,177.94
Including: due on demand		(29,868,640,534.66)	(25,366,808,048.01)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
3. Securitised liabilities	**(9, 29, 30, 47)**	**7,398,228,490.57**	**7,395,932,544.35**
a) Debt securities issued		7,398,228,490.57	7,395,932,544.35
aa) Mortgage Pfandbriefe		5,346,305,462.31	4,921,672,115.68
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		2,051,923,028.26	2,474,260,428.67
b) Other securitised liabilities		0.00	0.00
Including: money market instruments		(0.00)	(0.00)
Including: own acceptances and promissory notes outstanding		(0.00)	(0.00)
3a. Trading liabilities	**(4)**	**0.00**	**0.00**
4. Trust liabilities	**(31)**	**51,130.18**	**51,130.18**
Including: fiduciary loans		(0.00)	(0.00)
5. Other liabilities	**(9, 32)**	**81,784,537.65**	**258,930,715.09**
6. Prepayments and accrued income	**(33)**	**29,649,763.20**	**31,650,748.00**
a) from issuing and loan transactions		16,204,326.71	17,209,976.54
b) Others		13,445,436.49	14,440,771.46
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	**(10)**	**429,619,931.70**	**394,807,726.68**
a) Provisions for pensions and similar obligations		238,030,799.31	234,295,029.49
b) Tax provisions		1,469,869.00	3,308,839.00
c) Other provisions		190,119,263.39	157,203,858.19
8. - - -		**0.00**	**0.00**
9. Subordinated liabilities	**(9, 30, 34)**	**119,179,974.36**	**9,561,970.58**
10. Participating certificate capital		**0.00**	**0.00**
Including: due within two years		(0.00)	(0.00)
11. Fund for general banking risks		**845,832,050.74**	**771,513,901.00**
Including: special items pursuant to Section 340e (4) of the HGB		(0.00)	(0.00)
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	**(35, 45, 51, 52)**	**1,915,334,143.25**	**1,868,033,922.02**
a) Subscribed capital		1,237,455,183.58	1,231,405,746.57
b) Capital reserves		0.00	0.00
c) Revenue reserves		612,555,705.05	572,491,249.19
ca) Legal reserves		434,750,000.00	426,750,000.00
cb) Other revenue reserves		177,805,705.05	145,741,249.19
d) Balance sheet profit		65,323,254.62	64,136,926.26
Total liabilities		**59,439,751,677.19**	**49,603,485,274.68**

1. Contingent liabilities	**(37)**	**550,516,272.62**	**621,263,999.26**
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		550,516,272.62	621,263,999.26
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
2. Other obligations		**2,786,993,520.11**	**2,946,178,151.13**
a) Obligations under optional repurchasing agreements		0.00	0.00
b) Placement and underwriting obligations		0.00	0.00
c) Irrevocable loan commitments		2.786.993.520.11	2.946.178.151.13

Income Statement

Income statement

	(Notes)	1 Jan – 31 Dec 2020 €	1 Jan – 31 Dec 2019 €
1. Interest income from	**(39)**	**815,997,653.58**	**832,411,329.73**
a) lending and money market transactions		820,799,796.19	832,620,840.94
b) fixed-interest securities and debt register claims		– 4,802,142.61	– 209,511.21
Including: from negative interest rates		(–30,359,061.19)	(–20,475,944.08)
2. Interest expenses	**(40)**	**– 107,928,587.74**	**– 171,738,035.90**
Including: from positive interest rates		(39,624,433.88)	(19,485,076.08)
3. Current income from		**41,714,436.22**	**30,430,729.16**
a) shares and other non-fixed-interest securities		31,000,126.71	15,540,004.55
b) participating interests and capital shares in cooperatives		7,224,113.59	10,709,428.97
c) shares in affiliated companies		3,490,195.92	4,181,295.64
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		**634,028.83**	**0.00**
5. Commission income	**(41)**	**273,017,851.35**	**268,002,689.55**
6. Commission expenses	**(41)**	**– 88,705,138.11**	**– 92,710,485.39**
7. Net trading revenues		**0.00**	**0.00**
8. Other operating income	**(42)**	**49,259,517.40**	**52,295,078.22**
Including: from discounting		(445,680.33)	(0.00)
9. ---		**0.00**	**0.00**
10. General administrative expenses		**– 700,315,241.66**	**– 673,369,941.61**
a) Personnel expenses		– 246,872,547.39	– 260,087,908.25
aa) Wages and salaries		– 202,238,919.34	– 203,477,040.17
ab) Social security contributions and expenses for pensions and benefits		– 44,633,628.05	– 56,610,868.08
Including: for pensions		(– 13,993,672.63)	(– 26,767,753.51)
b) Other administrative expenses		– 453,442,694.27	– 413,282,033.36
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**– 20,588,972.53**	**– 10,576,892.80**
12. Other operating expenses	**(42)**	**– 78,356,575.87**	**– 17,047,025.08**
Including: from discounting		(– 6,529,394.78)	(– 7,897,008.20)
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**– 5,504,422.26**	**– 18,135,577.32**
14. Income from write-ups in respect of receivables and specific securities and from the release of provisions for credit risks		**0.00**	**0.00**
15. Write-downs and value adjustments in respect of participating interests, shares in affiliates and securities treated as fixed assets		**0.00**	**– 12,129,850.73**
16. Income from write-ups in respect of participations, shares in affiliates and securities treated as fixed assets		**6,306,715.06**	**0.00**
17. Expenses from the assumption of losses		**0.00**	**0.00**
18. ---		**0.00**	**0.00**
19. Operating surplus	**(56)**	**185,531,264.27**	**187,432,017.83**
20. Extraordinary income	**(43)**	**0.00**	**0.00**
21. Extraordinary expenses	**(43)**	**0.00**	**0.00**
22. Extraordinary result	**(43)**	**0.00**	**0.00**
23. Taxes on income	**(44)**	**– 45,492,282.72**	**– 53,617,316.92**
24. Other taxes not reported in item 12		**– 405,591.78**	**640,812.24**
24a. Allocations to the fund for general banking risks		**74,318,149.74**	**70,328,000.00**
25. Net profit	**(45)**	**65,315,240.03**	**64,127,513.15**
26. Profit carried forward from the previous year	**(45)**	**8,014.59**	**9,413.11**
27. Withdrawals from revenue reserves	**(45)**	**0.00**	**0.00**
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
28. Allocations to revenue reserves	**(45)**	**0.00**	**0.00**
a) To legal reserves		0.00	0.00
b) To other revenue reserves		0.00	0.00
29. Balance sheet profit	**(45)**	**65,323,254.62**	**64,136,926.26**

Statement of Changes in Equity

Capital development

In the year under review, the amounts shown under liability item 12, “Capital and reserves”, developed as follows:

Capital development

	Subscribed capital		Capital reserves	Revenue reserves		Balance sheet profit/loss
	Members’ capital contributions[1]	Contributions of silent partners		Legal reserves	Other revenue reserves	
	€thous	€thous	€thous	€thous	€thous	€thous
31 Dec 2019	1,231,406	0	0	426,750	145,741	64,137
Withdrawals	18,627	0	0	0	0	40,064
Additions	24,677	0	0	8,000	32,064	65,315
Distribution of annual result	0	0	0	0	0	24,065
31 Dec 2020	**1,237,456**	**0**	**0**	**434,750**	**177,805**	**65,323**

1) The changes in members’ capital contributions are composed of disposals due to (partial) termination, (partial) transfer, death or exclusion, as well as additions due to new memberships or participations.

Cash Flow Statement

Cash flow statement

	31 Dec 2020 €m	31 Dec 2019 €m
Result for the period (net profit/loss)	**65.3**	**64.1**
Write-downs, value adjustments and write-ups in respect of receivables and fixed assets	31.7	55.6
Increase/decrease in provisions	34.8	–1.1
Other non-cash expenses/income	66.1	67.5
Profit/loss from the sale of fixed assets	–7.2	– 0.4
Other adjustments (on balance)	0.3	– 0.2
Increase/decrease in loans and advances to banks	–32.7	– 62.3
Increase/decrease in loans and advances to customers	–946.3	– 2,662.2
Increase/decrease in securities (unless financial assets)	–32.0	185.5
Increase/decrease in other assets from operating activities	17.8	30.0
Increase/decrease in liabilities to banks	5,748.3	698.4
Increase/decrease in liabilities to customers	4,008.0	1,807.6
Increase/decrease in securitised liabilities	2.8	1,518.6
Increase/decrease in other liabilities from operating activities	–250.3	168.5
Interest expenses/interest income	–708.1	– 660.7
Current income from shares, non-fixed-interest securities, participating interests, capital shares in cooperatives and shares in affiliated companies	–41.7	– 30.4
Expenses/income from extraordinary items	0.0	0.0
Income tax expense/income	45.5	53.6
Interest payments and dividend payments received	845.5	879.1
Interest paid	–101.2	–173.7
Extraordinary deposits	0.0	0.0
Extraordinary payments	0.0	0.0
Income tax payments	–66.7	– 65.2
Cash flow from operating activities	**8,679.9**	**1,872.3**
Deposits from the sale of financial assets	1,304.7	625.6
Payments for investments in financial assets	–3,436.0	– 1,082.6
Deposits from the sale of tangible assets	1.1	0.2
Payments for investments in tangible assets	–3.3	–3.2
Deposits from the sale of intangible assets	0.3	0.0
Payments for investments in intangible assets	–39.2	– 78.2
Deposits from the sale of consolidated companies	0.0	0.0
Payments for additions to the scope of consolidation	0.0	0.0
Fund changes from other investment activities (on balance)	0.0	0.0
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Cash flow from investment activities	**– 2,172.4**	**–538.2**
Payments from increases in equity capital by partners	24.7	63.6
Payments for decreases in equity capital to partners	–18.6	– 23.1
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Dividends paid to partners	0.0	– 46.9
Fund changes from other capital (on balance)	109.5	– 91.0
Cash flow from financing activities	**115.6**	**– 97.4**
Cash changes in liquid assets	6,623.1	1,236.7
Changes to liquid assets due to foreign currency and valuation	0.0	0.0
Changes in liquid assets due to the scope of consolidation	0.0	0.0
Liquid funds at the start of the reporting period	4.,570.5	3,333.8
Liquid funds at the end of the reporting period	**11,193.6**	**4,570.5**

Notes

A. General information

1. Framework for the preparation of the annual financial statements

The annual financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf (Local Court of Dusseldorf, GnR 410), as at 31 December 2020 were prepared according to the regulations of the German Commercial Code (HGB), the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV) as well as the Securities Trading Act (WpHG). At the same time, the annual financial statements meet the requirements of the Cooperative Societies Act (GenG), the German Pfandbrief Act (PfandBG) and the Articles of Association of apoBank.

