Interim Report

deutsche apotheker- und ärztebank

2019

Overview of Business Development

Overview of business development

Bank data	30 June 2019	31 Dec 2018	Change[1] %
Members	114,452	113,455	0.9
Customers	470,380	458,770	2.5
Employees	2,452	2,523	– 2.8
Locations	85	85	–

Balance sheet	30 June 2019 €m	31 Dec 2018 €m	Change[1] %
Balance sheet total	48,021	45,376	5.8
Customer loans	36,129	34,652	4.3
Customer deposits	28,694	27,449	4.5

Income statement	30 June 2019 €m	31 Dec 2018 €m	Change[1] %
Net interest income[2]	357.9	339.7	5.4
Net commission income	90.5	87.1	3.9
General administrative expenses	– 322.6	– 288.1	12.0
Operating profit before risk provisioning	135.1	134.2	0.7
Risk provisioning from the operating business[3]	– 36.1	– 2.8	>100
Risk provisioning with reserve character[4]	– 38.8	– 78.1	– 50.4
Operating result	60.3	53.3	13.1
Net profit after tax	31.9	31.4	1.7

Key figures	30 June 2019 %	31 Dec 2018 %	Change[1] ppts
Total capital ratio (according to CRR)	16.2	18.3	– 2.1
Common equity tier 1 capital ratio (according to CRR)	15.0	16.7	– 1.7
Cost/income ratio[5]	71.0	73.1	– 2.1

Rating (issuer credit rating)	Standard & Poor's	Fitch Ratings (group ratings)
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 come 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 general banking 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.

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Interim Management Report

Fundamental Features of the Bank

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 the 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

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 support our customers based on their 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. By bundling all asset offerings under the apoPrivat brand, we are positioning our asset expertise and thus rounding off our strategic orientation in this business segment.

In the Professional Associations and Large Customers business segment, we support professional associations and institutional organisations 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 strengthen our market position with professional associations and large customers. Our unique network in the health care market is key in achieving this.

We support our customers on two levels at the interface to the health care market: in banking and in the health care market itself. With our newly founded subsidiary naontek AG, we support health care professionals by offering advisory and other services specifically geared to their needs. The purpose of naontek AG is to identify and validate new business models in the health care ecosystem and ultimately to bring them to market maturity.

In addition, we have developed an innovative practice model together with the Zahnärztliche Abrechnungsgenossenschaft (an invoicing cooperative for dentists) to facilitate the path to self-employment for health care professionals. The newly founded Zahnpraxis der Zukunft GmbH (dental practice of the future, a limited company) stands for state-of-the-art practices that self-employed dentists to be can rent in a turnkey condition.

Further details on the fundamental features of the Bank can be found in the Annual Financial Report 2018 (pages 25 to 29). The statements made there continue to apply.

Economic Report

Overall economic and industry-specific conditions

Global economic growth continues to lose momentum

In the first quarter of 2019, price-adjusted economic growth of the industrial nations increased by 0.6% compared to the previous quarter, i.e. twice as much as between the third and fourth quarter of 2018. This trend was driven by renewed growth in Germany, Italy, the UK and the USA. However, the fact that the expansion in the industrial nations was higher than expected in the first three months this year is mainly due to special factors specific to each country. The basic momentum in global economic growth, however, has declined since the beginning of the year. China's economy continued to gradually slow down, as in previous years; this trend was, however, dampened by expansive fiscal and monetary measures. While in the USA positive growth impetus came from foreign trade and from accumulating inventories, the partial government shutdown led to restrained domestic demand.

Growth in real gross domestic product in the euro area accelerated to 0.4% in the first quarter of 2019, after declining in the second half of 2018 mainly as a result of a decrease in foreign demand. The manufacturing industry in the euro area was impacted by the continuing weakness of international trade and the longer period of global uncertainties. The construction industry and the services sector, however, proved resilient and bolstered overall economic performance.

The German economy grew in the first quarter of 2019 by 0.4% in real terms compared to the last quarter of 2018. This was facilitated by special effects that will come to an end or even be reversed in the subsequent period. Nevertheless, the underlying economic growth trend in Germany remained weak in the first half of the year. The main reason for this was the ongoing decline in industry. On the other hand, the buoyancy effects for more strongly domestically oriented economic sectors remained intact. Employment figures continued to develop well in the first half of the year, although momentum here slowed down slightly.

