Interim Report

deutsche apotheker-
und ärztebank

2013

Overview of Business Development

Overview of business development

	30 Jun 2013	31 Dec 2012	Change
	€m	€m	%
Balance sheet			
Balance sheet total	35,657	37,888	– 5.9
Equity capital	1,722	1,724	– 0.1
Customer loans	26,939	27,116	– 0.7
Customer deposits	20,411	19,591	4.2

	30 Jun 2013	30 Jun 2012	Change
	€m	€m	%[1]
Income statement			
Net interest income	358.6	343.1	4.5
Net commission income	53.6	50.6	5.8
General administrative expenses	– 221.0	– 245.6	–10.0
Operating profit before risk provisioning	181.4	132.8	36.6
Risk costs and precautionary measures[2]			
for the customer lending business	–15.3	– 38.5	– 60.3
for financial instruments and participations	– 99.8	– 59.5	67.8
Net profit after tax	**24.1**	**23.5**	**2.2**

1) Deviations due to rounding differences
2) Including general value adjustments and provisioning reserves pursuant to Section 340f of the German Commercial Code (HGB) as well as extraordinary expenses

Content

Interim Management Report

Business and General Conditions

Global economy grows in first half of year

At the beginning of 2013, the global economy started to show signs of growth. The 20 main industrial and emerging countries (G-20) grew in the first quarter by 0.6%, or 0.8% if the euro area is not included.

Japan had an important influence on global growth in the first half of the year, as its economic stimulation programme had a positive impact on both domestic demand and liquidity on the international capital markets.

In addition, the development of the US economy continued to play a decisive role in the global economy. In spite of government austerity measures, growth – mainly driven by consumption – was at 0.6% in the first quarter.

Subdued trend in euro area

The economy in the euro area shrank by 0.2% in the first quarter. The main reason for this was weak economic development in France and Italy. Although the weaker countries in the euro area were able to improve their competitiveness overall, this did not yet have an effect on labour markets.

The German economy more or less stagnated in the first quarter. Due to uncertainty about how the euro area will develop going forward, investment and exports were weak, but were offset by an increase in consumption spending. apoBank forecasts that this trend will have continued in the second quarter. At 6.8%, the unemployment rate was relatively low as at 30 June 2013.

Low interest rate due to expansive monetary policy

Developments on the capital markets were determined by expansive global monetary policy. In Europe, measures taken by the European Central Bank (ECB) contributed to the fact that interest rates remained low. In addition, the monetary policy of the US Federal Reserve and the Japanese central bank influenced the markets with massive liquidity injections.

In June 2013, the US Federal Reserve announced plans to pull back its expansive monetary policy should the economic data remain within expectations going forward. The purchase of government bonds by the Federal Reserve is then to be gradually terminated. The 10-year US government bonds reacted to this announcement with an increase in yield to 2.6%; at the same time, the yield on German federal bonds increased to 1.8%, after having reached a low point of 1.2% at the beginning of May.

The exchange rate of the euro against the US dollar did not fluctuate much in the first half of the year. At 1.31 US dollars at the end of June, the exchange rate was at the same level as at year-end 2012. This is also a sign that the US is coming closer to a turnaround in interest rates and moving towards a more stable economic cycle.

Slight increase in stock market prices

The German stock market showed a positive trend in the first half of the year: DAX prices increased by 4.6% up to 30 June 2013. The liquidity created by the central banks was one of the reasons for the development in this asset class. By contrast, the EURO STOXX 50 – the European benchmark – lost 1.3%, reflecting the still weak economic situation in many euro-zone countries.

Regional differences in real estate price trends

Developments on the residential real estate market in the US were positive. Improvements on the labour market and good financing conditions played a role here. Prices for apartments and houses also increased in Germany's main cities. As was the case in the US, the low interest rates were a main reason for this. Within Europe, the North-South gap remained with regard to residential real estate; in Spain in particular, a large amount of real estate was still for sale.

Health care market remains stable

In the first six months of 2013, the German health care sector was again a growth market. In terms of income, the different branches of social insurance benefited in particular from the stable conditions on the German labour market.

Further increase in health care expenditure

In spite of increasing health care expenditure per person insured, the statutory health insurance (GKV) posted a surplus of € 850 million at the end of the first quarter. Health care expenditure also rose by 4.4% compared to the previous year's period. By the end of the first quarter of 2013, health insurers and the health care fund taken together held € 27.7 billion in financial reserves.

Income for health care professionals improved

Overall, the financial situation of health care professionals improved in the first half of 2013. In the case of physicians, regional decisions made on fees contributed to this development. Dentists benefited from changes in the GKV fee system. Pharmacists are likely to see improvements as a result of the recent decisions on the discounts they have to grant the statutory health insurances as well as on the emergency service fund for pharmacies.

Retail Clients

apoBank's expertise remains a competitive advantage

apoBank's knowledge about all aspects of the health care sector continued to represent a significant competitive advantage in the retail clients segment in the first six months of 2013. Here, the Bank supports pharmacists, physicians, dentists and veterinarians with financial services aligned to the special requirements of health care professionals. In addition, the Bank is implementing a differentiated support concept to tailor its services to the individual life phases of its customers.

Loan portfolio continues at a high level

As at 30 June 2013, the loan portfolio of € 22.7 billion for retail clients remained unchanged compared to year-end 2012 (31 December 2012: € 22.7 billion).

In the first six months of 2013, apoBank again demonstrated its leading position in the area of business start-up financing. Although the Bank assumes that the decline in the number of business start-ups in the outpatient health care market in Germany continued in the first six months of 2013, it was able to expand its portfolio in business start-up financing as at 30 June 2013 to € 6.2 billion (31 December 2012: € 6.1 billion).

In the area of real estate financing, the low interest rates led to continuing high demand in terms of purchasing and financing real estate. In addition to the public funding programmes of the Kreditanstalt für Wiederaufbau (KfW) and the state development banks, demand increased for apoFestzinsDarlehen (apoBank fixed interest loans) for real estate financing. This development continued to be affected by strong competition on conditions. In addition, the redemption level remained high due to the currently low interest rates. In spite of this, as at 30 June 2013, the Bank had expanded its real estate financing portfolio to € 10.9 billion (31 December 2012: € 10.8 billion).

The portfolio of investment and private financing amounted to € 5.6 billion as at 30 June 2013 (31 December 2012: € 5.7 billion). Thus, the Bank was able to maintain its volume in spite of continuing competition.

The current account loan volume in the area of retail clients amounted to € 1.3 billion as at 30 June 2013 (31 December 2012: € 1.5 billion).

Stable growth in deposits

The average volume of retail client deposits in demand, savings and term deposits as well as in the call accounts apoZinsPlus and apoCash increased in the reporting period by 6.5% to € 9.8 billion (31 December 2012: € 9.2 billion).

Due to the low interest rate, the focus shifted in the first six months of 2013 from medium and long-term investments to investments with short-term maturities and high availability. Therefore, the main growth drivers were demand deposits as well as investments in apoZinsPlus. Saving deposits continued to play a subordinate role.

The average volume of demand deposits with retail clients was € 4.2 billion in the reporting period, 7.7% above the level of 31 December 2012 (€ 3.9 billion). In the case of other deposits, maturities from fixed-term deposits were also not reinvested in their entirety, but partly transferred to apoZinsPlus. The average volume of fixed-term deposits overall decreased to € 701 million (31 December 2012: € 812 million). By contrast, the average volume of call accounts of € 4.7 billion increased by 6.8% (31 December 2012: € 4.4 billion).

Average savings deposits of retail clients remained stable at around € 64 million (31 December 2012: € 64 million).

Investors still reticent on securities

The historically low interest rates and the continuing uncertainty due to the EU debt crisis again led to general reticence on the part of investors in the first six months of 2013. Many customers drew very little benefit from the recently rising stock market prices due to insufficient numbers of shares in their portfolios.

The focus of new investments at apoBank was on widely diversified mixed funds, in particular those related to private asset management. Both classical private asset management and the funds newly issued by apoBank in this area showed considerable growth. Investors were reluctant to invest in stock markets, which are characterised by higher volatility. The deposit volume in the retail clients segment amounted to a total of € 6.5 billion (31 December 2012: € 6.8 billion).

Private asset management successful again

The positive trend in private asset management continued in the first half of 2013, enabling the Bank to increase its volume compared to the previous year, in spite of the difficult market environment. Thus, as at 30 June 2013, the Bank managed private assets for more than 3,300 customers (31 December 2012: 3,043 customers) and a volume of just under € 1.6 billion (31 December 2012: € 1.3 billion).

New Private Banking division gets off to a successful start

apoBank completed its range of services by setting up a Private Banking division last year. The concept has been very well received by customers. There was particular interest in the Bank's comprehensive support services in all areas of private assets and finances, which are geared to customers' specific life phases.

Insurance business down on previous year

At a brokerage volume of around € 104.0 million, the insurance business was considerably down on the previous year's level (30 June 2012: € 159.2 million). Customer reticence in the insurance business resulted on the one hand from the low guaranteed interest rate on life insurance policies; products with long-term fixed interest rates in particular, such as pension insurance policies, are subject to lower demand for this reason. On the other hand, the shift to unisex policies in the second half of 2012 resulted in many insurance policies being signed in the second half of 2012, which contributed to a reduction in sales in the first six months of 2013.

Building society business expanded

Business with building society savings developed very well in the first six months of 2013. At € 176.2 million, the brokered building society savings total was significantly higher than the previous year's level (30 June 2012: € 115.4 million). The high demand for reasonable interest rates on loans for real estate financing and the guaranteed interest rates on cash deposits was additionally bolstered by the new and improved fee schedules that have been on the market since early 2013.

Professional Associations, Institutional Customers and Corporate Clients

Close collaboration with the professional associations representing groups of health care professionals

apoBank traditionally works closely with associations representing all groups of health care professionals. The deposits of the professional associations, which include the associations of panel doctors and dentists as well as the professional clearing centres and medical associations, form an important part of the customer deposits at the Bank.

As part of the VorWERTs future programme, the Professional Associations division started to implement the new customer support concept in the first six months of 2013. By setting up local advisory capacity in the regional markets, the Bank aims to be closer to its customers and to further enhance the quality of its advisory services to this customer group.

In the first half of 2013, apoBank was able to further consolidate its business relations with the professional associations. It also considerably increased its volume in terms of deposits. There was a shift from term deposits towards demand deposits. Volumes in the assets business remained constant overall.

Successful cooperation with institutional investors

Business with the Bank's institutional customers, which primarily comprise the professional pension funds of the health care professions, was successful overall in the first half of the year.

The capital market environment, which remained very challenging due to the continuingly low interest rates made it difficult for the professional pension funds to successfully invest their membership fees and their liquidity from matured investment products. In order to achieve the statutory yields of 3 to 4% targeted for this investor group, capital investment must be widely diversified and risk budgets must be used with care and control.

In terms of yield, shares took priority over all other asset categories. Furthermore, pension investments in the form of corporate bonds with a range of credit ratings were made within the framework of special funds – these offer both attractive interest payments as well as corresponding yield mark-ups. Thanks to further inflows of funds, the real estate ratio of the institutional customers increased.

In the reporting period, apoBank continued to offer its customers a high-performing deposit bank infrastructure for securities and special real estate funds to enable them to implement different strategies in this asset category.