Pursuant to Section 244 of the HGB, the annual financial statements are drawn up in German and in euros. apoBank exercises the option to provide information in the notes rather than in the balance sheet.

B. Accounting, valuation and translation methods

In preparing the balance sheet and income statement, the following accounting, valuation and translation methods were used.

2. Loans, advances and risk provisioning

Loans and advances to banks and customers were carried at nominal value or acquisition cost, with the difference between the higher nominal value and the amount disbursed being posted to accruals and deferred income. Identifiable credit risks in loans and advances to customers are covered by individual loan loss provisions. apoBank made a general value adjustment for inherent credit risks taking account of tax guidelines.

Within the scope of the IT migration of the bank application system, the calculation method for determining individual value adjustments in the model of debt sustainability was adapted. The allowances used in this procedure for the debtor's cost of living and insurance contributions were harmonized with the assumptions used in connection with the rating method. In addition, the balance between receivables and liabilities on current accounts of the same debtor at the Bank were modified. These changes led to an increase in individual value adjustments of €13.7 million compared to the previous method used and served above all to improve the accuracy of estimates of the risk provisioning to be made. The changes also had an impact on net assets to the amount of €–13.7 million, increasing allocations to risk provisioning (income statement, 13) and lowering net profit accordingly. Loans and advances to customers (assets, 4) were reduced in the same amount as a result. The effect on the asset and liquidity situation is of minor importance.

apoBank modified the procedure for determining general value adjustments based on IDW RS BFA 7. In the previous calculation, the average rating was determined based on a five-year period. In the 2020 financial year, the calculation of the average rating was extended to a ten-year period, leading to a reduction of earnings by €19.8 million, which increased the allocations to risk provisioning (income statement, 13) and decreased net profit accordingly. This led to a reduction of the loans and advances to customers (assets, 4) in the same amount. The impact on net assets and the financial position are of minor importance.

3. Securities

Securities in the liquidity reserve were valued according to the strict lower-of-cost-or-market principle, while fixed-asset securities were valued according to the moderate lower-of-cost-or-market principle. The exchange or market prices provided by Bloomberg or Reuters were taken as a basis for this.

Acquisition costs for securities of the same type were calculated using the averaging method.

Structured financial instruments that show significantly higher or additional (different) risks or opportunities compared to the underlying instrument due to the embedded derivative are broken down into their components and reported and valued individually pursuant to relevant provisions. As a result, these instruments are recognised separately in the balance sheet if unconditional or conditional purchase obligations exist for additional financial instruments.

The acquisition costs of the individual components recognized separately in the balance sheet are the result of the breakdown of the acquisition costs of the structured financial instrument in accordance with the proportion of the fair values of the individual components. In the event that the fair value of the embedded derivative cannot be determined, the value is calculated as the difference between the fair value of the structured financial instrument and the fair value of the underlying instrument.

Securities that are lent within the context of securities lending continue to be posted under the item “Debt securities and other fixed interest securities”, as the significant opportunities and risks that result from them remain with apoBank. As at the balance sheet day, no securities had been lent (31 December 2019: €400 million).

Since 1 January 2020, all interest-bearing securities have been measured at amortised cost according to the effective interest method. Existing premiums and discounts that are similar in nature to interest are amortised using the effective interest method and recognised in net interest income. In the past, premiums and discounts were generally released to income in the valuation yield at maturity. This change means that earnings effects, which were previously disclosed separately in net interest income and valuation yield, are instead reported uniformly and on an accrual basis in net interest income. This results in an overall improvement in the way the earnings situation is presented. In the reporting year, it led to a €9.8 million increase in interest expenditures (income statement, 2). Interest income (income statement, 1) rose by €1.4 million, while debt securities and other fixed interest securities (assets, 5) decreased by €8.4 million on balance. The impact on net assets and the financial position are of minor importance.

4. Trading assets and liabilities

The internally defined criteria for including financial instruments in trading assets and liabilities are unchanged compared to the previous year.

5. Valuation units

At apoBank, micro-hedge units and portfolio valuation units are formed to hedge risks. Micro-hedge units are used in the context of asset swap packages and to cover part of the Bank's own issuances. This hedges against interest change risks. apoBank uses portfolio valuation units to hedge currency risks in various independently controlled portfolios.

In the case of the micro-hedge units, the effective portion of the valuation units formed is presented in the balance sheet according to the cost method. For some of the portfolio valuation units, the fair value method is applied. A prospective and a retrospective effectiveness test is performed.

apoBank carries out the prospective effectiveness test for the micro-hedge units using the critical terms match method. Effectiveness is assumed if the essential value drivers for the hedged risks of the underlying transaction and the hedging transaction correspond.

In the case of micro-hedge units with underlying transactions on the asset side, changes in the market value of the underlying transaction and the hedging transaction are determined and netted in relation to the last reporting date. If there is an excess loss resulting from unhedged risks, a specific write-down with respect to the underlying transaction is made in this amount.

For micro-hedge units with underlying transactions on the liability side, apoBank applies the fixed valuation method as long as it is considered a perfect hedge. The Bank's own issuance is posted at the repayment amount and is not valued. Accordingly, the hedging derivative is not valued either.

In the case of portfolio hedges, the risks of multiple underlying transactions of the same type are overed by one or more hedging instruments. The underlying transactions have similar terms (currency, maturity, coupon).

The portfolio valuation units concern FX forward transactions, FX swaps as well as syndicated loans in foreign currencies. For each currency and each underlying transaction a portfolio is formed, in which the sum of both the underlying transaction and the hedging transaction in terms of volume, as well as all payment flows or changes in value are balanced as a rule. This way, 100% effectiveness is guaranteed in principle. Any ineffectiveness that occurs over time is recognised in profit or loss as a provision for the valuation units.

As at the balance sheet date, the total volume of the risks hedged amounted to €640 million (31 December 2019: €776.0 million). These risks result from an omitted depreciation of assets, an omitted appreciation of debt or omitted provisions for contingent losses, and are quantified based on the gross net present values of the derivative transactions. The major part of the changes in value and of the payment flows will probably be balanced over a period of ten years.

As at the reporting date, apoBank had designated a total of 470 micro hedges with a nominal value of €10,044.7 million:

- 306 hedges on the Bank's own issuances against the interest rate risk with a nominal value of €7,266.6 million, including
  - 13 caps with a nominal value of €185.7 million,
  - 15 floors with a nominal value of €195.7 million,
  - 99 swaptions with a nominal value of €1,379.2 million,
  - 179 swaps with a nominal value of €5,506.0 million,
- 164 asset swaps to hedge against the interest rate risk of 99 acquired securities with a nominal value of €2,778.1 million.

As at 31 December 2020, a volume of foreign currency swaps from FX trading had been used in the amount of €574 million within the scope of valuation units and €25 million to hedge several loans in a foreign currency.

The FX swaps can be broken down based on their currency as follows:

- €157 million in US dollars,
- €157 million in British pounds,
- €201 million in Danish kroner,
- €59 million in Swedish krona.

As at the reporting date, apoBank had a volume of FX forward transactions of €608 million used as valuation units, including €595 million to hedge offsetting FX forward transactions and €13 million to hedge a loan denominated in a foreign currency. The FX forward transactions can be broken down based on their currency as follows:

- €605 million in British pounds,
- €3 million in Danish kroner.

6. Participating interests and shares in affiliated companies

Participating interests and capital shares in cooperatives as well as shares in affiliated companies were reported at acquisition cost or at fair value, if lower. In the case of purchase transactions, acquisition costs comprise the purchase price including directly attributable additional costs and, in the case of swaps, the application of general swap principles.

7. Fixed assets/tangible assets

Tangible assets were carried at acquisition cost less scheduled depreciation.

Buildings were written down on a straight-line basis or using declining-balance rates throughout their useful life; movable assets were depreciated on a straight-line basis throughout their useful life. Low-value assets within the meaning of Section 6 (2) of the German Income Tax Act (EStG) were fully depreciated.

In the past, recognised art objects were subject to regular depreciation over an estimated remaining useful life. Since 1 January 2020, art objects carried at amortized costs of €6.0 million are classified as non-depreciating assets. Due to the uncertainty regarding the future development of the fair value of art objects, assuming a remaining useful life during which the value of the art objects is eroded is incompatible with the attribute of an art object. As of 1 January 2020, these assets are only written down if they are subject to a permanent impairment as the result of an impairment test. Overall, the impact on the net assets, financial position and results is of minor importance.

8. Fixed assets/intangible assets

Intangible assets were valued at acquisition cost and depreciated on a straight-line basis as planned. The underlying useful life is between three and ten years, compared to three and five years in the previous year. The longer useful life is the result of activating the software of the new Avaloq core banking system. A support and maintenance contract with a minimum term of ten years was concluded for the new system. Based on this contract and for reasons of caution, a utilization period of ten years for the system is deemed appropriate. The amortisation period has been extended to ten years accordingly.

9. Liabilities

All liabilities were generally carried at their repayment amounts, taking account of accrued interest. Differences between the lower issue price and the repayment amount of the liabilities were reported under “Prepayments and accrued income” and dissolved on an accrual basis. Zero bonds and commercial papers were carried as liabilities at their issuance price plus accrued interest.

10. Provisions

The provisions for pension liabilities as at 31 December 2020 were calculated based on the actuarial tables “Richttafeln 2018 G” (Heubeck) using the projected unit credit method. The calculation was based on an interest rate of 2.31% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 1.75%. As at 31 December 2020, the difference pursuant to Section 253 (6) of the HGB subject to a bar on distribution amounted to €22.7 million on an accounting basis.

apoBank recorded the releases and allocations to the balance sheet item “Provisions for pensions and similar obligations” in relation to the interest effects under other operating income and otherwise as a net item under “Personnel expenses”. Pension provisions and the provision for deferred compensation were netted with the corresponding plan assets (initially under “Other assets”) at their fair value in the amount of €15.9 million pursuant to Section 246 (2) sentence 2 of the HGB. In this case, the fair value is equivalent to the acquisition costs.