ECB announces plans for upcoming easing measures, Fed completes turnaround

The ECB Governing Council decided at its meeting at the beginning of June to leave the key interest rates in the euro area unchanged and to amend its forward guidance. According to this, the ECB expects the key interest rates to remain at their current level until at least the end of the first half of 2020. In order to ensure that inflation continues to approach the target level of 2% in the medium term, the ECB Governing Council is also considering keeping the key interest rates at its current level for an even longer period. Furthermore, the ECB Governing Council decided on the details of the new series of quarterly targeted longer-term refinancing operations (GLRG III), and in particular the pricing parameters. In his speech of mid-June, ECB President Mario Draghi took the existing economic growth risks and the resulting threats to price stability in the euro area as an occasion to emphasise the flexibility and readiness of the ECB to take further monetary policy easing measures. Besides an amendment to its forward guidance, a reduction in the key interest rates and the reinstatement of the bond purchase programme was put up for discussion.

In the USA, the key interest rates were raised most recently in December 2018. This was the ninth increase in the key interest rates by the US Federal Reserve since it started to tighten monetary policy in December 2015. Since implementing this increase in interest, the Fed has made a turnaround and has emphasised its readiness to support economic growth in the USA by taking monetary policy steps. At the end of July, the Fed then reduced the key interest rate by a quarter of a percent to the new range of 2.0 to 2.25%.

International stock and pension markets almost at their highest levels this year at the half-year mark

After the price rally on the international stock markets in the first months of 2019, the abrupt intensification of the trade war between the USA and China in May led to a marked reduction in risk appetites, followed by significant declines on the international stock markets. Favoured by the possibility of upcoming monetary policy easing measures by the Fed and the ECB, a large number of international share indices approached their highest levels this year in June. Significant declines in yields on many government bonds were recorded on the pension markets. The yield on federal bonds with 10-year maturities dropped to the historical low of –0.33% at the end of June.

Health care market remains a growth market

The health care market continues on its growth path in 2019. Demographic change, progress in medical technology and growing health awareness among the population are bringing a long-term increase in demand, thus creating more value in the health industry. Digitisation continues to be a key growth factor. More and more established companies are adding digital services to their offerings; at the same time, start-ups are developing innovative health and medical apps. Companies from outside the industry, such as Amazon, Google or Apple, which in the past offered telecommunications or other (digital) products and services, are now increasingly discovering the health care market for themselves and are expanding their business models accordingly.

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), a reform of emergency care and a digital health care act (Digitale Versorgung-Gesetz). The main aim of the new regulations is to achieve a sustainable improvement in health care – not least through digital offerings and innovations. Health apps, electronic patient records, e-prescriptions and video consultations are to be integrated into the practice of health care. Health policy also continues to focus on tangible improvements in the daily life of nursing care personnel as well as dovetailing outpatient and inpatient medicine.

Economic trend: Moderate growth course

Revenue per pharmacy rose by an average of 3% in 2018 compared to the previous year, not least due to the declining total number of pharmacies. In spite of higher revenue, the operating result before taxes was approximately on the level of the previous year, in particular due to high cost of materials. The market differentiation between high-revenue and low-revenue pharmacies that has been observed for years continues.

All other groups of health care professionals also recorded an increase in the last calendar year. The total remuneration of panel doctors and psychotherapists will again rise moderately in 2019.

Structural development: Trends towards larger structures and salaried positions

The total number of pharmacies in Germany continues to decline overall. While the number of pharmacies without branches decreases steadily, more branches and branch networks are gradually being established, i.e. the entities are becoming larger. In particular, pharmacy networks with two or three branches are seeing continuous growth. Accordingly, the number of salaried pharmacists has been rising continuously for years, while the number of self-employed pharmacy owners is falling.

The total number of self-employed panel doctors and psychotherapists, as well as self-employed panel dentists, continues to decrease steadily. For these groups of health care professionals, too, 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. Taking the so-called buy-and-build approach, these are increasingly becoming providers in the areas of medical and dental services, rehabilitation and nursing care. Since 2015, when the establishment of medical care centres for just one specialist group became legally permissible, the number of dental medical care centres in particular has risen steadily.

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

Hospitals: Ongoing pressure to innovate and provide higher 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 – instead of hospitals being easily reachable, as before – are having an influence on the number of hospitals needed. Removing nursing care personnel costs from the DRG flat rates (DRG = diagnosis-related groups) as well as the introduction of minimum limits for nursing care personnel – initially in selected departments – are increasingly causing significant liquidity problems for hospitals. In addition, many clinics have not yet sufficiently engaged with the topic of digitisation. 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 is on the political agenda: A federal/state task force was set up, with money from the innovation fund available, so 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 the ageing, multi-morbid population as well as the declining number of family networks, the demand for nursing services is also growing continuously; this results in the need for sustainable and innovative nursing concepts. In order to meet the rising demand, policy-makers began in 2018 to create better conditions for alternative ways of living and community-based living, service and care concepts. With the Pflegepersonal-Stärkungsgesetz (act for strengthening nursing staff) and the Konzertierte Aktion Pflege (concerted nursing care campaign), the foundation has been laid to make nursing care occupations more attractive. Additional jobs, a package of measures to create better conditions and higher wages are designed to strengthen the supply side in the long run.