As at 30 June 2013, the Bank managed a total of 117 fund mandates (31 December 2012: 125) with a volume of €9.9 billion (31 December 2012: €11.3 billion), thus keeping the number of its mandates at a more or less stable level. However, consolidations of existing funds as well as some outflows of funds led to an overall reduction in the volume managed.

apoBank's institutional portfolio management developed well. At the end of the first half of the year, it posted a volume of €2.1 billion thanks to new mandates (31 December 2012: €1.9 billion). apoBank's years of experience and expertise in the management of direct investments – which is particularly challenging in the current market environment – convinced investors yet again.

The modular consulting services offered by apoBank to institutional investors which were used most were those that support management of their capital investments. In the first six months of the year, apoBank was also commissioned by additional pension funds to carry out asset liability management studies. The Bank carries out these studies to investigate individual long-term financial viability and make recommendations for capital investment and for the liability side.

Business with corporate clients expanded

apoBank's Corporate Clients division supports and acquires a large number of companies from the health care market. This also includes providers of outpatient and inpatient care, which were pooled into one unit at apoBank at the end of last year.

The Bank is experiencing increased competition in its business with corporate clients, too. In spite of this, it was able to further consolidate its customer accounts in the first half of 2013. apoBank's comprehensive knowledge of the individual branches in the health care market and the respective regional health care situations created a significant competitive advantage in this regard.

Against this backdrop, the Bank was able to further expand the loan portfolio in the area of corporate clients. At the end of the first half of 2013, it had risen to around €2.2 billion (31 December 2012: €2.1 billion). The loan demand in the clinic sector as well as from other companies connected to the health care professions made an essential contribution here.

Net Assets, Financial Position and Results

apoBank increases number of members and expands customer base

In the first six months of 2013, difficult conditions continued to affect the German banking industry. In addition to the ongoing financial and economic crisis in the euro area, continuingly low interest rates in particular represented a significant challenge to the entire banking sector. Increasing regulatory requirements and intense competition, in particular in the retail clients business, also played a role here.

In the first half of 2013, apoBank's focus was on gradually establishing the VorWERTs future programme. In addition to optimising the cost structure, this mainly entailed introducing a new customer support concept which provides specialist advice to health care professionals at every stage of their lives. This even more specific and holistic approach to customer support has been well received. With the new support concept, apoBank aims to further expand its market position. Financially, the Bank expects to benefit from the measures described from 2014 onwards.

The focus of business in the first six months of 2013 remained on fulfilling the Bank's statutory mandate, i.e. to support its members and customers in achieving their professional and private objectives by offering specialised banking services. This strategic alignment enabled apoBank to continue its long-term growth trend in its core business. For example, it managed to increase its member and customer numbers in spite of its already high level of market penetration.

The following sections elaborate on the income and expenditure items that had the greatest impact on the business result in the first half of 2013.

Slight increase in net interest income

In the first six months of the year, net interest income, at €358.6 million, was slightly higher than the level of the previous year (30 June 2012: €343.1 million).

apoBank generally showed stable development in the lending business. In the area of customer deposits, the trend towards short-term deposits continued due to low interest rates. Here, the volume increased again, in spite of strong competition.

In addition, net interest income benefited from the hedging measures taken for low-interest periods.

Moderate rise in net commission income

apoBank's net commission income amounted to €53.6 million, a slight increase on the previous year (30 June 2012: €50.6 million).

In connection with this, contributions to profit in the institutional securities business again showed positive development. Private asset management also developed in the same direction, reporting growth in consulting-based fees.

The retail clients business continued to be affected by continuing investor reticence. Therefore, new securities and insurance business with retail clients was slow.

Reduction in administrative expenses

At € 221.0 million, administrative expenses were significantly lower than in the previous year's period (30 June 2012: € 245.6 million). Materials expenses (including depreciation) amounted to € 116.5 million (30 June 2012: € 127.5 million). Personnel expenses amounted to € 104.4 million (30 June 2012: € 118.1 million).

The decrease in administrative expenses is on the one hand a reflection of the optimisation of cost management. On the other hand, the previous year's period had been impacted by the costs of IT migration. Here, the Bank has started to benefit from the planned effects.

Strategic investments in the establishment of specialised advisers as well as in comprehensive training measures are carried out step by step throughout the course of the year. Therefore the costs associated with this will not become noticeable until a later stage.

Significant improvement in operating result

As at 30 June 2013, the operating result, i.e. profit before risk provisioning, at € 181.4 million, was significantly higher than the previous year's figure (30 June 2012: € 132.8 million). This was mainly due to the positive trends in net interest income and in administrative expenses.

Risk provisioning in line with expectations

Risk costs and precautionary measures for the lending business, at € 15.3 million, were significantly lower than the previous year's level (30 June 2012: € 38.5 million). This was due to the low default rate in the Bank's customer business, which mainly results from the generally stable economic conditions for health care professionals, comprehensive financing expertise as well as the risk management of apoBank.

Risk costs and precautionary measures for financial instruments and participations amounted to € 99.8 million (30 June 2012: € 59.5 million). Overall, the risk costs here were at the same low level as in the previous year. Thus, the Bank was able to take more comprehensive precautionary measures against potential future burdens than it did in the previous year.

Increase in tax burden

In the first six months of 2013, tax expenditure increased significantly to € 42.3 million (30 June 2012: € 11.3 million).

Slight increase in net profit

At € 24.1 million, net profit in the first six months of the year was slightly above the level of the previous year (30 June 2012: € 23.5 million). This was mainly due to the positive trend in the operating result. The net profit as at 30 June 2013 thus confirms apoBank's plans to pay a dividend for financial year 2013.

Balance sheet shows further reduction in financial instruments

The balance sheet total decreased to € 35.7 billion as at 30 June 2013 (31 December 2012: € 37.9 billion). This was mainly a reflection of the further consistent reduction in financial instruments and the focus on the customer business.

On the asset side, there was a slight decline in the balance sheet item "loans and advances to customers". At € 26.9 billion, this item was slightly down on year-end 2012 (31 December 2012: € 27.1 billion).

Redemptions remained at a high level – however, new loans totalling € 2.9 billion reconfirmed the continuingly high demand for the Bank's financing expertise (30 June 2012: € 2.2 billion). In the first six months of 2013, the securities portfolio decreased to € 6.7 billion (31 December 2012: € 7.9 billion).

On the liability side, the Bank was able to slightly expand its portfolio of customer funds, in spite of intensive competition. The portfolio amounted to € 21.9 billion as at 30 June 2013 (31 December 2012: € 21.4 billion). In line with strategy, the Bank further reduced its portfolio of capital-market-oriented refinancing funds as well as ongoing maturities; it amounted to € 3.3 billion at the end of the first six months of the year (31 December 2012: € 4.8 billion).

Liquidity situation remains comfortable

In the first half of financial year 2013, apoBank's liquidity situation was comfortable. Refinancing of the Bank is based on a widely diversified customer and investor portfolio. As an established market participant with good credit ratings, the Bank can secure its refinancing via various sources. In addition to the expansion of its customer funds, these include the emission of mortgage Pfandbriefe and unsecured bonds with its institutional customers, members of the cooperative FinanzGruppe and in the capital market.

Existing refinancing options via the Kreditanstalt für Wiederaufbau (KfW) and the state development institutes in the area of publicly refinanced development loans proved their worth once again in the first six months of 2013.

At the beginning of 2012, apoBank participated in the long-term tender of the European Central Bank (ECB). This was already repaid in its entirety in the first six months of 2013.

Further improvement in equity situation

In the first half of 2013, the Bank's equity situation improved again. Both the solvency ratio, i.e. the equity ratio, and the core capital ratio, at 18.3% and 13.3% respectively, were higher than at year-end 2012 (31 December 2012: 14.4% and 10.4% respectively).

In addition to bolstering equity, the capital ratios benefited from the continuing reduction in risk positions requiring equity, i.e. risk-weighted assets. The Bank was able to reduce these positions to € 14.3 billion (31 December 2012: € 17.1 billion). The further reduction of the structured financial products made a considerable contribution here.

In addition, the guarantee agreement with the Federal Association of German Cooperative Banks (BVR) continued to have a positive effect on the Bank's equity ratios. Utilisation of the guarantee decreased further in line with the reduction in structured financial products.

The Bank's regulatory equity capital increased to a total of € 2,607 million (31 December 2012: € 2,449 million). The rise resulted from the additions to the core capital, which amounted to € 1,899 million as at 30 June 2013 (31 December 2012: € 1,776 million). The main contributing factors here were the additions to the revenue reserves and to the fund for general banking risks from the 2012 annual result. Furthermore, the portfolio of apoBank members' capital contributions increased to € 845 million in the first six months of 2013 (31 December 2012: € 811 million). Here, existing members purchased new shares and the Bank was also successful in recruiting new members.

apoBank's rating remains stable

apoBank's creditworthiness, i.e. its ability and willingness to meet all financial obligations fully and in a timely manner, is assessed by rating agencies Moody's and Standard & Poor's. In addition, the creditworthiness of the entire cooperative FinanzGruppe is assessed by Standard & Poor's and by Fitch. As apoBank is part of the cooperative FinanzGruppe and is a member of the cooperative protection scheme, these ratings also indirectly apply to apoBank.

Rating

Rating	Standard & Poor's	Moody's	Fitch Ratings (group rating)
Long-term rating	AA –	A2	A+
Short-term rating	A – 1+	P – 1	F1+
Outlook	stable	negative	stable
Silent partnership	A	Ba1	- - -

All apoBank ratings remained stable in the first six months of the year and continue at a good level. The Bank's good market position, its profitable business model and its integration into the protection scheme of the cooperative FinanzGruppe make an essential contribution to its rating stability.

Summary of net assets, financial position and results

apoBank's business model and its consistent focus on the customer business proved its worth again in the first six months of the year. In the face of challenging conditions in the entire German banking sector, the Bank's integrated advisory services offering and its comprehensive expertise were in high demand.

Thanks to its strong market position and its comprehensive knowledge of the health care market, the Bank was able to expand its customer and member base and continue the long-term growth trend in its core business. In addition, the Bank created the basis for future growth and long-term business success by further implementing the measures of its VorWERTs future programme.

The economic stability of apoBank was proven again by the generally positive development in its business: The net profit as at 30 June 2013 reconfirms the Bank's main business objective: to have its members participate in profits and to further bolster equity and risk-bearing capacity with respect to Basel III.

In the first half of the year, the Bank further improved its risk profile and capital ratios. The liquidity situation remained stable and was supported by a widely diversified refinancing base.

Customer confidence in apoBank is also supported by the stability of the cooperative FinanzGruppe and its integration into the BVR protection scheme. Thanks to its strong market position in the health care sector, the Bank continues to contribute to the success of the cooperative FinanzGruppe as a whole.

Events After the Reporting Date

No events took place that were subject to reporting requirements between 30 June 2013 and 13 August 2013 when the Interim Report was prepared by the Board of Directors.

Risk Report

Principles of risk management and risk control

Business and risk strategy

The Bank's strategic objectives and business activities are laid down in its business strategy. This also includes planned measures to secure company success in the long run. In order to manage the Bank in a risk and earnings-oriented manner, risk management aims to identify, evaluate, limit and monitor risks connected to the company's business activities as well as to avoid negative deviations from performance, equity and liquidity planning.

The risk strategy, which defines binding risk guidelines for all types of risk, provides the framework for risk management. Compliance with these guidelines is monitored as part of overall bank control and is communicated to the responsible decision makers through regular reporting.

Risk inventory

An annual risk inventory defines fundamental risk as risks that can have significant influence on the capital, earnings, financial and liquidity situation of the Bank due to their type and scope as well as their interaction. This includes credit risk, market risk, liquidity risk, business risk including strategic and reputation risk as well as operational risk.

The fundamental risks identified in the risk inventory are measured and limited in the risk-bearing capacity calculation.