The difference between income of €0.9 million and expenses of €0.4 million in connection with the reinsurance for pension obligations was netted with the expenses from the compounded interest of pension provisions amounting to €6.6 million.

The provisions for part-time retirement were calculated based on the projected unit credit method, for anniversary payments the entry age normal cost method was applied. Both types of provisions were made on the basis of an interest rate of 1.60%, a wage increase trend of 3.00% as well as the actuarial tables “Richttafeln 2018 G” (Heubeck).

Provisions with a residual term of more than one year are discounted or compounded pursuant to Section 253 (2) of the HGB and posted at this amount (net method). The current profit/loss from discounting and compounding is posted to “Other operating income” or “Other operating expenses”. The results from the change in the discount rate on provisions for pensions and similar obligations are taken into account in the item “Personnel expenses”. The results from the change in the discount rate on other provisions are shown in the item “Other operating income” or “Other operating expenses”.

apoBank also made adequate provisions for the other uncertain liabilities.

11. Derivative financial instruments

Derivative financial instruments are generally valued individually in accordance with the general valuation provisions of German commercial law (Sections 252 et seqq. of the HGB) and taking the realisation and imparity principle into account, unless valuation units are formed to a permissible extent in order to hedge balance sheet items or the derivatives are used for controlling the overall bank interest rate risk.

Provisions for contingent losses are recorded if apoBank anticipates a claim.

Pursuant to IDW RS HFA 22, apoBank treats separable embedded derivatives from structured financial instruments as primary derivatives.

As a basic principle, apoBank uses all tradeable interest rate derivatives in its overall bank control. They are used to hedge the interest rate risks in the banking book and for P&L control.

Pursuant to the new version of IDW RS BFA 3 n.F., apoBank is required to provide proof of a loss-free valuation of interest-bearing banking book transactions. For all interest-bearing financial transactions (on-balance-sheet and off-balance-sheet) in the banking book, proof was provided that no losses will occur in future as a result of contracted interest rates. The analysis was based on the net present value/book value method, which compares the book values of the interest-bearing transactions of the banking book with the net present values attributable to interest rates, taking account of risk and portfolio management costs. apoBank did not identify any need for provisioning.

12. Currency translation

apoBank translates items based on amounts that are or were originally denominated in foreign currency into euros as follows: Items denominated in foreign currencies are in principle valued pursuant to Section 340h in conjunction with Section 256a of the HGB. Valuation units are formed for material holdings in foreign currencies pursuant to Section 254 of the HGB.

apoBank considers the special coverage pursuant to Section 340h of the HGB as given when the total item is financially balanced for each foreign currency as at the balance sheet date. To the extent that special coverage existed, income and expenditure from currency translation are shown in the income statement under the items “Other operating income” or “Other operating expenses”.

C. Notes to the balance sheet

Notes to assets

13. Breakdown of loans and advances by residual terms and other items

The receivables shown in the balance sheet have the following residual terms:

Breakdown of loans and advances by residual terms

	Loans and advances to banks (A3) €thous		Loans and advances to customers (A4) €thous	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Accrued interest	42,620	36,014	5,540	3,464
Up to 3 months	1,219,198	951,487	928,787	964,724
More than 3 months to 1 year	0	235,000	3,355,210	2,621,614
More than 1 year to 5 years	2,574	2,574	15,672,040	12,012,463
More than 5 years	0	0	16,259,603	19,908,325

Loans and advances to banks (assets, 3) include receivables from the relevant central cooperative bank (DZ BANK AG) of €996,067 thousand (31 December 2019: €743,053 thousand).

Loans and advances to customers (assets, 4) include receivables with unspecified maturities of €2,018,967 thousand (31 December 2019: €1,780,413 thousand).

14. Affiliated and associated companies

Loans and advances include the following amounts which are also loans and advances to affiliated or associated companies:

Affiliated and associated companies

	Loans and advances to banks (A3) €thous		Loans and advances to customers (A4) €thous		Debt securities and other fixed-interest securities (A5) €thous	
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Loans and advances to affiliated companies	0	0	13,752	14,694	0	0
Loans and advances to associated companies	996,067	743,053	268,478	270,484	21,037	20,869

15. Debt securities and other fixed-interest securities

Of the debt securities and other fixed-interest securities (assets, 5) reported in the balance sheet, €971,954 thousand (31 December 2019: €633,397 thousand) will mature during the financial year following the balance sheet date. These amounts do not include accrued interest.

16. Non-negotiable, negotiable, quoted and unquoted securities as well as negotiable securities not valued at the lower of cost or market

The items “Debt securities and other fixed-interest securities”, “Shares and other non-fixed-interest securities” and “Trading portfolio” are comprised as follows:

Non-negotiable, negotiable, quoted and unquoted securities as well as negotiable securities not valued at the lower of cost or market

	Debt securities and other fixed-interest securities (A5) €thous		Shares and other non-fixed-interest securities (A6) €thous		Trading assets and liabilities (A6a) €thous	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Non-negotiable	0	0	1,172,118	1,190,106	0	0
Negotiable	6,792,638	4,609,890	0	0	0	0
Quoted	6,629,903	4,543,983	0	0	0	0
Unquoted	162,735	65,906	0	0	0	0
Negotiable securities not valued at the lower of cost or market	840,721	1,071,247	0	0		

	Participating interest and capital shares in cooperatives (A7) €thous		Shares in affiliated companies (A8) €thous	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Non-negotiable	233,335	233,391	9,501	13,690
Negotiable	113	113	0	0
Quoted	0	0	0	0
Unquoted	113	113	0	0

In inventory accounting, negotiable securities not valued at the lower of cost or market are held in separate custodian accounts or are marked accordingly.

17. Securities portfolio/receivables by purpose

The securities portfolio and selected receivables are divided into the following categories according to their purpose:

Securities portfolio/receivables by purpose

	31 Dec 2020 €thous	31 Dec 2019 €thous
Loans and advances to banks		
Fixed assets	2,584	2,584

	31 Dec 2020 €thous	31 Dec 2019 €thous
Loans and advances to customers		
Fixed assets	1,415	2,224

	31 Dec 2020 €thous	31 Dec 2019 €thous
Debt securities and other fixed-interest securities		
Fixed assets	6,407,245	4,256,512
Liquidity reserve	385,392	353,378
Total	**6,792,637**	**4,609,890**

	31 Dec 2020 €thous	31 Dec 2019 €thous
Shares and other non-fixed-interest securities		
Fixed assets	1,172,118	1,190,106
Liquidity reserve	0	0
Total	**1,172,118**	**1,190,106**

In the case of debt securities and other fixed-interest securities, the amortised cost method applied since 1 January 2020 results in a change in the way premiums and discounts are disclosed (see note 3).

18. Shares in special investment funds

apoBank holds more than 10% of shares in the following domestic investment funds in accordance with Section 1 (10) of the German Capital Investment Code (KAGB) or in comparable international investments.

Shares in special investment funds

Name of fund	Investment objective	Value in accordance with Section 278 of the KAGB in conjunction with Section 168 of the KAGB or comparable international regulations €thous	Difference to book value €thous	Distributions made for the total financial year €thous	Restriction of daily redemption
APO 1 INKA[1]	Domestic and international bonds	943,615	106,344	10,000	no
APO 2 INKA	Domestic and international bonds	216,658	7,352	21,000	no
BlackRock apo Global Healthcare Private Equity Fund, S.C.A., SICAV-RAIF	Participations in unquoted companies, domestic and international funds	1,925	0	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	7,571	309	0	no

1) APO 3 INKA was merged with APO 1 INKA in the first half of 2020.

19. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

	Book value as at 31 Dec 2020 €thous	Fair value as at 31 Dec 2020 €thous	Omitted depreciation €thous
Banks	641,846	640,558	1,288
Public debtors	47,331	47,141	190
Companies	100,000	99,541	459
Total	**789,177**	**787,240**	**1,937**

1) Includes only financial instruments classified as fixed assets that showed hidden burdens at the balance sheet date.

Impairments of these unstructured securities are not regarded as permanent because they can be attributed to increased market interest rates and a deterioration in market liquidity.

20. List of holdings

The following list includes significant participations pursuant to Section 285 (11) of the HGB. Pursuant to Section 286 (3) of the HGB, the list does not include participations that are of minor importance for apoBank's net assets, financial position and results.

List of holdings

Company	Share in company capital on 31 Dec 2020 %	Year	Capital and reserves of the company €thous	Result of the past financial year €thous
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	64	2019	11,472	3,654
aik Management GmbH, Dusseldorf [1]	100	2019	80	55
APO Asset Management GmbH, Dusseldorf	70	2019	14,323	3,650
APO Data-Service GmbH, Dusseldorf [2]	100	2020	4,677	634
apoDirect GmbH, Dusseldorf [3]	100	2020	1,345	369
ARZ Haan AG, Haan	38	2019	55,633	4,087
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2019	19,355	7,754
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	16	2019	29,465	22,715
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2019	1,684	815
GAD Beteiligungs GmbH & Co. KG, Münster	5	2020	119,597	3,020
gbs – Gesellschaft für Bankensysteme mbH, Münster	10	2019	4,878	1,643
medisign GmbH, Dusseldorf	50	2019	962	607
naontek AG, Dusseldorf	91	2019	7,928	– 2,122
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zürich [4,5]	100	2020	1,764	1,375
RiOsMa GmbH, Dusseldorf	90	2019	213	189
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2019	36,373	791
WGZ Beteiligungs GmbH & Co. KG, Dusseldorf	5	2020	3,093,444	– 159
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2019	7,232	1,869
ZPdZ – Zahnpraxis der Zukunft GmbH, Dusseldorf	50	2019	742	– 245

1) Indirect participation.
2) Before profit transfer or loss absorption.
3) Formerly Konnektum GmbH, Dusseldorf.
4) Including indirect participation of almost 50% via RiOsMa GmbH.
5) The financial year ends on 30 June of the respective year.

DSP Düsseldorf Securities Processing GmbH, Dusseldorf, was sold to Avaloq Sourcing Europe AG, Berlin, on 3 June 2020. APO Beteiligungs-Holding GmbH, Dusseldorf, was liquidated on 14 July 2020.

apoBank had participations in large corporations pursuant to Section 340a (4) of the HGB with more than 5% of voting rights in Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover, Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne, and DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart.