Digitisation of health market in full swing

Technological change and increasing digitisation have given rise to new digital health care services, which are offered by innovative companies providing diagnostics and therapy. In future, insurance holders are to be entitled to these applications. To this end, access to standard health care is to be made easier on the one hand, and on the other hand, the legislature aims to guarantee a minimum level of quality of the applications. Further funding of digital health care applications is also planned. This will make the health care market much more attractive to the relevant providers. With the relaxation of the ban on remote treatment, video consultation can be offered in almost all federal states. The 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

Satisfactory result achieved

Overall, we rate the business performance in the first six months of 2019 as satisfactory.

In spite of a consistently challenging environment, we succeeded in recording a net profit after tax to the amount of €31.9 million, thus achieving our planned level (30 June 2018: €31.4 million). This was based on our strong position in the health care market.

In accordance with our statutory purpose, we support our 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 2019 – our member and customer base expanded again: As at 30 June 2019, we served 470,380 customers (31 December 2018: 458,770 customers). At the same time, the number of remaining members increased to 114,452 (31 December 2018: 113,455 members).

The growth of our lending business continued in the first half of 2019. Loans and advances to customers rose by 4.3% to €36.1 billion (31 December 2018: €34.7 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.

We primarily refinanced our lending business via liabilities to customers; these rose by 4.5% to €28.7 billion (31 December 2018: €27.4 billion). The growth in securitised liabilities of 13.6% to €6.7 billion (31 December 2018: €5.9 billion) is mainly due to our Pfandbrief issuances. As at the reporting date 30 June 2019, the balance sheet total was €48.0 billion (31 December 2018: €45.4 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 the first half of 2019. We gained a large number of new customers among students in the academic health professions, but also among salaried and self-employed health care professionals.

Strong growth in the loan portfolio on the balance sheet

The good level of new business in the reporting period led to an increase in our loan portfolio with retail clients to a total of €30.3 billion (31 December 2018: €29.1 billion). The volume of business start-up financing increased significantly to €7.4 billion (31 December 2018: €7.1 billion). This enabled us to further strengthen our leading market position.

The low-interest rate environment again ensured high demand for real estate financing. In a highly competitive market, our portfolio of real estate financing rose to €18.2 billion (31 December 2018: €17.3 billion). Investment and private financing remained stable at €4.7 billion (31 December 2018: €4.7 billion).

Customer deposits up again

The average volume of demand, savings and term deposits of our retail clients rose to €18.7 billion (2018: €17.4 billion). Due to the persistently low interest rates, our customers still prefer short maturities and high availability for their investments.

Growth in securities business with customers

After the considerable declines on the stock markets as at the end of 2018, prices started to increase significantly again in the first half of 2019.

Boosted by this positive market performance and as a result of the intensification of our sales measures, our deposit volume had risen by the middle of 2019 to €8.8 billion (31 December 2018: €7.8 billion).

Positive trend in asset management continued

In asset management, the positive trend of 2018 continued: Managed volume rose to €3.7 billion as at the reporting date 30 June 2019 (31 December 2018: €3.3 billion); the number of our customers increased to 11,200 (31 December 2018: 9,600). Both classic asset management, including asset management funds, and our new apoVV SMART asset management developed positively. With this new offering, health care professionals can already benefit from our expertise in private asset management from an asset volume of €50,000. Assets under our management exceeded the €500 million mark for the first time.

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 €311.0 million (30 June 2018: €268.5 million). This increase was driven mainly by higher demand for pension products as well as insurance products as redemption replacement for financing.

The building society business continued to profit from the ongoing low interest rate and the associated high investment in real estate. The total contract volume had risen by 30 June 2019 to €337.1 million, a considerable increase compared to the previous year (30 June 2018: €298.5 million[1]).

1) Previous year's figure updated.

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.

In the reporting period, apoBank continued to maintain trusting business relations with the professional associations. The average deposit volume increased to €3.9 billion (2018: €3.6 billion).

Our subsidiary medisign GmbH is making an important contribution to the establishment of an electronic data transmission infrastructure in Germany by issuing electronic identification cards in the health care sector. At the end of 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). Since then, demand for medisign practice IDs has risen sharply. Throughout Germany, more than 50 professional associations and companies within the health industry accept medisign IDs for secure online identification of their members and customers.