Credit risk

Credit risk refers to the potential loss that may be incurred as a result of a borrower or contracting party defaulting either in part or in full, or of their creditworthiness deteriorating. The Bank distinguishes between classic credit risk in the customer lending business, counterparty risk and issuer risk from financial instruments, country risk, as well as shareholder risk arising from participations.

Market risk

The Bank uses the term "market risk" to refer to potential losses that may be incurred with respect to the Bank's positions as a result of changes in market prices (e.g. share prices, interest rates, credit spreads and exchange rates) and market parameters (e.g. market price volatilities).

Liquidity risk

Liquidity risk includes insolvency and refinancing risk.

Insolvency risk refers to the risk that current or future payment obligations cannot be met at all or not in full.

Refinancing risk refers to the risk of refinancing costs rising, i.e. due to a lower creditworthiness of the Bank and/or a change in the Bank's refinancing structure.

Business risk, strategic risk and reputation risk

Business risk refers to the risk of the net interest and commission income deviating from the target performance in the customer business. This also includes the Bank's strategic risk, meaning the risk of a negative deviation from the target figures due to market changes to the Bank's disadvantage that were not taken into account in the planning stage.

Reputation risk is also included. This describes 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. This kind of loss of trust can result from negative media reporting, among other reasons.

Operational risk

apoBank defines operational risk as possible losses resulting from inadequate or failed internal processes or systems, human failure or external events. This definition includes legal risks.

Concentration risk

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

Strategic concentration risk results directly from apoBank's business model and refers to the health care sector. The Bank defines specific concentration risks as the risk of potential negative consequences resulting from an undesired uneven distribution among customers or within regions/countries, industries or products, or above and beyond these.

Concentration is analysed and monitored within and between the fundamental risk types and is also included in the risk guidelines when there is a fundamental need for control.

Risk-bearing capacity

The measuring and monitoring of all fundamental risks flows into the risk-bearing capacity calculation. This makes it possible to analyse the capacity of the Bank from various perspectives. The Bank distinguishes between three aspects of risk-bearing capacity: capital, liquidity and profitability. The capital aspect includes regulatory as well as economic capital requirements. The capital figures provided in the economic capital aspect of the risk-bearing capacity form the starting point for limiting the individual fundamental risk types and for further differentiated operational limitations.

The risk-bearing capacity calculation determines whether the Bank still fulfils the regulatory requirements to continue business operations after risks have occurred in all risk types. Risks are measured based on a 97% confidence level at a holding period of one year, and are compared with a risk cover pool which covers around 30% of the total available risk cover potential. The latter comprises regulatory capital components as well as hidden reserves in interest rate derivatives and securities. Diversification effects between the risk types are not taken into account.

The rating system of apoBank

Meaning	Rating class (BVR master scale)	Probability of default in %	External rating class[1]
Commitments with **impeccable** creditworthiness, no risk factors (standard credit 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 credit 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 credit management)	**2B**	0.75	Baa3
	2C	1.10	Ba1
Commitments with **greater** risks (intensive credit management)	**2D**	1.70	Ba2
High-risk commitments (problem credit management)	**2E**	2.60	Ba3
	3A	4.00	B1
	3B	6.00	B2
Higher-risk commitments (problem credit management)	**3C**	9.00	B3
	3D	13.50	
	3E	30.00	Caa1 to C
Commitments **threatened by default** (defaulted according to SolvV definition) – Commitments overdue by more than 90 days – Commitments for which a loss provision was allocated in the previous year or a loss provision has been made in the current year (problem credit management) – Write-offs – Insolvency	**4A to 4E**	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. Since the BVR master scale is broken down into very small steps und thus contains more rating classes than Moody's rating system, not every external rating class is matched with an internal one.

Stress calculations are carried out as scenario analyses in which all aspects as well as the interplay between risk types are modelled.

In addition, the bank analyses a scenario in which the financial instruments of fixed assets with a holding period of one year or less are liquidated. This scenario focuses on determining whether the Bank can bear the realisation of hidden burdens resulting from financial instruments in a stressed market environment. In this scenario, risk is measured based on a confidence level of 99.9%. The calculated risks are set against the total risk cover potential of the Bank – taking account of security discounts.

Risk control, risk measurement and limitation

Credit risk

Credit risk represents the most significant risk for the Bank.

In managing credit risk, a distinction is made between the retail clients/branch business, organisations and large customers, and the financial instruments and participations portfolios.

In all portfolios, credit risk is limited and monitored at portfolio and individual borrower level. Here, both individual risk and substantial risks from group exposures or the risk category are taken into account. The Bank has established a set of limits to control the regional distribution of exposures. The risks are limited depending on fundamental country-specific macro-economic data, the current creditworthiness of the respective country and the equity situation of the Bank.

Different internal and external rating approaches are applied for the various portfolios. The results of these are compared using a master scale. The internal rating systems are monitored annually with regard to their quality and are adapted if necessary.

Market risk

In addition to risks from credit spread changes in the financial instruments portfolio, the Bank's market risks primarily consist of the Bank's interest rate risk. Foreign exchange risks are hedged as far as possible. Other market risks are of subordinate importance.

The market risks faced by the Bank are integrated into the Bank-wide risk management framework. This is based on a differentiated risk measurement and control system, in which risk is controlled and monitored up to portfolio level. In managing and measuring market risks, a distinction is made between managing interest rate risks from the perspective of the Bank as a whole (strategic interest rate risk management) and the operational market risks in the financial instruments portfolio. In line with the Bank's business and risk strategy, no active trading is carried out to take advantage of short-term price fluctuations.

As part of Bank-wide control of interest rate risks, market risk management pursues both present-value and periodic approaches. The purpose of controlling is to achieve a moderate interest rate risk profile at overall Bank level. The results are included in risk control and in the planning calculations.

The value-at-risk approach and supplementary stress tests are used to measure the market risks in the financial instruments portfolio (operational market risk management). The Bank has implemented backtesting procedures to validate the models employed.

Liquidity risk

The Bank's management of liquidity risk includes operational and strategic liquidity management. Liquidity management is based on the ongoing analysis and comparison of incoming and outgoing cash flows, which are compiled in a funding matrix and limited. It is complemented by regulatory and structural requirements, stress analyses and a liquidity contingency plan which ensures an adequate response in the event that the Bank's liquidity is in jeopardy.

Operational liquidity management comprises the short and medium-term management of the Bank's liquidity. Strategic liquidity management is used to manage the Bank's liquidity in the long term and to ensure permanent financing of the Bank's business model. The corresponding refinancing plans are linked with the business planning process and the requirements of the business and risk strategy.

Accompanying structural guidelines aim to guarantee an appropriate maturity structure and sufficient diversification of the Bank's refinancing sources.

To ensure liquidity even in potential crisis situations, the Bank maintains an extensive liquidity reserve primarily consisting of ECB-eligible securities and cash reserves. Securities used as reserve can be sold or used as collateral at any time.

One of the Bank's main refinancing sources is the issuing of mortgage Pfandbriefe. To ensure liquidity for all contractual payments due for Pfandbrief issues, a daily process for close monitoring and controlling is in place. Risks are limited conservatively beyond the legal requirements. The loans in the cover pool are selected defensively.

Business risk, strategic risk and reputation risk

Business risk, encompassing strategic and reputation risk, is encountered in the retail clients/branch business as well as the organisations and large customers portfolio. Customer contributions and net commission incomes, among other things, are planned in annual planning calculations and fixed as the planned sales performance for the coming financial year. Risk is calculated based on plan/actual deviations in past customer business.

Operational risk

The starting point for controlling operational risk is the identification of potential operational risks by local risk managers within their area of responsibility, conducted within the context of self-assessments. Local risk managers are also responsible for measures to control these risks, where applicable. The results of these local self-assessments are compiled and analysed centrally in the Bank's Risk Controlling division.

Control measures are reviewed for all identified substantial risks. Local risk managers are responsible for their implementation. This includes taking out suitable insurance policies to manage the risks. Legal risks from standard operations are reduced using standardised contracts.

The main data on the losses that occur from operational risk are captured in the centrally managed loss database. The Bank uses the standard approach for reporting operational risk according to regulatory requirements.

The security and stability of IT operations are ensured in particular by a variety of technical and organisational measures. GAD – a specialised, quality-controlled IT provider – provides all services in the area of operational processing and data storage as well as the majority of services in connection with data archiving. The contractual agreements are based on the usual standards and ensure the secure and high-performance operation of apoBank's applications and IT services.

Risk reporting

The Bank's risk reporting is carried out within a comprehensive, standardised reporting system. Risk reporting on the risk-bearing capacity calculation, including limit monitoring of the main risk types, is carried out monthly, reporting of market risk limit utilisation in the financial instruments portfolio to the Board of Directors is carried out daily. Early-warning-relevant issues are reported via an established ad-hoc process to a fixed group of addressees.

The reporting system forms the basis for detailed analyses and for deriving and evaluating options for action as well as deciding on risk control measures.

As supervisory bodies, the Supervisory Board and the Audit, Credit and Risk Committee are regularly informed about the current risk situation as well as about measures to control and limit risk. In addition, the Economic and Financial Committee discusses substantial investments, the purchase and sale of land as well as the acquisition and divestment of strategic participations.

Organisation of risk management

Organisational principles

The functional and organisational separation of front office/sales functions from back-office/risk management and risk control functions is implemented up to the Board level to avoid conflicts of interest and to maintain objectivity. The principle of dual control is also guaranteed up to the Board level to ensure decision-making and process reliability.

The individual responsibilities are allocated as follows:

The Board of Directors as a whole is responsible for the business and risk strategy, the concept of risk-bearing capacity and the limitations derived from this, as well as the adequate organisation and implementation of risk management.

The Retail Clients and Professional Organisations, Large Customers and Markets Board departments are responsible for the front-office functions in the customer business. This includes the first-vote function and the management of the risks assumed. The Treasury division in the Professional Organisations, Large Customers and Markets Board department is responsible for the front-office function for financial instruments.

The Treasury division is also responsible for the operative management of market and liquidity risks and the Bank's refinancing through securitised liabilities, among other things. The overall strategic management of the interest rate risks on the banking book is based on the framework conditions passed by the Board of Directors.

The Risk Controlling division within the Finance and Controlling Board department has responsibility for the methods and models used to identify, measure and limit risks as well as compliance with the defined general conditions and independent monitoring and risk reporting at portfolio level with respect to all types of risks.

The central credit control divisions "Credit Management" and "Credit Control Financial Instruments" assigned to the Risk and Banking Operations Board department are responsible for monitoring credit risk at the level of individual borrowers in the customer portfolios and financial instruments portfolio.

In addition to individual credit assessments and second opinions on limit applications for customers, counterparties and issuers, this includes both ongoing risk monitoring, responsibility for individual limits and organising the lending business as well as sole responsibility for problem credit management. In the retail clients/branch business portfolio, monitoring is also carried out by five regional credit control units in collaboration with the branches.

Participations management continuously supports the development of the Bank's participations and is responsible for reporting on the participation portfolio.

The Internal Auditing division is an essential part of the Bank's independent monitoring system and subjects the organisational units involved in the risk management process and the agreed processes, systems and risks to a regular independent examination.

The Compliance division of apoBank is responsible for the compliance-relevant topics of Securities Trading Act and capital market compliance, IT compliance, corporate compliance, the functions of the central office as well as of the money laundering and data protection officer. In line with increasingly stringent statutory requirements for banks, the training, advisory services and control processes with regard to the compliance function are being continually expanded.