In accordance with Section 290 (5) of the HGB combined with Section 296 (1) no. 1 and Section 296 (2) of the HGB, apoBank has not prepared consolidated financial statements, as either significant and lasting constraints limit the exercise of the rights of apoBank with regard to the net assets or the long-term management of the subsidiary, or the relevant companies are of minor importance overall in terms of presenting a realistic picture of the net assets, financial position and earnings situation.

21. Trust assets

The trust transactions shown on the assets side of the balance sheet are fiduciary loans (participations) totalling €51 thousand (31 December 2019: €51 thousand).

apoBank holds in trust almost exclusively limited partnership shares for the holders of share certificates in various Medico funds.

22. Development of fixed assets

The item “Tangible assets” (assets, 12) includes:

Tangible assets

	31 Dec 2020	31 Dec 2019
	€thous	€thous
Land and buildings used within the scope of apoBank’s own operations	94,810	99,106
Office furniture and equipment	30,485	33,749

Development of fixed assets

	Acquisition/ production costs as at 1 Jan 2020	Changes in the reporting period Additions	Disposals	Transfers	Acquisition/ production costs as at 31 Dec 2020
	€thous	€thous	€thous	€thous	€thous
Intangible assets	175,152	39,166	338	0	213,980
Tangible assets					
Land and buildings	215,693	559	653	– 67	215,532
Office furniture and equipment	121,634	2,698	382	67	124,017
Loans and advances to banks	2,574	0	0	0	2,574
Loans and advances to customers	2,200	0	800	0	1,400
Fixed-asset securities	5,413,880	3,435,981	1,297,540	0	7,552,321
Participating interests and capital shares in cooperatives	233,786	62	7	0	233,841
Shares in affiliated companies	24,670	0	4,189	0	20,481
Total	**6,189,589**	**3,478,466**	**1,303,909**	**0**	**8,364,146**

The amortised cost method used to measure securities since 1 January 2020 results in a change in the way premiums and discounts are disclosed (see note 3).

Amortisation/ depreciation (accumulated) as at 1 Jan 2020	Amortisation/ depreciation	Write-ups	Changes in total amortisation/depreciation as a result of additions	disposals	transfers	Amortisation/ depreciation (accumulated) as at 31 Dec 2020	Book values at the balance sheet date
€thous	€thous	€thous	€thous	€thous	€thous	€thous	€thous
– 35,732	– 11,224	0	0	0	0	– 46,956	167,024
–115,779	– 3,717	0	0	0	0	–119,496	96,036
– 87,885	– 5,647	0	0	0	0	– 93,532	30,485
0	0	0	0	0	0	0	2,574
0	0	0	0	0	0	0	1,400
– 4,358	– 1,000	0	0	0	0	– 5,358	7,546,963
– 282	– 123	12	0	0	0	– 393	233,448
–10,980	0	0	0	0	0	– 10,980	9,501
– 255,016	**– 21,711**	**12**	**0**	**0**	**0**	**– 276,715**	**8,087,431**

23. Other assets

The item “Other assets” includes the following larger amounts:

Other assets

	31 Dec 2020 €thous	31 Dec 2019 €thous
Capitalised premiums from options and caps	59,059	73,622
Receivables from asset management	43,732	36,885
Tax receivables	46,253	33,335
Receivable from distribution of APO 2 INKA mutual fund	21,000	0

24. Prepayments and accrued income (assets)

The prepayments and accrued income items include discount amounts from assumed liabilities of €14,809 thousand (31 December 2019: €17,968 thousand) and upfront payments of €10,590 thousand (31 December 2019: €6,246 thousand).

25. Deferred tax assets

The option to capitalise deferred tax assets under Section 274 (1) sentence 2 of the HGB was not exercised.

As at 31 December 2020, a net deferred tax asset existed. This was essentially due to differences between the valuations in the trading and tax accounts for shares and other non-fixed-interest securities, loans and advances to customers, provisions for pensions, intangible assets as well as other assets.

The total net surplus of deferred tax assets amounted to €189,402 thousand, including deferred tax assets of €194,420 thousand and deferred tax liabilities of €5,018 thousand.

A tax rate of 31.3% was applied for calculating deferred taxes.

26. Subordinated assets

Subordinated assets are included in the following items:

Subordinated assets

	31 Dec 2020	31 Dec 2019
	€thous	€thous
Loans and advances to banks	2,584	2,584
Loans and advances to customers	66,674	70,169
Debt securities and other fixed-interest securities	21,037	20,869
Total	**90,295**	**93,622**

In the case of debt securities and other fixed-interest securities, the amortised cost method applied since 1 January 2020 results in a change in the way premiums and discounts are disclosed (see note 3).

27. Repurchase agreements

Genuine repurchase agreements did not exist at the balance sheet date.

28. Foreign currency items

Assets include foreign currency items with a value of €335,461 thousand (31 December 2019: €324,101 thousand).

Notes to liabilities

29. Breakdown of liabilities by residual terms and other items

The liabilities shown in the balance sheet have the following residual terms:

Breakdown of liabilities by residual term

	Liabilities to banks (L1) €thous		Savings deposits (L2c) €thous		Liabilities to customers without savings deposits (L2a, 2b, 2d) €thous		Securitised liabilities (L3) €thous	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Accrued interest	45,532	50,559	0	0	19,740	23,954	15,078	15,552
Up to 3 months	261,284	449,490	92,086	90,610	29,971,779	26,074,245	530,905	506,812
More than 3 months to 1 year	235,437	921,546	675	558	576,265	395,831	420,507	504,324
More than 1 year to 5 years	8,248,938	4,161,420	1,840	2,287	670,355	1,141,215	3,153,438	2,838,945
More than 5 years	6,588,120	4,052,975	42	0	1,907,980	1,508,314	3,278,300	3,530,300

Liabilities to banks include €112,406 thousand (31 December 2019: €84,529 thousand) of liabilities to the relevant central cooperative bank (DZ BANK AG).

Of the liabilities to banks, €9,035,055 thousand (31 December 2019: €8,338,639 thousand) are secured by transfer of assets. These liabilities are mainly publicly refinanced loans.

There were no securities (31 December 2019: €35,000 thousand) pledged as additional security for publicly refinanced loan programmes in the past financial year. Irrespective of liabilities to be assigned, apoBank deposited cash collaterals of €300,215 thousand (31 December 2019: €304,279 thousand) within the framework of our collateral management for interest rate derivatives. Moreover, securities with a book value of €197,296 thousand (31 December 2019: €506,214 thousand) were pledged as collateral for margin obligations at futures and options exchanges and to secure payment obligations from securities transactions.

Of the debt securities issued (liabilities, 3.a)), €935,507 thousand (31 December 2019: €1,010,230 thousand) will mature in the year following the balance sheet date.

30. Liabilities due from affiliated or associated companies

The liabilities due from affiliated or associated companies can be broken down as follows:

Liabilities due from affiliated or associated companies

	Liabilities to affiliated companies €thous		Liabilities to associated companies €thous	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Liabilities to banks (L1)	0	0	112,406	84,529
Liabilities to customers (L2)	25,305	31,122	26,772	55,146
Securitised liabilities (L3)	0	0	0	0
Subordinated liabilities (L9)	0	0	0	0

31. Trust liabilities

The trust transactions shown on the liabilities side of the balance sheet are liabilities for contributions (participations) held in trust of €51 thousand (31 December 2019: €51 thousand).

apoBank holds in trust almost exclusively limited partnership shares for the holders of share certificates in various Medico funds.

32. Other liabilities

The item “Other liabilities” includes the following larger amounts:

Other liabilities

	31 Dec 2020 €thous	31 Dec 2019 €thous
Premiums from options and caps carried as liabilities	14,918	40,301
Tax liabilities	6,799	13,923
Trade payables	9,866	13,603
Dividend liability 2019	24,064	0

33. Prepayments and accrued income (liabilities)

“Prepayments and accrued income” (liabilities) includes:

Prepayments and accrued income (liabilities)

	31 Dec 2020 €thous	31 Dec 2019 €thous
Premium from liabilities (securitised or unsecuritised)	12,869	12,989
Discount from claims	3,336	4,221
Other prepayments and accrued income	13,445	14,441

34. Subordinated liabilities

Expenses of €277 thousand were incurred in the past financial year (31 December 2019: €3,863 thousand). Early redemption of the subordinated liabilities is excluded, with the exception of a subordinated promissory note bond.

Subordination has been arranged as follows: In the event of the insolvency or liquidation of apoBank, these liabilities are repayable only after all higher-ranking creditors have been satisfied. The liabilities, most of which are due for repayment in the following years, have a residual term of seven to 17 years.

Subordinated liabilities with a nominal value of €119,000 thousand (31 December 2019: €9,500 thousand) carry the following interest rates:
- one subordinated bearer bond with a 6-month Euribor variable rate plus 1.00%,
- four subordinated promissory note bonds with fixed interest rates of 1.60% to 1.84%.

As at the balance sheet date, borrowings exceeding 10% of the balance sheet item amounted to €112,000 thousand (31 December 2019: €9,500 thousand); their interest rates and maturities were as follows:
- subordinated promissory note bond with a nominal value of €35,000 thousand, due on 26 November 2030, interest rate of 1.600%,
- subordinated promissory note bond with a nominal value of €12,000 thousand, due on 7 December 2032, interest rate of 1.609%,
- subordinated promissory note bond with a nominal value of €30,000 thousand, due on 30 November 2037 (early repayment as at 30 November 2032 possible), interest rate of 1.840%,
- subordinated promissory note bond with a nominal value of €35,000 thousand, due on 30 November 2037, interest rate of 1.820%.

35. Capital and reserves

The amounts shown under “Subscribed capital” (liabilities, 12.a)) are structured as follows:

Subscribed capital

	31 Dec 2020 €thous	31 Dec 2019 €thous
Members’ capital	**1,237,455**	**1,231,406**
Of remaining members	1,233,313	1,227,747
Of departing members	3,893	3,290
Of terminated cooperative shares	249	369
Compulsory contributions due on shares in arrears	104	2

The revenue reserves (liabilities, 12.c)) developed as follows in the past financial year:

Revenue reserves

	Legal reserves	Other revenue reserves
	€thous	€thous
As at 1 Jan 2020	426,750	145,741
Transfers		
from balance sheet profit of the previous year	8,000	32,064
from net profit of the financial year	0	0
Withdrawals	0	0
As at 31 Dec 2020	**434,750**	**177,806**

36. Foreign currency items

Foreign currency items with an equivalent value of €281,855 thousand (31 December 2019: €485,079 thousand) are included in liabilities and with an equivalent value of €70,182 thousand (31 December 2019: €73,929 thousand) in off-balance-sheet contingent liabilities and other obligations.

