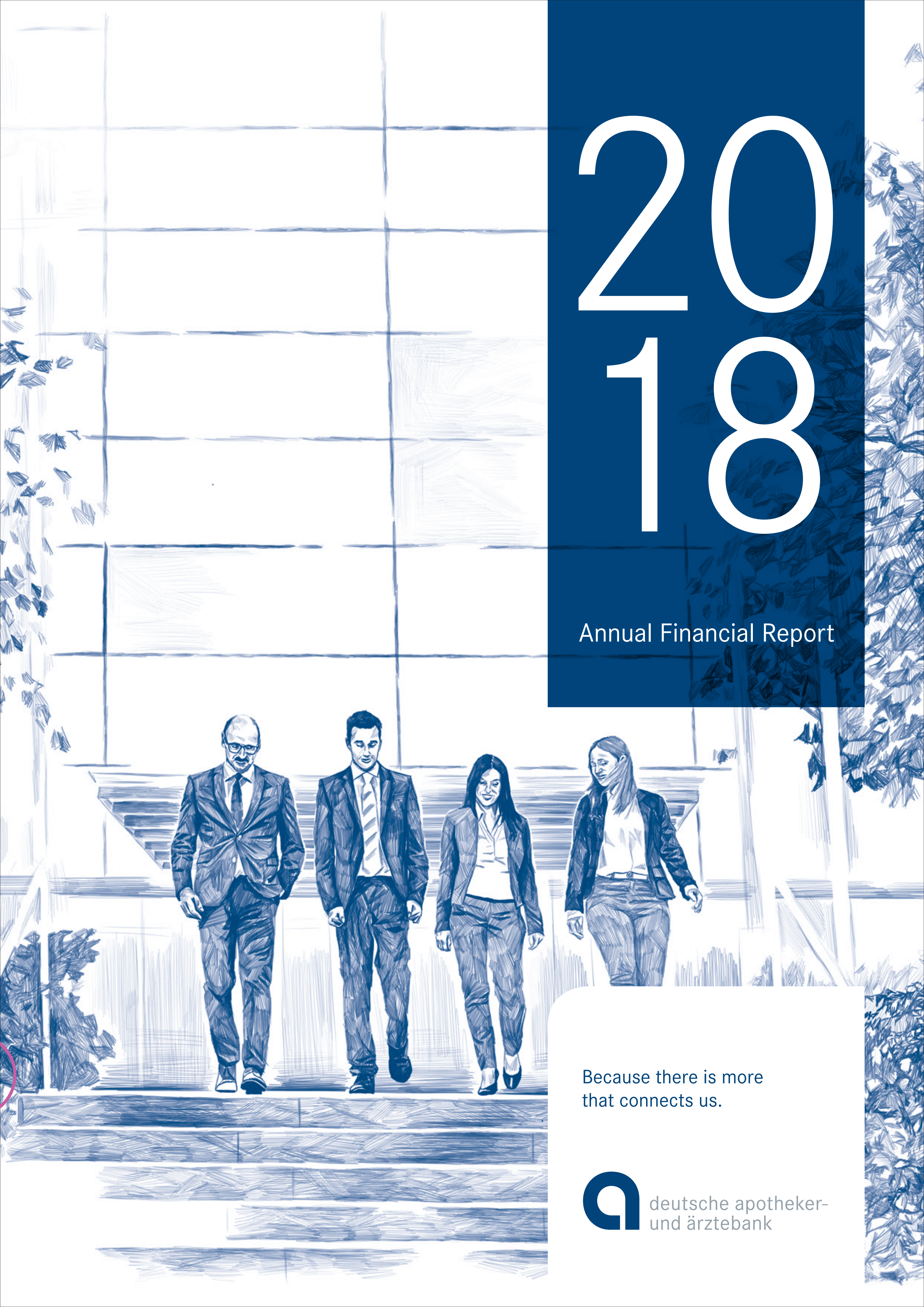

2018

Annual Financial Report

Because there is more
that connects us.

deutsche apotheker-
und ärztebank

Content

458,770
customers

113,455
members

2,523
employees

45,376
balance sheet total (€m)

Overview of Business Development

Overview of business development

Bank data	31 Dec 2018	31 Dec 2017	Change[1] %
Members	113,455	111,494	1.8
Customers	458,770	436,260	5.2
Employees	2,523	2,553	–1.2
Locations	85	84	1.2

Balance sheet	€m	€m	%
Balance sheet total	45,376	41,369	9.7
Customer loans	34,652	32,013	8.2
Customer deposits	27,449	26,037	5.4

Income statement	€m	€m	%
Net interest income[2]	632.4	606.2	4.3
Net commission income	164.9	156.3	5.5
General administrative expenses	– 597.6	– 530.1	12.7
Operating profit before risk provisioning	233.6	223.7	4.4
Risk provisioning from the operating business[3]	– 31.9	12.1	-
Risk provisioning with reserve character[4]	– 88.3	–103.0	–14.3
Operating result	113.4	132.8	–14.6
Net profit after tax	62.9	61.9	1.7

Key figures	%	%	ppts
Equity ratio (according to CRR)	18.3	21.8	– 3.5
Common equity tier 1 ratio (according to CRR)	16.7	19.5	– 2.8
Cost-income ratio[5]	73.1	72.6	0.5
Return on equity after taxes[6]	3.6	3.6	–

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

1) Deviations possible due to rounding differences.
2) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies.
3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.
4) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and to provisioning reserves.
5) Ratio of operating expenses and operating income. Operating expenses include general administrative expenses as well as other operating expenses. Operating income includes net interest income, net commission income and other operating income.
6) Ratio of net profit and average equity (subscribed capital and revenue reserves plus allocations to reserves).
7) Issuer Credit Rating.

1

Ulrich Sommer
Chairman of the Board of Directors

Dear Members, Customers and Business Partners,

Last year, I announced at this point that we would be initiating and tackling new projects in 2018 – which is what we have done. I would like to tell you about that today, as well as other changes we are planning in the course of apoBank's strategic development.

What we have achieved together so far

In 2018, our result was once again respectable. Net profit remained stable at a high level as planned at 62.9 million euros. Our new apoPrivat brand, encompassing our private banking, investment advisory and asset management, has been well received by our customers. In the area of start-up financing, our comprehensive advisory services on all aspects of setting up a pharmacy or practice have paid off. Customer demand for financing was again very high: We provided funding for around 2,800 practices and pharmacies in 2018. We were also a strong partner for our corporate clients in the past financial year, and are now a good deal closer to achieving our target volume of loans to the amount of five billion euros in the medium term. In our business with institutional investors, we further expanded our advisory services, increasing the depository volume from 18.3 to 19.6 billion euros.

Special thanks for this success go to our customers and members. They have continued to place their trust in us through an eventful year that presented us with many challenges – digitisation, the ECB stress test, optimising our internal processes and preparing for IT migration, to mention just a few. We also owe our business success to the commitment of our employees. We are aware that their dedication is not something we should take for granted.

We want our members to participate in the past year's success and will therefore propose a stable dividend of four percent to the Annual General Meeting in June. We are proud that we are able to do this at the same time as topping up our reserves and despite the necessary investments for migrating our IT to Avaloq's banking system.

On a sound foundation ...

apoBank is the bank for German health care professionals – and it will continue to be so in future. As a cooperative bank, we also abide by the principle "By health care professionals for health care professionals". We intend to remain close to our customers in the future, too, and be there for them wherever they need us. For example, we are selectively examining possible new locations for advisory centres and expanding our sales channel mix. This includes our digital offerings, such as our new apoBanking app, as well as mobile sales. We want our customers to be able to decide for themselves how they want to reach us or whether we should come to them.

We lead the field when it comes to financing practices and pharmacies. In doing so, we contribute significantly to outpatient medical and pharmaceutical care in Germany. Not only are we the first point of call for our customers in all questions relating to asset management, but more and more corporate clients are also choosing us as their principal bank. In addition, we are an important partner in the German health care market for institutional investors as a depository and service provider.

Our customers also benefit from our expertise and networks in the health care market in the form of seminars, apps and other digital applications – all tailored specifically to the needs of players in this market.

... we can shape the future

The banking market is undergoing a profound transformation, as is the health care market. And right in the middle of it all is apoBank, which is at home in both markets. We want to be part of this change, because that will allow us to shape the future in the interest of our customers and members. As the bank for the health care market, our business model provides us with a sound basis for this. Our task now is to enhance it further. We want to become faster, more digital and more specialised for our customers and members, to continue growing our networks and consolidate our role as a driving force. We took a step in this direction last year with the launch of our apoHealth competence centre, which provides guidance for health care professionals on all aspects of digitisation.

More than a bank: We enable health

We want players in the health care market to continue being effective, and with them the market as a whole. This is also what we mean with our claim “We enable health”. We want to be more than just a bank and intend to gradually expand our range of products and services.

Thanks to apoBank’s special position at the intersection between the financial world and the health care market, we can support our customers on two levels: in banking and in health care. That is why we want to offer and deliver business-related products and services in the future so that health care professionals can concentrate more on their actual work. After all, that is what creates value: for patients, for health care professionals and for the health care system as a whole. To this end, we are developing a platform for the entire health care market that combines these new services. In early 2019, we established a new company for this purpose.

Even though we will be expanding our range of services in future, we will of course essentially remain a bank. Your apoBank. A bank for health care professionals that offers its customers solutions to their problems and needs – both in the banking and health care markets. We are convinced that we can be successful in this, because we are already the ideal partner for health care professionals today. What we are now planning is simply the natural next step. It requires courage, and that is something we have.

We would be delighted if you continued to join us on this path.

Yours sincerely

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

Report of the Supervisory Board

The Supervisory Board of apoBank fulfilled its duties in accordance with the law, the Articles of Association and the internal rules of procedure in 2018. It exercised its supervisory function and adopted all resolutions within its jurisdiction. This included the audit in accordance with Section 53 of the Cooperative Societies Act (Genossenschaftsgesetz - GenG). In addition, the Supervisory Board examined the separate non-financial report in accordance with Section 289b of the German Commercial Code (HGB). It was assisted in this by Genossenschaftsverband – Verband der Regionen e.V. (Genossenschaftsverband), which it authorized to carry out the review of this report.

At regular meetings, the Board of Directors informed the Supervisory Board as well as the committees of the Supervisory Board about apoBank's business performance, net assets, financial position and earnings situation as well as about special events. In the year under review, the Supervisory Board gained an insight into the Bank's current state of affairs at its four regular meetings and discussed details at a total of 18 ordinary and four extraordinary meetings of the Loan and Risk Committee, the Nomination and Presiding Committee, the Personnel Committee, the Audit Committee and the Remuneration Control Committee. The Supervisory Board received comprehensive reports from the meetings of the respective committees. In addition, the Supervisory Board took a closer look at apoBank's participations at two extraordinary meetings; at the second extraordinary meeting, it also discussed apoBank's strategic positioning in the banking and health care market. Outside of these meetings, the Chairman of the Supervisory Board continued to regularly exchange information and ideas with the Board of Directors as well.

The 2018 annual financial statements, including the management report, were audited by the Genossenschaftsverband. The Genossenschaftsverband confirmed the objectivity of the employees involved in the audit to the Audit Committee and the Supervisory Board. The results of this audit will be reported on in the Annual General Meeting on 28 June 2019. According to the unqualified audit certificate issued by the Genossenschaftsverband, the annual financial statements and the management report are in keeping with the law and the Articles of Association. The Supervisory Board received and critically examined the report on the statutory audit. At its joint session with the Board of Directors and the auditors, the Supervisory Board acknowledged the results of the audit and scrutinised the statements made in the auditing report. The Supervisory Board concluded that the annual financial statements were prepared and audited correctly and therefore contribute towards correct accounting. The Supervisory Board was supported by the Audit Committee in monitoring the audit. The Supervisory Board examined and verified the annual financial statements, the management report and the Board of Directors' proposal on the allocation of net profit. The proposal on the allocation of net profit – including profit carried forward – is in accordance with the Articles of Association. The Supervisory Board recommends that the Annual General Meeting approve the financial statements presented by the Board of Directors as at 31 December 2018 and adopt the proposed appropriation of net profit.

There were no changes in the composition of the Supervisory Board in the year under review. Susanne Wegner, Dr. med. dent. Helmut Pfeffer and Prof. Dr. med. Frank Ulrich Montgomery were re-elected. Following this, the Supervisory Board re-elected Prof. Dr. med. Frank Ulrich Montgomery to the office of Chairman of the Supervisory Board at its constitutive meeting. The shareholder representatives Dr. med. dent. Torsten Hemker, Dr. med. dent. Karl-Georg Pochhammer and Friedemann Schmidt, pharmacist, will leave the Supervisory Board at the end of this year's Annual General Meeting. They may stand for re-election. The composition of the Board of Directors also remained unchanged in the year under review.

In the reporting year, apoBank continued to fulfil its purpose of providing economic promotion and support to health care professionals as outlined in its Articles of Association. This was once again reflected in the growing number of members and customers and the Bank's consistently strong market position in providing start-up financing for health care professionals. Based on the net profit generated in 2018, the Board of Directors and Supervisory Board of apoBank will propose the payment of a dividend to its members at the Annual General Meeting.

The banking and finance industry continues to face substantial challenges resulting from the prolonged period of low interest rates and numerous regulatory requirements. The EU banking reform package will have an impact, among others. According to this, capital requirements determined using internal models, for example, will converge towards less risk-sensitive standard approaches and thus have a negative impact on capital ratios in the medium term.

In addition, demographic change and digitisation are transforming society, which will also place new demands on banks. apoBank is focusing on addressing these trends in order to meet customers' changing needs. It is responding to these challenges in particular by migrating its IT, monitored closely by the Supervisory Board, and by refining its business model. The Supervisory Board is convinced that apoBank's business model provides it with a sound basis to achieve this. The Bank remains in a good position to focus on the requirements of players in the health care sector and step up its economic support for them.

The Supervisory Board would like to thank the members of the Board of Directors and the entire workforce of apoBank for their good work, their trusting cooperation and their considerable personal commitment in 2018.

Dusseldorf, 15 April 2019

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

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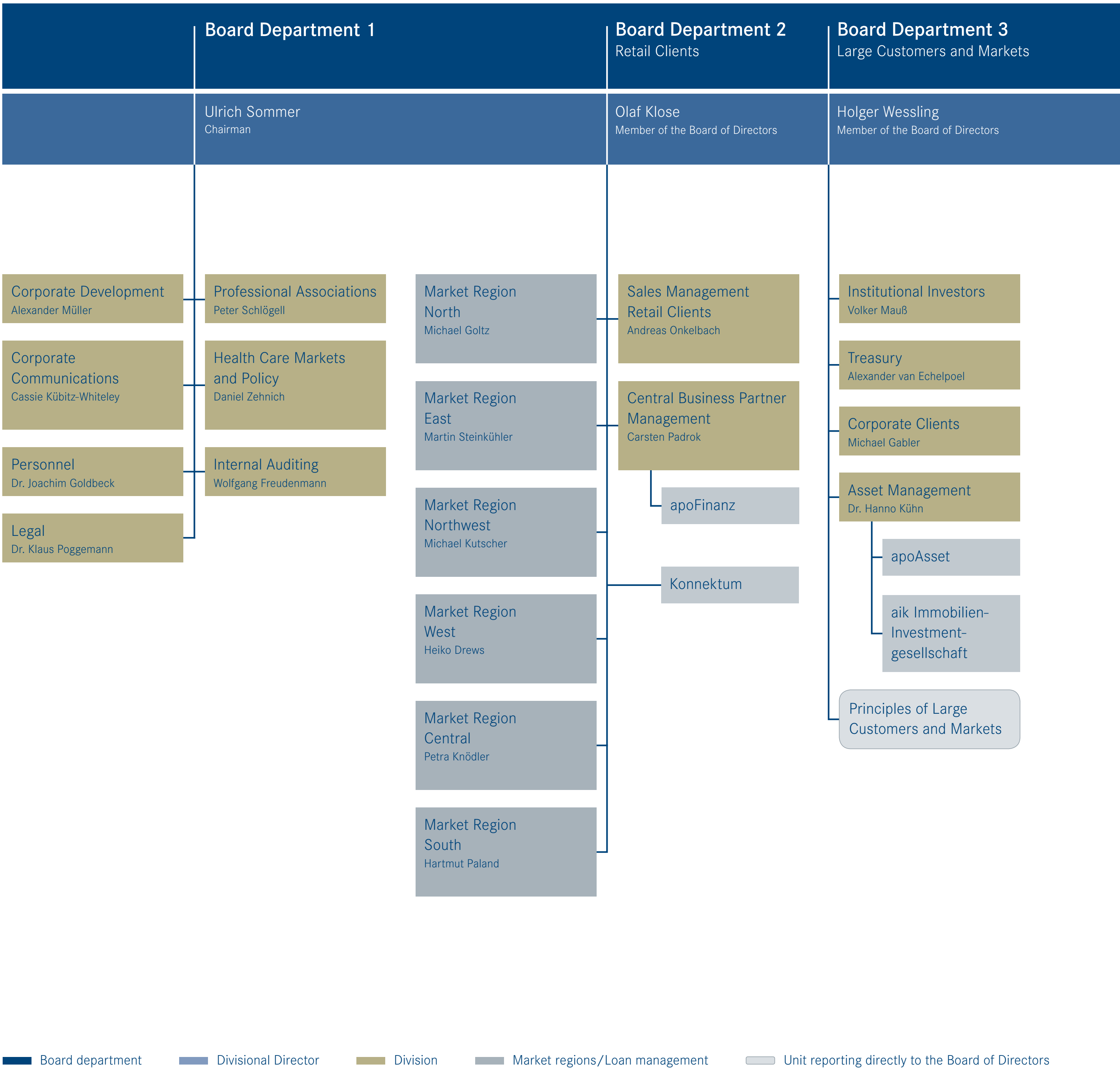
Board Departments

Organisational chart of Deutsche Apotheker- und Ärztebank eG



Board Department 4
Finance and Controlling

Dr. Thomas Siekmann
Deputy Chairman

- Overall Bank Controlling – Dr. Andree Engelmann
- Finance – Steffen Kalkbrenner
- Risk Controlling – Michael Kaiser
- Compliance – Matthias Schmedt auf der Günne

Board Department 5
Loans and Banking Operations

Eckhard Lüdering
Member of the Board of Directors

- Regional Loan Management Hanover – Andreas Leinz
- Regional Loan Management Dresden – Grit Leschinski
- Regional Loan Management Dusseldorf – Paul Krüger
- Regional Loan Management Frankfurt – Uwe Paul (temporary)
- Regional Loan Management Munich – Uwe Paul
- Loan Management Retail Clients – Ines Hochstetter
- Loan Management Corporate Clients and Proprietary Investments – Heribert Vossen
- Service and Transaction Bank – Martin Pietsch
  - apoData
- Corporate Services – Roland Winter
- IT and Securities Services – Philippe De Geyter, Divisional Director
  - Trading Operations – Wolfgang Pauen
  - Information, Organisation, Technology – André Thomas
  - IT Migration Project – Lutz Schirrmacher

Subsidiary

as at January 2019

Board of Directors

Ulrich Sommer
Chairman

Dr. Thomas Siekmann
Deputy Chairman

Holger Wessling
Member of the Board of Directors

Olaf Klose
Member of the Board of Directors

Eckhard Lüdering
Member of the Board of Directors

Supervisory Board

Prof. Dr. med. Frank Ulrich Montgomery
Chairman
Hamburg

Wolfgang Häck[1]
Deputy Chairman
Dormagen

Ralf Baumann[1]
Langenfeld

Fritz Becker, pharmacist
Remchingen

Marcus Bodden[1]
Essen

Martina Burkard[1]
Würzburg

Mechthild Coordt[1]
Berlin

Dr. med. dent. Peter Engel
Bergisch-Gladbach

Sven Franke[1]
Hannover

Dr. med. Andreas Gassen
Berlin

Dr. med. Torsten Hemker
Hamburg

Steffen Kalkbrenner[2]
Dusseldorf

WP/StB Walter Kollbach
Bonn

Dr. med. dent. Helmut Pfeffer
Wohltorf

Robert Piasta[1]
Niederkassel

Dr. med. dent. Karl-Georg Pochhammer
Berlin

Christian Scherer[1]
Deidesheim

Friedemann Schmidt, pharmacist
Leipzig

Susanne Wegner
Obertshausen

Björn Wißuwa[1]
Unna

1) Employee representative.
2) By judicial decree.