Controlling and managing accounting procedures

apoBank employs an internal control system (ICS) with a focus on accounting procedures. The system sets out principles, processes and measures to ensure that the Bank's accounting systems are effective and efficient, that its accounts are true and fair and that the relevant legal rules are complied with.

The accounting ICS ensures that business transactions are always recorded, prepared and recognised properly and included in the accounts correctly. Suitably trained staff, the use of adequate software as well as clear legal and internal guidelines form the basis for a fully compliant, standardised and continuous accounting process. Areas of responsibility are clearly defined and various control and verification mechanisms, which undergo continuous improvement, guarantee correct accounting. In this way, business transactions are recorded, processed and documented in accordance with legal and statutory provisions as well as internal guidelines, in a timely and accurate manner from an accounting perspective. At the same time, it ensures that assets and liabilities are correctly recognised, reported and assessed in the annual financial statements and that reliable and relevant information is provided in full and in a timely manner.

apoBank's Internal Auditing division has a process-independent control function. Internal Auditing reports to the Spokesman of the Board of Directors on the basis of the organisational chart, regardless of management's overall responsibility for setting up the Internal Auditing division and ensuring that it is operational. In addition to ensuring that processes and systems are compliant and operationally reliable, Internal Auditing evaluates the effectiveness and suitability of the ICS in particular. The framework conditions passed by the Board of Directors, which establish a complete and unrestricted right to information for Internal Auditing, form the basis for the activities of this division.

Details of the development of the risk situation in the first half of 2013

Credit risk

Retail clients/branch business portfolio

The retail clients/branch business portfolio mainly comprises loans to health care professionals, cooperatives in outpatient care and small companies in the health care market, if these companies' risks can be assigned to health care professionals.

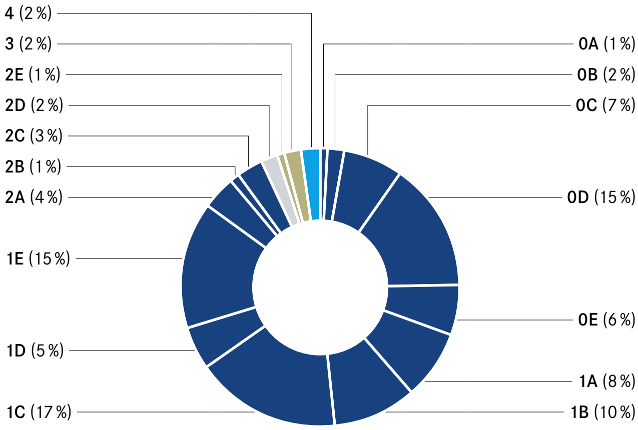
During the first half of the year, drawdowns in the retail clients/branch business portfolio decreased to € 25.3 billion as at 30 June 2013 (31 December 2012: € 25.5 billion).

The rating coverage is almost complete. The portfolio is highly diversified and continues to show a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group.

Rating class distribution in the retail clients/branch business portfolio

Volume distribution based on drawdowns

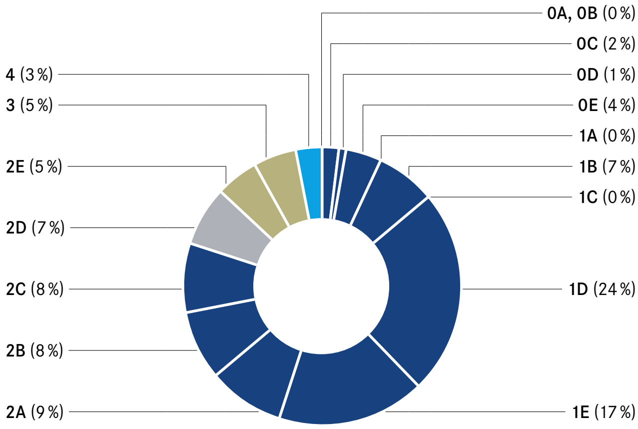
Total of € 25,324 million



Rating class distribution in the organisations and large customers portfolio

Volume distribution based on drawdowns

Total of € 2,645 million



The risk costs for the lending business in this portfolio were at a low level in the first half of the year, thus re-confirming the Bank's many years of financing competence as well as the generally stable conditions in the health care sector.

Organisations and large customers portfolio

The Bank has assigned loans to institutional organisations in the health care sector, inpatient care structures, companies in the health care market and other institutional customers to the organisations and large customers portfolio. Drawdowns in the organisations and large customers portfolio were almost unchanged at € 2.6 billion (31 December 2012: € 2.7 billion).

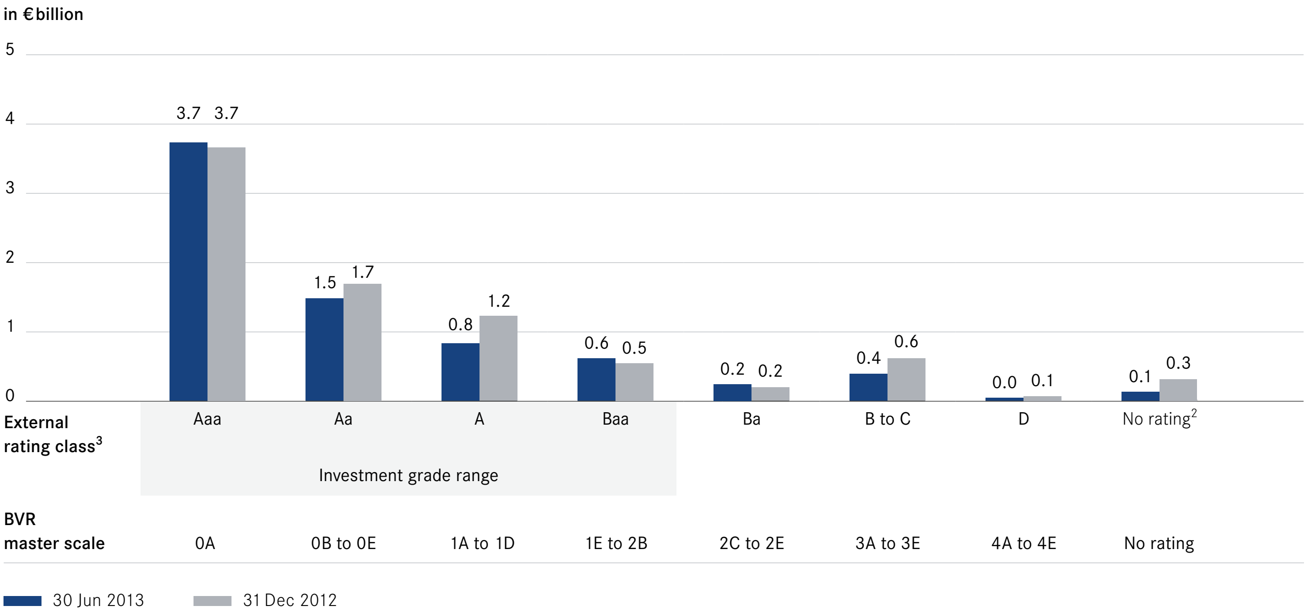
The rating distribution in the portfolio continued to be well balanced. The rating coverage was high. As at 30 June 2013, the risk costs for the organisations and large customers portfolio were down on the previous year's level.

Financial instruments portfolio

Money and capital market investments as well as derivative transactions are summarised in the financial instruments portfolio. The investment of free funds helps the Bank to manage its liquidity and balance sheet structure.

Apart from traditional securities for short and medium-term liquidity management, the financial instruments portfolio also includes the structured financial products sub-portfolio, which is in the process of being reduced and which comprises asset backed securities (ABS) and credit default swaps (CDS).

Total exposure of financial instruments by rating[1]



1) This is generally the book value (drawdowns or credit equivalent amount) taking account of provisions for contingent losses. In the case of CDS positions, the nominal value of the reference entity is used. The exposure for the UIL fund and the INKA funds is determined by looking through on the underlying assets. The exposure is accounted for on a cost value basis with exchange rates of the day of transfer.
2) The unrated exposures are mainly composed of the co-investments/start-up financing as well as parts of the interbank balance.
3) The letter ratings shown here comprise all rating classes of the relevant rating segment (i.e., Aa comprises Aa1 to Aa3).

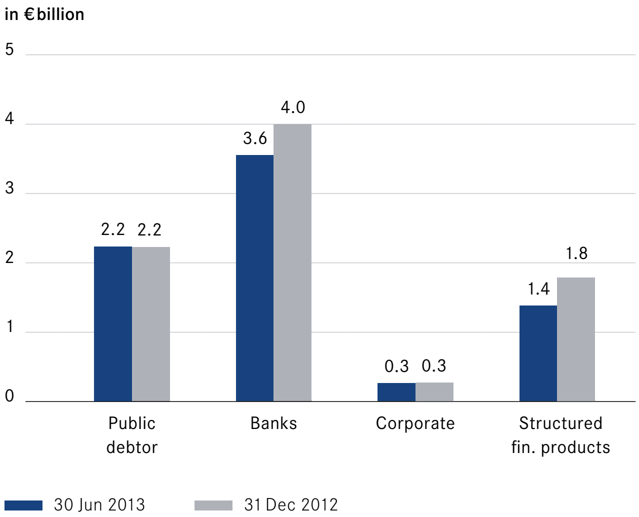
As part of the customer business, the Bank takes up a limited number of positions in foreign exchange and securities trading. In addition, the Bank invests to a limited extent in start-up financing and co-investments in fund products sold to customers.

The risk volume of the financial instruments portfolio was € 7.4 billion on the reporting date (31 December 2012: € 8.3 billion) and thus sank by a total of € 0.9 billion.

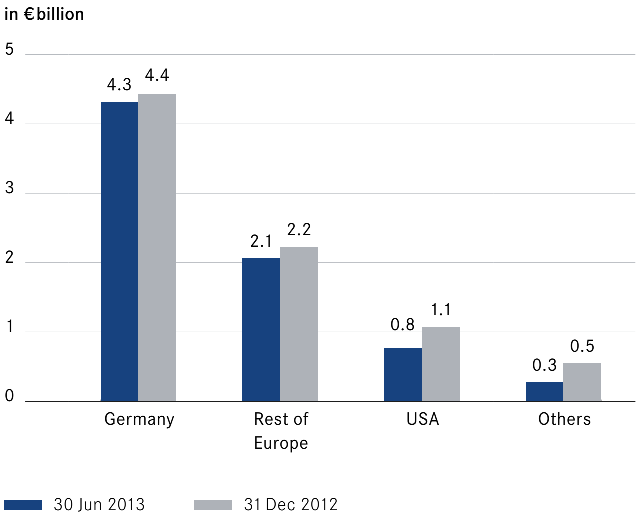
In the course of the first half of the year, redemptions and sales allowed the Bank to reduce total exposure in the structured financial products sub-portfolio to € 1.4 billion as at 30 June 2013 (31 December 2012: € 1.8 billion). This was accompanied by the release of some € 200 million in equity.

Measures to reduce complexity led to the dissolution of the last remaining LAAM fund and the securities this fund was based on were transferred to a special fund managed by Union Investment. As at the reporting date, the Bank held all structured financial products in this special fund.

Total exposure of financial instruments by sector



Total exposure of financial instruments by country



The Bank continues to pursue the strategy of controlled reduction of risk arising from the structured products.

With respect to the ongoing European debt crisis, country risks remain the prime focus of risk monitoring. Relevant country risks exist in Europe and the USA.

With regard to the countries in focus in Europe, there were still fundamental direct country risks in Italy at the end of the first half of 2013. In the first six months of 2013, total exposure was further reduced to € 184 million (31 December 2012: € 234 million).