37. Contingent liabilities

Acute risks of claims in connection with off-balance-sheet contingent liabilities and open loan commitments are covered by provisions. The liabilities shown mainly refer to guarantee agreements or open loan commitments to customers. The risks were assessed in the context of an individual evaluation of the creditworthiness of these customers. They are subject to the risk identification and controlling procedures which apply to all loan agreements and guarantee a timely identification of the risks.

Derivative financial instruments

38. Derivative financial instruments

The volume of unsettled forward transactions affected by a settlement risk or currency, interest rate and/or other market risks arising from open positions, and in the event of counterparty default also from closed positions, amounted to €26,905 million as at 31 December 2020 (31 December 2019: €29,683 million). As at 31 December 2020, the following types of transactions were included therein:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions
- Interest rate swaps
- Swaptions
- Caps/floors

Currency-related transactions
- FX forward transactions
- FX swaps

Stock-related transactions
- Stock options

apoBank enters into these forward transactions, which are subject to fluctuations in interest rates, exchange rates and market prices, to hedge positions, for asset liability management and for strategic purposes within the scope of its participation management. Existing derivatives contracts are broken down according to their risk structure in the table on the following page. The nominal volumes are stated in accordance with standard international practice; however, these figures are not identical with the default risk value.

apoBank calculated the fair values shown using the following valuation models: Interest rate swaps were measured at their net present value on the balance sheet date. The variable interest payment flows were calculated based on forward rates derived from the current yield curve and then discounted with the swap curve in the same way as fixed payment flows. Interest limit agreements were measured on the basis of the Bachelier model, swaptions on the basis of the Hull-White model.

The fair value of the FX forward transactions and of the FX swaps was calculated based on the net present values of the opposing payment flows (in foreign currency and in euros) using the yield curve of the respective currency.

apoBank measures stock options from structured financial instruments by comparing them with unstructured bonds of the same issuer and the same terms. The difference between the two financial instruments corresponds to the implied value of the option.

Risk structure

	Nominal value €m		Fair value €m	
	31 Dec 2020	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Interest rate-related transactions[1]				
Time to maturity up to 1 year	2,350	2,407	–19	–5
more than 1 year to 5 years	10,527	12,436	–121	–135
more than 5 years	12,843	13,634	–31	–41
Subtotal	**25,720**	**28,477**	**– 171**	**– 181**
Currency-related transactions				
Time to maturity up to 1 year	1,070	1,189	1	8
more than 1 year to 5 years	112	14	0	0
more than 5 years	0	0	0	0
Subtotal	**1,182**	**1,203**	**1**	**8**
Stock-related transactions[1]				
Time to maturity up to 1 year	3	0	0	0
more than 1 year to 5 years	0	3	0	0
more than 5 years	0	0	0	0
Subtotal	**3**	**3**	**0**	**0**
Total	**26,905**	**29,683**	**– 170**	**– 173**

1) Interest rate- and stock-related transactions are reported under the items “Other assets” (€59.1 million), “Prepayments and accrued income (assets)” (€10.6 million) as well as under the items “Other liabilities” (€1.0 million) and “Prepayments and accrued income (liabilities)” (€13.3 million).

The vast majority of derivative financial instruments are used to hedge interest rate and/or currency fluctuations as part of valuation units (see note 5) as well as within the scope of asset liability management.

D. Notes to the income statement

39. Interest income

The “Interest income” item includes €30,359 thousand in negative interest income from deposits with the ECB and other banks, from collateral management, as well as from fixed-interest securities (1 January to 31 December 2019: €20,476 thousand).

40. Interest expenses

The item “Interest expenses” includes €39,624 thousand in positive interest expenses from borrowings from other banks and specific customer groups, from collateral management as well as from securitised liabilities (1 January to 31 December 2019: €19,485 thousand).

41. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €22,533 thousand (1 January to 31 December 2019: €23,405 thousand).

42. Other operating income and expenses, or income and expenses related to other periods

Other operating income of €49,260 thousand (1 January to 31 December 2019: €52,295 thousand) includes, among other things:

Other operating income

	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
	€thous	€thous
Rental income	4,154	3,968
Release of reserves (related to other periods)	25,013	32,309
Income from discounting	6,364	2,291

Other operating expenses of €78,357 thousand (1 January to 31 December 2019: €17,047 thousand) result primarily from the following items:

Other operating expenses

	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2019
	€thous	€thous
Provisions for litigation costs	55,416	2,587
Expenses from compounding	6,529	7,897
Expenses from currency translation	3,960	913

Of the increase in provisions for process risks, €48,800 thousand are attributable to an additional demand for capital gains tax and a solidarity supplement on capital gains tax.

43. Extraordinary income and expenses

As in the previous year, no extraordinary income or extraordinary expenses were incurred in 2020.

44. Taxes on income

Income taxes apply to the operating result and to adjustments and reimbursements of previous years. Taxes on income were calculated largely on the basis of actual figures and the current tax rate.

The item “Taxes on income” includes other material income related to other periods of €113 thousand from tax refunds for previous years (1 January to 31 December 2019: €2,946 thousand), and expenses related to other periods of €119 thousand from tax arrears for previous years (1 January to 31 December 2019: €586 thousand).

45. Proposal for the appropriation of the balance sheet profit

In 2020, apoBank recorded a net profit of €65,315,240, the profit carried forward from the previous year amounted to €8,015. The Supervisory Board and the Board of Directors will propose the following appropriation of profit at the Annual General Meeting:

Appropriation of balance sheet profit

	31 Dec 2020 €	31 Dec 2019[1] €
Net profit	65,315,240.03	64,127,513.15
Profit carried forward from the previous year	8,014.59	9,413.11
Balance sheet profit	65,323,254.62	64,136,926.26
Allocations to legal reserves	8,000,000.00	8,000,000.00
Allocations to other revenue reserves	8,000,000.00	32,064,455.86
Dividends (2%)	0	24,064,455.81
Carried forward to new account	49,323,254.62	8,014.59

1) Previous year’s figures adjusted.

At the Annual General Meeting on 6 May 2020, the decision was made to reduce the amount of the distribution for 2019 from 4% to 2%. As a result, the total distribution decreased from €48,128,911.67 to €24,064,455.81. On 26 October 2020, the Annual General Meeting passed a resolution to delay the decision on paying out the dividend for the 2019 financial year to the next Annual General Meeting in 2021. The envisaged dividend distribution is posted under “Other liabilities” (see note 32).

E. Other notes

46. Events after the reporting date

No events took place that were subject to reporting requirements between 31 December 2020 and 29 January 2021 when the Annual Financial Statements were prepared by the Board of Directors.

47. Disclosures according to Section 28 of the PfandBG

The following information is provided with respect to the mortgage Pfandbriefe included in the items “Liabilities to banks”, “Liabilities to customers” and “Securitised liabilities” pursuant to Section 28 of the PfandBG:

Total amount and maturity structure

	Total amount of outstanding Pfandbriefe €m		Total amount of cover pool €m		Overcollateralisation %	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Nominal value	6,710	6,326	8,604	7,151	28	13
Net present value	7,294	6,701	9,649	7,933	32	18
Risk net present value[1]	7,942	7,278	10,213	8,346	29	15

	Maturity structure of outstanding Pfandbriefe €m		Maturity profile of cover pool €m	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Up to 6 months	540	15	372	352
More than 6 months to 12 months	20	70	516	338
More than 12 months to 18 months	500	540	387	294
More than 18 months to 2 years	545	20	533	420
More than 2 years to 3 years	623	1,045	974	743
More than 3 years to 4 years	165	623	1,012	715
More than 4 years to 5 years	608	165	891	727
More than 5 years to 10 years	2,628	2,736	3,003	2,698
More than 10 years	1,081	1,112	916	864

1) The risk net present value is calculated on the basis of the dynamic method pursuant to the Pfandbrief Net Present Value Regulation (PfandBarwertV).

There are no derivatives included in the cover pool.

Composition of the cover pool

Total amount of receivables used as cover	€m 31 Dec 2020	€m 31 Dec 2019	Share in the total amount of cover pool % 31 Dec 2020	31 Dec 2019
By size class				
Up to €300 thousand	5,985	5,177	– – –	– – –
More than €300 thousand to €1 million	1,007	767	– – –	– – –
More than €1 million to €10 million	702	701	– – –	– – –
More than €10 million	401	321	– – –	– – –
By type of use (I) in Germany				
Residential	6,532	5,486	– – –	– – –
Commercial	1,563	1,480	– – –	– – –
By type of use (II) in Germany				
Flats	1,964	1,669	24	24
Single- and two-family homes	3,874	3,228	48	46
Multi-family homes	694	589	9	9
Office buildings	164	11	2	0
Retail buildings	23	24	0	0
Industrial buildings	0	0	0	0
Other commercially used buildings	1,376	1,445	17	21
Unfinished new buildings not yet ready to generate a return as well as building sites	0	0	0	0
Of which: building sites	0	0	0	0

There are no mortgage cover assets outside Germany.

Summary of overdue claims

	31 Dec 2020 €m	31 Dec 2019 €m
Total amount of claims being more than 90 days past due	0	0
Total amount of the impaired receivables, provided that the respective arrears amount to at least 5% of the receivable	0	0

Other notes

	Residential		Commercial	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Number of pending forced auctions and forced administrations	0	0	0	0
Number of forced auctions carried out in the fiscal year	0	0	0	0
Number of real estate taken over in the fiscal year to prevent losses	0	0	0	0
Total amount of overdue interest payments in €m	0	0	0	0

48. Cover statement mortgage Pfandbriefe

Cover statement mortgage Pfandbriefe

	31 Dec 2020 €thous	31 Dec 2019 €thous
Loans and advances to customers		
Mortgage loans	8,094,357	6,966,267
Tangible fixed assets (land charges on the Bank's own property)	0	0
Debt securities and other fixed-interest securities (book value as at 31 Dec 2020: €510,000 thousand, 31 December 2019: €185,000 thousand)	510,000	185,000
Total cover assets	8,604,357	7,151,267
Total mortgage Pfandbriefe requiring cover	6,710,100	6,325,000
Overcollateralisation	1,894,257	825,667

49. Other financial obligations

Other financial obligations amounted among others to €118,020 thousand at the end of 2020 (31 December 2019: €118,020 thousand) and result from an optional obligation to purchase shares in a company within the scope of the lending business. This obligation does not currently pose a risk.

apoBank is a member of the protection scheme with a guarantee fund and a guarantee network operated by the National Association of German Cooperative Banks (Deutsche Volksbanken und Raffeisenbanken e. V., BVR). Within the scope of the guarantee network, apoBank has assumed a guarantee obligation that amounted to €57,876 thousand as at the end of the past financial year (31 December 2019: €54,116 thousand).