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 e.g. pension funds, insurance companies and foundations as well as church or municipal health care facilities.

With our individually tailored advisory approach, we offer our 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.

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 reporting period. 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. At the reporting date 30 June 2019, we held 251 funds in custody (31 December 2018: 253); the depository volume increased to €21.0 billion in the first half of the year (31 December 2018: €19.6 billion). With the expansion of our depository business, we further strengthened our favourable position in the competitive depository market.

Innovative fund products continued to be in high demand by special real estate funds and investment stock corporations. This is one of the main reasons for our success in expanding our market presence with this customer group.

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 whole-saling 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, we set up our own Corporate Finance department and are developing it on an ongoing basis 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 activities 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 principal bank. In spite of continued intense competition, the loan volume in the Corporate Clients business segment rose again, amounting to €3.9 billion as at 30 June 2019 (31 December 2018: €3.8 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 5.4% to €357.9 million (30 June 2018: €339.7 million). The growth driver was the lending business, where we achieved a further increase with new loans amounting to €3.7 billion (30 June 2018: €3.6 billion). In addition, we made special payouts from apoBank's own special fund, as planned, in order to refinance part of the investment costs for the IT migration project.

On the refinancing side, the trend towards short-term demand deposits continued. We still do not charge any custodial fees for deposits from retail clients.

Overall, we slightly exceeded our expectations with regard to net interest income. In addition to the special payouts mentioned above, the reasons for this were the measures carried out at the end of last year in connection with strategic interest management; these measures provide relief for the interest expenditure in the current financial year.

Growth in net provision income

Net commission income rose by 3.9% to €90.5 million (30 June 2018: €87.1 million). We posted a positive performance in the securities business, both with institutional clients and with retail customers. In addition, commission income from the insurance business showed a positive trend. The bottom line was that the commission-based business was slightly below our expectations.

Income statement

	30 June 2019	30 June 2018	Change[1]
	€m	€m	%
Net interest income[2]	357.9	339.7	5.4
Net commission income	90.5	87.1	3.9
General administrative expenses	– 322.6	– 288.1	12.0
Balance of other operating income/expenses	9.2	– 4.5	-
Operating profit before risk provisioning	135.1	134.2	0.7
Risk provisioning from the operating business[3]	– 36.1	– 2.8	> 100
Risk provisioning with reserve character[4]	– 38.8	– 78.1	– 50.4
Operating result	60.3	53.3	13.1
Taxes	– 28.3	– 21.9	29.5
Net profit after tax	31.9	31.4	1.7

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 general banking reserves.

General administrative expenses higher, as expected

In the reporting period, our general administrative expenses rose significantly, by 12.0%. However, they were moderately lower than planned, at €322.6 million (30 June 2018: €288.1 million). Personnel expenses remained at the previous year's level, at €130.4 million (30 June 2018: €130.1 million). They were thus slightly below the budgeted amount. Personnel cut-backs took place more slowly than expected. Operating expenditure including depreciation, on the other hand, rose considerably, as expected, to €192.2 million (30 June 2018: €158.0 million). This was primarily due to the expenditure relating to the upcoming IT migration, higher expenditure to fulfil regulatory requirements as well as investments with the objective of optimising our loan processes. The increase stated, however, was lower than expected. This was due to budgets that were not used to the full, e.g. in the IT migration project.

Operating result slightly higher than in the previous year

The operating result, i.e. profit before risk provisioning, was at the previous year's level, at €135.1 million (30 June 2018: €134.2 million). This was more than two thirds higher than budgeted. Some of the reasons for this were the trend in net interest income, the underutilised budget in general administrative expenses as well as various individual effects in the other operating income item.

Risk provisioning increased for the operating business

Risk provisioning for the operating business was at -€36.1 million (30 June 2018: -€2.8 million) and was thus higher than planned. With this risk provisioning we cover a number of smaller loan loss provisions in the retail client business. Net allocations to loan loss provisions remained on a high level.

Risk provisioning with reserve character amounted to -€38.8 million (30 June 2018: -€78.1 million). Due to the favourable development of our operating business, we were able to build up more reserves than expected.

Stable net profit

After allocations to reserves, the operating result before taxes increased by 13.1% to €60.3 million (30 June 2018: €53.3 million), slightly higher than expected due to the favourable development of our operating business. After taxes, net profit totalled €31.9 million (30 June 2018: €31.4 million), and was thus on target.