There are major indirect country risks in the countries in focus in the euro area, on the one hand via the activities of the banking sector, and on the other hand in the shape of ABS in Italy, Spain, Portugal and Ireland. Exposure is continually and intensively monitored and successively reduced when market opportunities arise.

With regard to the Bank's ABS, the focus remains on specific countries, and in particular on residential mortgage backed securities (RMBS) in the USA and Spain as well as on RMBS and commercial mortgage backed securities in the UK.

Exposure to financial institutions in Spain continued to be a main focal point of risk monitoring during the first half of 2013. Here, too, outstanding volumes were reduced. As at 30 June 2013, the Bank's receivables from Spanish financial institutions amounted to around € 95 million (31 December 2012: € 150 million), of which around € 63 million are due in the second half of 2013.

Structured financial products (on-balance sheet and off-balance sheet) by rating class, country and residual term

as at 30 Jun 2013/31 Dec 2012	MBS €m 2013	MBS €m 2012	CDO €m 2013	CDO €m 2012	ABS in the narrower sense €m 2013	ABS in the narrower sense €m 2012	LAAM fund €m 2013	LAAM fund €m 2012	Total €m 2013	Total €m 2012
Total exposure by rating class (external rating class)										
Aaa	89	71	21	9	7	23	–	–	117	102
Aa	70	114	–	15	11	66	–	–	81	195
A	296	398	3	3	19	26	–	–	318	427
Baa	264	105	7	7	9	7	–	–	280	120
Ba	113	52	–	–	77	74	–	–	190	126
B to C	326	494	5	5	21	49	–	–	353	548
D	40	67	–	–	–	–	–	–	40	67
No rating	–	–	–	–	–	–	–	206	–	206
Total exposure by country										
USA	316[1]	542[1]	–	–	111	194	–	–	426	736
Europe	878	740	36	39	34	51	–	–	949	829
Others[2]	5	20	–	–	–	–	–	206	5	225
Total exposure by residual term[3]										
0 to 1	148	125	15	15	2	4	–	–	165	144
> 1 to 5	153	234	22	24	44	114	–	–	218	373
> 5	897	942	–	–	99	127	–	206	996	1,274
Total	**1,199**	**1,301**	**36**	**39**	**145**	**245**	**–**	**206**	**1,380**	**1,791**

1) Primarily comprises Alt-A residential mortgage backed securities (RMBS)
2) Securitisation structures from other countries as well as the LAAM fund with securitisation structures without country focus
3) Residual term in years = expected maturity

Rating downgrading took place in the financial instruments portfolio in the period under report. As at 30 June 2013, 89% of the financial instruments portfolio was rated in the investment grade range (31 December 2012: 86%). In the structured financial products portfolio, 58% of the portfolio was rated in the investment grade range (31 December 2012: 47%). The increase of the share of this sub-portfolio that is in the investment grade range is mainly due to the transfer of the individual items of the LAAM fund.

Risk costs for the financial instruments portfolio were also at a comparably low level in the first half of 2013. In addition, the Bank also took precautionary measures.

Participations portfolio

apoBank's participations are pooled in the participations portfolio. Depending on their business purpose, they are subdivided into strategic, credit-substituting or financial participations.

There were no specific identifiable risks in the Bank's participations portfolio as at 30 June 2013.

Market risk

As at 30 June 2013, the market risk in the financial instruments portfolio was below that of 31 December 2012. The main reason for this decline was ongoing risk reduction for the Bank's financial instruments.

The interest rate risk remained moderate, both periodically and in terms of present value. In the first half of 2013, the results of the regulatory stress calculations were well below the prescribed limit at all times (20% of liable equity capital). The maximum capacity utilisation was 9.5% in the first half of the year.

Liquidity risk

The Bank's liquidity was assured at all times in the first half of 2013. The limits regarding the funding matrix and the regulatory requirements were met at all times. In the first half of the year, the liquidity ratio was stable within a range of 1.5 and 1.8. The limits regarding the liquidity risk in risk-bearing capacity as well as all limits connected with the Pfandbrief cover pool were also met at all times in 2013.

In the first half of the financial year, liquidity was affected by growing customer deposits. As a result of this and a further reduction of financial instruments, it was possible to reduce the volume of capital market refinancing. In addition, the volume drawn from the long-term tender of the European Central Bank was repaid in full by May.

Business risk, strategic risk and reputation risk

Business risk remained stable within the defined limit in the first half of 2013. Negative deviations from plan in net commission income were more than offset by positive results in net interest income, so that total accumulated sales were higher than planned.

Operational risk

Losses in the first six months of 2013 fell compared to the previous year's period. Total operational loss was above the expected loss amount. Total operational loss includes provisions made for legal risks, which continue to be in the focus of operational losses.

Risk-bearing capacity

The Bank's risk-bearing capacity was ensured at all times in the first half of 2013. The limits derived from the risk cover pool for the defined substantial risk types were not exceeded at any time. The stress scenarios show that it is essential to continue the ongoing process of complete reduction of risk in the structured financial products sub-portfolio.

The existing guarantee agreement with BVR continues to have a positive impact. As at 30 June 2013, the guarantee, which originally had a maximum volume of € 640 million, was utilised to the value of € 296 million (31 December 2012: € 380 million).

Summary of the risk situation

Drawdowns from the customer loan portfolios, which remained of high quality, decreased moderately overall.

Total exposure in the financial instruments portfolio amounted to € 7.4 billion at the end of the first half of 2013 (31 December 2012: € 8.3 billion). In the structured financial products sub-portfolio, the Bank continued to implement its strategy of reduction in the first half of 2013 and reduced total exposure in this sub-portfolio by € 0.4 billion to € 1.4 billion. Measures to reduce complexity led to the dissolution of the last remaining LAAM fund in the first quarter of 2013 and the securities this fund was based on were transferred to a special fund managed by Union Investment. As at the reporting date, the Bank held all structured financial products in this special fund.

As at 30 June 2013, 89% of the financial instruments portfolio was rated in the investment grade range (31 December 2012: 86%). In the structured financial products portfolio, 58% of the portfolio was rated in the investment grade range (31 December 2012: 47%).

With respect to the ongoing European debt crisis, country risks remain the prime focus of risk monitoring. Relevant country risks exist in Europe and the USA.

With regard to the countries in focus in Europe, there were still significant direct country risks in Italy at the end of the first half of 2013. In the first six months of 2013, total exposure was further reduced to € 184 million (31 December 2012: € 234 million).

There are major indirect country risks in the countries in focus in the euro area, on the one hand via the activities of the banking sector, and on the other hand in the shape of ABS in Italy, Spain, Portugal and Ireland. Exposure is continually and intensively monitored and successively reduced when market opportunities arise.

Risk costs and precautionary measures for the customer lending business remained at a low level at the end of the first half of 2013. Risk costs for the financial instruments portfolio were also at a comparably low level in the first half of 2013. In addition, the Bank also took precautionary measures.

The interest rate risk remained moderate, both periodically and in terms of present value. In the first half of 2013, the results of the regulatory stress calculations were well below the prescribed limit at all times (20% of liable equity capital). The maximum capacity utilisation was 9.5% in the first half of the year.

In the first six months of 2013, losses in the area of operational risk fell compared to the previous year's period. Total operational loss was above the expected loss amount; it includes provisions made for legal risks, which continue to be in the focus of operational risk losses.

The Bank's risk-bearing capacity was ensured for all aspects and at all times in the first half of 2013. However, the stress scenarios show that it is essential to continue the ongoing process of complete reduction of risk in the structured financial products sub-portfolio.

Outlook

Challenging general conditions in the banking sector

According to Bank estimates, the German banking sector will continue to face challenging conditions in the second half of 2013: Competition, in particular in the German retail client business, will remain intense. In addition, pressure will remain high on financial institutions' profitability due to continuingly low interest rates, combined with the ongoing reticence of private investors with regard to longer-term capital investments as well as increasing regulatory requirements.There is also continuing uncertainty on the financial markets, in particular for the euro area.

apoBank braces itself for the future

apoBank is also confronted by the conditions described above. Burdens on the expense side will result in particular from the regulatory requirements as well as further investments resulting from the VorWERTs future programme. In addition, the contributions to profit from strategic interest rate risk management will decrease in the long run.

The Bank expects to offset these burdens by generating additional revenue from the customer business. This is planned to take tangible effect from 2014 onwards when the Bank will begin to increasingly profit financially from the changes triggered by VorWERTs. In addition, it will continue to benefit from the optimisation of its cost structure.

For the year 2013 as a whole, the Bank's plans are based on a stable trend in its business and results.

Growth counteracts burdens on earnings

The Bank intends to continue to expand its customer portfolio based on its growth strategy. In the lending business, it plans moderate balance sheet growth due to continuingly high levels of special redemptions. The Bank expects a slight increase overall in contributions to profit from the lending business. It also expects a moderate increase in business volume with regard to deposits, for which stable contributions to profit are anticipated overall. In the area of strategic interest rate risk management, the Bank expects to see further tangible positive contributions to net interest income. The contributions to profit from the global hedging measures for low-interest periods will, however, be significantly lower than the previous year's level. Overall, the Bank expects a net interest income at the level of the previous year, i.e. above the planned amount.

In the long run, net commission income will benefit from the gradual implementation of the new, tailored customer support concept and the accompanying expansion of the number of advisers. However, due to the continuing reticence of private investors, the Bank expects this item to be below that of the previous year in 2013.

Investments affect administrative expenses

apoBank launched its VorWERTs future growth programme in order to expand its market position. This also entails making investments in the further establishment of specialised advisers and comprehensive training measures for employees. In addition to these strategic investments, regulatory and customer-related projects as well as their technical implementation will place increased burdens on administrative expenses in 2013.

These investments are set against savings that the Bank can achieve in the process of sustainable optimisation of its cost structure. The Bank will also benefit for the first time from the relief provided by the IT migration to the bank21 cooperative system, which was completed in 2012.

For the year 2013, the Bank expects administrative expenses to be below the planned level. However, they will be slightly above the previous year's level overall.

Operating result below previous year

In view of the trends described above, the Bank expects an operating result, i.e. profit before risk provisioning, for financial year 2013 which is above plan but below the high level of the previous year.

Risk provisioning essentially stable

In the area of risk provisioning for the lending business, the Bank anticipates stable economic conditions for players in the outpatient sector. In addition, it will benefit from its comprehensive financing expertise in the health care sector. Thus, the Bank plans to make risk provisions at a similar level as in the previous year for the customer lending business.

Provided that the financial markets show a stable development, the Bank expects risk provisioning for financial instruments and participations to be at the same level as in the previous year. This also includes precautionary measures that serve to offset unexpected burdens.

Stable net profit as basis for ability to pay a dividend

Based on the trends described above, the Bank plans to achieve an annual result for financial year 2013 that will enable it to distribute a stable dividend to its members – while at the same time bolstering its provisions and reserves.

Strengthening of equity ratios in connection with Basel III

The regulatory requirements presented by Basel III and the risk-bearing capacity result in higher equity capital requirements. In advance of the European implementation of Basel III next year, the Bank has developed measures to further improve its capital ratios.

The focus here is on bolstering core capital. By continuing to address members, the Bank aims to expand core capital through members' capital contributions and recruiting new members as well as through additions to provisions and reserves. In addition, the Bank can bolster its core capital by reallocating existing reserves on the balance sheet and, if required, by issuing appropriately designed equity instruments.

However, the Bank will not only relieve the pressure on its capital ratios by applying measures to strengthen capital, it will also consistently continue to reduce risk, in particular in the area of structured financial products.

In view of these measures, the Bank expects to improve its equity ratio – in particular its core capital ratio.