Advisory Board

Dipl.-Betriebsw. Wolfgang Abeln, Peetsch

Stephan Allroggen, dentist, Kassel

Dipl.-Kfm. Peter Asché, Würselen

Dr./RO Eric Banthien, Hamburg

Mark Barjenbruch, Hanover

Dr. med. Andreas Bartels, Mainz

Dr. rer. nat. Stephanie Bauer, Berlin

Dipl.-Vw. Georg Baum, Berlin

Dr. med. dent. Gert Beger, Bad Kreuznach

Thomas Benkert, pharmacist, Munich

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

Christian Berger, dentist, Kempten

Dr. med. Frank Bergmann, Roetgen

Dr. med. Jörg Berling, Adendorf

Dipl.-Vw. Christoph Besters, Waldkirch

Dr. rer. nat. Rainer Bienfait, pharmacist, Berlin

Ulrich Böger, Dachau

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

Frank Dastych, Bad Arolsen

Reinhard Dehlinger, Munich

Dr. med. dent. Michael Diercks, Kronshagen

Dr. med. Wolfgang-Axel Dryden, Kamen

Dipl.-Kfm. Armin Ehl, Berlin

Prof. Dr. med. Axel Ekkernkamp, Heidesee

Dr. med. Brigitte Ende, Buseck

Dr. rer. nat. Ralph Ennenbach, Ahrensburg

Dr. med. dent. Wolfgang Eßer, Mönchengladbach

Michael Evelt, Senden

Prof. Dr. Wolfgang Ewer, Kiel

Dr. med. Johannes Fechner, Emmendingen

Ass. Jur. Christian Finster, Bad Schönborn

Prof. Dr. med. Ingo Flenker, Sprockhövel

Bernd Franken, Dusseldorf

Mark Gerrit Friedrich, Dusseldorf

Christiaan Johannes Gabrielse, veterinarian, Dinslaken

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

Meike Gorski-Goebel, Dresden

Dr. rer. nat. Doerte Grahlmann, pharmacist, Neu Kaliß-Heiddorf

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

Dr. phil. Jörn Graue, pharmacist, Hamburg

Dr. med. Christiane Groß, Wuppertal

Dr. med. Holger Grüning, Wernigerode

Dr. med. dent. Jürgen Hadenfeldt, Bovenden

Dipl.-Stom. Dieter Hanisch, Freyburg

RA Peter Hartmann, Berlin

SR Dr. med. Gunter Hauptmann, Saarbrücken

Dr. med. Klaus Heckemann, Dresden

Dr. med. Dirk Heinrich, Hamburg

Dr. med. Peter Heinz, Ober-Hilbersheim

SR Dr. med. dent. Ulrich Hell, Schiffweiler

Dipl. rer. pol. Hanno Helmker, Bremen

Martin Hendges, dentist, Untereschbach

MdB Rudolf Henke, Aachen

Dr. med. Jörg Hermann, Bremen

Ralf-Matthias Heyder, Teltow

Andreas Hilder, Steinfurt

Dr. rer. nat. Reinhard Hoferichter, pharmacist, Limburg

Dr. med. Stephan Hofmeister, Berlin

Dr. Bernd Hübenthal, Sangershausen

Dr. med. dent. Jörg-Peter Husemann, Berlin

Dr. med. Klaus-Ludwig Jahn, Loxstedt

Stephan Janko, Langenfeld

Dr. med. Burkhard John, Schönebeck

Dr. med. Max Kaplan, Pfaffenhausen

Dr. rer. nat. Andreas Kiefer, pharmacist, Koblenz

Dr. med. Carsten Dieter König, Dusseldorf

Dr. med. dent. Alfons Kreissl, Adendorf

Dr. rer. soc. Thomas Kriedel, Dortmund

Dr. med. Wolfgang Krombholz, Isen

Dr. med. Sylvia Krug, Leipzig

Andreas Kruschwitz, dentist, Bonn

Dr. Michael P. Kuck, Essen

Dr. rer. pol. Herbert Lang, Germering

Dipl.-Kfm. Wolfgang Leischner, Lübeck

RA Florian Lemor, Berlin

Dr. med. dent. Gunnar Letzner, Rostock

Dr. med. Steffen Liebscher, Lößnitz

Rainer Linke, Kleinmachnow

Volker Linss, veterinarian, Villmar-Aumenau

Dipl.-Kfm. Thomas Löhning, Dusseldorf

Dr. med. dent. Ute Maier, Dußlingen

Helmut Mälzer, Berlin

Lothar Marquardt, dentist, Essen

Dr. med. dent. Peter Matovinovic, Kaiserslautern

Prof. Dr. David Matusiewicz, Oer-Erkenschwick

Dipl.-Vw. Eberhard Mehl, Bonn

Johannes M. Metzger, pharmacist, Scheinfeld

Dr. med. dent. Jörg Meyer, Berlin

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

Dr. med. Josef Mischo, St. Ingbert

Dr. Hans-Georg Möller, pharmacist, Papenburg

Karl-Heinz Müller, Lage

Lutz Müller, Lehrte

Thomas Müller, Münster

MPH Dr. med. Markus Müschenich, Berlin

Dipl.-Math. Gert Nagel, Darmstadt

Dr. med. Katharina Nebel, Vlotho

Christian Neubarth, dentist, Hildesheim

MUDr. Peter Noack, Cottbus

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

Dr. med. Gerhard Nordmann, Unna

Tobias Nowoczyn, Berlin

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

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

Walter Plassmann, Jersbek

Thomas Preis, pharmacist, Dusseldorf

Axel Rambow, Schwerin

Dr. med. Klaus Reinhardt, Bielefeld

RA Martin Reiss, Berlin

Dr. med. dent. Ingo Rellermeier, Berlin

Dr. med. Claudia Ritter-Rupp, Munich

Dr. med. Bernhard Rochell, Berlin

Dr. med. Annette Rommel, Mechterstädt

Dr. med. Karl-Friedrich Rommel, Mechterstädt

Caroline Roos, Hamburg

RA Dr. jur. Helmut Roth, Senden

Dr. med. Jochen-Michael Schäfer, Kiel

Freiherr Dr. med. Titus Schenck zu Schweinsberg, Schweinsberg

Günter Scherer, Berlin

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

Dr. med. Pedro Schmelz, Bad Kissingen

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

Joachim M. Schmitt, Berlin

Dr. jur. Sebastian Schmitz, Mainz

Dr. med. Rüdiger Schneider, Trier

Dr. med. dent. Ursula von Schönberg, Barntrup

Dr. med. dent. Rüdiger Schott, Sparneck

Harald Schrader, dentist, Schwarzenbek

Dr. med. Thomas Schröter, Weimar

Dipl.-Med. Angelika von Schütz, Schwerin

Dipl.-Med. Andreas Schwark, Bernau

Dr. med. dent. Holger Seib, Iserlohn

Dr. Philipp Siebelt, Haan

Dirck Smolka, dentist, Bonn

Dr. Hermann Sommer, Starnberg

RA Harald Spiegel, Bad Segeberg

Dr. med. Eckhard Starke, Frankfurt

Dr. med. Eberhard Steglich, Nuthetal

Dipl.-Vw. Helmut Steinmetz, Kiel

Dr. med. Margret Stennes, Berlin

RA Dipl.-Betriebsw. Joachim Stöbener, Hauenstein

Martin Sztraka, dentist, Bremen

Dr. med. vet. Uwe Tiedemann, Lüneburg

Stefan Tilgner, Kleinmachnow

Dr. med. Christoph Titz, Ganderkesee

Dr.-Ing. Thomas Trümper, Fischingen

Dipl.-Ing. Ernst Uhing, Lüdenscheid

Dr. med. dent. Reinhard Urbach, Wolfsburg

Dr. med. Peter Velling, Berlin

Dr. Claudia Vogt, pharmacist, Cologne

Dr. med. vet. Guntram Wagner, Kratzeburg

Ralf Wagner, dentist, Heimbach

Dr. med. Veit Wambach, Nürnberg

Ulrich Weigeldt, Bremen

Dr. phil. nat. Martin Weiser, pharmacist, Bonn

Dr. med. dent. Holger Weißig, Gaußig

Dr. med. Lothar Wittek, Moosthenning

Dr. med. dent. Walter Wöhlk, Molfsee

Ralf Wohltmann, Berlin

Dipl.-Oec. Oliver Woitke, Bremen

Jürgen Ziehl, dentist, Neunkirchen

Honorary Position Holders and Honorary Members

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

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

Klaus Stürzbecher, pharmacist
Bearer of apoBank's Karl Winter Medal
and honorary member of apoBank
Berlin

Berthold Bisping
Honorary member of apoBank
Neuss

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

Elfriede Girl
Honorary member of apoBank
Munich

Jürgen Helf
Honorary member of apoBank
Meerbusch

Dr. med. Ulrich Oesingmann
Honorary member of apoBank
Dortmund

Dipl.-Betriebswirt Werner Wimmer
Honorary member of apoBank
Meerbusch

Our business model

We are the only bank specialised in health care professionals, their organisations and companies in the health care market. We are the market leader in this field. Our customers include

- students of pharmaceutics, medicine, dentistry and veterinary medicine, as well as future psychological psychotherapists,
- self-employed and salaried academic health care professionals,
- professional organisations and associations,
- companies in the health care market,
- institutional investors,
- inpatient and outpatient care structures.

Our philosophy

We deliver services that meet the high standards in the health care market, and thereby contribute to health care provision in Germany. Everything we do is based on our sense of responsibility and sound values. This is also reflected in our commitment to society and social values and in the activities of our apoBank Foundation.

"Because there is more that

Our network

As a bank specialised in the health care market, we not only work with our customers and members, but also traditionally with their professional organisations and associations. In addition, we cultivate good relations and an open dialogue with other important players in the health care market. In this way, we help to promote important topics in the interest of our customers and members.

Our self-image

As a cooperative bank, we are guided by the principle “By health care professionals for health care professionals”. Our members are also owners of the Bank and participate in our business success. At the end of 2018, well over 113,000 apoBank customers were also members of the bank.

Our services

connects us”

We support our customers with specialised banking services and individual advice on all financial matters. We guarantee payment transactions in the health care industry. At the same time, we are the market leader in providing financing for health care professionals who want to set up their own business. Our asset management and investment consulting have received numerous awards. Our portfolio includes special financial services for professional organisations, corporate clients and pension funds. In the medium to long term, we intend to offer our customers such comprehensive support with our service range that they can focus more on their work as health professionals and improve the business aspects of their pharmacy or practice.

Our knowledge

We know the health care market and our customers like no other bank. That is why we are able to accompany our clients as a competent partner in an environment that is constantly changing. We pass on our knowledge in various ways, for example through specialist research and apps. The range of seminars offered by apoBank is the most comprehensive on the German health care market.

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Management Report

Fundamental Features of the Bank

Business model

apoBank – the leading bank in the health care sector

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

As a specialist and niche supplier, we have a strong position in our target market. This way, we assure the leading position of the cooperative FinanzGruppe in the market for financial services geared to the health care sector.

Aligned to growing health care market

apoBank's business model is aimed at sustainably utilising the opportunities presented by the thriving health care market. In accordance with our statutory purpose, we serve as a reliable financing partner, helping to meet the growing demand for investment in the health care sector.

Our customers are academic health care professionals in training, employment or retirement, professional associations, different forms of cooperation as well as companies in the health care sector. We also support operators of pharmaceutical, medical, veterinary, dental, inpatient and nursing care structures as well as members of other professional groups in the sector. We provide them with a wide range of financial and consulting services in payment transactions, in the lending, deposit and investment business, and in asset management.

Servicing customers in two business segments

Business with our customers is divided into the two segments Retail Clients as well as Professional Associations and Large Customers.

In the Retail Clients business segment, we support students in health care as well as salaried, self-employed and retired academic health care professionals in their professional and private projects. Our apoPur integrated advisory services are geared to our customers' individual needs and the various phases of their lives. We intend to continue to strengthen our business with self-employed health care professionals while simultaneously driving the expansion of our product range and consulting services for salaried health care professionals and students. We market our asset competence under the apoPrivat brand, which consolidates all of our asset management products and services and rounds off our strategic orientation in this business segment.

In the Professional Associations and Large Customers business segment, we support professional associations and institutional organisations in the health care sector as well as companies and medical care structures in the health care market. We also offer tailor-made solutions for institutional clients along the entire institutional capital investment value chain. We want to further strengthen our market position with professional associations and large customers. Our unique network in the health care market is key in achieving this.

Strategy and goals

Our mission: We enable health

As the trusted bank of the health care professions, with clear principles and sustainable growth in the health care market, it is our mission to enable health. In essence, it is about understanding the interests of our customers holistically and serving their needs beyond the banking products themselves.

To this end, we will expand our offering and provide our customers with complementary non-banking services as well. These services are intended to support health care professionals in their medical activities. The provision of curative services is explicitly not planned.

The focus is on developing a platform for the health care sector. Through this platform, we plan to broker third-party services in the health care market and network participants to the benefit of all. A subsidiary founded at the beginning of 2019 develops and operates the platform.

Growth in the customer business

In our traditional banking business, our strategy is focused on customer orientation and growth, efficiency, as well as digitisation.

Our expertise with regard to health care start-ups is one of our unique selling propositions that set us apart from other banks. It is our goal to continue to expand our leading position in the market for business start-up financing. To achieve this, we will extend our value chain in the area of start-up advisory services. As we continue to strengthen our business with self-employed health care professionals, we are also stepping up the expansion of our market position with salaried professionals and students.

In addition, we intend to continue growing in the investment business and in asset management for retail clients and institutional investors. To achieve this, we will align our investment and asset advisory services even more closely with customer needs. For this purpose, we apply our own knowledge and the expertise of our associated companies Apo Asset Management GmbH and aik Immobilien-Investmentgesellschaft mbH. Apo Asset Management GmbH specialises in the administration and management of securities funds for private and institutional customers from the health care sector. aik Immobilien-Investmentgesellschaft mbH supports occupational pension funds and pension plans. As a real estate investment company, it pursues an integrated approach that covers all stages of the real estate investment value chain.

We also want to continue expanding in our corporate clients business. We have extended our range of products and services and act as a strategic partner for the operators of outpatient and inpatient care and for companies in the health care market, such as those in the pharmacy wholesale and dental trade as well as in the pharmaceutical and medical technology industries. Our goal here is to significantly increase our loan volume, especially with medium-sized companies in the health care market.

More efficiency through optimised processes

In order to safeguard our bank's long-term success, we improve our efficiency and optimise our cost structure on an ongoing basis. We achieve long-term increases in efficiency primarily by continuously improving processes. The focus here is on optimising our loan approval processes, which we are speeding up and making more digital.

We align the organisational structure and infrastructure of the Bank according to the refined processes. This ensures that we utilise resources efficiently and that we can manage them based on requirements.

Using digitisation for customers' benefit

The health care market and the banking market are changing rapidly with the advance of digitisation. We are keeping pace with this by pushing forward with changes in corporate culture that make us a more agile, self-learning organisation. This involves fast decision-making as well as cross-departmental teamwork in flexible structures.

We see digitisation as an opportunity to refine our business model, gearing it even more effectively to customer needs. In this context, we have also founded the apoHealth Competence Centre, which was set up to coordinate all queries and ideas around the topic of digitisation in the health market.

We are also increasing the number of channels available for our customers to access the Bank and utilising the possibilities of digital media. For example, we are continuously expanding our online banking and have developed a new apoBanking app for our customers. We intend to further network the access channels to our Bank and thus strengthen our omni-channel capabilities. Even in the digital age, however, the key point of contact remains the personal exchange between advisors and customers in our branches, at home, in their practice or in their pharmacy.

We expect additional impetus from the migration to a new IT system, which is planned for 2020.

Management system

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

The management system of the Bank covers the four balanced score card dimensions: customers, finances, processes and employees. The dimension of finances concerns the management of profitability, regulatory and economic capital utilisation as well as liquidity.

The primary goal of management is to secure sustainable profitability, a minimum profit as well as the risk-bearing capacity of apoBank. The following key indicators are embedded in the Bank-wide finance dimension:

Profitability:

- Value contribution: This is the result of the periodic calculation of the contribution margin, which is derived from the Bank's condition and commission contributions as well as the structure contribution less all personnel and operating expenses, risk and capital costs. The value contribution is determined for the Bank as a whole and assigned to the Bank's business segments via a transfer price system as well as other methods.
- Operating profit before risk provisioning: For this key figure, the net balance is calculated for the items of net interest income and net commission income, general administrative expenses, net income from financial transactions and other operating income.
- Cost-income ratio: This refers to the ratio of operating costs to operating income.
- Risk provisioning with reserve character and allocations to reserves: This primarily consists of allocations to the fund for general banking risks, provisioning reserves, allocations to general value adjustments and other reserves.

Liquidity:

- Liquidity coverage ratio: To calculate this key figure, highly liquid assets are placed in relation to cash outflows less cash inflows.
- Liquidity gap analysis: The liquidity gap analysis measures the insolvency risk. It maps all short-term inflows to and outflows from liquidity.
- Refinancing analysis: With the aid of the refinancing analysis, liquidity gaps between the liquidity inflows and outflows are managed based on an observation period of one year.

Risk-bearing capacity (RBC):

- Solvency: As well as capital key figures (common equity tier 1 capital ratio, total capital ratio), additional regulatory indicators are also taken into account, such as the leverage ratio or the MREL ratio (minimum requirement for own funds and eligible liabilities).
- Going concern RBC utilisation: This key indicator is derived from the ratio of economic risks (confidence level of 97.0%) to the risk cover potential (free regulatory capital and economic capital).
- Gone concern RBC utilisation: This is derived from the ratio of economic risks (confidence level of 99.9%) to the present-value risk cover potential.

Apart from the key financial indicators, non-financial performance indicators are also implemented in the management system from the other three balanced score card dimensions of customers, processes and employees. These are also derived from the Bank's strategy and refer in particular to customer satisfaction, the efficiency of specific processes as well as employee satisfaction.

Promotion of equal opportunities for men and women

For apoBank, reconciling work and family life is a core goal. Thanks to our needs-based, practical options, both female and male employees at the Bank are able to find a good balance between their work and family obligations. A family service is available to support employees who require childcare. Additionally, apoBank offers employees places at a childcare facility at its Dusseldorf location. The family service also helps employees support family members in need of care. Due to our mobile work and flexible work time models, apoBank enables both men and women to organise their work in alignment with the needs of their individual life stage. Since 2008, we have been participating in "audit berufundfamilie", an audit which examines to what degree our personnel policy takes into account family needs, and have continued to set ourselves new goals to ensure that our employees maintain a healthy work-life balance. In 2017, we received the certificate for another three years.

We actively and purposefully promote our female and male employees in their professional and personal development. With our state-of-the-art learning management system apoCampus, all employees can learn independently of place and time. The offering is specifically tailored to each function. Additionally, we offer seminars for women on defining where they are at professionally and on career planning. We include male and female apprentices with potential in our Career Pool, and support them additionally in their career development by means of our programme for potential future leaders.

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

The modern world of work requires companies that are both agile and diverse. This is why female and male employees with different talents, competencies and social skills are needed. Female and male strengths, together in agile teams – that's what drives us forward.

We therefore want to attract women to management positions and promote their further development; increasing the proportion of women in the two upper management levels is one of our strategic goals. The Board of Directors has established targets staggered over time for this.

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

The share of women as at 31 December 2018 was 15% on the first management level and 20% on the second level, which represents a slight increase. The Bank is intensifying its efforts to find, qualify and deploy suitable candidates for management positions. To this end, the Board of Directors has adopted a binding personnel development programme. This ranges from specially tailored workshops, to training programmes, right through to individual coaching and mentoring programmes for women. The first measures started in 2018.

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

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

The share of women on the Supervisory Board of apoBank amounted to 15% at the end of the year under review; this also corresponds to the target. There were no changes in the composition of the Board of Directors. The team continues to consist of five male members. When the quota was determined, the status quo was maintained.

In line with the requirements of the European Banking Supervision Authority (EBA), the Board of Directors has adopted a diversity guideline for employees to strengthen the diversity of the workforce and stimulate the diversity of the pool of successor candidates for Board positions. The EBA specifically assesses diversity in terms of age, education and professional background, geographical origin and gender. The diversity policy includes aspects of career planning and measures to ensure equal treatment and opportunities for employees of different genders.

Economic Report

Overall economic and industry-specific conditions

No further acceleration in growth

Even though the global economy grew at a similar rate in 2018 as in the previous year, momentum abated noticeably, especially in the second half of the year. According to International Monetary Fund (IMF) estimations, price-adjusted growth in 2018 was 3.7%, 0.1 percentage points lower than in the previous year. The economy weakened in the emerging markets in particular, mainly as a result of interest rate increases in the USA and the strong US dollar. There were major crises in Argentina and Turkey. In general, export-oriented economies suffered from the slowdown in global growth momentum. Exceptions were oil-exporting countries, whose economies were supported by rising oil prices until autumn 2018. The escalation of the trade conflict between the USA and China caused the global economy to deteriorate further in the second half of 2018. In China, the customs measures initiated by the USA coincided with generally more moderate growth. According to IMF estimates, the global trade volume therefore rose less strongly in 2018 than in the previous year and, with a growth rate of 4.0%, was below the average of the past two decades.

In 2018, by contrast with the global economic trend, the US economy grew by a comparatively high 2.9% in historical terms, and was once again stronger than in the previous year. This growth was stimulated by the US administration's fiscal measures, in particular the tax reform that took effect at the beginning of 2018 and enacted tax relief for households and companies. Economic growth allowed the US Federal Reserve to further tighten its monetary policy by raising interest rates four times. At the end of 2018, unemployment was at 3.9% in the US, the lowest rate in decades.

GDP growth in % compared to the previous year

	2018 (expected) %	2017 %
Germany	1.5	2.5
Euro area	1.8	2.4
USA	2.9	2.2
Emerging markets	4.6	4.7
World economy	3.7	3.8

Sources: Federal Statistical Office, IMF

The high growth momentum in the euro area, which had dominated the second half of 2017, slowed down in 2018. Weaker foreign trade in particular had a negative impact. The individual EU member states recorded increasingly heterogeneous growth rates. Additional temporary special effects in the summer months, such as problems in the automotive industry with changing exhaust gas testing standards, even led to negative growth in Germany and Italy in individual quarters of the year. However, the European Central Bank (ECB) further stimulated domestic economies through its expansive monetary policy, even though it gradually phased out its bond purchase programme by the end of 2018. In addition, the fact that the ECB is continuing to replace mature bonds above and beyond 2018 provided steady monetary stimulus.

The German economy's dependence on exports led to a deceleration in growth momentum in 2018. In particular, exports to countries outside the EU recorded below-average increases. In addition, the delayed formation of the government led to a postponement of government spending, so that federal demand was temporarily weaker at the beginning of the year. According to IMF estimates, real growth in the German economy was 1.5% in 2018. Despite lower economic growth than in the previous year, the upswing in the German labour market continued and the unemployment rate fell further, reaching 4.9% by December.

ECB changes monetary policy as well

In December 2018, the ECB terminated its bond purchase programme, which had started in 2015 and was reduced in volume twice in the course of 2018. This is the first step towards normalising its monetary policy. However, in 2018 the ECB did not make any changes to the deposit rate for banks of -0.4% or to the key interest rate of 0.0%. This further increased the difference with regard to short-term interest rates between the euro area and the USA, since the US Federal Reserve raised its key interest rate range four times in the course of the year. As at the end of the year, it was at 2.25 to 2.5%. In addition, the Fed continued its balance sheet contraction, which had begun in the summer of 2017.

After a rise in yields on government bonds in the USA and the euro area early in 2018, by the end of the year interest rates on these bonds had fallen below their initial level. Political and economic uncertainties in the euro area led to increased demand for so-called “safe havens” from early on in the year; these also included German government bonds. At the end of the year, German 10-year government bonds still yielded 0.25%. In the USA, the rise in yields lasted until autumn, when 10-year government bond yields peaked at over 3.2%. Subsequently, economic slowdowns, triggered primarily by the ongoing trade conflict with China, caused a decline in confidence with regard to further interest rate increases in 2019. By the end of December, the yield on US 10-year government bonds had fallen to 2.7%. The strength of the euro against the US dollar at the beginning of the year only lasted until April, at which point a coalition consisting of the right-wing populist Lega Nord and the Five Star Movement took over government business in Italy and confidence in the euro waned in the markets. A further increase in the interest rate differential between the euro area and the USA, as well as the weakness of some emerging markets, subsequently consolidated the strength of the US dollar. Until the end of the year, the exchange rate fluctuated between 1.12 and 1.18 US dollars to the euro.

At the end of January 2018, most international stock exchanges posted new all-time highs. While the US stock markets were able to outperform these once more in the summer months, most other stock markets were unable to approach their highs again after the first price slide in February. By the end of the year, the DAX had lost around 21% from its highest level, indicating a bear market, as in 2016. Even though the stock markets in the USA once again recorded tangible increases in the summer due to the prospect of the tax reform continuing to boost the economy, they also had to cope with considerable price declines in the final quarter.

Lending continues to rise

Ongoing since 2014, the lending market in Germany continued to be dynamic during 2018. For both households and companies outside of the financial sector, annual growth in loans adjusted for sales and securitisations was 3.9% and 5.9% respectively, higher than in the previous year. The demand for real estate loans had a major impact on lending to private households. The reasons for this were the continued low interest rates in the euro area and the sustained economic vitality of recent years. The newly introduced Baukindergeld (government grant for families building homes) offers an additional incentive to purchase real estate. As in previous years, real estate prices in Germany continued to rise sharply in 2018 along with lending, although at slightly lower rates than in 2017. Particularly in densely populated areas, the price increase declined noticeably, albeit starting from a very high level. In more peripheral locations, it decreased only slightly; here, too, the price increases for real estate were at an above-average level. At the end of September 2018, the vdp price index calculated for the whole of Germany showed an increase in real estate prices of 7.3% in the preceding twelve months, thus remaining at an above-average level.