Higher balance sheet total and comfortable liquidity situation

The balance sheet total rose to €48.0 billion as at 30 June 2019 (31 December 2018: €45.4 billion). Loans and advances to customers increased to €36.1 billion (31 December 2018: €34.7 billion). This was due to the consistently high demand for our financing expertise. The securities portfolio amounted to €5.9 billion (31 December 2018: €5.6 billion).

apoBank's liquidity situation remained comfortable throughout the first half of 2019. 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 €28.7 billion (31 December 2018: €27.4 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €2.8 billion (31 December 2018: €3.1 billion). We also use covered Pfandbriefe as well as unsecured bonds (preferred and non-preferred), which we were able to place with our institutional clients, members of the cooperative FinanzGruppe and the capital market.

In the Pfandbrief business, we once again placed two further mortgage Pfandbriefe, each at a value of €500 million, on the European capital market in the first half of 2019. The total volume of the Pfandbrief portfolio at the reporting date of 30 June 2019 rose to €5.8 billion (31 December 2018: €5.1 billion).

In addition, we use refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks. In order to fulfil the regulatory requirements for liquidity, we held €4.2 billion in ECB-eligible securities as at the reporting date (31 December 2018: €4.3 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 a member of the cooperative protection systems, these ratings also apply to apoBank.

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 also rose considerably. Nevertheless, we were once again able to strengthen our reserves. Net profit remained stable. The liquidity situation remained comfortable throughout the reporting period. Here we benefitted 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. 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:
- the risk inventory,
- the business and risk strategy,
- the organisation of risk management,
- the risk-bearing capacity concept including stress tests and adverse scenarios,
- risk control, measurement and limitation,
- risk reporting as well as
- the recovery governance and the resolution plan.

For a detailed description of risk management including the essential elements listed above, please refer to the risk management report published in our Annual Financial Report 2018 (pages 42 to 53).

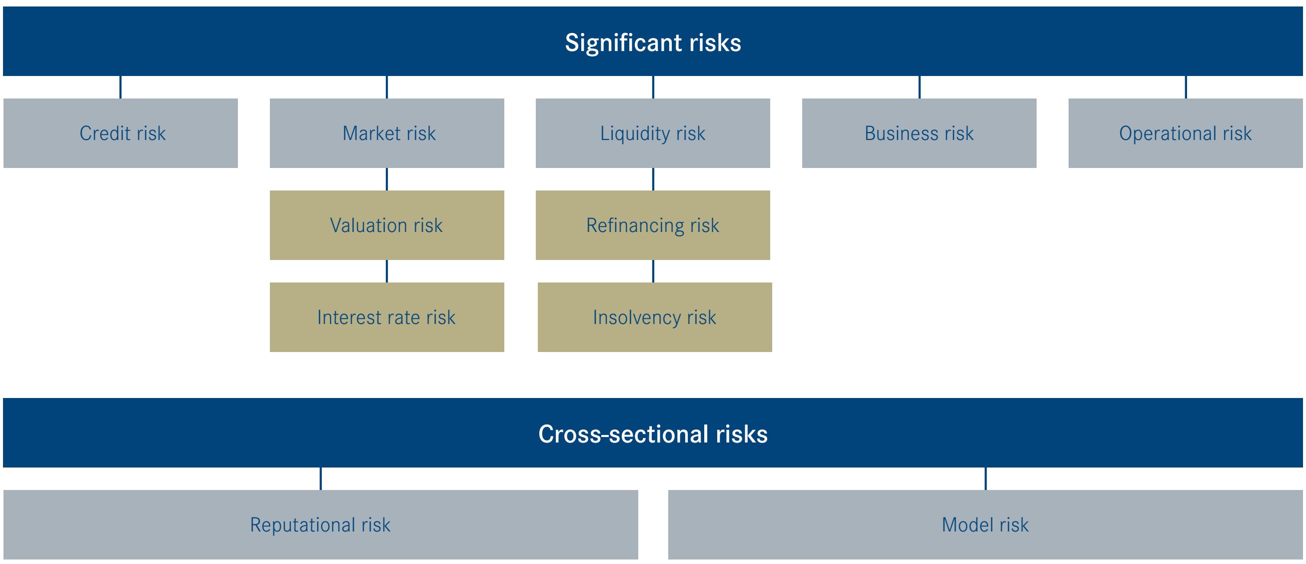
The diagram below provides an overview of the risk types at apoBank.

Development of the risk position in the first half of 2019

Overall capital situation

apoBank has further refined its Internal Capital Adequacy Assessment Process (ICAAP), and has adapted it to comply with the binding requirements of the ECB, which are effective as of the beginning of 2019. In the ICAAP, a sophisticated approach comprising a normative and an economic perspective is taken towards controlling the capital situation. In order to comprehensively monitor the capital situation, the correlations between the two perspectives are taken into account. We will provide details on the refined ICAAP in the 2019 Annual Financial Report.