A premium guarantee in favour of BVR Institutssicherung GmbH (BVR-ISG) is also in force. This relates to annual contributions to reach the target level and payment obligations, special contributions and special payments in the event that the available cash funds are not sufficient to compensate the depositors of a CRR bank belonging to a bank-related protection scheme, as well as replenishment obligations pursuant to cover measures.

50. Average number of employees

The average number of employees in 2020 was 1,869 (2019: 2,009) full-time and 453 (2019: 465) part-time employees. In addition, apoBank also employed an average of 85 apprentices (2019: 75).

51. Changes in membership

Changes in membership

	Number of members	Number of cooperative shares	Uncalled liabilities €thous
Beginning of 2020	115,884	818,534	1,227,801
Additions 2020	1,533	16,520	24,781
Departures 2020	1,362	12,741	19,112
End of 2020	116,055	822,313	1,233,470

52. Capital contributions and uncalled liabilities of members

Capital contributions and uncalled liabilities of members

	31 Dec 2020 €thous	31 Dec 2019 €thous
The capital contributions of the remaining members increased in the year under review by	5,566	40,669
Uncalled liabilities increased in the year under review by	5,669	40,664

The value of the company share and the value of the uncalled liabilities amount to €1,500 each.

53. Auditors’ fee

The expenses for the audit of the annual financial statements, other certification services, tax advice and other services of the auditor, GV (Genossenschaftsverband – Verband der Regionen e.V.), were €3,322 thousand in the year under review (2019: €1,905 thousand).

The expenses can be broken down as follows:

Auditors’ fee

	2020 €thous	2019 €thous
Audit of the annual financial statements	2,434 [1]	1,351
Other assurance services	812	444
Tax advice	0	0
Other services	76	110

1) Including release of a provision from 2019 amounting to €32 thousand.

54. Board compensation

According to Section 285 sentence 1 no. 9a of the HGB, the total remuneration granted to the Board of Directors amounted to €4,562 thousand in 2020 (2019: €4,505 thousand); the performance-related share of this total remuneration was 20.9% (2019: 19.7%). The total remuneration paid to Board members in 2020 amounted to €5,185 thousand (2019: €5,236 thousand).

According to the remuneration structure for members of the Board of Directors agreed upon by the Board of Directors and the Supervisory Board, variable remuneration is paid to Board members on top of the basic salary. This amounts to 35.0% of the aggregate salary if all goals are achieved. If the agreed goals are exceeded or not met, the variable payment for the year is increased or decreased accordingly. However, if the results fall short of the goals by more than 50.0%, no variable remuneration will be paid, and if the goals are exceeded by more than 50.0%, the variable remuneration will not increase further.

A remuneration structure that takes account of the legal and regulatory requirements – in particular the provisions of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) – has been agreed upon.

The total remuneration for former members of the Board of Directors and their surviving dependants amounted to €2,371 thousand (2019: €2,735 thousand). Pension provisions for this group of persons as at the balance sheet date amounted to €40,474 thousand (31 December 2019: €38,225 thousand).

The total remuneration for members of the Supervisory Board was €1,218 thousand (2019: €1,082), which was divided up as follows: annual remuneration €611 thousand (2019: €603 thousand), attendance fees €548 thousand (2019: €420 thousand) and other benefits €59 thousand (2019: €59 thousand).

55. Amounts due from Board members

On the balance sheet date, amounts due to and from contingent liabilities incurred for Board members were as follows:

Amounts due from Board members

	31 Dec 2020 €thous	31 Dec 2019 €thous
Members of the Board of Directors	0	10
Members of the Supervisory Board	5,645	5,303

56. Additional notes pursuant to Section 26a of the German Banking Act (KWG) and breakdown of income by geographic market

Deutsche Apotheker- und Ärztebank eG, 40547 Dusseldorf, Germany

The purpose of the cooperative is to provide economic and professional support to its members and especially members of the health care professions, their organisations and associations. Its business is to conduct all customary bank transactions within the framework of legal provisions for members as well as non-members. The head office, the branches and the advisory offices of Deutsche Apotheker- und Ärztebank are all located in Germany.

The turnover of €905.6 million resulted from the operating result, excluding risk provisioning and general administrative expenses. Deutsche Apotheker- und Ärztebank's operating result amounted to €185.5 million based on HGB accounting.

The number of employees (excluding members of the Board of Directors) as at 31 December 2020 was 2,190 (full-time equivalents).

The profit before tax of €185.5 million as at 31 December 2020 was largely generated in Germany. Income tax on this amount was €45.5 million.

apoBank does not receive any public aid.

57. Additional notes pursuant to Article 434 (2) of the Capital Requirements Regulation (CRR)

Some of the disclosures required pursuant to Part 8 of the CRR (Articles 435 to 455) are included in the management report. apoBank publishes the remaining disclosures in a separate disclosure report and in the remuneration report on its website.

58. Board of Directors

Members of the Board of Directors
- Ulrich Sommer, Chairman, responsible for Corporate Development, Corporate Communications, Human Resources, Legal, Professional Associations, Health Care Markets and Policy, Internal Auditing
- Dr. Thomas Siekmann, Deputy Chairman, responsible for Finance and Controlling (until 31 December 2020), since 1 January 2021: Finance and IT
- Jenny Friese (since 1 January 2021), responsible for Large Customers and Markets
- Olaf Klose (until 19 June 2020), responsible for Retail Clients
- Eckhard Lüdering, responsible for Loans and Banking Operations (until 31 December 2020), since 1 January 2021: Risk
- Holger Wessling, responsible for Large Customers and Markets (until 31 December 2020) as well as Retail Clients (temporary from 19 June 2020 to 31 December 2020), since 1 January 2021: Risk

59. Supervisory Board

Members of the Supervisory Board
- Prof. Dr. med. Frank Ulrich Montgomery, Chairman, Chair of the Board of the World Medical Association
- Sven Franke[1], Deputy Chairman, bank employee
- Ralf Baumann[1], bank employee
- Fritz Becker, President of Landesapothekerverband Baden-Württemberg e. V.
- Marcus Bodden[1], bank employee
- Martina Burkard[1], bank employee
- Mechthild Coordt[1], bank employee
- Dr. med. dent. Peter Engel, President of the German Dentists Association – Arbeitsgemeinschaft der Deutschen Zahnärztekammern e. V.
- Dr. med. Andreas Gassen, Chair of the Board of the German National Association of Statutory Health Insurance Dentists
- Günter Haardt[1], General Manager Asset Management at ver.di GmbH
- Dr. med. Torsten Hemker, Chair of the Administrative Committee of Versorgungswerk der Ärztekammer Hamburg
- Steffen Kalkbrenner[2], bank employee
- Walter Kollbach, tax consultant/auditor (retired)
- Dr. med. dent. Helmut Pfeffer, Chair of the Pension Committee of Versorgungswerk der Ärztekammer Hamburg
- Robert Piasta[1], bank employee
- Dr. med. dent. Karl-Georg Pochhammer, Deputy Chair of National Association of Statutory Health Insurance Dentists
- Christian Scherer[1], bank employee
- Friedemann Schmidt, President of Sächsische Landesapothekerkammer
- Dietke Schneider[1], bank employee
- Susanne Wegner, General Manager of Verwaltungsgesellschaft Deutscher Apotheker mbH

1) Employee representative.
2) Representative of the executive staff.

60. Seats on supervisory boards held by members of the Board of Directors and employees

In 2020, members of the Board of Directors and employees of the Bank held seats on the supervisory boards or comparable boards of the following joint-stock companies pursuant to Section 267 (3) of the HGB or comparable organisations:

Name	Company	Function
Ulrich Sommer	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	2nd Deputy Chairman of the Supervisory Board
	Apo Asset Management GmbH, Dusseldorf	Chairman of the Supervisory Board
	Deutsche Ärzteversicherung AG, Cologne	Member of the Supervisory Board
Dr. Thomas Siekmann	ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf Aktiengesellschaft, Dusseldorf	Member of the Supervisory Board
Olaf Klose (member until 19 June 2020)	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board until 30 June 2020
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	Member of the Supervisory Board until 31 July 2020
	Deutsche Ärzte Finanz Beratungs- und Vermittlungs-AG, Cologne	Deputy Chairman of the Supervisory Board until 31 July 2020
	Finanz-Service GmbH der APO-Bank, Dusseldorf	Deputy Chairman of the Supervisory Board until 30 June 2020
Eckhard Lüdering	CP Capital Partners AG i. L., Zurich	Member of the Administrative Board until 4 February 2020
	PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	Member of the Administrative Board
	Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	Deputy Chairman of the Administrative Board
Holger Wessling	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board since 15 August 2020
	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf	Member of the Supervisory Board
	PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	Member of the Administrative Board
Mirko Engels	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
Michael Gabler	ARZ Haan AG, Haan	Member of the Supervisory Board until 22 June 2020
Steffen Kalkbrenner	ARZ Haan AG, Haan	Deputy Chairman of the Supervisory Board
Dr. Hanno Kühn	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board
Jasper Jan Meijerink	Deutsche Ärzte Finanz Beratungs- und Vermittlungs-AG, Cologne	Deputy Chairman of the Supervisory Board since 1 August 2020
	Finanz-Service GmbH der APO-Bank, Dusseldorf	Member of the Supervisory Board since 1 July 2020
Alexander Müller	naontek AG, Dusseldorf	Chairman of the Supervisory Board
Carsten Padrok	Finanz-Service GmbH der APO-Bank, Dusseldorf	Member of the Supervisory Board, Chairman of the Supervisory Board since 11 August 2020
Dr. Klaus Poggemann	ARZ Haan AG, Haan	Member of the Supervisory Board since 22 June 2020
Peter Schlögell	Apotheken-Rechen-Zentrum GmbH, Darmstadt	Chairman of the Supervisory Board
Martin Steinkühler	Finanz-Service GmbH der APO-Bank, Dusseldorf	Member of the Supervisory Board since 24 November 2020

61. Name and address of the responsible auditing association

Genossenschaftsverband – Verband der Regionen e. V.
Peter-Müller-Str. 26
40468 Dusseldorf, Germany

Dusseldorf, 29 January 2021
Deutsche Apotheker- und Ärztebank eG
Der Vorstand

Ulrich Sommer

Dr. Thomas Siekmann

Jenny Friese

Olaf Klose
(Member of the Board until 19 June 2020)

Eckhard Lüdering

Holger Wessling

5

Certifications

Report of the Independent Auditor

Report on the audit of the annual financial statements and the management report

Audit opinions

We have audited the annual financial statements of Deutsche Apotheker- und Ärztebank eG, Dusseldorf (hereinafter referred to as the "Cooperative"), comprising the balance sheet as at 31 December 2020, the income statement, the cash flow statement and the statement of changes in equity for the fiscal year from 1 January to 31 December 2020, as well as the notes to the financial statements, including the accounting and measurement methods. We also audited the management report of the Cooperative for the fiscal year from 1 January to 31 December 2020. We did not audit the parts of the management report referred to in the "Other information" section of the management report in accordance with German legal requirements.