Health care market remains a growth market

The health care market continued on its growth path in 2018. Contributing factors included demographic trends, progress in medical technology and growing health awareness among the population. Digitisation continues to be a key growth factor. For example, more and more established companies are adding digital services and access channels to their value chains; at the same time, start-ups are developing innovative health and medical apps. Enterprises that offer more than the traditional range of services in medicine, including the areas of e-health, sports and wellness and other services, also recorded continued stable rates of growth – digital solutions show better than average performance, in particular in the self-paying market. The health market is, however, becoming increasingly attractive for enterprises from other sectors. Providers such as Amazon, Google or Apple, which in the past offered telecommunications or other (digital) products and services, are now expanding their business model to include the health market.

Ongoing adjustment of legal framework conditions

Public health care policy continues to face major challenges in view of demographic, economic, social and technological change. In the current legislative period, extensive social legislation has already been adopted or initiated, e.g. an act on relief for those insured in the statutory health insurance system (GKV-Versichertenentlastungsgesetz), an act on treatment appointment service and care (Terminservice- und Versorgungsgesetz), an act for strengthening nursing staff (Pflegepersonal-Stärkungsgesetz), a regulation on minimum staff count levels for care workers (Pflegepersonaluntergrenzen-Verordnung), an act for more safety in the provision of medicines (Gesetz für mehr Sicherheit in der Arzneimittelversorgung) and a reform of emergency care. A key objective of the legislation is to restore contribution parity in order to relieve the burden on employees and pensioners. In addition, it is intended to enable faster and easier access to treatment appointments for those with statutory health insurance and to improve coverage, especially in rural and structurally weak regions. Health policy also focuses on tangible improvements in the daily lives of nursing staff through better staffing and better working conditions in nursing and care of the elderly.

Economic trend: Moderate growth course

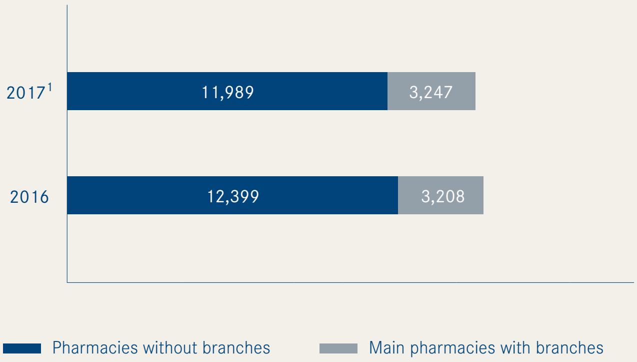
Revenue per pharmacy rose by an average of 3.7% in the first six months of 2018 – not least due to the declining total number of pharmacies. After deducting cost of goods sold and expenses, the average operating result before taxes increased by 6,000 euros. The market differentiation between high-revenue and low-revenue pharmacies that has been observed for years continued in the first half of 2018: While 70% of pharmacies reported an increase in revenue, 30% posted a decline.

All other groups of health care professionals also recorded an increase in the year under review: The total remuneration of panel physicians and psychotherapists rose moderately in 2018. The earnings of panel dentists can also be assumed to have slightly improved in the reporting period. The adjustment of the fee schedule for veterinary surgeons in July 2017 had a positive effect on their total income last year.

Structural development: Trends towards larger structures and salaried positions

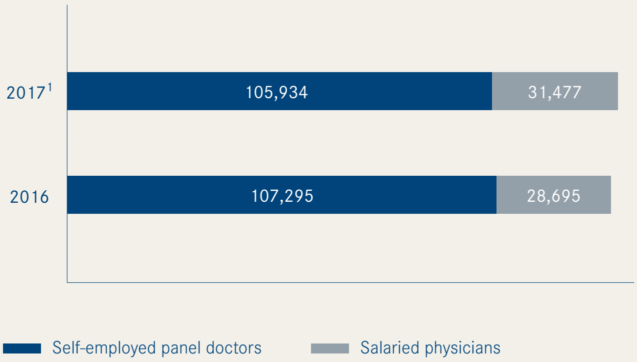
The total number of pharmacies in Germany continues to decline overall. However, while the number of pharmacies without branches decreases steadily, more branches and branch networks are gradually being established, i.e. structures are becoming larger. Accordingly, the number of salaried pharmacists has also been rising continuously for years, while the number of self-employed pharmacy owners is falling.

Number of pharmacies



Source: Federal Union of German Associations of Pharmacists (ABDA)
1) The figures provided are those available at the editorial deadline.

Number of self-employed/salaried physicians and psychotherapists

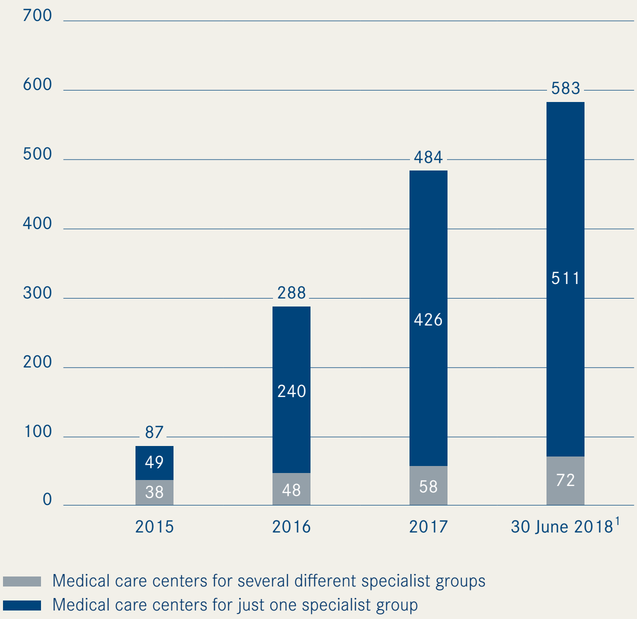


Source: National Association of Statutory Health Insurance Physicians
1) The figures provided are those available at the editorial deadline.

The total number of self-employed panel doctors and psychotherapists, as well as self-employed panel dentists, continues to decrease steadily. These occupational groups are increasingly seeking salaried employment and shy away from the perceived risk of setting up in business. Young physicians and dentists in particular often initially seek (part-time) employment in outpatient care, instead of self-employment.

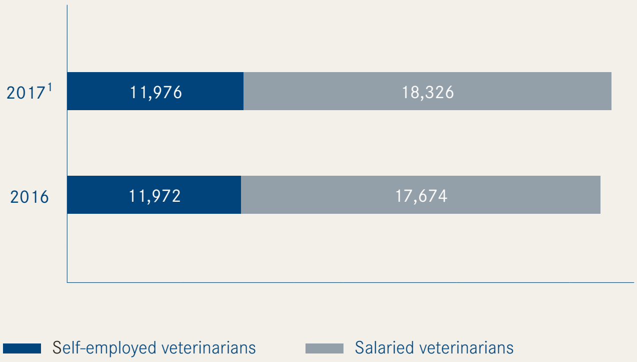
For physicians and dentists, the trend towards larger cooperative entities and chains continues unabated. This trend is being promoted in particular by global health care groups and financial investors without a medical or technical background. Taking the so-called buy-and-build approach, these are increasingly becoming providers in the areas of medical and dental services, nursing care and rehabilitation. Since 2015, when the establishment of medical care centres became legally permissible, the trend towards larger, SME types of businesses, organisations and services has intensified. In particular, the number of dental medical care centres has risen steadily and stood at just under 600 at the end of the second quarter of 2018 (2015: 87 centres).

Development of licenced dental medical care centres



Source: National Association of Statutory Health Insurance Dentists
1) The figures provided are those available at the editorial deadline.

Number of self-employed / salaried veterinarians



Source: National Association of Veterinarians
1) The figures provided are those available at the editorial deadline.

The number of veterinary surgeons – both self-employed and salaried – changed only marginally. However, veterinary medicine is also a focus area for financial and strategic investors who are gradually buying up veterinary practices and clinics and integrating them into large chain concepts.

Hospitals: Ongoing pressure on costs, quality and efficiency

The process of increasing consolidation continues in the inpatient sector. This is due to the limited financial resources available to the statutory health insurance organisations and German federal states, which is why pressure on costs, quality and efficiency in hospitals has persisted for years. Regulatory requirements concerning the quantity and quality of medical services are also having an influence here. In addition, advances in medical technology, an ageing society, the increasing shortage of skilled workers and the general trend towards digitisation are determining changes in the inpatient sector. In order to ensure quality of care and the economic stability of hospitals in the long term, a high willingness to innovate and sustainable investment concepts are required. Cross-sector integration of care and remuneration has been on the political agenda for some time now, with the result that hospitals, doctors, pharmacists and other service providers, funding organisations, and the medical technology and pharmaceutical industries are increasingly moving closer together.

New nursing care concepts needed

With an ageing, multi-morbid population, the demand for nursing services is also growing continuously; this results in the need for new or alternative nursing concepts. In order to meet rising demand, in 2018 policymakers created better framework conditions for nursing care in hospitals and nursing facilities, pushed ahead with cross-sector networking and further strengthened the "outpatient before inpatient" principle. The spectrum of existing facilities is supplemented with a growing number of community-based offerings that provide innovative concepts in living, service and support.

Digitisation of health market continues

Technological change and increasing digitisation have given rise to new health care services, which are offered by innovative companies providing diagnostics and therapy. With the relaxation of the ban on remote treatment, video consultation is being set up in more and more federal states. The market is thus becoming increasingly attractive for other innovative digital health care services, such as diagnosis apps. The forthcoming rollout of telematics infrastructure will further accelerate the delivery of digital treatment and management applications. The digitisation of many processes as well as diagnostic and therapeutic options not only significantly improves the quality of care, but also releases considerable efficiency reserves.

Business performance

Respectable result

In the 2018 financial year, the banks continued their efforts to adjust their business models. There was a good reason for this: The phase of low interest rates is already entering its tenth year in 2019 and is thus increasingly placing burdens on margins in the business. For banks, the aim is therefore to use their resources efficiently, especially in view of increasing digitisation and regulation. The German banking sector was bolstered by the robust macroeconomic trend in 2018, even though economic output recently weakened somewhat. There was little support from the financial markets: The share indices showed a clearly negative trend from the middle of the year under review.

In this challenging environment and against the backdrop of persistently strong competition, apoBank's business performed well in 2018. We succeeded in recording a net profit after tax to the amount of €62.9 million, which is in line with our forecast (31 December 2017: €61.9 million). This was based on our strong position in the health market.

In accordance with our statutory purpose, apoBank supports its members and customers in achieving their professional and private goals by offering specialised banking services. Thanks to this focus, we continued the positive performance of our customer business in 2018 – our member and customer base expanded again: As at 31 December 2018, we served 458,770 customers (31 December 2017: 436,260 customers). At the same time, the number of remaining members increased to 113,455 (31 December 2017: 111,494 members).

We also grew our lending business with customers in 2018. In an environment characterised by intense competition, we recorded a lively new lending business: Loans and advances to customers rose by 8.2% to €34.7 billion (31 December 2017: €32.0 billion). The reasons for this rise were the consistently high demand from our retail and corporate clients for our financing expertise, as well as the continuously growing number of customers.

Our lending business was primarily refinanced via liabilities to customers; these rose by 5.4% to €27.4 billion (31 December 2017: €26.0 billion). As at the balance sheet date, the balance sheet total was €45.4 billion (31 December 2017: €41.4 billion).

Positive trend in the Retail Clients business segment

In the Retail Clients business segment, we support the professional and private endeavours of pharmacists, physicians, dentists, veterinarians and psychotherapists with our apoPur advisory concept, which is specially tailored to customer needs and life phases. Business with retail clients was positive in 2018. We gained a large number of new customers, especially among students in the academic health professions, but also among salaried and self-employed health care professionals. The further expansion of our advisory services and our sales channels contributed to this. The spectrum of our investment and capital accumulation services is combined under the new “apoPrivat” brand.

Strong growth in loan portfolio on the balance sheet

Once again, the good level of new business this year led to an increase in our loan portfolio with retail clients to a total of €29.1 billion (31 December 2017: €27.1 billion). We accompanied around 2,800 health professionals during their start into self-employment. The volume of business start-up financing increased significantly to €7.1 billion (31 December 2017: €6.6 billion). This enabled us to strengthen our leading market position.

The low-interest rate environment again ensured high demand for real estate financing this year. In a highly competitive market, our portfolio of real estate financing rose to €17.3 billion (31 December 2017: €15.6 billion). Investment and private financing fell slightly to €4.7 billion (31 December 2017: €4.8 billion).

Customer deposits up again

In 2018, the average volume of demand, savings and term deposits of our retail clients rose to €17.4 billion (31 December 2017: €15.9 billion). Low interest rates again ensured that our customers preferred short maturities and high availability for their investments.

Securities business dominated by volatile market environment

The retail client securities business was characterised by the introduction of the new MiFID II financial market directive at the start of the year, and significant price declines in the stock market at the end. We gained new customers and funds in 2018. However, the negative price trend on the stock markets placed a burden on our securities business and led to a net decline in the deposit volume to €7.8 billion (31 December 2017: €8.0 billion).

Growth in asset management

In asset management, the positive trend of recent years continued: Managed volume rose to €3.3 billion (31 December 2017: €3.2 billion); the number of customers increased to more than 9,600 (31 December 2017: 6,600). Both classic asset management, including asset management funds, and our new apoVV SMART asset management developed positively. We won many new customers with this new variant in particular, which can be taken out by health care professionals with assets starting from €50,000.

Volume in insurance and building society business increased

The insurance business grew once again compared to the previous year's level, with a brokerage volume of €447 million (31 December 2017: €364 million). This increase was driven by higher demand for pension products as well as insurance products as redemption replacement for financing.

In the building society business, the total contract volume rose to €553 million (31 December 2017: €464 million[1]). Investments in real estate and thus in building society contracts continued to be in high demand.

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

apoBank traditionally cooperates closely with the professional associations representing all groups of health care professionals. These include the associations of panel doctors and panel dentists, the chambers as well as professional organisations.

1) Updated 2017 figure.

In the year under review, we continued to maintain trusting business relations with the professional associations. Due to the continuation of the low-interest rate policy of the European Central Bank and the corresponding liquidity management on the part of our customers, the average deposit volume at apoBank as at the balance sheet date was €3.6 billion (2017: €3.7 billion). In the lending business, we supported the smooth operation of prescription invoicing by providing lines of credit for the pharmacies' billing centres.

Our subsidiary medisign GmbH is making an important contribution to the establishment of electronic data transmission infrastructure in Germany's health care sector by providing electronic identification for health care professionals. In 2018, medisign GmbH received approval for the electronic practice ID card (SMC-B) for physicians and dentists from the relevant corporate bodies and the Gesellschaft für Telematikanwendungen der Gesundheitskarte mbH (gematik). gematik is responsible for the set-up, operation and refinement of the electronic data transmission infrastructure and is funded by the major associations in the German health care sector.

Positive development of business with our institutional investors

The customer group of institutional investors comprises occupational pension funds for the health care and other liberal professions, as well as other financial intermediaries. These include health care facilities, pension funds and other professional investors.

With our individually tailored advisory approach, we offer customers reliable and comprehensive all-round support. Our range of products and services extends from advice, to designing the actual investment solution and, finally, custody of the product.

Independent consulting and continuity in advisory mandates

In view of the increasing complexity of the capital markets, the persistently low level of interest rates and increasing regulatory requirements, a holistic view of the risk and earnings situation continued to be of fundamental importance to our customers in the past financial year. Against this background, our tailor-made services and products for the development and implementation of strategic asset allocation and ongoing risk control remained in high demand. With apoConsult+ we offer our customers innovative and independent consulting services including a creditworthiness analysis and other services such as direct portfolio management and depository services. Here, we take both balance sheet criteria and regulatory requirements into account.

Strong market position in the depository business

The depository function is one of the key competencies offered by apoBank. Depository volume increased to €19.6 billion (31 December 2017: €18.3 billion) in the year under review, and the number of managed funds rose to 253 (31 December 2017: 205). With the expansion of our depository business, we further strengthened our favourable position in the competitive depository market.

In real estate, demand for innovative fund products remains high. This is one of the main reasons for our success in expanding our market presence with special real estate funds and investment stock corporations.

Continuous growth in the corporate clients business

In its Corporate Clients business segment, apoBank pools its integrated strategic advisory services for companies in the health care market. Corporate clients consist primarily of companies in the pharmacy wholesaling and dental trade, the pharmaceutical and medical technology industries and private clearing centres. In addition, we support providers of inpatient care such as clinics, rehabilitation facilities and nursing homes. We offer our specialised expertise for complex (real estate) projects, accompanying them from the design phase through to implementation.

Thanks to our deep understanding of the entire health care market, which our range of advisory services is built on, we strengthened our market presence further and broadened our customer base again in all industry segments in the year under review. In response to the wishes and needs of our corporate clients, we are constantly expanding our portfolio of products and services. For example, last year we set up our own Corporate Finance department in order to provide even better support to customers, in particular with regard to special financing needs. The product has been very well received by the market and contributes towards increasing our commission income.

Our intensive acquisition efforts and the consistently positive growth prospects in the health care market had a beneficial impact on our business performance. Demand for financing increased, in particular from the initiators of real estate projects as well as inpatient care providers (clinics, nursing homes). Furthermore, all customer groups used additional apoBank services. We also increased the number of customers who use us as their house bank. In spite of continued intense competition, the loan volume in the Corporate Clients business segment rose again, amounting to €3.8 billion as at the end of the year (31 December 2017: €3.1 billion).

Net assets, financial position and results

Net interest income up

In spite of the challenging interest environment, we posted a rise in net interest income of 4.3% to €632.4 million (31 December 2017: €606.2 million). The growth driver was the lending business, where we achieved a very high increase with new loans amounting to €7.1 billion (31 December 2017: €6.8 billion).

Nonetheless, we are slightly below the planned amount because we did not distribute interest income from a special fund.

On the refinancing side, the trend towards short-term demand deposits continued. In the 2018 financial year, we again did not charge any custodial fees for deposits from retail clients. We collected a small amount of custodial fees from large customers and from institutional customers.

The net interest margin remained at 1.5% (2017: 1.5%).

Growth in net commission income

In 2018, net commission income rose by 5.5% to €164.9 million (31 December 2017: €156.3 million). This development is attributable in particular to asset management for our customers, where we gained new funds and new customers. We also further expanded our business with institutional customers. We recorded gains in payment transactions as well. The bottom line, however, was that the commission-based business failed to meet our expectations. Reasons for this were the increasingly challenging conditions on the financial markets as well as the revised European Union directive on investment services, which has been known as MiFID II since January 2018.

Income statement

	31 Dec 2018 €m	31 Dec 2017 €m	Change %[1]
Net interest income[2]	632.4	606.2	4.3
Net commission income	164.9	156.3	5.5
General administrative expenses	– 597.6	– 530.1	12.7
Balance of other operating income/expenses	33.9	– 8.9	–
Operating profit before risk provisioning	233.6	223.7	4.4
Risk provisioning from the operating business[3]	– 31.9	12.1	–
Risk provisioning with reserve character[4]	– 88.3	–103.0	–14.3
Operating result	113.4	132.8	–14.6
Taxes	– 50.4	– 70.9	– 28.9
Net profit after tax	62.9	61.9	1.7

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

General administrative expenses rose as expected

With an increase of 12.7% to €597.6 million, general administrative expenses rose significantly in the reporting period (31 December 2017: €530.1 million) and thus remained within our budget. At €272.3 million, personnel expenses were, as expected, only slightly higher than in the previous year (31 December 2017: €266.5 million). By contrast, operating expenditure including depreciation rose substantially, as expected, to €325.2 million (31 December 2017: €263.6 million). This was primarily due to the expenditure relating to the upcoming IT migration, regulatory requirements as well as project costs for optimising our loan processes.

In the year under review, the cost-income ratio amounted to 73.1% (2017: 72.6%), slightly above the planned level.

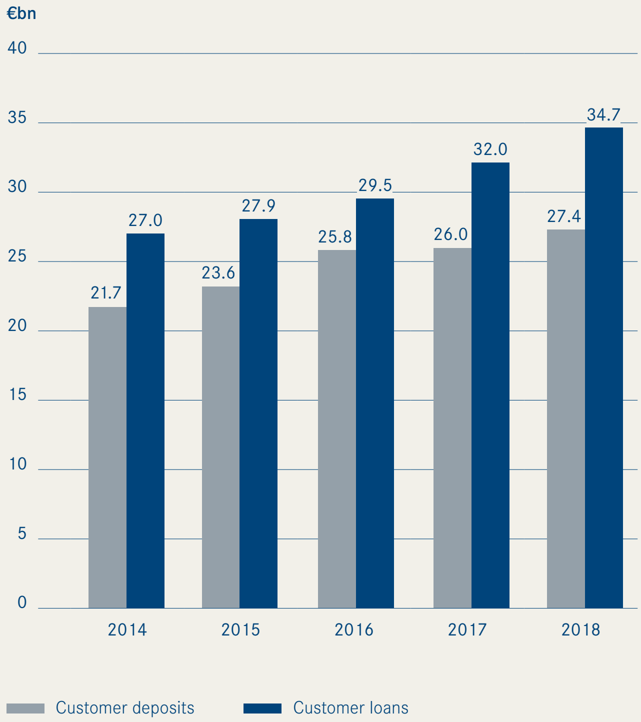
Operating result higher than in the previous year

The operating result, i.e. profit before risk provisioning, reached €233.6 million (31 December 2017: €223.7 million), which was above the previous year’s value and slightly below target.

Low risk provisioning continued

Risk provisioning for the operating business amounted to –€31.9 million, after a positive contribution to earnings in the previous financial year (31 December 2017: €12.1 million). Since the net new allocations to loan loss provisions were nevertheless far below the standard risk costs, the overall figure is a very positive deviation from the budgeted amount. In addition, we posted further high recoveries from previously written down receivables; compared to the previous year, they even showed a renewed increase.

Customer deposits and customer loans



Risk provisioning with reserve character amounted to €88.3 million (31 December 2017: €103.0 million). Due to the favourable development in operating risk provisioning, this year again we were able to build up reserves to the extent necessary for our business.

Stable net profit

After allocations to reserves, the operating result before taxes amounted to €113.4 million (31 December 2017: €132.8 million), down on the previous year as expected. After taxes, net profit totalled €62.9 million (31 December 2017: €61.9 million), and was thus on target.

The return on equity after taxes amounted to 3.6% (31 December 2017: 3.6%), the return on investment was 0.14% (31 December 2017: 0.15%).