Opportunities and potential risks for business development

As apoBank's financial year 2013 progresses, the implementation of VorWERTs will remain in focus. This will primarily offer the Bank potential for sustainable growth in the customer business. On this basis, it can expand its contributions to profit from this business and work towards offsetting burdens on the revenue side. The latter primarily result from the decline in contributions to profit from the global hedging measures in connection with continuingly low interest rates.

By integrating the specialised customer support concept, the Bank will approach the market in a more consistent manner and will also further improve the quality of its customer advisory services. This results in opportunities to expand its customer accounts and thus its market position and enables the Bank to better leverage the potential for planned growth in the different business areas.

At the same time, risks arise with respect to the speed of implementation and the direct effectiveness of the measures.

In addition, the Bank's business performance can be subject to risk due to uncertainty about how the European debt crisis will progress and how the financial markets will develop. This can result in burdens in the area of risk provisioning in particular.

Together, the more stringent regulatory requirements and the increasing competition in the German retail client segment may also place a higher burden than expected on the profitability of the Bank. To compensate for burdens on income that cannot be budgeted for, the Bank can resort to existing reserves. In the case of the structured financial products, the guarantee agreement with BVR will make an essential contribution towards compensating for unforeseeable burdens from the remaining portfolio.

Interim Financial Statements

Balance Sheet

Assets

	(Notes)	30 Jun 2013 €	31 Dec 2012 €
1. Cash reserve		**75,696,970.47**	**610,120,085.65**
a) Cash on hand		35,909,311.06	39,841,395.12
b) Cash in central banks		39,787,659.41	570,278,690.53
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)	**672,894,969.90**	**967,044,179.35**
a) Mortgage loans		0.00	0.00
b) Local authority loans		83,172,000.00	81,599,035.62
c) Other receivables		589,722,969.90	885,445,143.73
4. Loans and advances to customers	(2, 14, 22)	**26,939,231,342.23**	**27,116,098,733.73**
a) Mortgage loans		6,219,306,123.19	5,840,593,020.39
b) Local authority loans		59,750,709.69	43,116,222.65
c) Other receivables		20,660,174,509.35	21,232,389,490.69
5. Debt securities and other fixed-interest securities	(3, 14, 16, 22)	**3,574,194,708.41**	**3,948,823,636.91**
a) Money market papers		0.00	99,988,950.05
aa) of public issuers		0.00	0.00
ab) of other issuers		0.00	99,988,950.05
b) Bonds and debt securities		3,574,194,708.41	3,848,834,686.86
ba) of public issuers		967,086,229.91	1,029,907,283.16
bb) of other issuers		2,607,108,478.50	2,818,927,403.70
c) Own debt securities		0.00	0.00
6. Shares and other non-fixed-interest securities	(3, 14, 15, 16)	**3,045,877,227.85**	**3,770,472,303.67**
6a. Trading assets	(4, 17)	**117,640,518.47**	**135,669,427.18**
7. Participations and capital shares in cooperatives	(6, 18)	**170,377,947.48**	**169,542,946.48**
a) Participations		168,964,842.85	168,129,841.85
b) Capital shares in cooperatives		1,413,104.63	1,413,104.63
8. Shares in affiliated companies	(6, 18)	**9,363,179.61**	**9,363,179.61**
9. Trust assets		**2,745,303.11**	**2,745,692.71**
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	(8)	**1,362,544.92**	**1,218,697.92**
a) Registered industrial property rights 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 for such rights and assets		893,158.00	749,311.00
c) Goodwill		0.00	0.00
d) Payments in advance		469,386.92	469,386.92
12. Tangible assets	(7, 19)	**201,022,324.10**	**207,712,961.28**
13. Other assets	(20)	**783,615,082.68**	**861,052,311.09**
14. Prepayments and accrued income		**63,426,685.75**	**88,428,432.81**
a) from issuing and loan transactions		4,159,010.61	6,779,376.03
b) Others		59,267,675.14	81,649,056.78
15. Deferred tax assets	(21)	**0.00**	**0.00**
Total assets		**35,657,448,804.98**	**37,888,292,588.39**

Liabilities

	(Notes)	30 Jun 2013 €	31 Dec 2012 €
1. Liabilities to banks	(9)	**8,461,468,647.39**	**9,676,852,201.66**
a) Registered mortgage Pfandbriefe issued		10,182,781.51	10,193,903.69
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		8,451,285,865.88	9,666,658,297.97
2. Liabilities to customers	(9)	**20,411,028,631.45**	**19,590,612,723.64**
a) Registered mortgage Pfandbriefe issued		726,982,374.14	764,006,470.09
b) Registered public Pfandbriefe issued		0.00	0.00
c) Saving deposits		68,012,506.19	66,012,788.55
ca) with an agreed notice period of three months		61,619,496.63	60,114,421.93
cb) with an agreed notice period of more than three months		6,393,009.56	5,898,366.62
d) Other liabilities		19,616,033,751.12	18,760,593,465.00
3. Securitised liabilities	(9)	**3,598,855,983.31**	**5,404,899,368.34**
a) Debt securities issued		3,598,855,983.31	5,404,899,368.34
aa) Mortgage Pfandbriefe		338,312,627.41	912,447,967.66
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		3,260,543,355.90	4,492,451,400.68
b) Other securitised liabilities		0.00	0.00
3a. Trading liabilities	(4, 23)	**20,631,748.22**	**1,554.81**
4. Trust liabilities		**2,745,303.11**	**2,745,692.71**
5. Other liabilities	(24)	**235,429,403.70**	**308,898,843.15**
6. Prepayments and accrued income		**15,189,708.31**	**19,711,980.08**
a) from the issuing and lending business		13,588,712.21	16,152,451.24
b) Others		1,600,996.10	3,559,528.84
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	(10)	**354,671,999.59**	**309,793,137.86**
a) Provisions for pensions and similar obligations		134,928,604.00	130,893,104.00
b) Tax provisions		49,550,659.62	28,675,652.00
c) Other provisions		170,192,735.97	150,224,381.86
8. Subordinated liabilities		**437,598,548.17**	**453,137,766.23**
9. Participating certificate capital		**160,000,000.00**	**160,000,000.00**
10. Fund for general banking risks		**237,715,120.98**	**237,715,120.98**
11. Capital and reserves	(25)	**1,722,113,710.75**	**1,723,924,198.93**
a) Subscribed capital		1,214,548,403.57	1,207,055,409.76
b) Capital reserves		0.00	0.00
c) Revenue reserves		483,491,249.19	471,491,249.19
ca) Legal reserves		382,250,000.00	376,250,000.00
cb) Other revenue reserves		101,241,249.19	95,241,249.19
d) Balance sheet profit		24,074,057.99	45,377,539.98
Total liabilities		**35,657,448,804.98**	**37,888,292,588.39**

1. Contingent liabilities		**958,937,577.68**	**1,125,360,207.75**
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		958,937,577.68	1,125,360,207.75
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
2. Other obligations		**2,929,476,192.65**	**3,148,896,735.56**
a) Obligations under optional repurchasing agreements		0.00	0.00
b) Placement and underwriting obligations		0.00	0.00
c) Irrevocable loan commitments		2,929,476,192.65	3,148,896,735.56

Income Statement

Income statement

	(Notes)	1 Jan – 30 Jun 2013 €	01 Jan – 30 Jun 2012 €
1. Interest income from		**612,409,900.06**	**687,994,600.45**
a) lending and money market transactions		599,844,966.37	655,962,610.13
b) fixed-interest securities and debt register claims		12,564,933.69	32,031,990.32
2. Interest expenses		**– 264,087,048.93**	**– 364,659,565.69**
3. Current income from		**10,295,283.62**	**19,761,733.75**
a) shares and other non-fixed-interest securities		192,409.26	10,401,705.06
b) participations and capital shares in cooperatives		7,316,827.29	6,328,596.32
c) shares in affiliated companies		2,786,047.07	3,031,432.37
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		**0.00**	**0.00**
5. Commission income		**88,990,365.84**	**83,703,803.13**
6. Commission expenses		**– 35,424,685.84**	**– 33,082,388.17**
7. Net trading revenues		**347,312.99**	**6,977,599.78**
8. Other operating income		**8,928,586.39**	**15,114,460.89**
9. General administrative expenses		**– 214,322,047.59**	**– 235,857,258.05**
a) Personnel expenses		–104,428,407.44	–118,080,053.78
aa) Wages and salaries		– 89,021,818.01	–102,195,516.50
ab) Social security contributions and expenses for pensions and benefits		–15,406,589.43	–15,884,537.28
b) Other administrative expenses		–109,893,640.15	–117,777,204.27
10. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**– 6,651,044.88**	**– 9,737,984.85**
11. Other operating expenses	**(27)**	**–19,056,664.12**	**– 37,392,298.04**
12. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**–102,479,302.56**	**– 93,846,075.71**
13. Write-downs and value adjustments in respect of participations, shares in affiliates and securities treated as fixed assets		**2,955,795.34**	**1,804,550.86**
14. Expenses from the assumption of losses		**0.00**	**–14.80**
15. Operating result		**81,906,450.32**	**40,781,163.55**
16. Extraordinary income		**0.00**	**0.00**
17. Extraordinary expenses	**(28)**	**–15,546,398.27**	**– 5,933,012.88**
18. Extraordinary result		**–15,546,398.27**	**– 5,933,012.88**
19. Taxes on income	**(29)**	**– 42,042,465.46**	**–11,050,355.95**
20. Other taxes not reported in item 11		**– 252,739.30**	**– 258,059.69**
21. Allocation to the fund for general banking risks		**0.00**	**0.00**
22. Net profit		**24,064,847.29**	**23,539,735.03**
23. Profit carried forward from the previous year		**9,210.70**	**8,997.47**
24. Withdrawals from revenue reserves			
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
25. Balance sheet profit		**24,074,057.99**	**23,548,732.50**

Notes

A. General information

1. Framework for the preparation of the interim financial statements

The interim financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf, as of 30 June 2013 were prepared according to the regulations of the German Commercial Code (Handelsgesetzbuch, HGB), the Accounting Ordinance for Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV) as well as the Securities Trading Act (Wertpapierhandelsgesetz, WpHG). At the same time, the interim financial statements meet the requirements of the Cooperative Societies Act (Genossenschaftsgesetz, GenG) and the Articles of Association of apoBank.

In accordance with Section 244 HGB, the interim financial statements are drawn up in German and in euros. Advantage has been taken of the option to provide information through the notes rather than the balance sheet.

B. Accounting, valuation and translation methods

In preparing the balance sheet and income statement, the following accounting and valuation methods were used, generally in consistence with the previous year. A change was made with respect to the classification of certain FX business. Revenue amounting to € 7,510 thousand is now reported in commission income, in the previous year such revenue was reported in net trading revenues.

2. Loans and 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. A general value adjustment was made in respect of inherent credit risks with consideration given to tax guidelines.

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.

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

ABS in the UIL special bond portfolio Special-Bonds 1 fund (UIL fund) are valued by Union Investment Luxembourg S.A. (Union Investment).

4. Trading assets and liabilities

Financial instruments in the trading portfolio are reported under balance sheet items trading assets, 6a, and trading liabilities, 3a. They are measured at fair value considering an adjustment for risk.

The fair value normally corresponds to the market price. According to the generally accepted accounting principles, the valuation of trading assets should generally be based on the lower bid price and that of trading liabilities on the higher ask price. For the sake of simplicity, a valuation on the basis of the middle rate is also permissible. The Bank has made use of this simplification rule since trading assets and liabilities are generally of minor importance and the bid-ask spreads are usually very small. If the market price cannot be calculated reliably, the fair value is measured using generally recognized valuation methods. These models are used to value part of the securities as well as all derivatives and comprise market-based valuation parameters such as yield curves, credit spreads and foreign currency rates. The fair values are calculated in accordance with the valuation models used in internal risk control.