According to the findings obtained within the scope of our audit

- the attached annual financial statements comply with applicable German commercial law requirements for cooperative banks in all key aspects and, in consideration of German standard accounting practice, give a true and fair view of the net assets and financial position of the Cooperative as of 31 December 2020 as well as of the results of operations for the fiscal year from 1 January to 31 December 2020, and
- the attached management report gives an accurate picture of the Cooperative's position. This management report is consistent with the annual financial statements in all key aspects, complies with German legal requirements and gives a true and fair view of the opportunities and risks associated with future developments. Our audit opinion on the management report does not cover the content of the parts of the management report referred to in the "Other information" section.

In accordance with Section 322 (3) sentence 1 of the HGB, we declare that our audit did not lead to any objections regarding the correctness of the annual financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with Section 53 (2) of the Cooperative Societies Act (GenG), with Sections 340k and 317 of the HGB and with the European Union Auditing Regulation (No. 537/2014, hereinafter referred to as EU AR), in consideration of the German standards for the proper auditing of financial statements issued by the Institute of Public Auditors in Germany (IDW). Our responsibilities under these provisions and principles are described in further detail in the section "Responsibility of the auditor in auditing the annual financial statements and the management report" of our auditor's report. We are independent of the Cooperative in accordance with European law and German commercial law and provisions governing the auditing profession and have fulfilled all other professional duties valid in Germany in accordance with these requirements. Moreover, in accordance with Article 10 (2) (f) EU AR in conjunction with Sections 55 (2) and 38 (1a) GenG, we declare that nobody in our employment who could influence the result of the audit has provided non-audit services that are prohibited under Article 5 (1) EU AR. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions on the annual financial statements and the management report.

Key audit matters in auditing the annual financial statements
Key audit matters are matters we considered to be the most important in our audit of the annual financial statements in the fiscal year from 1 January to 31 December 2020. These matters were taken into account in our audit of the annual financial statements as a whole and in the formation of our audit opinion; we do not issue any separate audit opinions on these matters.

In the following, we present the audit matters we consider as key:

1. Measurement of other provisions
2. Measurement of loans and advances to customers
3. Migration to a new bank application system

We structured our presentation of key audit matters as follows:
a) Matter and issue at hand
b) Audit procedures and findings
c) Reference to further information

1.a)
As a credit institution, the Cooperative is exposed to various risks. The recognition and measurement in particular of provisions for litigation risks and costs, transaction bonuses and other uncertain liabilities of the Cooperative are based on estimates, expectations and assumptions made by the legal representatives. For this reason and also due to the amount of these items, we believed that these matters constituted key audit matters in our audit of the Cooperative's annual financial statements.

1.b)
We initially reviewed whether the bank's relevant systems and processes for the measurement of other provisions are designed so that the need for provisions is recognized with reasonable assurance and in good time and provisions are formed in a sufficient amount.

We then verified the functionality of the regulations and processes by auditing individual cases. This audit process was based on the relevant controls put in place by the bank.

We also conducted analytical audit procedures. In this context, the bank's data pool was assessed according to predefined audit criteria.

Based on the results of this assessment, we conducted individual reviews on the need for and, if applicable, the appropriateness of the formation of provisions.

1.c)
Further disclosures by the bank on the recognition and accounting of other provisions are included in notes 10 and 42 in the notes to the annual financial statements.

2.a)
Loans and advances to customers amount to €38.2 billion when netted with risk provisions; this corresponds to 64.3% of the balance sheet total. In addition, contingent liabilities exist in the amount of €0.6 billion and irrevocable loan commitments in the amount of €2.8 billion.

The identification of impairments, the calculation of specific allowances, as well as the measurement of provisions for contingent liabilities and irrevocable loan commitments are subject to significant estimation uncertainties and scope for discretion. In the case of the annual financial statements, a risk arises if the need for impairment is not recognised in time or if the amount of the impairment is influenced by the economic situation and development of the respective borrower as well as the valuation of the collateral. As a result, it is essential for the annual financial statements and in particular the earnings situation that loans and advances to customers and contingent liabilities, in particular in the commercial lending business, are correctly assessed. We therefore believe that this constitutes a key audit matter.

2.b)
We initially reviewed whether the bank’s systems and processes for the measurement of loans and advances to customers are designed so that acute risks are recognized with reasonable assurance and in good time, and provisions are formed in a sufficient amount.

We then verified the functionality of the regulations and processes by auditing individual cases. This audit process was based on the relevant controls put in place by the bank.

We also conducted analytical audit procedures. In this context, the bank’s data pool was assessed according to predefined audit criteria. This process took ratings as well as the amount of unsecured loan components, the level of value at risk and the total loan commitment into account.

On this basis, we conducted individual reviews of selected loan exposures with regard to the need for and, if applicable, the appropriateness of risk provisions.

2.c)
Further disclosures from the bank on the recognition and accounting of receivables in the lending business are included in notes 2, 13 and 37 of the notes to the annual financial statements.

3.a)
To fulfil its accounting obligations, the Cooperative used a banking system of the data centre Fiducia & GAD IT AG. In the reporting period, the previous bank21 system was migrated to Avaloq Sourcing Europe AG's core banking system Avaloq Banking Suite. Due to the complexity and importance of the migration process for correct accounting and for the annual financial statements which are derived from that in their entirety, the migration was categorised as a particularly significant topic within the context of our audit.

3. b)
In our audit, we assessed in particular how adequately the Cooperative identified and managed migration risks within the context of the migration project. The audit activities we carried out in selected cases covered in particular the areas of migration of the databases and parametrisation of the management data, which are relevant in terms of adequately changing the core banking system, as well as adaptation of the business processes. With respect to selected essential applications relevant to accounting, we looked at the module concepts and interfaces to verify the connection to the new core banking system. In addition, in selected cases we examined the changes made to the controlling procedures installed for adequacy and efficacy of selected accounting-related control specifications. We audited the correct transfer of accounting-relevant data in the real migration as well as the migration of balance sheet and income statement accounts. Furthermore, we reviewed whether the transfer protocols required for correct transfer were available. We included the booking journal in our audit by carrying out extensive data analyses.

3. c)
Further details from the Cooperative regarding the migration of the bank procedure are included in the management report, in particular in the business performance section.

Other information
The legal representatives are responsible for other information.

Other information comprises the following section of the management report, the content of which is not audited:

- the corporate governance statement pursuant to Section 289f (4) of the HGB (disclosures concerning the proportion of women).

Other information also encompasses:

- the separate non-financial report pursuant to Section 340a (1a) in conjunction with Sections 289b to 289e of the HGB,
- the remaining parts of the annual report, without further cross-references to external information, with the exception of the audited annual financial statements and the management report as well as our audit report.

Our audit opinions on the annual financial statements and the management report do not extend to other information. Accordingly, we do not issue any audit opinion or any other form of audit conclusion in this regard.

In the context of our audit, it is our responsibility to read other information and assess whether it

- contains any material discrepancies to the annual financial statements, the management report, or the findings we obtained during the audit or
- appears to have been otherwise incorrectly presented.

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the management report
The Cooperative's legal representatives are responsible for preparing the annual financial statements in accordance with the applicable German provisions under commercial law for cooperative banks in all key aspects and for ensuring that the annual financial statements provide a true and fair picture of the Cooperative's net assets, financial position and results in accordance with standard German accounting practice. In addition, the legal representatives are responsible for implementing the internal controls they deem necessary in accordance with standard accounting practice to allow the preparation of annual financial statements that are devoid of intentional and unintentional material misstatements.

In preparing the annual financial statements, the legal representatives are responsible for assessing the Cooperative's ability to continue as a going concern. Furthermore, they are responsible for disclosing any and all relevant matters associated with the continuation of the Cooperative as a going concern. They are also responsible for accounting on the basis of the going-concern principle unless prevented from doing so by any actual circumstances or legal affairs.

In addition, the legal representatives are in charge of preparing the management report, which provides a true and fair view of the Cooperative's situation and also corresponds to the annual financial statements, complies with German legal requirements, and accurately presents the opportunities and risks associated with future developments in all material respects. Moreover, the legal representatives are responsible for the precautions and measures (systems) they considered necessary to prepare a management report that complies with applicable German legal requirements and to provide sufficient evidence of the statements made in the management report.

The Supervisory Board is responsible for monitoring the Cooperative's accounting processes in the preparation of the annual financial statements and the management report.

Auditor's responsibility for auditing the annual financial statements and the management report
We aim to determine with reasonable assurance whether the annual financial statements as a whole are devoid of intentional and unintentional material misstatements, whether the management report as a whole gives a true and fair view of the Cooperative's situation and also corresponds to the annual financial statements and the findings obtained during the audit, complies with German legal requirements, and accurately presents the opportunities and risks associated with future developments in all material respects. We also intend to issue an auditor's report that includes our audit opinions concerning the annual financial statements and the management report.