Higher balance sheet total and comfortable liquidity situation

The balance sheet total rose to €45.4 billion as at 31 December 2018 (31 December 2017: €41.4 billion). Loans and advances to customers increased to €34.7 billion (31 December 2017: €32.0 billion); this was due to the consistently high demand for our financing expertise. The securities portfolio amounted to €5.6 billion (31 December 2017: €5.7 billion).

apoBank's liquidity situation remained comfortable throughout 2018. As a well-established market participant with good credit ratings, we secure funds for refinancing through various sources and are supported by a widely diversified customer and investor base. The largest source of refinancing comes from liabilities to customers. In the period under review, these rose slightly to €27.4 billion (31 December 2017: €26.0 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €3.1 billion (31 December 2017: €3.4 billion). We also issue covered bonds (Pfandbriefe) as well as unsecured bonds (preferred and non-preferred) to our institutional customers, members of the cooperative FinanzGruppe and the capital market.

In the Pfandbrief business, we successfully placed three further mortgage Pfandbriefe at a value of €500 million each on the European capital market. The total volume of the Pfandbrief portfolio as at 31 December 2018 rose to €5.1 billion (31 December 2017: €3.7 billion).

In addition, we utilise refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks. In order to fulfil the regulatory requirements for liquidity, we held €4.3 billion in ECB-eligible securities as at the reporting date (31 December 2017: €4.4 billion).

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

Good rating assessment maintained

apoBank’s creditworthiness, or its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor’s. Standard & Poor’s confirmed apoBank’s good ratings in February 2019. Bonds which are potentially used as a liability in a bail-in are defined by Standard & Poor’s as senior subordinated bonds and are rated A+ with a stable outlook. Senior unsecured bonds continue to be rated AA– with a stable outlook.

In addition, apoBank is assessed indirectly according to the ratings by Standard & Poor’s and Fitch Ratings for the cooperative FinanzGruppe. As apoBank is part of the cooperative FinanzGruppe and is a member of the cooperative protection systems, these ratings also apply to apoBank.

Ratings[1]

	Standard & Poor’s	Fitch Ratings (group rating)
Long-term rating	AA–	AA–
Short-term rating	A–1+	F1+
Outlook	stable	stable
Pfandbrief rating	AAA	–

As at February 2019
1) Issuer credit rating.

Summary

Our sustainable business model and our growth strategy for our core business continued to prove effective in the reporting period. Thanks to our strong and stable market position as well as our in-depth knowledge of the health care market, we succeeded in further expanding our customer and member base. In doing so, we continued the positive trend of previous years.

In the customer business, the intense competition and the associated pressure on margins continued. Nevertheless, we succeeded in increasing both net interest income and net commission income. By contrast, general administrative expenses increased significantly. Risk provisioning from the operating business was at a low level. In addition, we strengthened our reserves and achieved a stable net profit. This allows us to pay a dividend of 4% to our members and at the same time strengthen our reserves. The liquidity situation remained comfortable throughout the reporting period. Here we benefit from a broadly diversified refinancing base.

Customer confidence in apoBank is also supported by the stability of the cooperative FinanzGruppe and its integration into the protection systems provided by the Federal Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. – BVR). Thanks to its strong position in the health care market, apoBank contributes to the success of the entire cooperative FinanzGruppe.

Sustainability report

The Bank complies with the legal obligation to publish a non-financial report in accordance with Section 289b HGB by issuing a separate report which follows the guidelines of the German Sustainability Code. As of the end of April 2019, the declaration of conformity can be found at www.apobank.de/nachhaltigkeit as well as on the website of the German Sustainability Code (www.deutscher-nachhaltigkeitskodex.de).

Risk Management Report

Principles of risk management and risk control

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

Risk management at apoBank includes the following essential elements that contribute to achieving the objectives outlined above:

- risk inventory,
- business and risk strategy,
- organisation of risk management,
- the risk-bearing capacity concept including stress tests,
- risk control, measurement and limitation,
- risk reporting as well as
- recovery governance and the resolution plan.

We discuss each of these items in more detail below. We then provide an overview of the development of the risk situation in 2018 and, pursuant to Article 435 of the Capital Requirements Regulation (CRR), we present the details of our risk management objectives and policy. apoBank's risk management system does not assess opportunities; it deals exclusively with risks.

Risk inventory

In the annual risk inventory, we determine the risk profile of apoBank, including its participations, outsourced business operations and shadow banks, taking risk concentrations into account. The core element of the risk inventory is the identification of significant risks for the Bank. apoBank considers risks as significant when by virtue of their nature, scope and possible interaction, these risks can have significant influence on the Bank's net assets, financial position and results. The significant risks for apoBank are credit risk, market risk, liquidity risk, business risk and operational risk as shown in the diagram on the following page.

In addition to the significant risks, apoBank also examines risks that can have an indirect impact on significant risks; these are also shown in the diagram. Due to their characteristics, these risks are considered cross-sectional risks and are included in the risk control and risk-measuring procedures of the significant risks. apoBank has identified reputation risk and model risk as cross-sectional risks.

Credit risk

Credit risk refers to the potential loss that can result from the partial or entire default or the deteriorating creditworthiness of a borrower or contractual partner.

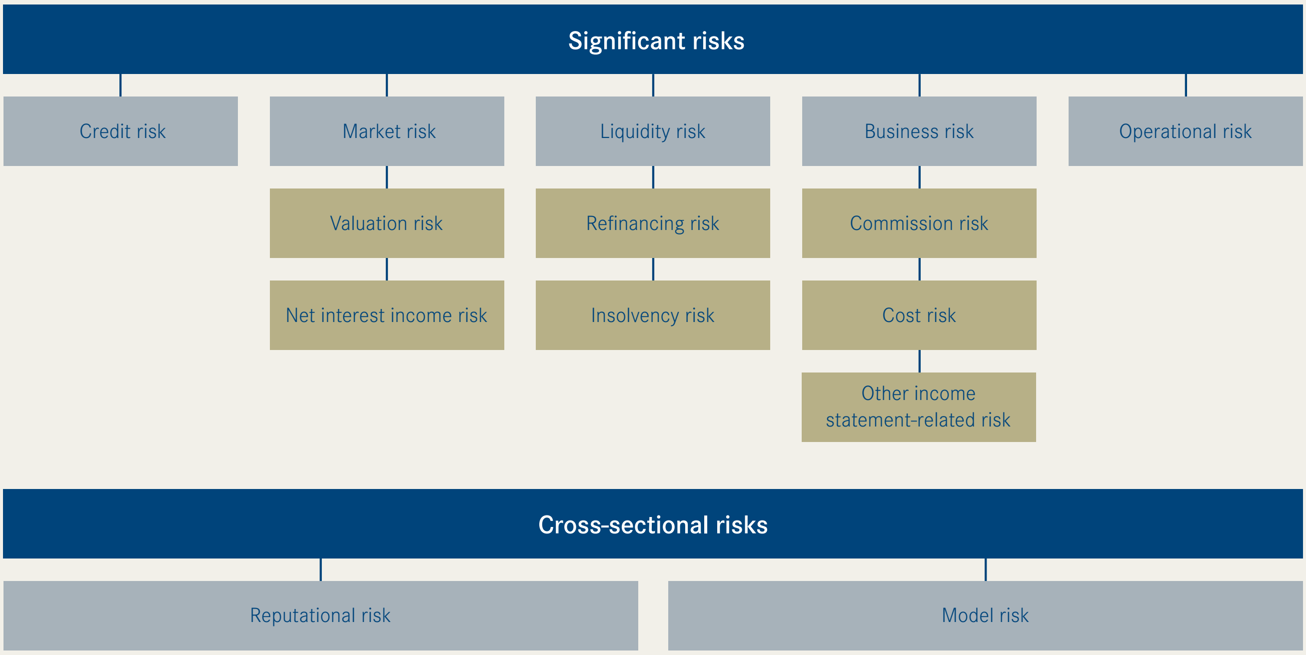
Market risk

Market risk is the potential loss that can occur due to changes in market prices (such as share prices, interest rates, credit spreads and foreign exchange rates) and/or market parameters (e.g. market price volatility) for the positions held by apoBank. In addition, possible deviations from margin contributions in the interest business are considered (net interest income risk).

Liquidity risk

With respect to liquidity risk, we distinguish between insolvency risk and refinancing risk. Insolvency risk is the risk that apoBank may not be able to meet its current or future payment obligations in whole or in part. Refinancing risk is the threat of higher refinancing costs due to a downgrade of apoBank's credit rating and/or changes in the liquidity situation on the money and capital markets.

Classification of apoBank's types of risk



Business risk

In the case of business risk, we distinguish between commission risk, cost risk as well as other income statement-related risk.

Within commission risk, potential deviations from net commission income targets are captured. Cost risk is defined by the Bank as a development in material and personnel costs that was not expected and therefore not budgeted for in income statement planning. Other income statement-related risk quantifies the risk caused by potential deviations from targeted income generated by participations, ongoing income from funds and other operating income and expenses.

Operational risk

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

In addition, reputation risk is explicitly included in this risk category.

Reputation risk

apoBank defines reputation risk as the risk of direct or indirect economic disadvantage due to a loss of trust in the Bank on the part of its members, customers, employees, business partners or the general public.

Model risk

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

Business and risk strategy

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

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

Organisation of risk management

Organisational principles

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

The entire Board of Directors is responsible for the business and risk strategy, the risk-bearing capacity concept, the limitations derived from it and the appropriate organisation and structure of risk management.

The front-office functions at apoBank are responsible for operational management; together with the back-office function, these constitute the first line of defence. They monitor business operations on an ongoing basis and their original (control) task is to help recognise, evaluate and reduce risks. In addition, the back-office function monitors credit risk in the customer portfolios and the financial instruments portfolio at the levels of individual borrower, issuer and counterparty.

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

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

In the course of establishing recovery governance, apoBank has instituted the organisational conditions for convening a Recovery Committee in crisis situations, as well as the function of recovery coordinator.

Accounting management and control

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

Issues of particular relevance to risk

As part of risk management, the Bank has defined the following topics related to internal processes to which it attaches particular risk relevance:

- outsourcing,
- lending competence,
- new product process,
- change of operational processes or structures,
- security management.

For the above topics, the Bank has implemented special procedural and organisational rules. Thus, it takes account of the risk relevance of these topics.

Risk-bearing capacity including stress tests

Risk-bearing capacity concept

The risk-bearing capacity concept is an important monitoring and controlling tool. We use it to analyse and evaluate apoBank's overall risk position and the adequacy of its capital resources.

The Bank conducts regular risk-bearing capacity calculations, in which two different approaches are used to examine its capacity in terms of capital. The going-concern approach has the primary controlling goal to protect our shareholders. In this approach, we conduct monthly monitoring to assess whether the regulatory and economic conditions for the continuation of business would still be met if all quantifiable risks occurred simultaneously. With the gone-concern approach, we conduct a quarterly review to assess whether priority creditors of the Bank will incur damage in the case of simultaneously occurring risks. Here, the probability that such a situation will occur is much lower than in the going-concern approach.

All significant risks are regularly measured according to economic valuation approaches on the basis of a 97.0% confidence level (going-concern approach) and a 99.9% confidence level (gone-concern approach) respectively, and assuming a holding period of one year. Diversification effects between the risk types are not taken into account in either of the two approaches.

In order to specify apoBank's risk appetite, the Board of Directors sets a Bank-wide risk limit for each case, with additional limits in the going-concern approach for all significant types of risk. The risk cover potential available to cover the measured risks forms the basis of the Bank-wide risk limit and further differentiated limitations.

In the going-concern approach, the risk cover potential is derived from the balance sheet and the income statement. It is comprised of regulatory capital components that are not required to meet the regulatory minimum equity requirements, parts of the revenue generated in the course of the year and the budgeted operating result as well as the hidden reserves in selected securities.

In the gone-concern approach, the risk cover potential essentially consists of components measured at or close to their present value. Primarily, these include the present value of the cash flows of the apoBank's banking book items (specifically cash flow from loans, securities, deposits and issuances), as well as the present value of the costs that are required to generate the banking book cash flows.

In addition, the development of the risk-bearing capacity in the primary risk management approach is assessed based on a period of several years. This means it not only serves as an operational (risk) measurement tool but is also used for medium-term capital planning.

Stress tests

The risk-bearing capacity calculations are supplemented by Bank-wide stress tests (only in the going-concern risk management approach) and reverse stress tests (both approaches). In the Bank-wide stress tests, various scenarios are used to identify how unusually negative but plausible changes, as compared to the planned and expected development of the risks, affect utilisation of the risk cover potential. The reverse stress tests analyse under which circumstances the apoBank business model is no longer sustainable.

Bank-wide stress tests

As part of the risk-bearing capacity concept, the Bank regularly conducts stress calculations in the form of three scenario analyses. These analyses model the interactions between the regulatory and economic capital aspects as well as the interactions between risk types. Here, the effects of the scenarios on all of the Bank's portfolios are also assessed.

In the "health care market crisis" stress scenario, a model of potential structural changes on the German health care market is set up, the resulting impact on apoBank's business model is described and the implications for the Bank's risk-bearing capacity are analysed.

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

The crisis of confidence stress scenario examines the impact of extensive reputational damage and a subsequent loss of customer confidence in apoBank.

Reverse stress tests

We use reverse stress tests to examine which events render apoBank's business model unsustainable. These tests are complementary to the Bank-wide stress tests. The focus of the tests is on the risk-bearing capacity with respect to regulatory and economic capital in accordance with the process to secure adequate capital (ICAAP) as well as apoBank's solvency in accordance with the process to secure an adequate liquidity position (ILAAP). Within the scope of the reverse stress tests, apoBank calculates the extent to which risk factors need to be stressed individually and in combination before apoBank's business model is no longer sustainable.

This is followed by a critical evaluation of the results of this stress test calculation with regard to possible sensitivities in the Bank's risk profile.

Risk control, measurement and limitation

Risk concentrations

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

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

Concentrations are analysed and monitored within the significant risk types (intra-risk concentration) as well as between risk types (inter-risk concentration). They are also included in the Bank's risk guidelines when there is a fundamental need for control.

Credit risk

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

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

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

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

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

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

Retail Clients business segment

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

To manage this business segment, apoBank makes use of its unique rating procedure tailored specially to apoBank customers, in addition to customer-specific economic analyses. Combined with our excellent expertise in the health care professions segment, established over many years, these tools are good risk and early warning indicators. They represent a reliable basis for early detection of potential payment disruptions.

The processes of intensive loan management and problem loan management have also proven their worth when dealing with customers in this business segment. Provided the detected risks have no visible impact on the management of the customer's account, these customers are subject to a process of intensive loan management with the objective of transferring them back to standard loan management as soon as possible.

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

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

Professional Associations and Large Customers business segment

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

We use several sophisticated rating procedures in this business segment: Commitments to institutional organisations in the health care sector concern loans to legal entities of public law, mainly to professional organisations and associations of the health care professions.

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

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

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

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

The VR bank rating of DZ Bank is the primary tool used for assessing creditworthiness in the Treasury business segment. apoBank has also established various early risk detection tools that are adapted to current market conditions. The established processes here include ongoing and systematic monitoring of relevant risk indicators allowing for a direct and timely response, should any action be necessary.

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

The Corporate Centers support the Board of Directors in the management of the Bank by advising them in the areas of strategy, risk management and control. In addition, the Corporate Centers assist the business segments in their day-to-day operations.

Market risk

The market risks faced by apoBank are integrated into the general risk management framework. This is based on a sophisticated system of risk measurement and risk control. The Bank's market risks primarily result from its overall interest rate risk and the change of credit spreads in the Treasury business segment (valuation risk).

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

In order to reduce market risk and hedge its transactions, apoBank regularly employs interest and currency derivatives both at transaction level (micro hedges) and at Bank-wide level (strategic interest rate risk management). In addition, portfolio hedges cover the risks of multiple underlying transactions of the same type via one or more hedging instruments.

Asset swaps, for example, are concluded at the level of individual securities transactions. To hedge interest rate risks for passive products with simple structures, we apply micro hedges in the form of structured derivatives. Depending on the interest terms, issuances can also be used as natural hedges and remain in the banking book without having a specific relationship to micro hedges. In addition, interest rate derivatives are concluded at Bank-wide level as part of strategic interest rate risk management to align the interest cash flow with a strategic benchmark. To secure the exchange rate of foreign currency items, apoBank uses forward foreign exchange transactions, FX and cross currency swaps.

The portfolio valuation units concern the FX forward transactions, FX swaps as well as syndicated loans in foreign currencies.

Interest rate risk

The Bank-wide strategic interest rate risk management is based on an integrated management approach which includes both periodic and present-value parameters. Our management objective is to achieve a moderate interest rate risk position at Bank-wide level and thus to continuously develop interest income. The interest rate risk position, which results primarily from the Bank's customer business, focuses on the long term using derivative management instruments.

When measuring the periodic interest surplus risk in the going concern approach, the impact of changes in the interest curve and missing targets in the customer business on the Bank-wide periodic interest result is simulated.

A key tool for monitoring the present-value interest rate risk is the Basel II interest rate risk coefficient. It provides information on the relationship between the loss of present value in the event of an ad hoc shock of +/– 200 basis points and the Bank's regulatory capital. In addition, it assesses the changes in present value in other adverse market scenarios and calculates a value at risk based on historical simulations.

Valuation risk of financial instruments

To measure the valuation risk of the financial instruments, we likewise apply a value-at-risk method based on historical simulation. While the parameters for operational controlling purposes are based on the market development of the previous 250 days, the parameters for valuation risk measured for the risk-bearing capacity are based on a longer history, which also includes the financial crisis.

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

Liquidity risk

The highest priority of liquidity risk management at apoBank is to guarantee the solvency of the Bank at all times, taking account of regulatory and economic requirements. Solvency must always be ensured, even in serious crisis scenarios.

Financial liquidity management is based on the ongoing analysis and comparison of cash inflows and outflows in a liquidity gap analysis, which is set up on a rolling basis for the next twelve months. The liquidity gap analysis takes account of the expected liquidity development as well as different stress scenarios. In accordance with the MaRisk regulations, a combined stress scenario is considered for market-wide and Bank-specific parameters, too. In addition to the liquidity gap analysis, the liquidity development is also tracked on an intraday basis in order to swiftly identify unplanned liquidity developments.

Regulatory liquidity management takes into account the specifications regarding the liquidity coverage ratio and the net stable funding ratio.

The liquidity management framework is supplemented by regular analyses of the balance sheet items on the basis of capital commitment over a longer-term perspective. The aim here is to promptly identify any issues which could endanger the sustainable refinancing of our business.

apoBank holds an extensive liquidity reserve, consisting of cash reserves as well as liquidity coverage ratio (LCR)-eligible and ECB-eligible securities. The securities in this portfolio can be sold or used as collateral at any time. This ensures the Bank's solvency, both in the event of a regulatory as well as an economic crisis. In order to determine the required liquidity reserves, we use a bottleneck calculation to compare the effects of the economic stress scenarios on liquidity against the results of the normative liquidity coverage ratio calculation. The requisite with the highest liquidity outflows represents the bottleneck and indicates the liquidity reserve that must be held.

In addition, by means of regular issuances as well as active customer relationship management, apoBank ensures that there are sufficient refinancing options on the unsecured and secured money and capital market. The associated refinancing planning is linked to the business planning process and the specifications of the business and risk strategy. Key aspects of refinancing planning are maintaining an adequate maturity structure as well as sufficient diversification of the Bank's refinancing sources. A key refinancing source for apoBank are covered bonds (Pfandbriefe). The security of their recovery is monitored and controlled on a daily basis. The loans in the cover pool are selected defensively.

To ensure that the management's guidelines and specifications set out in the business and risk strategy with regard to the risk appetite are upheld at all times, we conduct monitoring by means of a consistent limit system for the liquidity coverage ratio, for planned and stressed liquidity, as well as the deviation from the planned liquidity.

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

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

In addition to the insolvency risk, apoBank regularly calculates the refinancing risk for the risk-bearing capacity of the Bank. The risk value is determined by taking account of the refinancing volume and cost needed in the event of a risk.

Business risk

The Bank's business risk comprises commission risk, cost risk and other income statement-related risk.

Generally, it is not possible to actively limit business risks through specific measures. Nevertheless, appropriate premises in the planning process and controlling throughout the year support the stabilisation of the risks. In addition, a suitably designed, incentive-compatible remuneration structure ensures that potential business risks are limited.

Commission risk

Commission risks arise in all business segments in which commission income is generated. At apoBank, these are the Retail Clients, Professional Organisations and Large Customers business segments as well as parts of the Treasury segment. Management of the commission risk is based on established processes, which include continuous monitoring and reporting.

Possible deviations from planned commission contributions are measured in the commission risk based on historical deviations from targets. The measurement of the commission risk itself is based on a value-at-risk approach (variance-covariance method).

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

Operational risk

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

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

Legal risks from standard operations are reduced using standardised contracts. The effects of insurable risks are alleviated by obtaining suitable insurance coverage to the extent that this makes sense financially. The security and stability of IT operations is guaranteed by a number of technical and organisational measures in particular. Fiducia & GAD IT AG, a specialised, quality-assured IT service provider, provides all essential services related to operational data processing and data retention as well as most of the data archiving. The contractual agreements are based on current standards.

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

Risk reporting

apoBank has a comprehensive, standardised reporting system. It serves as the basis for detailed analyses of the economic and risk position of the Bank, for deriving and evaluating alternative actions as well as deciding on risk control and limitation measures.

Monthly risk reporting is a key component. It serves among other things to inform the Board of Directors about the main ICAAP and ILAAP results, including monitoring of the limits for the significant risk types. A further component of risk reporting is the daily tracking and reporting of the valuation risk monitoring parameters in the financial instruments portfolio.

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

As monitoring bodies, the Supervisory Board and its Loan and Risk Committee are informed regularly about the current economic situation and risk position of the Bank as well as about risk control and limitation measures. The Loan and Risk Committee also discusses significant investments, the sale and purchase of properties and the acquisition and divestment of participations. The committee held a total of six meetings in the 2018 financial year.

Recovery governance and the resolution plan

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

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

Details regarding development of the risk position in 2018

Overall capital situation

Overall bank control at apoBank is characterised by a sophisticated approach to managing regulatory and economic capital. Correlations exist between the regulatory and the economic capital; these are due to the conceptual design of the economic risk management approach.

Although the level of both (the regulatory and the economic capital) has decreased compared to the previous year, apoBank's capital situation remains comfortable.

Regulatory capital situation
As at the reporting date, the total capital ratio of apoBank calculated pursuant to the CRR amounted to 18.3% as at the balance sheet date (31 December 2017: 21.8%) and the common equity tier 1 capital ratio was at 16.7% (31 December 2017: 19.5%). apoBank's equity ratios at the end of 2018 were thus clearly below the previous year's levels and the target values, mainly due to the increase in risk-weighted assets. However, they continued to be significantly above the minimum requirements and are comparatively high in the banking sector. After its annual supervisory review and evaluation process (SREP), the ECB once again specified the minimum common equity tier 1 ratio for apoBank in 2019 at a below-average level in comparison to other ECB-supervised banks.

Details regarding development of the equity situation:

As at 31 December 2018, regulatory equity capital totalled €2,543 million (31 December 2017: €2,528 million). Common equity tier 1 capital rose slightly from €2,254 million as at the end of 2017 to €2,310 million. This rise is due on the one hand to the renewed growth in members' capital contributions, which reached €1,187 million (31 December 2017: €1,160 million). In addition, we strengthened our capital position with allocations to the fund for general banking risks in particular, as well as to the revenue reserves.