Classification of apoBank's types of risk



Capital situation – normative perspective
Overall, the Bank rates its capital situation as comfortable.

As at the reporting date, the total capital ratio of apoBank pursuant to the Capital Requirements Regulation (CRR) amounted to 16.2% (31 December 2018: 18.3%) and the common equity tier 1 capital ratio was at 15.0% (31 December 2018: 16.7%). apoBank's equity ratios as at 30 June 2019 were thus below the previous year's levels. However, they continued to be significantly above the minimum requirements and the internal target values.

As at 30 June 2019, regulatory equity capital totalled €2,551 million (31 December 2018: €2,543 million). Common equity tier 1 capital rose from €2,310 million as at the end of 2018 to €2,353 million. This rise was due on the one hand to the renewed growth in members' capital contributions, which reached €1,199 million (31 December 2018: €1,187 million). In addition, our equity position was strengthened with allocations to the fund for general banking risks in particular as well as to the revenue reserves from the annual result 2018.

Supplementary capital declined to €198 million (31 December 2018: €233 million) as expected. The main reasons for this were that subordinated capital could only be 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 2019 the uncalled liabilities adjustment and the reserve pursuant to Section 340f of the German Commercial Code could not be considered to the same extent as previously due to regulatory legislation.

Risk-weighted assets amounted to €15,704 million as at 30 June 2019, a substantial increase on the previous year's figure (31 December 2018: €13,861 million). This rise reflects the growth in the customer lending business as well as the regular recalibration of the rating procedures.

Also in the rolling capital forecast for at least the next three years, the minimum requirements and internal target ratios were complied with at all times.

The leverage ratio pursuant to transitional arrangements amounted to 4.6% (31 December 2018: 4.8%); it therefore continued to be very significantly above the regulatory minimum requirement of 3.0%.

Capital situation – economic perspective
In the economic perspective of the ICAAP, too, the minimum requirement as well as the internal target ratio were clearly exceeded at all times.

Risk-bearing capacity (economic perspective)

as at the reporting date 30 June 2019	€m	Economic capital ratio %
Risk cover potential	2,838.6	
Bank-wide risk position	1,800.2	157.7

Significant risks

as at the reporting date 30 June 2019	Actual risk €m	Utilisation of applicability criterion %
Credit risk	1,034.9	88.5
Liquidity risk	13.2	33.1
Operational risk	104.2	86.8
Market risk	563.9	97.2
Business risk	84.1	93.4

The economic capital ratio, which represents the relation between the risk cover potential and the measured economic risks, was on a comfortable level, at 157.7% (31 December 2018: 191.2%)[1] despite a higher unexpected loss (UEL). The economic risks measured at a confidence level of 99.9% amounted to €1,800 million as at the reporting date (31 December 2018: €1,474 million). This means that the utilisation rate of the Bank-wide limit of €2,000 million, which is derived from the risk cover potential, was 90.0% as at 30 June 2019.

As at the reporting date, the risk cover potential was €2,839 million (31 December 2018: €2,819 million). It predominantly consists of components of the common equity tier 1 capital.

Credit risk

At the end of the first half of 2019, the UEL from credit risks faced by apoBank exceeded the UEL stated at the end of 2018. This increase is mainly due to new business generated in the first half of the year as well as a more conservative modelling of country risks.

The applicability criterion for credit risk derived from the Bank-wide UEL limit was complied with at all times in the reporting period. The key developments in credit risks for the individual portfolios are presented below.

1) The method for calculating the economic capital ratio, the economic risk cover potential and the economic risks was approved when the new ICAAP came into effect on 1 January 2019. The figures stated for 31 December 2018 are thus calculated ex post in line with the new method.

The rating system of apoBank

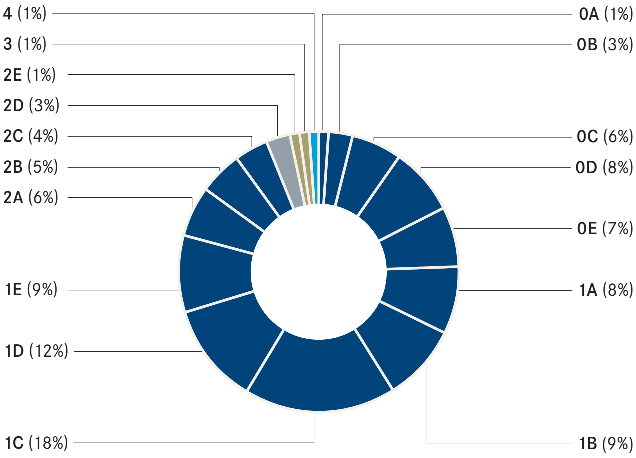
Meaning	Rating class (BVR master scale)	Probability of default %	External rating class[1]
Commitments with **excellent** creditworthiness, no risk factors (standard loan management)	0A	0.01	Aaa
	0B	0.02	Aa1
	0C	0.03	Aa2
	0D	0.04	
	0E	0.05	Aa3
Commitments with **good** creditworthiness, individual risk 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 €31,838 million[1]