The adjustment for risk was made on the basis of the value at risk (VaR) for a holding period of 250 days, a forecast interval with a confidence level of 97% and an effective historical observation period of 250 days.

The criteria defined internally for including financial instruments in the trading portfolio were not changed from the previous year. The value of the derivative financial instruments in the trading portfolio is determined by how the foreign exchange and interest rate risks develop.

5. Valuation units (hedge accounting)

At apoBank, micro-hedge units and portfolio valuation units are formed to hedge risks.

In this respect, micro-hedge units are used as part of asset swap packages and to hedge a part of own issuances. In general, this relates to the hedging of interest rate risks.

Portfolio valuation units are used to hedge the currency risk in various, independently controlled portfolios. The principal hedging instruments are forward exchange transactions and FX swaps.

If valuation units are taken into account on the balance sheet, a prospective and a retrospective effectiveness test is performed.

In the case of the micro-hedge units, the effective portion of the valuation units formed is presented according to the cost method. For part of the portfolio valuation units, the fair value method is applied.

In micro-valuation units, the prospective effectiveness test is conducted using the critical terms match method. Effectiveness is assumed if the essential value drivers for the hedged risks of the underlying transaction and hedging instrument correspond with each other.

For micro-hedge units with underlying transactions on the asset side, market value changes to underlying and hedging transactions are determined and netted by comparison with the last reporting date. If there is an excess loss resulting from unhedged risks, a specific valuation allowance with respect to the underlying transaction is made in this amount.

For micro-hedge units with underlying transactions on the liability side, the fixed valuation continues to be applied as long as it is considered a perfect hedge. The own issuance is posted at the redemption value and is not valued. Accordingly, the hedging derivative is also not valued.

In portfolio hedges, the risks of multiple underlying transactions of the same type are covered by one or more hedging instruments. The similarity of the underlying transactions relates to their appropriation (currency, maturity, coupon).

The portfolio valuation units concern FX forward transactions, FX swaps and syndicated loans. A portfolio is formed for each currency and each underlying transaction in which the sums of the underlying transaction and hedging transaction in terms of volume and all payment flows or changes in value are balanced as a rule. This way, a 100% effectiveness is, in principle, guaranteed. Any negative effects that occur over time are shown as expenditure as a provision for valuation units.

As at the balance sheet date, the total volume of the risks hedged amounted to €987 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.

6. Participating interests and shares in affiliated companies

Participating interests and capital shares in cooperatives and shares in affiliated companies were reported at cost of acquisition or the lower attributable value.

7. Fixed assets/tangible assets

Tangible assets were carried at cost of acquisition less scheduled depreciation.

Depreciation for buildings was made on a straight-line basis throughout the useful life, using the declining-balance method or declining-balance rates; movable assets were depreciated on a straight-line basis throughout the useful life. Low-value assets within the meaning of Section 6 (2) Income Tax Act (EStG) were completely written off.

8. Fixed assets/intangible assets

Intangible assets are valued at cost of acquisition and depreciated on a straight-line basis according to plan. The underlying useful life is between three and five years.

9. Liabilities

All liabilities were generally carried at their repayment amounts. Differences between the lower issue price and the repayment amount of liabilities were reported under 'Prepayments and accrued income' and written back on an accrual basis. Zero bonds and commercial papers are carried as liabilities at their issuance price plus accrued interest.

10. Provisions

The provisions for pension liabilities as of 30 June 2013 were calculated based on the actuarial tables 'Richttafeln 2005 G' (Heubeck) using the projected unit credit method. The calculation was based on an updated forecast referring to the expert opinion as at 31 December 2012 on the basis of an interest rate of 4.86%, a wage increase trend of 3% and a pension increase trend of 1.75%. The Bank shows allocations and reversals with respect to the balance sheet item 'Provisions for pensions and similar obligations' with regard to the interest rate effects in the other operating result and netted in favour of the item 'personnel expenses'.

The provisions for part-time retirement and anniversary payments as of 30 June 2013 were also made on the basis of an interest rate of 4.86% and a wage increase trend of 3%. The provisions as at 31 December 2012 were extrapolated for the interim financial statements on the basis of these values.

Provisions with a remaining term of more than one year were discounted or compounded in accordance with Section 253 (2) HGB. The current profit/loss from discounting and compounding is posted to 'Other operating income' or 'Other operating expenses'.

Adequate provisions were also made for 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. HGB) and taking account of the realisation and imparity principle, unless valuation units are made to an acceptable extent in order to hedge balance sheet items or the derivatives are used for the overall bank control of the interest rate risk.

Credit default swaps (CDS) where apoBank is the protection seller are recorded at their nominal value as contingent liabilities according to the principles for the non-trading portfolio pursuant to IDW RS BFA 1, and are shown in the balance sheet under the item 'Liabilities from guarantees and indemnity agreements', less any provisions made.

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

Within overall bank control, all interest derivatives are generally used. They are used to hedge the interest rate risks in the banking book and manage interest income.

The Bank has carried out a test pursuant to IDW RS BFA 3 to provide proof of a loss-free valuation of banking book derivatives. For all interest rate-related financial instruments (on-balance sheet and off-balance sheet) in the banking book proof was provided that overall no losses will occur in future as a result of contracted interest rates. The test was based on the net present value/book value method, which compares the book values of the interest rate-related transactions of the banking book with the net present values attributable to interest rates, taking into account credit risk and portfolio management costs. As a result, no need for provisioning was identified.

12. Currency translation

Items based on amounts in foreign currency or which were originally based on foreign currency were translated into euros as follows:

Items denominated in foreign currencies are in principle valued in accordance with Section 340h in conjunction with Section 256a HGB. Valuation units have been formed for material holdings in foreign currencies in accordance with Section 254 HGB.

13. Guarantee

The guarantee agreement granted by the Federal Association of German Cooperative Banks (BVR) amounting to a maximum of originally € 640 million relates to securities in the UIL fund and is part of the fund assets. As at the balance sheet date, the value of the guarantee amounted to € 296 million.

Based on a debtor warrant, benefits from the guarantee paid in the form of cash over time have to be repaid by the Bank.

C. Notes to the balance sheet

Notes to assets

14. Securities portfolio/receivables by purpose

The securities portfolio is divided by purpose into the following categories:

Securities portfolio/receivables by purpose

	30 Jun 2013 € thous	31 Dec 2012 € thous
Debt securities and other fixed-interest securities		
Fixed assets	2,986,251	3,202,491
Liquidity reserve	587,944	746,333
Total	**3,574,195**	**3,948,824**

	30 Jun 2013 € thous	31 Dec 2012 € thous
Shares and other non-fixed-interest securities		
Fixed assets	1,793,685	2,472,107
Liquidity reserve	1,252,192	1,298,365
Total	**3,045,877**	**3,770,472**

In addition, loans and advances to customers include fixed-asset securities of € 18,396 thousand (31 Dec 2012: € 18,802 thousand).

15. Shares in special investment funds

apoBank holds more than 10% of the shares in domestic investment funds in accordance with Section 1 InvG or comparable international investments in accordance with Section 2 (9) InvG:

Shares in special investment funds in accordance with Section 1 or Section 2 (9) InvG

Name of fund	Investment objective	Value in accordance with Section 36 InvG or comparable international regulations €thous	Difference to book value €thous	Distributions made for the total financial year €thous	Restriction of redemption
APO 1 INKA	Domestic and international bonds, FX forward transactions	828,664	76,562	0	no
APO 2 INKA	Domestic and international bonds, FX forward transactions	277,900	27,900	0	no
APO 3 INKA	Domestic and international bonds, FX forward transactions	277,900	27,900	0	no
arsago STIRT 2XL	Domestic and international bonds	17,547	− 2	0	yes
Master fund coinvestments	Domestic and international bonds, domestic and international stocks	57,437	2,437	0	no
UIL fund	Domestic and international bonds	1,716,613	−10,166	0	no

16. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]	Book value as at 30 Jun 2013 €thous	Fair value as at 30 Jun 2013 €thous	Omitted depreciation €thous
UIL fund	1,726,779	1,716,613	10,166
Other financial instruments classified as fixed assets	808,726	804,617	4,109
Total	**2,535,505**	**2,521,230**	**14,275**

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

When analysing the impairment of ABS structures in the UIL fund, the anticipated losses are in principle calculated for the total residual term mainly using the software solution Intex and taking as a basis the parameters default rate, delays in payment, loss ratio and voluntary repayment rate.

The parameters are determined on the basis of market forecasts or on the basis of customised performance data for the individual ABS transactions. An impairment exists if losses are reported using these parameters. In the case of ABS and commerical mortgage backed securities (CMBS) that cannot be modelled in Intex, individual securities are identified using defined applicability criteria (e.g. significant rating deterioration). For these securities, the durability of an impairment is assessed on the basis of detailed individual analyses and the anticipated loss determined. If the total of the discounted expected losses of all securities in the UIL fund are no longer covered by the total from the risk hedge at securities level, BVR guarantee and risk hedge at portfolio level, depreciation is carried out on the fund deposit reported in the balance sheet.

The impairments that extend beyond the anticipated loss determined in this way as well as relating to non-structured securities are not regarded as permanent if they can be attributed to increased market interest rates and a deterioration in market liquidity or can be covered by the BVR guarantee.

17. Trading assets

The balance sheet item ‘Trading assets’ can be broken down as follows:

Trading assets

	30 Jun 2013	31 Dec 2012
	€ thous	€ thous
Derivative financial instruments	21,395	2
Loans and advances to banks	0	10,252
Debt securities and other fixed-interest securities	96,372	125,443
Shares and other non-fixed-interest securities	0	0
Less VaR adjustment	–126	– 28
Total	**117,641**	**135,669**

18. List of holdings

apoBank holds capital shares amounting to at least 20% in the following companies:

List of holdings

Company	Share in company capital %	Year	Equity of the company €thous	Result of the past financial year €thous
Apo Asset Management GmbH, Dusseldorf	70	2012	3,445	1,733
APO Beteiligungs-Holding GmbH, Dusseldorf	100	2012	4,164	0 (79)[1]
APO Consult GmbH, Dusseldorf[2,3]	100	2012	51	0 (0)[1]
APO Data-Service GmbH, Dusseldorf[2]	49	2012	3,436	478
APO Leasing GmbH, Dusseldorf[2,3]	100	2012	94	0 (0)[1]
APO Reiseservice GmbH, Dusseldorf[2,3]	100	2012	– 4	0 (0)[1]
apokom GmbH, Dusseldorf[2,3]	100	2012	75	0 (0)[1]
Kock & Voeste Existenzsicherung für die Heilberufe GmbH, Berlin[2]	26	2012	196	35
medisign GmbH, Dusseldorf[2]	50	2012	223	20
APO Immobilien-Kapitalanlagegesellschaft mbH, Dusseldorf	67	2012	9,198	2,444
aik Management GmbH, Dusseldorf[2]	100	2012	44	19
CP Capital Partners AG, Zurich	24	2012	444	36
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2012	9,937	5,236
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2012	1,513	– 8
gbs – Gesellschaft für Banksysteme GmbH, Münster	49	2012	437	29
IWP Institut für Wirtschaft und Praxis Bicanski GmbH, Münster	26	2012	41	34
patiodoc AG, Berlin	49	2012	5,620	– 2,371
Prof. Bicanski und Coll. IWP Beratungsgesellschaft mbH, Münster	26	2012	93	0
Profi Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	24	2012	2,875	914
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2012	26,005	1,823
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	50	2012	5,815	2,528

1) Before profit transfer or loss assumption
2) Indirect participations
3) Liquidation underway

Participations in corporations with limited liability in accordance with Section 340a (4) HGB with more than 5% of voting rights existed with respect to Treuhand Hannover GmbH, Steuerberatungsgesellschaft, Hanover, and Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne.