Supplementary capital declined to €233 million (31 December 2017: €275 million) as expected. The main reasons for this were that subordinated capital was accounted for to a lesser degree due to offsetting directly to the day within the last five years of the residual term and the fact that since the beginning of 2018 the uncalled liabilities adjustment and the reserve pursuant to Section 340f of the German Commercial Code (HGB) could not be considered to the same extent as previously.

Risk-weighted assets amounted to €13,861 million at the end of the year, a substantial increase on the previous year's figure (31 December 2017: €11,584 million). This rise reflects the business growth as well as the increased ECB requirements for internal models in the form of conservatism premiums.

The leverage ratio pursuant to transitional arrangements was 4.8% (31 December 2017: 5,2%); it therefore remains significantly higher than the regulatory minimum requirement of 3.0%.

Economic capital situation

apoBank's risk-bearing capacity was guaranteed at all times in the year under review. In addition, the two Bank-wide risk limits derived from the applicable risk cover potentials, as well as all limits defined for the significant risks according to the going-concern approach were adhered to at all times.

In the going-concern approach, however, the utilisation rate of our economic capital by the measured risks was again slightly higher on the balance sheet date than in the previous year, at 42.7% (31 December 2017: 39.6%), but again on a low level. It fluctuated moderately during the course of the year between 34.5% and a maximum of 42.7%, thus remaining at all times below the budgeted figure and significantly below the internal warning threshold.

The risks measured at a confidence level of 97.0% increased only slightly to €419 million (31 December 2017: €412 million), in spite of continued growth. Higher credit risks were set against lower economic market risks with a focus on periodic net interest income risk and a decline in liquidity risk. For the remaining significant types of risk, there were no noteworthy changes in this risk management approach.

The utilisation rate of the Bank-wide risk limit of €510 million adopted for the going-concern approach (31 December 2017: €540 million) was 82.2% at the end of the year (31 December 2017: 76.3%).

At the same time, the risk cover potential declined in comparison to 2017 to €982 million (31 December 2017: €1,040 million). Free regulatory equity decreased due to an overall increase in minimum equity requirements. The main drivers here were lower eligible revenue components.

The Bank-wide stress tests in this risk management approach showed a higher utilisation rate of economic capital overall. However, utilisation in the gravest stress scenario "Financial markets and sovereign crisis" was slightly above the internal warning threshold but considerably lower than the minimum capital requirement.

In the complementary gone-concern risk management approach, the economic utilisation rate was on a comparably comfortable level throughout, as in the going-concern risk management approach. The utilisation of the risk cover potential by the risks quantified at a confidence level of 99.9% amounted to 40.7% at the end of the year (31 December 2017: 39.1%). The risks amounted to €1,474 million (31 December 2017: €1,459 million) against a risk cover potential of €3,618 million (31 December 2017: €3,731 million). The utilisation rate of the Bank-wide risk limit adopted for this approach, amounting to €1,800 million (31 December 2017: €1,750 million), was 81.9% at the end of the year (31 December 2017: 83.4%).

The utilisation rates of the risk cover potentials by the risks measured in each of the two approaches confirm that the risks taken are consistent with the goals of the two risk management approaches of owner protection (going concern) and creditor protection (gone concern).

Risk-bearing capacity (going-concern approach / gone-concern approach)

as at 31 December 2018	€m	Share of risk cover potential %
Risk cover potential	982.2 / 3,618.1	100.0 / 100.0
Bank-wide risk position	419.0 / 1,474.0	42.7 / 40.7

Significant risks

as at 31 December 2018	Actual risk €m	Limit utilisation %
Credit risk	123.6 / 862.3	85.2 / –
Liquidity risk	8.6 / 5.6	34.3 / –
Operational risk	66.9 / 109.9	89.2 / –
Market risk	118.0 / 412.6	76.1 / –
Business risk	102.0 / 83.6	92.7 / –
Bank-wide risk limit	510 / 1,800	82.2 / 81.9

Credit risk

The unexpected loss (UEL) from credit risks faced by apoBank rose moderately in the year under review. The increase in UEL is mainly due to adjustments in methods of measuring risk.

One driver here is a higher general risk hedge in the Participations business segment, which since the beginning of 2018 has included the items from the financial instruments portfolio that are similar in character to equity and which were previously included within market risks. The remaining items in the financial instruments portfolio also showed an increase in UEL compared to the end of the previous year; this was mainly a result of the general market performance.

In the customer business, UEL rose due to an increase in the modelled loss ratio of unsecured receivables in the high-volume business as well as the general business growth, among other reasons.

The limit for credit risk derived from the risk-bearing capacity was maintained at all times in the reporting period. The key developments in credit risks for the individual business segments are presented below.

The rating system of apoBank

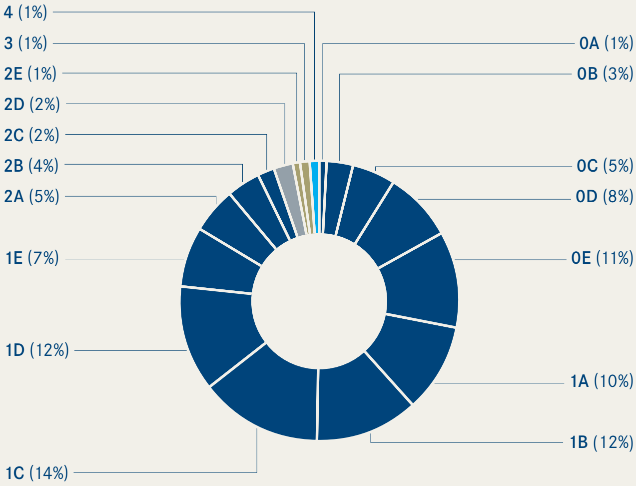
Meaning	Rating class (BVR master scale)	Probability of default %	External rating class[1]
Commitments with **excellent** creditworthiness, no risk factors (standard loan management)	**0A**	0.01	Aaa
	0B	0.02	Aa1
	0C	0.03	Aa2
	0D	0.04	
	0E	0.05	Aa3
Commitments with **good** creditworthiness, individual risk factors (standard loan management)	**1A**	0.07	A1
	1B	0.10	A2
	1C	0.15	
	1D	0.23	A3
	1E	0.35	Baa1
	2A	0.50	Baa2
Commitments with **low** risks (standard loan management)	**2B**	0.75	Baa3
	2C	1.10	Ba1
Commitments with **greater** risks (intensive loan management)	**2D**	1.70	Ba2
High-risk commitments (problem loan management)	**2E**	2.60	Ba3
	3A	4.00	B1
	3B	6.00	B2
Higher-risk commitments (problem loan management)	**3C**	9.00	B3
	3D	13.50	
	3E	30.00	Caa1 to C
Commitments **threatened by default** (according to CRR definition) – Commitments overdue by more than 90 days – Commitments with a loss provision from last or this year (problem loan management) – Write-offs – Insolvency	**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. As the BVR master scale is broken down into very small categories and contains more rating classes than Moody's, not all external rating classes are matched with an internal one.

Rating class distribution in the retail clients portfolio

Volume distribution based on drawdowns

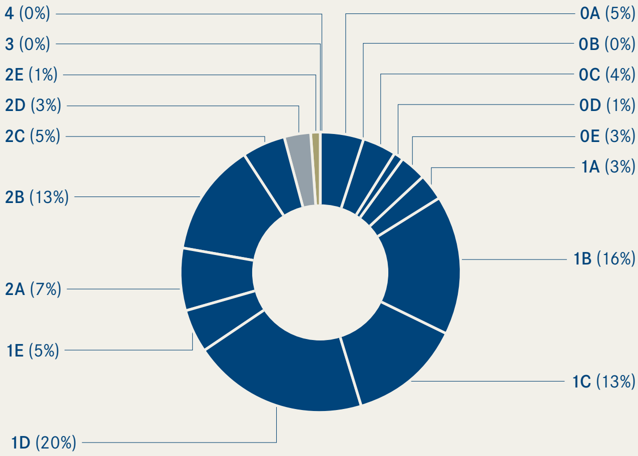
Total of €30,661 million



Rating class distribution in the professional associations and large customers portfolio

Volume distribution based on drawdowns

Total of €4,931 million



Retail Clients business segment

In the retail clients portfolio, drawdowns rose to €30.7 billion (31 December 2017: €28.7 billion) due to the positive development of new business.

The rating structure shows a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group. The rating coverage is very close to 100%. The portfolio is highly diversified: With around 207,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

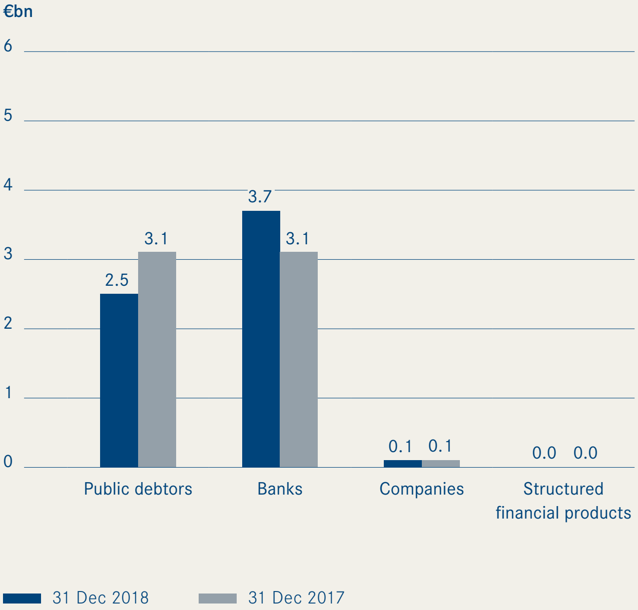
In the year under review, risk provisioning, at €28.9 million, was higher than in the previous year, in which almost no value adjustments had to be made. Value adjustments were therefore significantly below the budgeted amount. This confirms the above-average creditworthiness of health care professionals as well as apoBank's comprehensive financing expertise and effective risk management.

Professional Associations and Large Customers business segment

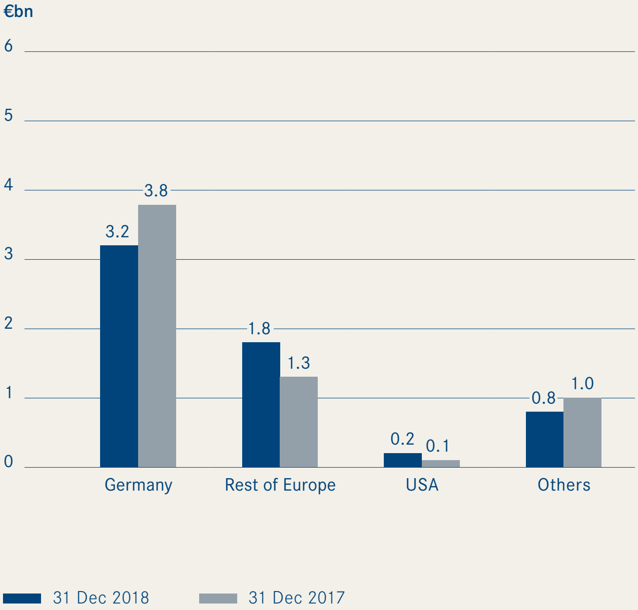
Total drawdowns in the Professional Associations and Large Customers business segment increased by €0.6 billion to €4.9 billion as at 31 December 2018 (31 December 2017: €4.3 billion). The rating distribution of the portfolio remains balanced. The rating coverage was complete.

On the reporting date, apoBank only had to take very small risk provisioning measures (€0.6 million) for the professional associations and large customers portfolio; the figure was therefore far below the budgeted amount.

Total exposure of financial instruments portfolio by sector



Total exposure of financial instruments portfolio by country



Treasury business segment

The risk volume of the financial instruments portfolio managed by the Treasury business segment amounted to €6.2 billion on the reporting date, the same figure as in the previous year (31 December 2017: €6.2 billion).

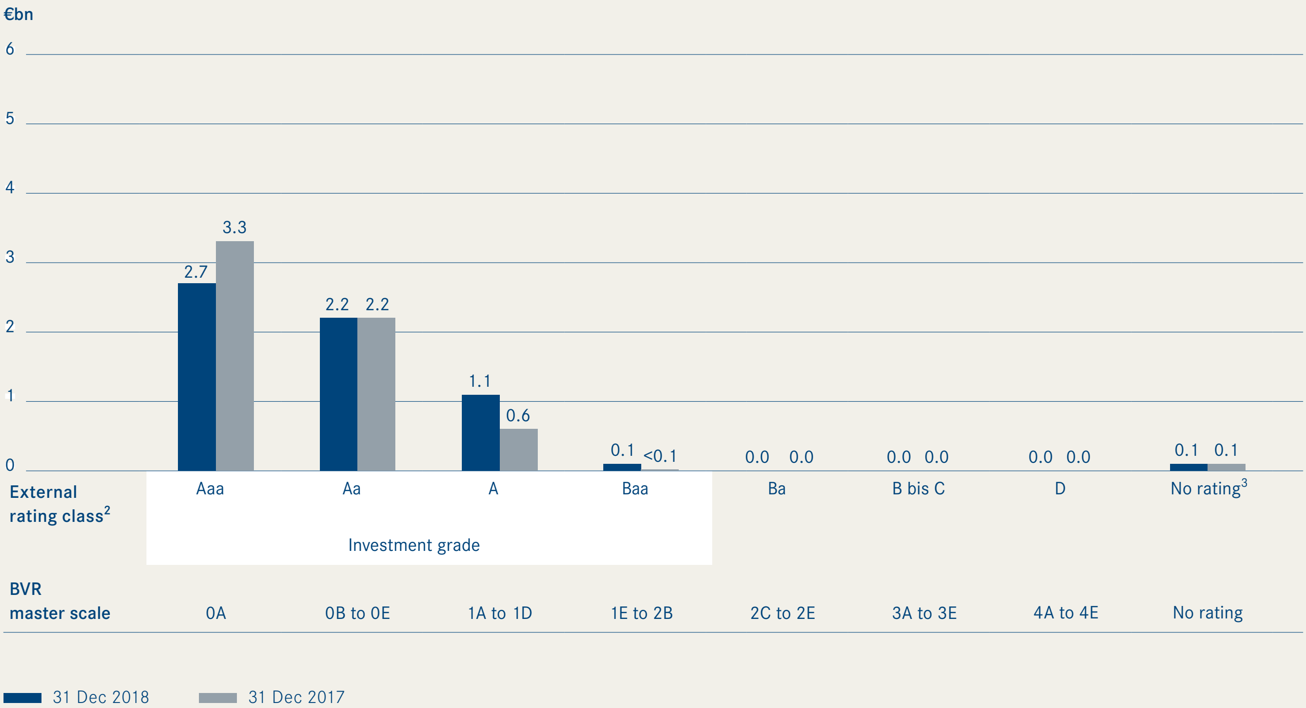
The risk volume of the derivatives in the Treasury business segment was stable at €0.1 billion (31 December 2017: €0.1 billion). apoBank uses derivatives primarily to hedge against interest rate risks stemming from the customer business as well as against foreign exchange risk. As at the reporting date, the nominal volume amounted to €28.9 billion (31 December 2017: €30.3 billion).

As at 31 December 2018, as in the previous year, around 99% of the financial instruments business segment was rated in the investment grade range. The risk provisioning after offsetting was significantly below the budgeted amount as at the reporting date 31 December 2018, with a low allocation volume of €2.5 million.

Participations business segment

As at the balance sheet date, the risk volume in the Participations business segment increased to €233.1 million (31 December 2017: €222.4 million). The main reason for this is an increase in apoBank's shareholding in a company in the health care market. No risk provisioning was made in the Participations business segment.

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



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

Market risk

The limit for market risk derived from the risk-bearing capacity (i.e. for the periodic interest surplus risk as well as the financial instruments valuation risk) was met consistently in 2018.

At the end of the year, the periodic interest rate risk as well as the stressed value at risk, which is applied within the scope of the risk-bearing capacity for valuation risks of financial instruments, were significantly lower than in the previous year. The valuation risk of the financial instruments, measured as part of operational market risk management, was almost one third lower than at the end of 2017. The main reason for this was that lower levels of securities were held.

The results of the present-value regulatory stress calculations, which are carried out monthly, confirm a moderate interest rate risk at Bank-wide level. The Bank remained below the regulatory reporting limit of 20% of regulatory equity (interest risk coefficient) at all times in 2018. The interest rate risk coefficient was on its highest level in the year under review in September, at 17.0%; as at 31 December 2018, it was 12.9% (31 December 2017: 14.1%).

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

Changes in present value in the banking book

	Ad hoc interest scenario		
	Interest increase (+ 200 BP)	Interest decrease (– 200 BP)	Interest rate risk coefficient
	€m	€m	%
31 Dec 2016	– 397	+65	16.1
31 Dec 2017	– 356	+53	14.1
31 Dec 2018	– 328	+10	12.9

When calculating the interest rate risks in the banking book, we make modelling assumptions for certain items of the customer business in order to determine the cash flows based on interest agreements. In the assets business, this affects in particular the drawing behaviour of the customers on open credit lines, contractually agreed special redemption payments and statutory loan termination rights. For open credit lines and contractually agreed special redemption payments, we adjust the cash flows based on historical data. Statutory loan termination rights are modelled based on option models. In the liabilities business, we model the cash flows for customer balances without a specific interest rate adjustment date. Here, in accordance with the concept of moving averages, cash flows based on interest agreements are modelled for basic amounts that are derived from historical data.

Liquidity risk

apoBank's liquidity position benefited in 2018 primarily from the continuing increase in deposits, in particular from retail clients, as well as from Pfandbrief issues.

With regard to insolvency risk, the limits of the funding matrix and the regulatory requirements from the liquidity coverage ratio were complied with at all times. As at the end of 2018, the liquidity coverage ratio amounted to 144.3% (31 December 2017: 131.8%).

Compliance with the Pfandbrief cover pool limits was assured at all times in 2018.

The refinancing risk accounted for in the calculation of risk-bearing capacity declined in the course of the year. This was due to lower spread volatilities as well as a reduction in refinancing volume as a result of the increase in the liquidity position. Overall, compliance with the risk limit established based on the risk-bearing capacity was maintained at all times.

Business risk

The risk limit for business risks derived from the risk-bearing capacity was maintained at all times in 2018. The measured risks fluctuated only slightly in the course of the year.

Operational risk

In 2018, operational losses were on the same level as in the previous year. The focus continued to be on legal risks.

The operational risk considered in the calculation of the risk-bearing capacity declined slightly compared to the previous year. This is due to a slightly lower unexpected loss for operational risks as well as an almost unchanged premium for reputation risks, which is derived from the operational risks. The risk limit for operational risks derived from the risk-bearing capacity was maintained at all times in 2018.

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

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

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

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

Our risk-bearing capacity concept takes into account all risks that are significant for this concept. For the risk-bearing capacity calculations, these are compared to the risk cover potential available in each case. The risk-bearing capacity concept thus helps apoBank to secure its long-term existence, which is the highest priority in risk management. We therefore consider our risk management system to be appropriate and effective.

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

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

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

Number of executive and supervisory functions held by members of apoBank's boards
As at the balance sheet date, members of our Supervisory Board and our Board of Directors exercised a total of 30 executive functions and 19 supervisory functions in addition to their positions at apoBank.

Strategy for the selection of the members of apoBank's boards and their actual knowledge, expertise and professional experience
According to the legal requirements, the Supervisory Board must be configured such that its members collectively have the necessary knowledge, skills and professional experience for the proper performance of the required duties. In 2018, the Supervisory Board refined its strategy for selecting the members of the board. The strategy aims to ensure, maintain and further develop the individual and collective adequacy of the boards. To achieve this goal, the Supervisory Board has prepared and approved role and competence profiles for the Board of Directors and the Supervisory Board in particular. These profiles lay out the personal and professional requirements for each board member as well as for the boards overall. In addition, requirements were set down for special positions such as the Supervisory Board Chairperson and for the engagement in Supervisory Board committees. To ensure that future members of the Supervisory Board and Board of Directors fulfil these requirements to the greatest extent possible, the role profiles in particular should be used in the selection process. Therefore, the main documents can be made available to potential Supervisory Board members and the Annual General Meeting before the election.

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

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

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

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

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

More information on corporate governance as well as details of the risk management objectives and risk policy can be found in the previous sections of the risk management report.

Forecast Report

Outlook for the national economy and the health care market

Hardly any new growth impulses

According to their current forecasts for 2019, the IMF and the OECD expect no new surge in growth. Rather, it can be assumed that the USA, whose economy still grew disproportionately strongly in 2018 thanks to the tax reform, will also have to accept a significant reduction in its growth rates. One probable reason for this is the monetary policy of the Federal Reserve, which raised its base interest rate four times last year. In the current year, further increases – if they take place at all – will be significantly lower and monetary policy impulses for the US economy will fail to materialise as a result. Additionally, the hope of significantly rising investment rates associated with the tax reform does not seem to be coming to fruition, partly in view of the ongoing trade conflict with China. China's political leadership is likely to implement further monetary and fiscal measures in 2019 to address the consequences of the trade dispute and the recent slowdown in growth momentum. An abrupt decline in growth is therefore not to be expected. However, China's declining growth will affect economies with a high dependence on exports in particular. In addition, many emerging markets continue to be exposed to burdens due to the increased US base interest rate and the still strong US dollar, since they have accumulated foreign currency debt in recent years.

The weak economic momentum in the euro zone in the second half of 2018 is likely to continue in 2019, as the foreign trade challenges remain. Despite the termination of the ECB's bond purchase programme, the monetary policy is expected to continue to support the economy. In addition, fiscal policy, especially in the major euro area economies, will also probably have a stabilising effect.

Growth rate in Germany likely to decline again

The uncertainties that have arisen worldwide as a result of the trade conflict between the USA and China will continue to slow down the development of the economy in export-oriented Germany in 2019. In addition, there are burdens resulting from Brexit, the final form and consequences of which were still unclear as at the editorial deadline of this report. Corporate investment activity is also likely to suffer as a result. However, domestic economic factors continue to be supportive: The massive increase in employment in recent years as well as tax and premium relief for private households in the current year are boosting consumption; in addition, construction activity in Germany remains at a stable high level thanks to persistently low interest rates.

ECB will probably not raise base interest rates

Even though the ECB took the first step towards monetary normalisation with the end of its bond purchase programme in December 2018, it can scarcely be assumed that it will continue to pursue this course purposefully and raise interest rates. The base rate is likely to remain at 0% throughout the year. The ECB itself has already ruled out interest rate measures, at least until after the summer. However, it is unlikely that there will be much room for interest rate increases later in the year, given the weaker economic growth already in evidence, which is expected to entail downward risks to inflation. Since wages have risen recently, which in turn fuels inflation, it is unlikely that the ECB will further extend its continued expansive monetary policy. An adjustment of the negative deposit rate by the central bank is, however, entirely possible.