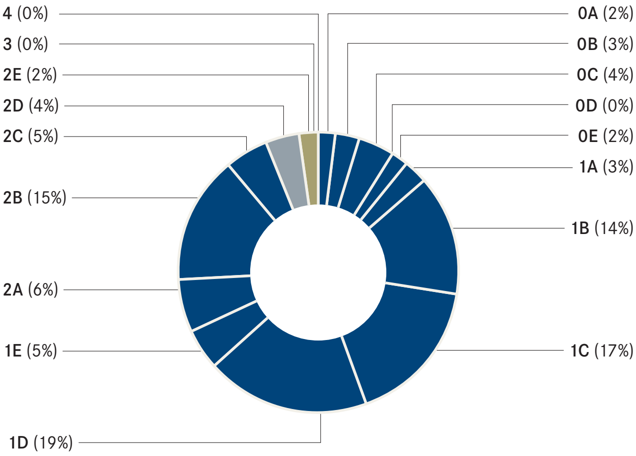


1) Percentages rounded.

Rating class distribution in the professional associations and large customers portfolio

Volume distribution based on drawdowns

Total of €5,229 million[1]



1) Percentages rounded.

Retails clients portfolio

In the retail clients portfolio, drawdowns rose to €31.8 billion (31 December 2018: €30.7 billion) due to the positive development of new business.

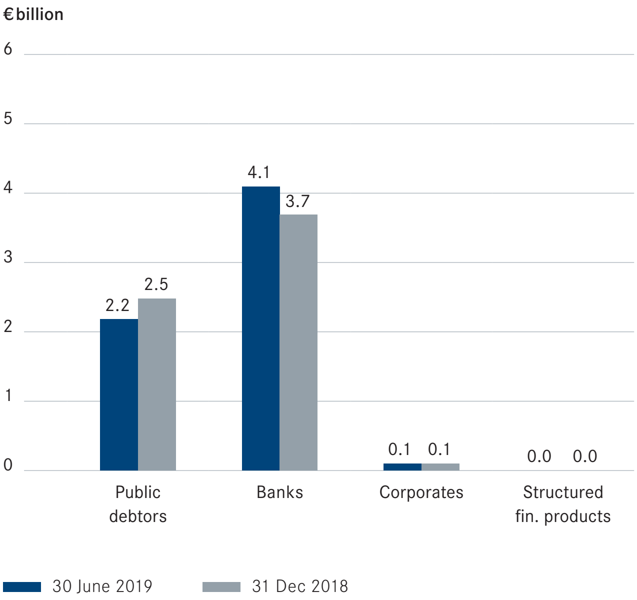
The rating structure shows a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group. The rating coverage is very close to 100%. The portfolio is highly diversified: With around 211,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

After offsetting new and no longer necessary provisioning measures, value adjustments to the amount of €28.1 million were made in the first half of 2019. This amount is around €5.7 million higher than the pro rata amount of €22.3 million budgeted for the year. In spite of the fact that the budget was exceeded, the relatively low value adjustment volume remains proof of 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 portfolio

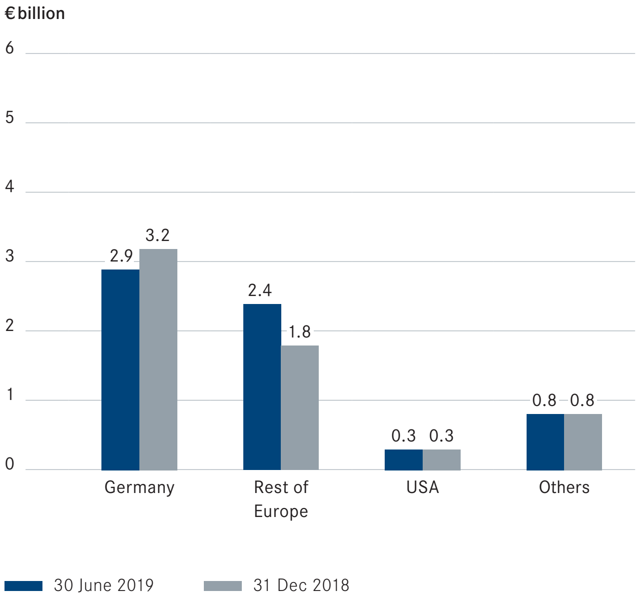
Total drawdowns in the professional associations and large customers portfolio increased by €0.3 billion to €5.2 billion as at 30 June 2019 (31 December 2018: €4.9 billion). The rating distribution of the portfolio was balanced and the rating coverage complete.