19. Tangible assets

The item 'Tangible assets' (assets, 12) includes:

Tangible assets

	30 Jun 2013	31 Dec 2012
	€ thous	€ thous
Owner-occupied land and buildings	154,947	159,033
Office furniture and equipment	44,234	46,077

20. Other assets

The 'Other assets' item includes the following larger amounts:

Other assets

	30 Jun 2013	31 Dec 2012
	€ thous	€ thous
Capitalised premiums from options	643,369	688,681
Tax receivables	114,540	125,862

21. Deferred tax assets

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

As at 30 June 2013, a net deferred tax asset existed. This deferred tax asset 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, intangible assets, and provisioning reserves according to Section 340f HGB.

The net deferred tax assets amounted to € 205.4 million, thereof deferred tax assets of € 207.7 million and deferred tax liabilities of € 2.3 million.

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

22. Subordinated assets

Subordinated assets are included in the items 'Loans and advances to customers' with € 29,680 thousand (31 Dec 2012: 37,584 thousand) and 'Debt securities and other fixed-interest securities' with € 51,647 thousand (31 Dec 2012: € 50,027 thousand) in the total amount of € 81,327 thousand (31 Dec 2012: € 87,611 thousand).

Notes to liabilities

23. Trading liabilities

The balance sheet item 'Trading liabilities' includes, based on the fair value of the assets:

Trading liabilities

	30 Jun 2013 €thous	31 Dec 2012 €thous
FX forward transactions	3,616	2
FX swaps	17,012	0
Caps	4	0
Total	**20,632**	**2**

24. Other liabilities

The 'Other liabilities' item includes the following larger amounts:

Other liabilities

	30 Jun 2013 €thous	31 Dec 2012 €thous
Premiums from options and caps carried as liabilities	133,041	168,597

25. Capital and reserves

The amounts shown under 'Subscribed capital' (liabilities, 11.a)) are structured as follows:

Subscribed capital

	30 Jun 2013
	€thous
Contributions of silent partners	**347,700**
Members' capital contributions	**866,848**
Of remaining members[1]	845,216
Of departing members[1]	21,632
Compulsory contributions due on shares in arrears	22

1) Estimated figures since notices of withdrawal may still be cancelled until the end of 2013

The revenue reserves (liabilities,11.c)) developed as follows in the first half of 2013:

Revenue reserves

	Legal reserves	Other revenue reserves
	€thous	€thous
As at 1 Jan 2013	376,250	95,241
Transfers		
from balance sheet profit of the previous year	6,000	6,000
from net profit of the financial year	0	0
Withdrawals	0	0
As at 30 Jun 2012	**382,250**	**101,241**

apoBank has not taken advantage of the option according to Section 10 (4a) of the German Banking Act (KWG) and has not created any revaluation reserve in accordance with Section 10 (2b) 1 no. 6 and 7 KWG for the year 2013.

Derivative financial instruments

26. Derivative financial instruments

The volume of unsettled forward transactions affected by a settlement risk or currency, interest rate or other market risk arising from open positions, and in the event of counterparty default also from closed positions, amounted to € 49,462 million as at 30 June 2013 (31 Dec 2012: € 57,044 million). Included therein are the following types of transactions:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions	Currency-related transactions	Stock-related transactions	Credit derivatives	Other transactions
▪ Interest rate swaps ▪ Swaptions ▪ Caps/floors ▪ Interest rate futures	▪ FX forward transactions ▪ FX swaps		▪ Credit default swaps	

These forward transactions, which are subject to fluctuations as regards interest rates, exchange rates and market prices as well as fluctuations due to creditworthiness, are entered into for the purpose of hedging positions and for asset liability 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 the same as the default risk value.

The fair values shown were calculated using the following valuation models: Interest rate swaps were measured at their net present value on the balance sheet date. The various interest payment flows were calculated with forward rates derived from the current interest structure curve and then discounted with the swap curve in the same way as fixed payment flows. Swaptions and interest limit agreements were measured on the basis of the Black model for interest rate options. The interest rate futures were measured based on the current variation margins to be provided.

Credit default swaps were measured according to the par-floater-replication method. Here the difference is formed from a risk-free floater (cash value using the swap curve) and a risky floater (cash value using the corresponding credit spread curve).

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

Most of the derivative financial instruments are used to hedge interest rate or currency fluctuations as part of a valuation unit (see note 5) as well as within the scope of asset/liability management.

Risk structure

	Nominal value		Fair value	
	€m		€m	
	30 Jun 2013	31 Dec 2012	30 Jun 2013	31 Dec 2012
Interest rate-related transactions[1]				
Time to maturity up to 1 year	14,876	12,728	453	564
more than 1 to 5 years	20,315	28,311	385	578
more than 5 years	11,126	12,136	225	249
Subtotal	**46,317**	**53,175**	**1,063**	**1,391**
Currency-related transactions				
Time to maturity up to 1 year	2,452	2,977	1	–1
more than 1 to 5 years	172	250	0	0
more than 5 years	76	76	0	0
Subtotal	**2,700**	**3,303**	**1**	**–1**
Credit derivatives				
Time to maturity up to 1 year	270	50	1	0
more than 1 to 5 years	175	498	–4	–8
more than 5 years	0	18	0	–2
Subtotal	**445**	**566**	**–3**	**–10**
Total	**49,462**	**57,044**	**1,061**	**1,380**

1) Interest rate-related transactions are reported under the items ‘Other assets’ (€ 643 million), ‘Prepayments and accrued income (assets)’ (€ 42 million) as well as under the items ‘Other liabilities’ (€ 7 million) and ‘Prepayments and accrued income (liabilities)’ (€ 2 million).

As at the reporting date, apoBank had designated 813 micro hedges with a nominal value of €9.21 billion:

- 737 hedges on own issues against the interest rate risk with a nominal value of €7.73 billion, including
  - 10 caps with a nominal value of €0.18 billion
  - 43 floors with a nominal value of €0.30 billion
  - 43 swaptions with a nominal value of €0.38 billion
  - 641 swaps with a nominal value of €6.87 billion
- 76 asset swaps to hedge against the interest rate risk of 45 acquired securities with a nominal value of €1.47 billion

As at 30 June 2013, a volume of foreign currency swaps from foreign exchange trading was used in the amount of €1,273.9 million as valuation units, of which €1,247 million to hedge offsetting FX swaps and €26.9 million to hedge syndicated loans.

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

- €851.4 million in US dollars
- €371.4 million in British pounds
- €44.8 million in Japanese yen
- €6.3 million in other currencies

At the reporting date, a volume of FX forward transactions was used in the amount of €110.7 million as valuation units, of which €83.8 million to hedge offsetting FX forward transactions and €26.9 million to hedge foreign exchange risks of the guarantee with the BVR. The FX forward transactions can be broken down based on their currency as follows:

- €86.9 million in US dollars
- €8.6 million in British pounds
- €7.7 million in Japanese yen
- €7.5 million in other currencies

D. Notes to the income statement

27. Other operating expenses

Other operating expenses amounting to € 19,057 thousand mainly result from provisions for litigation costs of € 11,009 thousand and other expense from compounding of € 3,541 thousand.

28. Extraordinary expenditure

Extraordinary expenditure accounts for payments to BVR for reimbursement of guarantee claims by the UIL fund.

29. Taxes on income

Income taxes are related to the profit from ordinary business activities of the current period. They were largely calculated on the basis of actual figures and the current tax rate.

E. Other notes

30. Other financial liabilities

apoBank is obliged to indemnify the deposit insurance institution of the BVR for the BVR's guarantee to the UIL fund.

31. Disclosures according to Section 28 of the German Pfandbrief Act (PfandBG)

Please see the interim report of apoBank published as at 30 June 2013 for information on the Pfandbriefe included in the items 'Liabilities to banks', 'Liabilities to customers' and 'Securitised liabilities'.

32. Board of Directors

Members of the Board of Directors
- Herbert Pfennig, Spokesman
- Harald Felzen
- Eckhard Lüdering
- Dr. Thomas Siekmann
- Ulrich Sommer

33. Supervisory Board

Members of the Supervisory Board
- Hermann Stefan Keller, Chairman, pharmacist
- Wolfgang Häck[1], Deputy Chairman, bank employee
- Ralf Baumann[1], bank employee
- Fritz Becker (since 14 June 2013), pharmacist
- Martina Burkard[1], bank employee
- Mechthild Coordt[1], bank employee
- Dr. med. dent. Peter Engel, dentist
- Sven Franke[1], bank employee
- Eberhard Gramsch, physician
- Klaus Holz[1], trade union secretary
- Dr. med. Andreas Köhler, physician
- Walter Kollbach, tax consultant/auditor
- Ulrice Krüger[1], bank employee
- Prof. Dr. med. Frank Ulrich Montgomery, physician
- Sigrid Müller-Emsters[1], bank employee
- Dr. med. dent. Helmut Pfeffer, dentist
- Dr. med. dent. Karl-Georg Pochhammer, dentist
- Christian Scherer[1], bank employee
- Friedemann Schmidt, pharmacist
- Ute Szameitat[2], bank employee
- Heinz-Günter Wolf (until 14 June 2013), pharmacist

1) Employee representative
2) Representative of the executive staff

34. Name and address of the responsible auditing association

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Dusseldorf, 13 August 2013
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Herbert Pfennig | Harald Felzen | Eckhard Lüdering | Dr. Thomas Siekmann | Ulrich Sommer

Certifications

Review Report

To Deutsche Apotheker- und Ärztebank eG, Dusseldorf

We have reviewed the interim condensed financial statements, comprising the condensed balance sheet, the condensed income statement and the condensed notes, and the interim management report of Deutsche Apotheker- und Ärztebank eG, Dusseldorf, for the period from 1 January 2013 to 30 June 2013, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG (‘Wertpapierhandelsgesetz’: German Securities Trading Act). The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG (‘Wertpapierhandelsgesetz’: German Securities Trading Act) applicable to interim management reports is the responsibility of the Board of Directors of the cooperative. Our responsibility is to issue a report on the interim condensed financial statements and the interim management report based on our review.

We conducted our review of the interim condensed financial statements and the interim management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (‘IDW’: Institute of Public Auditors in Germany). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed financial statements are not prepared, in all material respects, in accordance with German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports. A review is limited primarily to making inquiries of personnel of the cooperative and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with the provisions of German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports.

Münster, 16 August 2013

On behalf of
Rheinisch-Westfälischer Genossenschaftsverband e. V.

Siegfried Mehring Certified Auditor	Thomas Kulina Certified Auditor

Responsibility Statement by the Legal Representatives

To the best of our knowledge we assure that the interim financial statements give a true and fair view of the earnings, asset and financial position in accordance with the applicable accounting principles for interim financial reporting and that the interim 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 main opportunities and risks associated with the company's expected development for the remaining months of the financial year.

Dusseldorf, 13 August 2013
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Herbert Pfennig   Harald Felzen   Eckhard Lüdering   Dr. Thomas Siekmann   Ulrich Sommer

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as at July 2013

Imprint

Published by
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The interim report is available in
German and English. The German
version is legally binding.