This is unlikely to narrow the interest rate differential with the USA, which will probably remain high. The US Federal Reserve has already been continuously raising its key interest rates since the end of 2015. However, since price pressure in the USA has been easing since the summer of 2018 and the decline in oil prices at the end of 2018 will also have a dampening effect on inflation, there is little scope for further interest rate increases in 2019 due to the less dynamic economic trend. The Fed's balance sheet contraction is, however, expected to continue.

Geopolitical risks unchanged

Geopolitical uncertainties will remain on the agenda in 2019, partly as a result of the conflict between the major powers USA and China. A rapid resolution of the conflict and a withdrawal of the sanctions imposed so far seems unlikely, and a positive stimulus for the global economy is therefore not in sight.

In Europe, in the year of re-election of the European Parliament, the EU's future dealings with the Italian government will be of particular interest, even though an agreement on the 2019 budget has recently been reached. In addition, Europe will face the consequences of Britain's withdrawal from the EU, although the modalities that will be crucial to the economic consequences of Brexit were still unclear in mid-January.

Outside Europe, it remains to be seen whether the newly elected presidents in Brazil and Mexico will be able to meet the expectations placed on them in terms of necessary structural reforms and thus create the conditions for their economies to return to growth.

Health care – a market for the future

The trends in the health care market described in the "Overall economic and industry-specific conditions" section will continue during 2019.

Health policy and ongoing digitisation will continue to transform the health care market. New legislative projects are pushing through stronger regulatory mechanisms, limiting the scope for health professionals and the provision of health care. Digitisation, along with the ongoing pressure on costs and efficiency, continue to drive the interconnectedness, cooperation and concentration of health care service providers. They will also contribute to the emergence of new, interdisciplinary and cross-sectoral health care products and services. These new companies are not only interesting as employers for the new generation of health care professionals; they are also becoming potential investment targets for industrial health care corporations and financial investors.

Heterogeneous development in earnings situation

The environment for pharmacies is characterised by intense competition, increasing digitisation and legal regulations from Berlin and Brussels, and will thus remain challenging. In 2019, the legislature will focus on pharmacy remuneration. The ban on mail-order sales of prescription medicines hoped for by many pharmacists now seems to have been abandoned for good by politicians. In return, the local pharmacies are to be strengthened financially. For example, remuneration for emergency and night services is to be doubled and further pharmaceutical services are to be remunerated.

Fee negotiations for panel doctors and psychotherapists in August 2018 resulted in a decision to raise their remuneration for 2019 by approximately €620 million. This is the result of an increase in the basic guiding amount on the one hand and of the provision of additional funds to cover the growing need for treatment due to the increasing morbidity and rising age of the population on the other. In addition, there is an increase in the remuneration for extra-budgetary services. Statutory health insurance remuneration will thus continue to rise in 2019. Panel dentists are also expected to see a positive development in earnings. Demand for veterinary services will expand only moderately in the future due to factors such as saturation effects among small animal practices and increasing concentration of livestock practices.

More cooperation and increasing connectedness

It is to be anticipated that the importance of new cooperative business and organisational forms will continue to grow in outpatient medicine – on the one hand due to economic considerations, and on the other hand in the interests of a continuous improvement in treatment quality. As a result, outpatient, inpatient, rehabilitative and nursing care service providers are expected to become increasingly interconnected. In addition to health policy, technological progress and digitisation, changing expectations of health professionals are also driving structural transformation in the health care system. The trend towards larger medical, dental and veterinary provision entities (e.g. group practices, medical and dental care centres) and chains, driven in particular by large pan-European health care corporations and financial investors, will also continue to increase, as will the general emphasis on salaried employment.

To ensure that medical innovation continues in future despite the ever stronger effects of economic and competitive factors, interdisciplinary and cross-sector cooperation and partnerships are gaining in importance.

Health care market offers new opportunities

Overall, health care remains a growth market that will continue to provide entrepreneurial health care professionals and companies with sustainable earnings and growth prospects in the future, too. Medical and technological progress as well as advancing digitisation will result in new possibilities for prevention, diagnosis and treatment, which will meet with corresponding demand due to demographic trends. Because of easier access to health information, patients are increasingly concerned with their health, use health apps and expect digital services in relation to their own health care. As in other areas of life, this is especially true for younger patients. In future, health professionals and health care companies will also have to take this trend into account, for example by introducing online appointment booking or video consultation.

Outlook on business performance

Competition in the banking sector remains high

In 2019, banks will continue to focus on making optimum use of their resources, fine-tuning their business models and developing their digitisation strategies. Against the background of constantly new technical possibilities in the financial industry, new market participants and new legal stipulations, the intensity of competition will remain high in 2019: Competition for customers and conditions is likely to continue to accompany financial institutions. When adapting their business models, many banks are focusing on the possibilities of digitisation and also increasingly on platform models through which they broker services from third-party providers in order to offer added value for customers and increase customer loyalty. Cost optimisation programmes are anticipated to be as important as before. Securing profitability in the long run remains the pivotal point for the future success of the banks.

Even though economic growth has slowed slightly recently, economic conditions in Germany remain favourable for banks. Brexit is likely to continue to be a challenge, and may bring with it a high degree of uncertainty for the European financial markets, depending on the outcome of the negotiations. Likewise, future decisions by the US administration relating to trade may have a negative impact on economic performance.

Continued development of our business model

apoBank continues to develop its clearly defined business model. Business with health care professionals, their organisations and enterprises in the health care market remains its solid foundation. We continue to pursue a growth strategy here.

Thanks to our special position at the interface to the health care market, we support our customers on two levels: in banking and in the health care sector. Building on our profound knowledge of both markets, we aim to develop long-term, meaningful business products and services to create even greater benefits for our customers and members. In addition to business start-up financing, asset advisory services and traditional banking services, we want to extend our offering, e.g. by expanding our advisory services, thereby supporting health care professionals in carrying out their professions.

Services outside of the banking business are to be bundled and brought to market via a platform. To this end, the Bank established a subsidiary at the beginning of 2019. Its business purpose is to identify and validate new business models in the health ecosystem and ultimately develop them to the point of market readiness.

Growth in customer business in a challenging environment

Planning for the current financial year at apoBank is based on a continuously growing customer business. Due to our unchanged strong market position and already high customer penetration, we are convinced that we can implement our plans. With our mission “We enable health”, we aim to stand out on the German health market and be an elementary component of it, as well as to strengthen and expand customer loyalty through our value-added advisory services.

In the retail clients business, start-up financing and consulting is a source of new stimuli. In real estate financing, we expect the intense competition on terms and conditions to continue. Rising customer numbers and higher customer penetration will have a positive effect here.

In the Corporate Clients segment, we will be strengthening our marketing efforts with regard to companies in the health care market, hospitals, nursing care facilities and medical care structures. Our aim is to expand our status as principal bank. In addition, we want to intensify our contact to outpatient care facilities initiated by health care professionals.

The aim of this is to continuously increase balance sheet loans and advances to customers. At the bottom line, this means a gradual increase in the balance sheet total.

We intend to further grow the commission-based business. To do so, we will continue to concentrate on the expansion of the securities business and asset management for retail clients and institutional customers. In particular, we will increase the number of customer contacts by simplifying advisory processes in the investment business. By consolidating all asset-related offerings under the apoPrivat brand, we are placing even stronger emphasis on our asset advisory service expertise. We hope that this will lead to an increasing number of business transactions.

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

Growing customer numbers and a higher loan volume, both in the retail and the corporate client business, will make a key contribution to net interest income. Assuming a constant yield curve, we expect a significant increase in net interest income for 2019. The prerequisite for this is an ongoing favourable refinancing mix.

Rising customer numbers will also have a positive effect on net commission income. We want to significantly increase this, primarily through growth in our customers' investment business and in asset management for our retail clients, although the rise in revenue could be less dynamic and more volatile due to the new financial market directive MiFID II and other market developments. Our aim remains to achieve further growth in our deposit volume and win new clients and mandates in investment advisory services. Additional profit contributions will also be made through business with our institutional clients. To this end, we intend to further expand the depository volume of this customer segment.

General administrative expenses will see a marked rise overall in 2019, in particular due to investment in the IT migration. Personnel expenses will remain stable in the current financial year.

The cost-income ratio is likely to increase slightly overall due to the investments in the new IT infrastructure.

On balance, we expect that the operating income for 2019, i.e. profit before risk provisioning, will be slightly above that of 2018.

Risk provisioning for the operating business in the 2019 financial year is anticipated to be in line with standard risk costs in the middle double-digit millions and therefore higher than in 2018.

For the 2019 financial year, we plan for net profit (after tax) to be at the same level as in the previous year. This development would allow us to further strengthen our capital position and to distribute a stable dividend to our members.

Comfortable capital and liquidity situation

As part of our business expansion, we expect regulatory capital ratios to decline slightly in 2019, but to remain at an adequate level. The reason for the decrease is the planned substantial growth in lending in both the retail clients and the corporate clients business, as well as stricter regulations regarding recognition requirements.

Core capital will be strengthened through new members' capital contributions as well as reserves. apoBank's liquidity situation will remain comfortable, since it is supported by a broadly diversified customer and investor base. The liquidity gap analysis is solid both on a short and long-term basis.

Opportunities and risk report

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

Risks can result from the changes in the health care market. In particular, the sustained trend towards salaried employment is leading to a decline in the number of self-employed health care professionals. At the same time, new opportunities are emerging for branches, subsidiaries and cooperation. Outpatient and inpatient care are also converging more and more. Health care corporations and financial investors are increasingly becoming providers in the areas of medicine, dental medicine, nursing care and rehabilitation.

We are counteracting the downward trend in the number of self-employed health care professionals by providing our specialised advisory services, thus helping to reduce reservations about opening their own practice or branch. We work closely with the professional associations here. At the same time, we are continuing to expand the range of products and advisory services for salaried health care professionals and students as well as covering the specific consulting and financing needs of outpatient care facilities. We also want to open up new opportunities in our business with corporate clients, whose number we plan to increase.

As digitisation progresses, a large number of new digital information, communication and supply services are emerging. This opens up new business and cooperation opportunities for us. Such opportunities arise from expanding our offerings at the interface between the health care and financial markets. This allows us to leverage new sources of income and provide our customers and members with additional benefit based on our unique expertise in both markets. We intend to implement our "We enable health" mission. To this end, we will develop – also together with external partners – value-added offerings for our customers in the form of services that give health care professionals greater freedom in their work with patients.

Services above and beyond the banking business are to be brought to market by pooling them and offering them via a platform. The Bank established a subsidiary for this purpose at the beginning of 2019, which will identify, validate and ultimately bring to market innovative business models in the health ecosystem.

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

Digitisation opens up new access channels for our customers, which can have a positive impact on the earnings situation. In the long term, we also expect to continue to improve our process efficiency thanks to digitisation.

The Basel III reform will have a markedly negative impact on apoBank's capital ratios as of 2022: Due to the raising of the capital floor, our regulatory capital ratio will be reduced significantly in the long term. The floor limits capital relief from the internal regulatory risk measuring models; a transition period applies to this, however. As a result of this change, the above-average risk quality of our loan portfolio is being taken less and less into account when calculating the capital ratio.

The continued extremely low level of interest rates and increasingly fierce competition have a negative impact on the earnings situation of the banks, with corresponding negative effects on the development of margins in the lending, deposit and commission business. By contrast, a rise in interest rates could have a positive effect on the banks' income situation.

Additional uncertainties arise from the opportunities and risks associated with the ongoing digitisation of the banking business, specifically in banking processes, and the resulting opportunities for sustainable business models. In payment transactions in particular, providers from outside the industry are entering the market more and more vehemently and staking claims on the banks' traditional branch of business.

With the increasing number of new financial IT companies, fresh business opportunities also open up for the financial industry. Another effect of digitisation is the growing risk of cyber-crime, which both fintechs and banks must protect themselves against. In addition, new risks may result from the growth in use of customer data, which forms the core of new business models. Opportunities arise from new business ideas, but these also entail risks if the data is used improperly or misappropriated.

Risks specific to apoBank could emerge from the migration of the IT systems to the new provider's system, which is planned for 2020. We have analysed these risks and taken measures to effectively counteract them.

Overall, the environment described above mainly holds opportunities for apoBank. This is assured by our business model and our specialisation in academic health care professionals, their organisations, as well as companies in the health care market.

4

Annual Financial Statements

Balance Sheet

Assets

	(Notes)	31 Dec 2018 €	31 Dec 2017 €
1. Cash reserves		**3,333,781,273.45**	**1,909,145,961.51**
a) Cash on hand		35,163,988.63	31,308,944.96
b) Cash in central banks		3,298,617,284.82	1,877,837,016.55
Including: in the German Federal Bank (Bundesbank)		(3,298,617,284.82)	(1,877,837,016.55)
c) Cash in post office giro accounts		0.00	0.00
2. Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks		**0.00**	**0.00**
3. Loans and advances to banks	**(2, 13, 14, 17, 22, 26)**	**1,186,004,165.18**	**1,107,886,654.92**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,186,004,165.18	1,107,886,654.92
Including: due on demand		(634,444,868.26)	(703,196,658.05)
Including: lending against securities		(0.00)	(0.00)
4. Loans and advances to customers	**(2, 13, 14, 17, 22, 26, 47)**	**34,652,283,951.38**	**32,013,100,349.09**
a) Mortgage loans		9,836,340,176.30	8,870,572,606.07
b) Local authority loans		163,458,361.01	156,321,299.56
c) Other receivables		24,652,485,414.07	22,986,206,443.46
Including: lending against securities		(0.00)	(0.00)
5. Debt securities and other fixed-interest securities	**(3, 5, 14, 15, 16, 17, 19, 22, 26, 47)**	**4,373,496,277.66**	**4,526,835,971.26**
a) Money market instruments		400,281,657.15	233,238,649.05
aa) of public issuers		0.00	0.00
Including: acceptable as collateral by the Bundesbank		(0.00)	(0.00)
ab) of other issuers		400,281,657.15	233,238,649.05
Including: acceptable as collateral by the Bundesbank		(400,281,657.15)	(208,204,374.05)
b) Bonds and debt securities		3,964,662,442.54	4,271,259,207.11
ba) of public issuers		1,403,009,530.62	1,484,009,014.69
Including: acceptable as collateral by the Bundesbank		(1,403,009,530.62)	(1,463,880,813.86)
bb) of other issuers		2,561,652,911.92	2,787,250,192.42
Including: acceptable as collateral by the Bundesbank		(2,548,003,872.47)	(2,646,991,789.63)
c) Own debt securities		8,552,177.97	22,338,115.10
Nominal amount		(8,581,700.00)	(22,323,400.00)
6. Shares and other non-fixed-interest securities	**(3, 5, 16, 17, 18, 19, 22)**	**1,184,567,906.22**	**1,186,967,936.22**
6a. Trading assets	**(4, 16)**	**0.00**	**0.00**
7. Participating interests and capital shares in cooperatives	**(6, 14, 16, 20, 22, 30)**	**219,466,735.31**	**211,122,027.16**
a) Participations		219,294,687.92	210,949,979.77
Including: in banks		(113,185.48)	(174,845,243.34)
Including: in financial services institutions		(13,292,807.39)	(13,292,807.39)
b) Capital shares in cooperatives		172,047.39	172,047.39
Including: in cooperative banks		(0.00)	(0.00)
Including: in financial services institutions		(0.00)	(0.00)
8. Shares in affiliated companies	**(6, 14, 16, 20, 22, 30)**	**13,665,285.32**	**11,300,972.59**
Including: in banks		(0.00)	(0.00)
Including: in financial services institutions		(1,292,236.21)	(1,292,236.21)
9. Trust assets	**(21)**	**2,660,826.85**	**2,737,520.63**
Including: fiduciary loans		(0.00)	(0.00)
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	**(8, 22)**	**61,787,223.51**	**15,430,851.00**
a) Internally-generated industrial and similar rights and assets		0.00	0.00
b) Concessions, industrial property rights and similar rights and assets acquired for a consideration, as well as licenses to such rights and assets		380,679.00	728,401.00
c) Goodwill		0.00	0.00
d) Payments in advance		61,406,544.51	14,702,450.00
12. Tangible assets	**(7, 22)**	**140,602,839.51**	**153,031,961.00**
13. Other assets	**(23)**	**189,100,776.87**	**219,542,498.72**
14. Prepayments and accrued income	**(24)**	**18,257,667.82**	**11,570,989.26**
a) from issuing and loan transactions		14,372,337.19	7,975,139.22
b) Others		3,885,330.63	3,595,850.04
15. Deferred tax assets	**(25)**	**0.00**	**0.00**
Total assets		**45,375,674,929.08**	**41,368,673,693.36**

Liabilities

	(Notes)	31 Dec 2018 €	31 Dec 2017 €
1. Liabilities to banks	**(9, 29, 30, 47)**	**8,950,191,340.95**	**8,104,944,381.13**
a) Registered mortgage Pfandbriefe issued		189,811,704.05	77,919,462.74
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		8,760,379,636.90	8,027,024,918.39
Including: due on demand		(128,111,996.17)	(101,567,015.77)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
2. Liabilities to customers	**(9, 29, 30, 47)**	**27,448,585,059.09**	**26,036,948,653.23**
a) Registered mortgage Pfandbriefe issued		1,567,440,597.71	1,509,409,316.63
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		90,528,802.11	90,891,378.98
ca) with an agreed notice period of three months		86,999,393.04	85,368,670.44
cb) with an agreed notice period of more than three months		3,529,409.07	5,522,708.54
d) Other liabilities		25,790,615,659.27	24,436,647,957.62
Including: due on demand		(23,043,919,137.15)	(21,312,587,291.32)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
3. Securitised liabilities	**(9, 29, 30, 47)**	**5,875,756,288.79**	**4,201,927,386.50**
a) Debt securities issued		5,875,756,288.79	4,201,927,386.50
aa) Mortgage Pfandbriefe		3,395,038,632.23	2,112,534,697.96
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		2,480,717,656.56	2,089,392,688.54
b) Other securitised liabilities		0.00	0.00
Including: money market instruments		(0.00)	(0.00)
Including: own acceptances and promissory notes outstanding		(0.00)	(0.00)
3a. Trading liabilities	**(4)**	**0.00**	**0.00**
4. Trust liabilities	**(31)**	**2,660,826.85**	**2,737,520.63**
Including: fiduciary loans		(0.00)	(0.00)
5. Other liabilities	**(9, 32)**	**65,311,543.52**	**82,958,530.18**
6. Prepayments and accrued income	**(33)**	**22,158,316.40**	**13,569,971.51**
a) from issuing and loan transactions		10,015,064.15	8,283,023.08
b) Others		12,143,252.25	5,286,948.43
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	**(10)**	**395,900,200.84**	**403,795,389.11**
a) Provisions for pensions and similar obligations		215,863,637.82	197,187,765.96
b) Tax provisions		3,887,103.35	8,563,183.97
c) Other provisions		176,149,459.67	198,044,439.18
8. - - -		**0.00**	**0.00**
9. Subordinated liabilities	**(9, 30, 34)**	**103,525,095.90**	**116,924,849.47**
10. Participating certificate capital		**0.00**	**0.00**
Including: due within two years		(0.00)	(0.00)
11. Fund for general banking risks		**701,185,901.00**	**636,969,901.00**
Including: special items pursuant to Section 340e (4) of the HGB		(0.00)	(0.00)
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	**(35, 45, 51, 52)**	**1,810,400,355.74**	**1,767,897,110.60**
a) Subscribed capital		1,190,953,169.79	1,165,482,095.16
b) Capital reserves		0.00	0.00
c) Revenue reserves		556,491,249.19	540,491,249.19
ca) Legal reserves		418,750,000.00	410,750,000.00
cb) Other revenue reserves		137,741,249.19	129,741,249.19
d) Balance sheet profit		62,955,936.76	61,923,766.25
Total liabilities		**45,375,674,929.08**	**41,368,673,693.36**

1. Contingent liabilities	**(37)**	**577,918,255.68**	**561,163,356.61**
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		577,918,255.68	561,163,356.61
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
2. Other obligations		**2,974,916,664.89**	**2,645,515,137.26**
a) Obligations under optional repurchasing agreements		0.00	0.00
b) Placement and underwriting obligations		0.00	0.00
c) Irrevocable loan commitments		2,974,916,664.89	2,645,515,137.26

Income Statement

Income statement

	(Notes)	1 Jan – 31 Dec 2018 €	1 Jan – 31 Dec 2017 €
1. Interest income from	**(39)**	**815,717,833.64**	**821,689,216.45**
a) lending and money market transactions		818,587,160.96	825,476,882.01
b) fixed-interest securities and debt register claims		– 2,869,327.32	– 3,787,665.56
Including: from negative interest rates		(–16,796,879.73)	(– 8,635,529.49)
2. Interest expenses	**(40)**	**– 198,322,671.40**	**– 231,304,132.95**
Including: from positive interest rates		(22,157,135.70)	(10,610,015.59)
3. Current income from		**15,027,676.95**	**15,856,329.65**
a) shares and other non-fixed-interest securities		900,010.60	2,400,033.31
b) participating interests and capital shares in cooperatives		10,974,926.25	10,485,758.27
c) shares in affiliated companies		3,152,740.10	2,970,538.07
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		**6,185.20**	**182,043.41**
5. Commission income	**(41)**	**258,429,046.66**	**256,179,240.04**
6. Commission expenses	**(41)**	**– 93,576,310.93**	**– 99,881,595.08**
7. Net trading revenues		**0.00**	**0.00**
8. Other operating income	**(42)**	**71,341,207.54**	**54,582,604.33**
Including: from discounting		(0.00)	(200,190.47)
9. ---		**0.00**	**0.00**
10. General administrative expenses		**– 585,027,657.48**	**– 517,710,154.18**
a) Personnel expenses		– 272,314,454.80	– 266,546,416.16
aa) Wages and salaries		– 219,400,235.71	– 213,584,500.45
ab) Social security contributions and expenses for pensions and benefits		– 52,914,219.09	– 52,961,915.71
Including: for pensions		(– 23,152,947.73)	(– 21,250,939.40)
b) Other administrative expenses		– 312,713,202.68	– 251,163,738.02
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**–12,522,355.79**	**–12,419,525.05**
12. Other operating expenses	**(42)**	**– 37,470,694.29**	**– 63,435,458.57**
Including: from discounting		(– 8,634,232.31)	(– 8,200,210.48)
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**– 53,501,652.24**	**– 35,718,209.29**
14. Income from write-ups in respect of receivables and specific securities and from the release of provisions for credit risks		**0.00**	**0.00**
15. Write-downs and value adjustments in respect of participating interests, shares in affiliates and securities treated as fixed assets		**– 2,495,230.09**	**0.00**
16. Income from write-ups in respect of participations, shares in affiliates and securities treated as fixed assets		**0.00**	**4,802,535.35**
17. Expenses from the assumption of losses		**0.00**	**0.00**
18. ---		**0.00**	**0.00**
19. Operating surplus	**(56)**	**177,605,377.77**	**192,822,894.11**
20. Extraordinary income	**(43)**	**0.00**	**0.00**
21. Extraordinary expenses	**(43)**	**0.00**	**0.00**
22. Extraordinary result	**(43)**	**0.00**	**0.00**
23. Taxes on income	**(44)**	**– 50,851,300.59**	**– 70,418,007.25**
24. Other taxes not reported in item 12		**408,339.03**	**– 490,099.71**
24a. Allocations to the fund for general banking risks		**64,216,000.00**	**60,000,000.00**
25. Net profit		**62,946,416.21**	**61,914,787.15**
26. Profit carried forward from the previous year		**9,520.55**	**8,979.10**
27. Withdrawals from revenue reserves		**0.00**	**0.00**
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
28. Allocations to revenue reserves		**0.00**	**0.00**
a) To legal reserves		0.00	0.00
b) To other revenue reserves		0.00	0.00
29. Balance sheet profit	**(45)**	**62,955,936.76**	**61,923,766.25**