Reasonable assurance is understood to be a high level of assurance, but not a guarantee, that an audit conducted in accordance with Section 53 (2) of the GenG, Sections 340k and 317 of the HGB and the EU AR, taking into consideration the German standards for the proper auditing of financial statements issued by the Institute of Public Auditors in Germany (IDW), will always uncover material misstatements. Misstatements can result from legal violations or inaccuracies and are considered to be material if, taken individually or as a whole, they could be rationally expected to impact the financial decisions of readers of the annual financial statements and the management report made on the basis of these annual financial statements and management report.

During the audit we exercise our discretionary duty and take a critical approach. In addition,

- we identify and assess the risks of material intentional and unintentional misstatements in the annual financial statements and the management report, plan and organise audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to serve as a basis for our audit opinions. The risk of material misstatements not being detected is higher for legal violations than for inaccuracies, as legal violations can include fraudulent conduct, forgery, intentionally incomplete disclosures, misleading statements, and the circumvention of internal controls;
- we gain an understanding of the relevant internal control system for auditing the annual financial statements and of the relevant precautions and measures for auditing the management report in order to plan audit procedures that are appropriate under the given circumstances. However, this is not aimed at issuing an audit opinion on the effectiveness of these systems;

- we assess the appropriateness of the accounting methods applied by the legal representatives and the acceptability of the estimated figures presented by the legal representatives as well as related disclosures;
- we draw conclusions on the appropriateness of the going-concern accounting principle applied by the legal representatives and, on the basis of the audit evidence, whether any material uncertainty exists in relation to events or circumstances that could cast significant doubt on the Cooperative's ability to continue to operate as a going concern. If we conclude that material uncertainty exists, we are obliged to draw attention to the corresponding disclosures in the annual financial statements and the management report in our auditor's report or, if these disclosures are inappropriate, to modify our auditor's opinion. We draw conclusions on the basis of the audit evidence obtained up to the date of our auditor's opinion. Future events or circumstances can, however, lead to the Cooperative being unable to operate as a going concern;
- we evaluate the overall presentation, structure, and content of the annual financial statements, including the notes to the financial statements, and whether the annual financial statements present the underlying transactions and events in a manner that gives a true and fair view of the net assets, financial position and results of the Cooperative in consideration of German standard accounting practice;
- we assess the consistency of the management report with the annual financial statements, its compliance with legal requirements, and the impression it gives of the Cooperative's situation;
- we conduct audit procedures concerning the forward-looking statements made by the legal representatives in the management report. Based on the existence of sufficient and appropriate audit evidence, we verify in particular the significant assumptions that underpin the forward-looking statements made by the legal representatives and assess whether the forward-looking statements have been properly derived from these assumptions. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a significant and unavoidable risk that future events will deviate from the forward-looking statements.

We discuss the planned scope and time frame for the audit as well as significant audit findings with the Supervisory Board, including any deficiencies found in the internal control system that we determine during our audit.

We issue a statement to the Supervisory Board that we have complied with the relevant independence requirements, discuss with them all relationships and matters that can be reasonably expected to affect our independence, and the countermeasures taken in this regard.

Of the matters discussed with the Supervisory Board, we determine the most significant ones in the current audit period, which therefore qualify as key audit matters. We describe these matters in the auditor's report unless we are prevented from disclosing this information due to statutory or legal requirements.

Other statutory and legal requirements

Report on the audit of the electronic rendering of the annual financial statements and the management report for the purposes of disclosure pursuant to Section 317 (3b) of the HGB

Auditors' opinion
In accordance with Section 317 (3b) of the HGB, we reviewed with reasonable assurance whether the rendering of the annual financial statements and the management report (called "ESEF documents" in the following) contained in the attached file ("Jahresfinanzbericht_apoBank_2020_ESEF.xhtml") and prepared for the purposes of disclosure is in all key aspects in compliance with the specifications of Section 328 (1) of the HGB regarding the electronic format of reporting ("ESEF format"). In line with German legislation, this review extends solely to the transfer of information from the annual financial statements and the management report to the ESEF format. Thus it does not extend to either the information contained in these renderings nor to other information contained in the above-mentioned file.

In our opinion, the rendering of the annual financial statements and the management report contained in the above-mentioned attached file and prepared for purposes of disclosure complies in all key aspects with the specifications of Section 328 (1) of the HGB regarding the electronic format of reporting. Beyond this audit opinion as well as our audit opinions contained in the above "Report on the audit of the annual financial statements and the management report" on the attached annual financial statements and the attached management report for the financial year from 1 January to 31 December 2020, we provide no audit opinion on the information contained in these renderings as well as on the other information contained in the above-mentioned file.

Basis for our audit opinion
We carried out our audit of the renderings of the annual financial statements and the management report contained in the above-mentioned file in compliance with Section 317 (3b) of the HGB under consideration of the draft of the IDW auditing standard on auditing of the electronic rendering of statements and management reports for the purposes of disclosure pursuant to Section 317 (3b) of the HGB (IDW EPS 410). Our responsibility according to this is described in the section "Responsibility of the auditors for the auditing of the ESEF documents". In our audit practice, we applied the requirements of the quality assurance system of the IDW quality assurance standard regarding quality assurance requirements in audit practice (IDW QS 1).

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents
The legal representatives of the company are responsible for preparing the ESEF documents including the electronic rendering of the annual financial statements and the management report in compliance with Section 328 (1) sentence 4, number 1 of the HGB.

Furthermore, the legal representatives of the company are responsible for the internal controls they deem necessary to enable the preparation of the ESEF documents, which are free from intentional or unintentional material breaches of the specifications of Section 328 (1) of the HGB regarding the electronic format of reporting.

In addition, the legal representatives of the company are responsible for submitting to the operator of the Federal Gazette the ESEF documents together with the auditor's certificate and the attached audited annual financial statements and audited management report as well as further documents for disclosure.

The Supervisory Board is responsible for monitoring the preparation of the ESEF documents as part of the financial reporting process.

Responsibility of the auditor for auditing the ESEF documents
We aim to determine with a reasonable degree of assurance whether the ESEF documents are free of intentional and unintentional breaches of the requirements of Section 328 (1) of the HGB. During the audit, we exercise our discretionary duty and take a critical approach. In addition

- we identify and assess the risks of material intentional and unintentional breaches of the requirements of Section 328 (1) of the HGB, plan and organise audit procedures as a response to these risks and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinions.
- we gain an understanding of the internal controls relevant to the audit of the ESEF documents in order to plan audit procedures that are appropriate under the given circumstances but are not aimed at issuing an audit opinion on the effectiveness of these controls.
- we review the technical validity of the ESEF documents, i.e. whether the file that contains the ESEF documents complies with the specifications of the Commission Delegate Regulation (EU2019/815) in the version valid on the closing date regarding the technical specification for this file.
- we review whether the ESEF documents enable XHTML rendering, identical in its content, of the audited annual financial statements and the audited management report.

Other disclosures pursuant to Article 10 EU AR

As the responsible audit association, we are the statutory auditor of the Cooperative.

We hereby declare that the audit opinions in this auditor's report correspond to the report to the Supervisory Board pursuant to Article 11 of the EU AR in conjunction with Section 58 (3) of the GenG (audit report).

Persons employed by us who could influence the result of the audit performed the following services that were not disclosed in the annual financial statements or the management report of the audited Cooperative in addition to the audit of the annual financial statements for the Cooperative and for the companies it controls:

- audit of securities and custody business pursuant to Section 89 (1) sentence 1 and 2 of the German Securities Trading Act (WpHG) as well as its custodian function pursuant to Section 68 (7) of the German Capital Investment Code (KAGB),
- review of the non-financial declaration pursuant to Section 340a (1) of the HGB in conjunction with 289b and c of the HGB,
- audit of the data migration from the bank21 systems of Fiducia & GAD IT AG to the bank-specific Avaloq Group AG applications,
- issuance of a letter of comfort,
- review of the abridged interim financial statements and the interim management report as at 30 June 2020 pursuant to Section 115 (5) of the WpHG,
- audit of regulatory reporting obligations to calculate the amounts concerning the settlement fund for the year 2020 (bank levy),
- project-specific evaluation of individual issues as well as acknowledgement of group accounting guidelines and of the illustrative IFRS group financial statements in connection with the switch to IFRS accounting,
- other separate certification services to the banking supervisory authority and/or the Federal Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V.).

Responsible auditor
The German Public Auditor responsible for the engagement is Arndt Schumacher.

Dusseldorf, 26 March 2021
Genossenschaftsverband – Verband der Regionen e. V.

Dieter Schulz Auditor	Arndt Schumacher Auditor

Responsibility Statement by the Legal Representatives

To the best of our knowledge we assure that the annual financial statements give a true and fair view of the net assets, financial position and results of the company in accordance with the applicable accounting principles and that the management report gives a true and fair account of the development of the business including the company's performance and position as well as the material opportunities and risks associated with the company's expected development.

Dusseldorf, 29 January 2021
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer

Dr. Thomas Siekmann

Jenny Friese

Olaf Klose
(Member of the Board
until 19 June 2020)

Eckhard Lüdering

Holger Wessling

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In Memoriam

Prof. Dr. med. Fritz Beske

Dr. Jürgen Brink

Dr. med. dent. Norbert Engel

Dr. med. dent. Bernhard Jäger

Dr. rer. nat. Andreas Kiefer

Hans Kühle, pharmacist

Dipl.-Math. Reinhard Reuter

Dr. rer. nat. Hartmut Schmall

The deceased were closely associated with Deutsche Apotheker- und Ärztebank as members in our boards and committees.

We have lost good friends and estimated companions in our endeavours to advance the Bank.

We will cherish our memories of the deceased.

Klaus Stürzbecher, pharmacist

*** 23 September 1933**
† 6 May 2020

Former Deputy Chair of the Supervisory Board
Chair of the Honorary Senate
Honorary member
of Deutsche Apotheker- und Ärztebank

Bearer of the Karl Winter Medal

The German healthcare industry has lost an exceptional personality.

Klaus Stürzbecher was closely connected with Deutsche Apotheker- und Ärztebank for many years. He was a member of the Supervisory Board of the Bank from 1979 to 1999, and was its Deputy Chair from 1988, as well as Chair of the Honorary Senate since 1999.

We will remember Klaus Stürzbecher as a very special person and always honour his exceptional services to our company. His work for the German pharmacist community and his upstanding character will never be forgotten.

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Information about apoBank's locations is available online at
www.apobank.de/ueber-uns/filialen.html.

This report is available in German and English.
The German version is legally binding.