Statement of Changes in Equity

Capital development

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

Capital development

	Subscribed capital		Capital reserves	Revenue reserves		Balance sheet profit/loss
	Members' capital contributions[1] €thous	Contributions of silent partners €thous	€thous	Legal reserves €thous	Other revenue reserves €thous	€thous
31 Dec 2017	1,165,482	0	0	410,750	129,741	61,924
Withdrawals	24,725	0	0	0	0	16,000
Additions	50,196	0	0	8,000	8,000	62,946
Distribution of annual result	0	0	0	0	0	45,914
31 Dec 2018	**1,190,953**	**0**	**0**	**418,750**	**137,741**	**62,956**

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

Cash Flow Statement

Cash flow statement

	1 Dec 2018 €m	1 Dec 2017 €m
Result for the period (net profit/loss)	**62.9**	**61.9**
Write-downs, value adjustments and write-ups in respect of receivables and fixed assets	82.8	62.5
Increase/decrease in provisions	– 7.9	–10.9
Other non-cash expenses/income	62.8	58.9
Profit/loss from the sale of fixed assets	–17.7	– 6.3
Other adjustments (on balance)	0.1	– 0.6
Increase/decrease in loans and advances to banks	– 92.3	102.0
Increase/decrease in loans and advances to customers	– 2,698.5	– 2,559.9
Increase/decrease in securities (unless financial assets)	1,245.5	203.1
Increase/decrease in other assets from operating activities	– 34.5	– 7.2
Increase/decrease in liabilities to banks	853.7	1,183.8
Increase/decrease in liabilities to customers	1,432.8	251.4
Increase/decrease in securitised liabilities	1,667.5	1,266.2
Increase/decrease in other liabilities from operating activities	3.2	15.1
Interest expenses/interest income	– 617.4	– 590.4
Current income from shares, non-fixed-interest securities, participating interests, capital shares in cooperatives and shares in affiliated companies	–15.0	–15.9
Expenses/income from extraordinary items	0.0	0.0
Income tax expense/income	50.9	70.4
Interest payments and dividend payments received	840.0	868.6
Interest paid	–165.4	–185.0
Extraordinary deposits	0.0	0.0
Extraordinary payments	0.0	0.0
Income tax payments	– 60.5	– 81.3
Cash flow from operating activities	**2,593.0**	**686.4**
Deposits from the sale of financial assets	274.5	285.3
Payments for investments in financial assets	–1,380.7	–145.9
Deposits from the sale of tangible assets	24.7	14.9
Payments for investments in tangible assets	–6.3	– 7.2
Deposits from the sale of intangible assets	0.0	0.0
Payments for investments in intangible assets	–47.1	– 8.3
Deposits from the sale of consolidated companies	0.0	0.0
Payments for additions to the scope of consolidation	0.0	0.0
Fund changes from other investment activities (on balance)	0.0	0.0
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Cash flow from investment activities	**–1,134.9**	**138.8**
Payments from increases in equity capital by partners	50.2	50.3
Payments for decreases in equity capital to partners	– 24.7	– 28.6
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Dividends paid to partners	– 45.9	– 45.0
Fund changes from other capital (on balance)	–13.0	–19.0
Cash flow from financing activities	**– 33.4**	**– 42.3**
Cash changes in liquid assets	1,424.7	782.9
Changes to liquid assets due to foreign currency and valuation	0.0	0.0
Changes in liquid assets due to the scope of consolidation	0.0	0.0
Liquid funds at the start of the reporting period	1,909.1	1,126.2
Liquid funds at the end of the reporting period	**3,333.8**	**1,909.1**

Notes

A. General information

1. Framework for the preparation of the annual financial statements

The annual financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf (Local Court of Dusseldorf, GnR 410), as at 31 December 2018 were prepared according to the regulations of the German Commercial Code (HGB), the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV) as well as the Securities Trading Act (WpHG). At the same time, the annual financial statements meet the requirements of the Cooperative Societies Act (GenG), the German Pfandbrief Act (PfandBG) and the Articles of Association of apoBank.

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

B. Accounting, valuation and translation methods

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

2. Loans, advances and risk provisioning

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

In connection with the draft of the IDW ERS BFA 7, apoBank modified the procedure for determining the general value adjustment. A parameter in the current calculation, which takes account of the tax guidelines of the Federal Ministry of Finance, was adjusted, leading to an increase in the general value adjustment by €28,699 thousand and a reduction of the same amount in the earnings situation.

Effect of the modified calculation of the general value adjustment

	General value adjustment	
	according to approach of the Federal Ministry of Finance €thous	according to modified approach €thous
Loans and advances to customers (assets, 4)	34,680,983	34,652,284
Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks (income statement, 13)	24,803	53,502

The effects on the net assets and financial position are of subordinate significance.

3. Securities

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

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

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

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

Securities that are lent within the context of securities lending continue to be posted under the item “Debt securities and other fixed interest securities”, as the significant opportunities and risks that result from them remain with apoBank. The book value of lent securities was €250,000 thousand as at the balance sheet date (31 December 2017: €0 thousand).

4. Trading assets and liabilities

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

5. Valuation units

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

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

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

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

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

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

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

As at the balance sheet date, the total volume of the risks hedged amounted to €617 million (31 December 2017: €745.0 million). These risks result from an omitted depreciation of assets, an omitted appreciation of debt or omitted provisions for contingent losses, and are quantified based on the gross net present values of the derivative transactions.

As at the reporting date, apoBank had designated a total of 698 micro hedges with a nominal value of €11,915.7 million:

- 463 hedges on the Bank's own issuances against the interest rate risk with a nominal value of €8,050.4 million, including
  - 13 caps with a nominal value of €185.7 million,
  - 15 floors with a nominal value of €195.7 million,
  - 103 swaptions with a nominal value of €1,378.0 million,
  - 332 swaps with a nominal value of €6,291.0 million,
- 235 asset swaps to hedge against the interest rate risk of 140 acquired securities with a nominal value of €3,865.4 million.

As at 31 December 2018, a volume of foreign currency swaps from FX trading had been used in the amount of €307 million within the scope of valuation units, including €264 million to hedge offsetting FX swaps and €43 million to hedge a loan in a foreign currency.

The FX swaps can be broken down based on their currency as follows:
- €98 million in US dollars,
- €76 million in British pounds,
- €9 million in Japanese yen,
- €124 million in other currencies.

As at the reporting date, apoBank had a volume of foreign-currency FX forward transactions of €225 million as valuation units, including €224 million to hedge offsetting FX forward transactions and €1 million to hedge interest payments on a loan denominated in a foreign currency. The FX forward transactions can be broken down based on their currency as follows:
- €2 million in US dollars,
- €194 million in British pounds,
- €29 million in Swiss francs.

6. Participating interests and shares in affiliated companies

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

In the reporting period, apoBank integrated almost its entire shareholding in DZ Bank AG into the WGZ Beteiligungs GmbH & Co. KG at book value.

7. Fixed assets/tangible assets

Tangible assets were carried at acquisition cost less scheduled depreciation.

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

8. Fixed assets/intangible assets

Intangible assets were valued at acquisition cost and depreciated on a straight-line basis as planned. The underlying useful life is between three and five years.

9. Liabilities

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

10. Provisions

The provisions for pension liabilities as at 31 December 2018 were calculated based on the actuarial tables “Richttafeln 2018 G” (Heubeck) using the projected unit credit method. The calculation was based on an interest rate of 3.21% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 1.75%. As at 31 December 2018, the difference pursuant to Section 253 (6) of the HGB amounted to €26,552 thousand on an accounting basis.

apoBank recorded the releases and allocations to the balance sheet item “Provisions for pensions and similar obligations” in relation to the interest effects under other operating income and otherwise as a net item under “Personnel expenses”. Pension provisions and the provision for deferred compensation were netted with the corresponding plan assets (initially under “Other assets”) at their fair value in the amount of €15,162 thousand pursuant to Section 246 (2) sentence 2 of the HGB. In this case, the fair value is equivalent to the acquisition costs.

The difference between income of €851 thousand and expenses of €391 thousand in connection with the reinsurance for pension obligations was netted with the expenses from the compounded interest of pension provisions amounting to €7,641 thousand.

The provisions for part-time retirement and anniversary payments were made on the basis of an interest rate of 2.33% and a wage increase trend of 3.00%.

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

apoBank also made adequate provisions for the other uncertain liabilities.

11. Derivative financial instruments

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

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

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

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

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

12. Currency translation

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

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

C. Notes to the balance sheet

Notes to assets

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

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

Breakdown of loans and advances by residual terms

	Loans and advances to banks (A 3) €thous		Loans and advances to customers (A4) €thous	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Accrued interest	59,225	73,407	3,479	3,227
Up to 3 months	979,205	981,906	912,270	819,044
More than 3 months to 1 year	145,000	50,000	2,318,581	2,054,431
More than 1 year to 5 years	2,574	2,574	11,268,836	10,206,148
More than 5 years	0	0	18,432,560	17,165,223

Loans and advances to banks (assets, 3) include receivables from the relevant central cooperative bank (DZ BANK AG) of €687,277 thousand (31 December 2017: €613,133 thousand).

Loans and advances to customers (assets, 4) include receivables with unspecified maturities of €1,716,557 thousand (31 December 2017: €1,765,027 thousand).

14. Affiliated and associated companies

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

Affiliated and associated companies

	Loans and advances to banks (A3) €thous		Loans and advances to customers (A4) €thous		Debt securities and other fixed-interest securities (A5) €thous	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Loans and advances to affiliated companies	0	0	17	20	0	0
Loans and advances to associated companies	664,837	613,133	260,429	242,018	13,649	13,650

15. Debt securities and other fixed-interest securities

Of the debt securities and other fixed-interest securities (assets, 5) reported in the balance sheet, €1,136,813 thousand (31 December 2017: €501,169 thousand) will mature during the financial year following the balance sheet date. These amounts do not include accrued interest.

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

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

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

	Debt securities and other fixed-interest securities (A5) €thous		Shares and other non-fixed-interest securities (A6) €thous		Trading assets and liabilities (A6a) €thous	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Non-negotiable	0	0	1,184,568	1,186,968	0	0
Negotiable	4,373,496	4,526,836	0	0	0	0
Quoted	3,917,478	4,207,563	0	0	0	0
Unquoted	456,018	319,273	0	0	0	0
Negotiable securities not valued at the lower of cost or market	745,321	11,263	0	0		

	Participating interest and capital shares in cooperatives (A7) €thous		Shares in affiliated companies (A8) €thous	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Non-negotiable	219,354	211,007	13,665	11,301
Negotiable	113	115	0	0
Quoted	0	2	0	0
Unquoted	113	113	0	0

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

17. Securities portfolio/receivables by purpose

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

Securities portfolio/receivables by purpose

	31 Dec 2018 €thous	31 Dec 2017 €thous
Loans and advances to banks		
Fixed assets	2,584	2,584

	31 Dec 2018 €thous	31 Dec 2017 €thous
Loans and advances to customers		
Fixed assets	3,033	3,842

	31 Dec 2018 €thous	31 Dec 2017 €thous
Debt securities and other fixed-interest securities		
Fixed assets	3,831,060	3,868,743
Liquidity reserve	542,436	658,093
Total	**4,373,496**	**4,526,836**

	31 Dec 2018 €thous	31 Dec 2017 €thous
Shares and other non-fixed-interest securities		
Fixed assets	1,184,568	51,695
Liquidity reserve	0	1,135,273
Total	**1,184,568**	**1,186,968**

18. Shares in special investment funds

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

Shares in special investment funds

Name of fund	Investment objective	Value in accordance with Section 278 of the KAGB in conjunction with Section 168 of the KAGB or comparable international regulations €thous	Difference to book value €thous	Distributions made for the total financial year €thous	Restriction of daily redemption
APO 1 INKA	Domestic and international bonds	544,004	72,188	0	no
APO 2 INKA	Domestic and international bonds	216,658	27,602	0	no
APO 3 INKA	Domestic and international bonds	374,612	49,276	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	44,086	3,205	0	no

19. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

	Book value as at 31 Dec 2018 €thous	Fair value as at 31 Dec 2018 €thous	Omitted depreciation €thous
Banks	708,897	706,788	2,109
Public debtors	0	0	0
Companies	32,489	31,846	643
Total	**741,386**	**738,634**	**2,752**

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

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

20. List of holdings

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

List of holdings

Company	Share in company capital on 31 Dec 2018 %	Year	Capital and reserves of the company €thous	Result of the past financial year €thous
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	64	2017	9,582	2,072
aik Management GmbH, Dusseldorf[1]	100	2017	88	63
APO Asset Management GmbH, Dusseldorf	70	2017	9,676	3,732
APO Beteiligungs-Holding GmbH i.L., Dusseldorf	100	2018	4,164	6[2]
APO Data-Service GmbH, Dusseldorf	100	2017	5,177	534
ARZ Haan AG, Haan/Rheinland	38	2017	47,449	6,002
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2017	15,375	7,722
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt	0[3]	2017	10,504,000	570,000
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	16	2017	26,478	20,728
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2017	622	49
GAD Beteiligungs GmbH & Co. KG, Münster	5	2017	117,992	3,001
Konnektum GmbH, Dusseldorf	100	2017	390	242
medisign GmbH, Dusseldorf	50	2017	593	76
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	24	2018	4,228	2,169
RiOsMa GmbH, Dusseldorf	90	2018	24	–1
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2017	35,113	3,394
WGZ Beteiligungs GmbH & Co. KG, Dusseldorf	5	2017	2,942,712	80,571
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2017	6,126	916
ZPdZ – Zahnpraxis der Zukunft GmbH, Dusseldorf[4]	50			

1) Indirect participations.
2) Before profit transfer or loss absorbtion.
3) Share in company capital below 0.1%.
4) No figures available at the time of the preparation of the financial report.

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

In accordance with Section 290 (5) of the HGB combined with Section 296 (1 and 2) of the HGB, apoBank has not prepared consolidated financial statements, as either significant and lasting constraints limit the exercise of the rights of apoBank with regard to the net assets or the long-term management of the subsidiary, or the relevant companies are of minor importance overall in terms of presenting a realistic picture of the net assets, financial position and earnings situation.

21. Trust assets

The trust transactions shown on the assets side of the balance sheet are contributions held in trust totalling €2,661 thousand (31 December 2017: €2,738 thousand).

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

22. Development of fixed assets

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

Tangible assets

	31 Dec 2018	31 Dec 2017
	€thous	€thous
Own land and buildings	102,814	114,205
Office furniture and equipment	36,963	37,977

Development of fixed assets

	Acquisition/ production costs as at 1 Jan 2018	Changes in the reporting period Additions	Disposals	Transfers	Acquisition/ production costs as at 31 Dec 2018
	€thous	€thous	€thous	€thous	€thous
Intangible assets	64,337	47,114	0	0	111,451
Tangible assets					
Land and buildings	240,959	631	26,005	0	215,585
Office furniture and equipment	113,991	5,678	523	0	119,146
Loans and advances to banks	2,574	0	0	0	2,574
Loans and advances to customers	3,800	0	800	0	3,000
Fixed-asset securities	3,885,022	1,369,424	273,761	0	4,980,685
Participating interests and capital shares in cooperatives	211,882	191,945	184,078	0	219,749
Shares in affiliated companies	11,880	2,880	177	0	14,583
Total	**4,534,445**	**1,617,672**	**485,344**	**0**	**5,666,773**

Amortisation/ depreciation (accumulated) as at 1 Jan 2018	Amortisation/ depreciation	Write-ups	Changes in total amortisation/depreciation as a result of additions	disposals	transfers	Amortisation/ depreciation (accumulated) as at 31 Dec 2018	Book values at the balance sheet date
€thous	€thous	€thous	€thous	€thous	€thous	€thous	€thous
– 48,906	– 758	0	0	0	0	– 49,664	61,787
–125,904	– 5,113	0	0	19,072	0	–111,945	103,640
– 76,014	– 6,652	0	0	483	0	– 82,183	36,963
0	0	0	0	0	0	0	2,574
0	0	0	0	0	0	0	3,000
– 428	– 2,535	0	0	0	0	– 2,963	4,977,722
– 760	– 58	0	0	536	0	– 282	219,467
– 579	– 339	0	0	0	0	– 918	13,665
– 252,591	**– 15,455**	**0**	**0**	**20,091**	**0**	**– 247,955**	**5,418,818**

23. Other assets

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

Other assets

	31 Dec 2018 €thous	31 Dec 2017 €thous
Capitalised premiums from options and caps	93,248	147,975
Tax receivables	26,475	18,478
Receivables from asset management	31,457	27,700
Receivables from margin payments	23,656	13,375

24. Prepayments and accrued income (assets)

The prepayments and accrued income items include discount amounts from assumed liabilities of €14,372 thousand (31 December 2017: €7,975 thousand) and upfront payments of €1,846 thousand (31 December 2017: €2,044 thousand).

25. Deferred tax assets

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

As at 31 December 2018, a net deferred tax asset existed. This was essentially due to differences between the valuations in the trading and tax accounts for shares and other non-fixed-interest securities, loans and advances to customers, provisions for pensions as well as intangible assets.

The total net surplus of deferred tax assets amounted to €216,049 thousand, including deferred tax assets of €220,849 thousand and deferred tax liabilities of €4,800 thousand.

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

26. Subordinated assets

Subordinated assets are included in the following items:

Subordinated assets

	31 Dec 2018 €thous	31 Dec 2017 €thous
Loans and advances to banks	2,584	2,584
Loans and advances to customers	57,593	38,283
Debt securities and other fixed-interest securities	13,649	13,650
Total	**73,826**	**54,517**

27. Repurchase agreements

Repurchase agreements did not exist at the balance sheet date.

28. Foreign currency items

Assets include foreign currency items with a value of €372,980 thousand (31 December 2017: €327,889 thousand).

Notes to liabilities

29. Breakdown of liabilities by residual terms and other items

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

Breakdown of liabilities by residual term

	Liabilities to banks (P1) €thous		Savings deposits (P2c) €thous		Liabilities to customers without savings deposits (P2a, 2b, 2d) €thous		Securitised liabilities (P3) €thous	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Accrued interest	63,158	71,621	0	0	43,101	64,288	13,975	7,681
Up to 3 months	396,115	390,134	87,152	85,549	23,964,008	22,446,816	699,350	549,270
More than 3 months to 1 year	879,191	798,664	929	1,840	711,472	501,252	180,560	842,280
More than 1 year to 5 years	3,900,140	3,624,225	1,782	2,437	948,495	1,412,926	2,331,571	972,396
More than 5 years	3,711,588	3,220,301	667	1,066	1,690,980	1,520,774	2,650,300	1,830,300

Liabilities to banks include €50,499 thousand (31 December 2017: €31,179 thousand) of liabilities to the relevant central cooperative bank (DZ BANK AG).

Of the liabilities to banks, €7,707,394 thousand (31 December 2017: €6,986,318 thousand) are secured by transfer of assets. These liabilities are mainly publicly refinanced loans.

Further securities with a book value of €75,000 thousand (31 December 2017: €75,000 thousand) have been pledged as additional security for publicly refinanced loan programmes. Irrespective of liabilities to be assigned, apoBank deposited cash collaterals of €49,329 thousand (31 December 2017: €59,851 thousand) within the framework of our collateral management for interest rate derivatives. Moreover, securities with a book value of €372,533 thousand (31 December 2017: €318,877 thousand) were pledged as collateral for margin obligations at futures and options exchanges and to secure payment obligations from securities transactions.

Of the debt securities issued (liabilities, 3.a)), €878,999 thousand (31 December 2017: €1,390,639 thousand) will mature in the year following the balance sheet date.

30. Liabilities due from affiliated or associated companies

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

Liabilities due from affiliated or associated companies

	Liabilities to affiliated companies €thous		Liabilities to associated companies €thous	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Liabilities to banks (P1)	0	0	50,499	31,179
Liabilities to customers (P2)	25,702	16,567	56,795	51,674
Securitised liabilities (P3)	0	0	0	0
Subordinated liabilities (P9)	0	0	0	0

31. Trust liabilities

The trust transactions shown on the liabilities side of the balance sheet are liabilities for contributions held in trust of €2,661 thousand (31 December 2017: 2,738 thousand).

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

32. Other liabilities

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

Other liabilities

	31 Dec 2018 €thous	31 Dec 2017 €thous
Premiums from options and caps carried as liabilities	19,181	24,176
Tax liabilities	10,397	11,740
Trade payables	17,993	16,594
Margin payments received	5,029	945

33. Prepayments and accrued income (liabilities)

“Prepayments and accrued income” (liabilities) includes:

Prepayments and accrued income (liabilities)

	31 Dec 2018 €thous	31 Dec 2017 €thous
Premium from liabilities (securitised or unsecuritised)	4,737	2,035
Discount from claims	5,278	6,248
Other prepayments and accrued income	12,143	5,287

34. Subordinated liabilities

Expenses of €7,304 thousand were incurred in the past financial year (31 December 2017: €8,761 thousand). Early redemption of the subordinated liabilities is excluded.

Subordination has been arranged as follows: In the event of the insolvency or liquidation of apoBank, these liabilities are repayable only after all higher-ranking creditors have been satisfied. The liabilities, most of which are due for repayment by 2019, have a residual term of one to nine years.

Subordinated liabilities with a nominal value of €100,500 thousand (31 December 2017: €113,500 thousand) carry the following interest rates:
- subordinated bearer bonds with a 6-month Euribor variable rate plus 1.00%,
- subordinated promissory note bonds with fixed interest rates of 7.25 to 7.47%.

As at the balance sheet date, borrowings exceeding 10% of the balance sheet item amounted to €15,000 thousand (31 December 2017: €15,000 thousand); they bear interest of 7.35% and are due on 15 July 2019.

35. Capital and reserves

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

Subscribed capital

	31 Dec 2018 €thous	31 Dec 2017 €thous
Members’ capital	**1,190,953**	**1,165,482**
Of remaining members	1,187,078	1,160,343
Of departing members	3,302	4,385
Of terminated cooperative shares	573	754
Compulsory contributions due on shares in arrears	9	2

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

Revenue reserves

	Legal reserves €thous	Other revenue reserves €thous
As at 1 Jan 2018	410,750	129,741
Transfers		
from balance sheet profit of the previous year	8,000	8,000
from net profit of the financial year	0	0
Withdrawals	0	0
As at 31 Dec 2018	**418,750**	**137,741**

36. Foreign currency items

Foreign currency items with an equivalent value of €324,464 thousand (31 December 2017: €283,419 thousand) are included in liabilities and with an equivalent value of €77,230 thousand (31 December 2017: €99,850 thousand) in off-balance-sheet contingent liabilities and other obligations.

37. Contingent liabilities

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

Derivative financial instruments

38. Derivative financial instruments

The volume of unsettled forward transactions affected by a settlement risk or currency, interest rate and/or other market risks arising from open positions, and in the event of counterparty default also from closed positions, amounted to €28,906 million as at 31 December 2018 (31 December 2017: €30,272 million). As at 31 December 2018, the following types of transactions were included therein:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions	Currency-related transactions	Stock-related transactions
▪ Interest rate swaps	▪ FX forward transactions	▪ Stock options
▪ Swaptions	▪ FX swaps	
▪ Caps/floors		

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

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

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

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

Risk structure

	Nominal value €m		Fair value €m	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Interest rate-related transactions[1]				
Time to maturity up to 1 year	2,851	3,576	24	17
more than 1 year to 5 years	11,209	10,852	–101	–45
more than 5 years	13,851	14,343	–136	–152
Subtotal	**27,911**	**28,771**	**–213**	**–180**
Currency-related transactions				
Time to maturity up to 1 year	978	1,443	1	1
more than 1 year to 5 years	14	55	1	0
more than 5 years	0	0	0	0
Subtotal	**992**	**1,498**	**2**	**1**
Stock-related transactions[1]				
Time to maturity up to 1 year	0	0	0	0
more than 1 year to 5 years	3	3	0	0
more than 5 years	0	0	0	0
Subtotal	**3**	**3**	**0**	**0**
Total	**28,906**	**30,272**	**–211**	**–179**

1) Interest rate- and stock-related transactions are reported under the items “Other assets” (€93.2 million), “Prepayments and accrued income (assets)” (€1.8 million) as well as under the items “Other liabilities” (€1.7 million) and “Prepayments and accrued income (liabilities)” (€12.1 million).

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

D. Notes to the income statement

39. Interest income

The “Interest income” item includes €16,797 thousand (31 December 2017: €8,636 thousand) in negative interest income from deposits with the ECB and other banks, from collateral management, as well as from fixed-interest securities.

This item also includes material income related to other periods of €17,327 thousand for prepayment penalties (31 December 2017: €16,078 thousand).

40. Interest expenses

The item “Interest expenses” includes €22,157 thousand (31 December 2017: €10,610 thousand) in positive interest expenses from borrowings from other banks and specific customer groups, from collateral management as well as from securitised liabilities.

In addition, this item includes material income related to other periods in the form of positive interest expenses to the amount of €1,544 thousand (31 December 2017: €0 thousand) resulting from a loan from the ECB and in the form of interest expenses to the amount of €1,531 thousand (31 December 2017: €2,089 thousand).

41. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €21,444 thousand (31 December 2017: €18,768 thousand). This item includes no income related to other periods (31 December 2017: €2,791 thousand from the securities business).

Commission expenses include no expenses related to other periods (31 December 2017: €2,907 thousand from the securities business).

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

Other operating income of €71,341 thousand (31 December 2017: €54,583 thousand) includes, among other things:

Other operating income

	31 Dec 2018 €thous	31 Dec 2017 €thous
Rental income	4,077	4,432
Release of reserves (related to other periods)	38,210	34,627
Accounting gains from the disposal of fixed assets and intangible assets	17,712	6,470
Related to other periods	(26)	(183)
Interest income from tax refunds (related to other periods)	4,983	131
Income from discounting	0	200
Income from currency translation	1,939	1,912

Other operating expenses of €36,771 thousand (30 December 2017: €63,435 thousand) result primarily from the following items:

Other operating expenses

	31 Dec 2018 €thous	31 Dec 2017 €thous
Provisions for litigation costs[1]	17,893	15,820
Accounting losses from the disposal of fixed assets and intangible assets	25	27
Interest expenses from tax arrears (related to other periods)	57	119
Provisions for compensation claims (related to other periods)	0	19,040
Provisions for derivatives valued separately	2,228	11,425
Expenses from compounding	8,634	8,200
Expenses from currency translation	194	467

1) Litigation risks include €15.0 million for apoBank's legal risks from possible claims to the revocation of loans due to invalid agreements.

43. Extraordinary income and expenses

As in the previous year, no extraordinary income or extraordinary expenses were incurred in 2018.

44. Taxes on income

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

The item "Taxes on income" includes other material income related to other periods of €20,936 thousand from tax refunds for previous years (31 December 2017: €268 thousand), and expenses related to other periods of €1,212 thousand from tax arrears for previous years (31 December 2017: €279 thousand).

45. Proposal for the appropriation of the balance sheet profit

In 2018, apoBank recorded a net profit of €62,946,416; the profit carried forward from the previous year amounted to €9,521. The Supervisory Board and the Board of Directors will propose the following appropriation of profit at the Annual General Meeting:

Appropriation of balance sheet profit

	31 Dec 2018 €	31 Dec 2017 €
Net profit	62,946,416.21	61,914,787.15
Profit carried forward from the previous year	9,520.55	8,979.10
Balance sheet profit	62,955,936.76	61,923,766.25
Allocations to legal reserves	8,000,000.00	8,000,000.00
Allocations to other revenue reserves	8,000,000.00	8,000,000.00
Dividends (4%)	46,946,523.65	45,914,245.70
Carried forward to new account	9,413.11	9,520.55

E. Other notes

46. Events after the reporting date

No events took place that were subject to reporting requirements between 31 December 2018 and 22 March 2019 when the Annual Financial Statements were prepared by the Board of Directors.

47. Disclosures according to Section 28 of the PfandBG

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

Total amount and maturity structure

	Total amount of outstanding Pfandbriefe €m		Total amount of cover pool €m		Overcollateralisation %	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Nominal value	5,125	3,674	6,218	5,315	21	45
Net present value	5,250	3,749	6,737	5,825	28	55
Risk net present value[1]	5,250	3,883	6,737	5,968	28	54

	Maturity structure of outstanding Pfandbriefe €m		Maturity profile of cover pool €m	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Up to 6 months	415	324	359	263
More than 6 months to 12 months	5	112	267	323
More than 12 months to 18 months	15	410	304	254
More than 18 months to 2 years	70	5	290	222
More than 2 years to 3 years	560	85	627	496
More than 3 years to 4 years	545	560	648	535
More than 4 years to 5 years	623	45	613	529
More than 5 years to 10 years	1,835	1,268	2,425	2,138
More than 10 years	1,057	865	685	555

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

There are no derivatives included in the cover pool.

Composition of the cover pool

Total amount of receivables used as cover	€m 31 Dec 2018	€m 31 Dec 2017	Share in the total amount of cover pool % 31 Dec 2018	31 Dec 2017
By size class				
Up to €300 thousand	4,452	3,921	– – –	– – –
More than €300 thousand to €1 million	608	501	– – –	– – –
More than €1 million to €10 million	567	495	– – –	– – –
More than €10 million	326	223	– – –	– – –
By type of use (I) in Germany				
Residential	4,648	4,050	– – –	– – –
Commercial	1,305	1,090	– – –	– – –
By type of use (II) in Germany				
Flats	1,413	1,197	24	23
Single- and two-family homes	2,708	2,384	46	46
Multi-family homes	527	469	9	9
Office buildings	11	87	0	2
Retail buildings	8	4	0	0
Industrial buildings	0	0	0	0
Other commercially used buildings	1,286	999	21	20
Unfinished new buildings not yet ready to generate a return as well as building sites	0	0	0	0
Of which: building sites	0	0	0	0

There are no mortgage cover assets outside Germany.

Summary of overdue claims

	31 Dec 2018 €m	31 Dec 2017 €m
Total amount of claims being more than 90 days past due	0	0
Total amount of the impaired receivables, provided that the respective arrears amount to at least 5% of the receivable	0	0

Other notes

	Residential 31 Dec 2018	Residential 31 Dec 2017	Commercial 31 Dec 2018	Commercial 31 Dec 2017
Number of pending forced auctions and forced administrations	0	0	0	0
Number of forced auctions carried out in the fiscal year	0	0	0	0
Number of real estate taken over in the fiscal year to prevent losses	0	0	0	0
Total amount of overdue interest payments in €m	0	0	0	0

48. Cover statement mortgage Pfandbriefe

Cover statement mortgage Pfandbriefe

	31 Dec 2018 €thous	31 Dec 2017 €thous
Loans and advances to customers		
Mortgage loans	5,952,970	5,139,597
Tangible fixed assets (land charges on the Bank's own property)	0	0
Debt securities and other fixed-interest securities (book value as at 31 Dec 2018: €265,085 thousand, 31 Dec 2017: €175,068 thousand)	265,000	175,000
Total cover assets	6,217,970	5,314,597
Total mortgage Pfandbriefe requiring cover	5,125,200	3,673,900
Overcollateralisation	1,092,770	1,640,697

49. Other financial obligations

Other financial obligations amounted among others to €118,020 thousand at the end of 2018 (31 December 2017: €118,020 thousand) and result from an optional obligation to purchase shares in a company within the scope of the lending business. This obligation does not currently pose a risk.

apoBank is a member of the protection scheme with a guarantee fund and a guarantee network operated by the National Association of German Cooperative Banks (Deutsche Volksbanken und Raffeisenbanken e. V. – BVR). Within the scope of the guarantee network, apoBank has assumed a guarantee obligation that amounted to €39,441 thousand as at the end of the past financial year (31 December 2017: €30,543 thousand).

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

50. Average number of employees

The average number of employees in 2018 was 2,075 (2017: 2,111) full-time and 455 (2017: 452) part-time employees. In addition, apoBank also employed an average of 85 apprentices (2017: 98).

51. Changes in membership

Changes in membership

	Number of members	Number of cooperative shares	Uncalled liabilities €thous
Beginning of 2018	111,494	773,595	1,160,393
Additions 2018	3,889	33,470	50,205
Departures 2018	1,928	15,640	23,460
End of 2018	113,455	791,425	1,187,138

52. Capital contributions and uncalled liabilities of members

Capital contributions and uncalled liabilities of members

	31 Dec 2018 €thous	31 Dec 2017 €thous
The capital contributions of the remaining members increased in the year under review by	26,736	26,543
Uncalled liabilities increased in the year under review by	26,745	26,544

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

53. Auditors' fee

The expenses for the audit of the annual financial statements, other certification services, tax advice and other services of the auditor, GV (Genossenschaftsverband – Verband der Regionen e.V.), were €1,607 thousand in the year under review (2017: €1,493 thousand).

The expenses can be broken down as follows:

Auditors' fee

	2018 €thous	2017 €thous
Audit of the annual financial statements	1,268	1,183[1]
Other assurance services	182	131[2]
Tax advice	0	0
Other services	157	179

1) Of which release of reserves 2016: €78 thousand.
2) Of which release of reserves 2016: €5 thousand.

54. Board compensation

According to Section 285 sentence 1 no. 9a of the HGB, the total remuneration granted to the Board of Directors amounted to €5,660 thousand in 2018 (2017: €6,409 thousand); the performance-related share of this total remuneration was 40.7% (2017: 42.2%). The total remuneration paid to Board members in 2018 amounted to €5,034 thousand (2017: €5,917 thousand).

According to the remuneration structure for members of the Board of Directors agreed upon by the Board of Directors and the Supervisory Board, variable remuneration is paid to Board members on top of the basic salary. This amounts to 35.0% of the aggregate salary if all goals are achieved. If the agreed goals are exceeded or not met, the variable payment for the year is increased or decreased accordingly. However, if the results fall short of the goals by more than 50%, no variable remuneration will be paid, and if the goals are exceeded by more than 50%, the variable remuneration will not increase further.

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

The total remuneration for former members of the Board of Directors and their surviving dependants amounted to €3,035 thousand (2017: €2,306 thousand). Pension provisions for this group of persons as at the balance sheet date amounted to €36,581 thousand (31 December 2017: €35,073 thousand).

The total remuneration for members of the Supervisory Board was €1,032 thousand (2017: €1,142, previous year's figure adjusted), which was divided up as follows: annual remuneration €601 thousand (2017: €683 thousand), attendance fees €372 thousand (2017: €400 thousand) and other benefits €59 thousand (2017: €59 thousand).

55. Amounts due from Board members

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

Amounts due from Board members

	31 Dec 2018 €thous	31 Dec 2017 €thous
Members of the Board of Directors	77	93
Members of the Supervisory Board	6,064	5,308

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

Deutsche Apotheker- und Ärztebank eG, 40547 Dusseldorf, Germany

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

The turnover of €831.9 million resulted from the operating result, excluding risk provisioning and general administrative expenses. Deutsche Apotheker- und Ärztebank's operating result amounted to €177.6 million based on HGB accounting.

The number of employees (excluding members of the Board of Directors) as at 31 December was 2,378 (full-time equivalents).

The profit before tax of €177.6 million as at 31 December 2018 was largely generated in Germany. Income tax on this amount was €50.9 million.

apoBank does not receive any public aid.

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

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

58. Board of Directors

Members of the Board of Directors

- Ulrich Sommer, Chairman
- Dr. Thomas Siekmann, Deputy Chairman
- Olaf Klose
- Eckhard Lüdering
- Holger Wessling

59. Supervisory Board

Members of the Supervisory Board

- Prof. Dr. med. Frank Ulrich Montgomery, Chairman, physician
- Wolfgang Häck[1], Deputy Chairman, bank employee
- Ralf Baumann[1], bank employee
- Fritz Becker, pharmacist
- Marcus Bodden[1], bank employee
- Martina Burkard[1], bank employee
- Mechthild Coordt[1], bank employee
- Dr. med. dent. Peter Engel, dentist
- Sven Franke[1], bank employee
- Dr. med. Andreas Gassen, physician
- Dr. med. Torsten Hemker, physician
- Steffen Kalkbrenner[2], bank employee
- Walter Kollbach, tax consultant/auditor
- Dr. med. dent. Helmut Pfeffer, dentist
- Robert Piasta[1], bank employee
- Dr. med. dent. Karl-Georg Pochhammer, dentist
- Christian Scherer[1], bank employee
- Friedemann Schmidt, pharmacist
- Susanne Wegner, general manager
- Björn Wißuwa[1], trade union secretary

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

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

In 2018, members of the Board of Directors and employees of the Bank held seats on the supervisory boards or comparable boards of the following joint-stock companies pursuant to Section 267 (3) of the HGB or comparable organisations:

Name	Company	Function
Ulrich Sommer	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	2nd Deputy Chairman of the Supervisory Board
	Apo Asset Management GmbH, Dusseldorf	Chairman of the Supervisory Board
	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf	Member of the Supervisory Board
	Deutsche Ärzteversicherung AG, Cologne	Member of the Supervisory Board
Dr. Thomas Siekmann	ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf Aktiengesellschaft, Dusseldorf	Member of the Supervisory Board
Olaf Klose	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	Member of the Supervisory Board
	Deutsche Ärzte Finanz Beratungs- und Vermittlungs-AG, Cologne	Deputy Chairman of the Supervisory Board
	Finanz-Service GmbH der APO-Bank, Dusseldorf	Chairman of the Supervisory Board
Eckhard Lüdering	APO Data-Service GmbH, Dusseldorf	Chairman of the Supervisory Board until 2 May 2018
	CP Capital Partners AG, Zurich	Member of the Administrative Board
	PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	Member of the Administrative Board
	Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	Deputy Chairman of the Supervisory Board
Mirko Engels	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
Michael Gabler	ARZ Haan AG, Haan	Member of the Supervisory Board since 10 July 2018
Steffen Kalkbrenner	ARZ Haan AG, Haan	Deputy Chairman of the Supervisory Board
	APO Data-Service GmbH, Dusseldorf	Member of the Supervisory Board until 2 May 2018
Dr. Hanno Kühn	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board since 1 October 2018
André Müller	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board until 30 September 2018
	APO Data-Service GmbH, Dusseldorf	Member of the Supervisory Board until 2 May 2018
Carsten Padrok	Finanz-Service GmbH der APO-Bank, Dusseldorf	Member of the Supervisory Board
Olaf Rosenblatt	ARZ Haan AG, Haan	Member of the Supervisory Board from 6 March to 10 July 2018
Peter Schlögell	Apotheken-Rechen-Zentrum GmbH, Darmstadt	Chairman of the Administrative Board

61. Name and address of the responsible auditing association

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

Dusseldorf, 22 March 2019
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer   Dr. Thomas Siekmann

Olaf Klose   Eckhard Lüdering   Holger Wessling

5

Certifications

Report of the Independent Auditor

Audit opinions

We have audited the annual financial statements of Deutsche Apotheker- und Ärztebank eG, Dusseldorf (hereinafter referred to as the "Cooperative"), comprising the balance sheet as at 31 December 2018, the income statement, the cash flow statement and the statement of changes in equity for the fiscal year from 1 January to 31 December 2018, as well as the notes to the financial statements, including the accounting and measurement methods. We also audited the management report of the Cooperative for the fiscal year from 1 January to 31 December 2018. We did not audit the parts of the management report referred to in the "Other information" section of the management report in accordance with German legal requirements.

According to the findings obtained within the scope of our audit

- the attached annual financial statements comply with applicable German commercial law requirements for cooperative banks in all key aspects and, in consideration of German standard accounting practice, give a true and fair view of the net assets and financial position of the Cooperative as of 31 December 2018 as well as of the results of operations for the fiscal year from 1 January to 31 December 2018, and
- the attached management report gives an accurate picture of the Cooperative's position. This management report is consistent with the annual financial statements in all key aspects, complies with German legal requirements and gives a true and fair view of the opportunities and risks associated with future developments. Our audit opinion on the management report does not cover the content of the parts of the management report referred to in the "Other information" section.

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

Basis for the audit opinions

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

Key audit matters in auditing the annual financial statements
Key audit matters are matters we considered to be the most important in our audit of the annual financial statements in the fiscal year from 1 January to 31 December 2018. These matters were taken into account in our audit of the annual financial statements as a whole and in the formation of our audit opinion; we do not issue any separate audit opinions on these matters.

1. Measurement of other provisions
2. Measurement of loans and advances to customers

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

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

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

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

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

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

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

2.a)
Loans and advances to customers amount to €34.7 billion when netted with risk provisions; this corresponds to 76.4% of the balance sheet total. In addition, contingent liabilities exist in the amount of €0.6 billion and irrevocable loan commitments in the amount of €3.0 billion.

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

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

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

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

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

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

Other information

The legal representatives are responsible for other information.

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

- the corporate governance statement pursuant to Section 336 (2) sentence 1 no. 3 in conjunction with Section 289f (4) of the HGB (disclosures concerning the proportion of women).

Other information also encompasses:

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

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

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

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

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the management report

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

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

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

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

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

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

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

- we identify and assess the risks of material intentional and unintentional misstatements in the annual financial statements and the management report, plan and organise audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to serve as a basis for our audit opinions. The risk of material misstatements not being detected is higher for legal violations than for inaccuracies, as legal violations can include fraudulent conduct, forgery, intentionally incomplete disclosures, misleading statements, and the circumvention of internal controls;
- we gain an understanding of the relevant internal control system for auditing the annual financial statements and of the relevant precautions and measures for auditing the management report in order to plan audit procedures that are appropriate under the given circumstances. However, this is not aimed at issuing an audit opinion on the effectiveness of these systems;
- we assess the appropriateness of the accounting methods applied by the legal representatives and the acceptability of the estimated figures presented by the legal representatives as well as related disclosures;
- we draw conclusions on the appropriateness of the going-concern accounting principle applied by the legal representatives and, on the basis of the audit evidence, whether any material uncertainty exists in relation to events or circumstances that could cast significant doubt on the Cooperative's ability to continue to operate as a going concern. If we conclude that material uncertainty exists, we are obliged to draw attention to the corresponding disclosures in the annual financial statements and the management report in our auditor's report or, if these disclosures are inappropriate, to modify our auditor's opinion. We draw conclusions on the basis of the audit evidence obtained up to the date of our auditor's opinion. Future events or circumstances can, however, lead to the Cooperative being unable to operate as a going concern;
- we evaluate the overall presentation, structure, and content of the annual financial statements, including the notes to the financial statements, and whether the annual financial statements present the underlying transactions and events in a manner that gives a true and fair view of the net assets, financial position and results of operations of the Cooperative in consideration of German standard accounting practice;

- we assess the consistency of the management report with the annual financial statements, its compliance with legal requirements, and the impression it gives of the Cooperative's situation;
- we conduct audit procedures concerning the forward-looking statements made by the legal representatives in the management report. Based on the existence of sufficient and appropriate audit evidence, we verify in particular the significant assumptions that underpin the forward-looking statements made by the legal representatives and assess whether the forward-looking statements have been properly derived from these assumptions. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a significant and unavoidable risk that future events will deviate from the forward-looking statements.

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

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

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

Other statutory and legal requirements

Other disclosures pursuant to Article 10 EU AR
As the responsible audit association, we are the statutory auditor of the Cooperative.

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

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

- audit of securities and custody business pursuant to Section 89 (1) sentence 1 and 2 of the German Securities Trading Act (WpHG) as well as its custodian function pursuant to Section 68 (7) of the German Capital Investment Code (KAGB),
- confirmation of the cost allocation pursuant to Section 16 of the German Act Establishing the Federal Financial Supervisory Authority (FinDAG),
- audit of the completeness and accuracy of the intra-group holdings form pursuant to Article 49 (3) of the Capital Requirements Regulation (CRR),
- review of the non-financial declaration pursuant to Section 340a (1) of the HGB in conjunction with 289b and c of the HGB,
- audit of the data migration planned for 2020 from the bank21 systems of Fiducia & GAD to the bank-specific Avaloq applications,
- issuance of a letter of comfort,
- review of the abridged interim financial statements and the interim management report as at 30 June 2018 pursuant to Section 115 (5) of the WpHG (new version),
- audit of regulatory reporting obligations to calculate the amounts concerning the settlement fund for the year 2018 (bank levy),
- audit of notifications for the second series of targeted longer-term refinancing operations of the Eurosystem (TLTRO-II) in accordance with Article 7 (5) c) of Decision ECB/2016/10,
- commercial assessment of outsourcing.

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

Dusseldorf, 12 April 2019
Genossenschaftsverband – Verband der Regionen e.V.

Dieter Schulz	Arndt Schumacher
Auditor	Auditor

Responsibility Statement by the Legal Representatives

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

Dusseldorf, 22 March 2019
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer

Dr. Thomas Siekmann

Olaf Klose

Eckhard Lüdering

Holger Wessling

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Obituary

In Memoriam

Dr. med. dent. Konstantin Baer

PHR Dr. Bernhard Ball

Dr. Herbert Gebler

Dr. med. Karsten Georgi

Prof. Dr. med. Horst Joachim Rheindorf

Werner Trockel, pharmacist

The deceased were closely associated with apoBank as committee members. We have lost good friends and esteemed companions in our endeavours to advance the Bank.

We will cherish our memories of the deceased.

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

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