Total exposure of financial instruments portfolio by sector[1]



1) Deviations possible due to rounding differences.

Risk volume of financial instruments portfolio by country[1]



1) Deviations possible due to rounding differences.

As at the reporting date 30 June 2019, apoBank only had to take small risk provisioning measures (€1.3 million) for the professional associations and large customers portfolio after offsetting. The amount was considerably below the pro rata amount of €6.2 million budgeted for the year.

Financial instruments portfolio
The risk volume of the financial instruments portfolio managed by the Treasury business segment amounted to €6.4 billion on the reporting date and was thus above the previous year's figure (31 December 2018: €6.2 billion). This was due to higher levels of term deposits and securities.

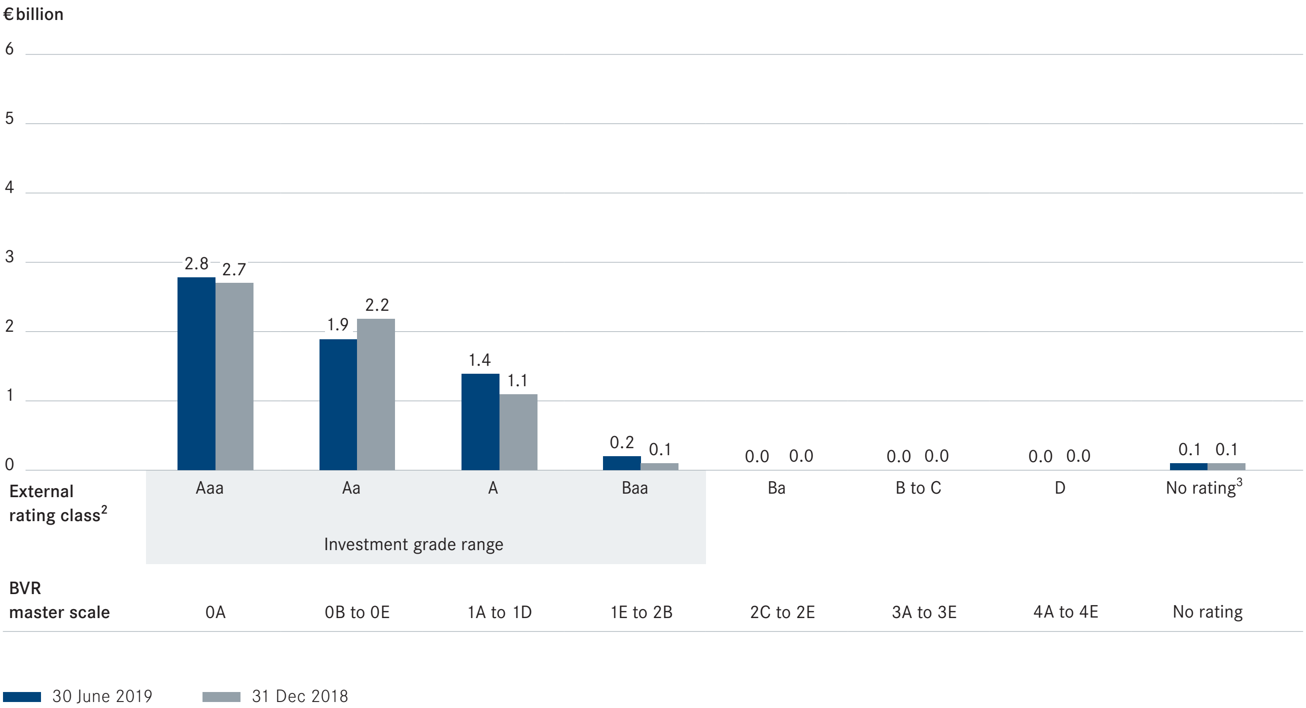
The risk volume of the derivatives in the financial instruments portfolio was stable at €0.1 billion (31 December 2018: €0.1 billion). apoBank uses derivatives primarily to hedge against interest rate risks stemming from the customer business. As at the reporting date, the nominal volume amounted to €29.2 billion (31 December 2018: €28.9 billion).

As at 30 June 2019, as in the previous year, 99.2% of the financial instruments portfolio was rated in the investment grade range. Only very low risk provisioning measures were required in the first half of 2019; they were more or less in line with the budgeted amount.

Participations portfolio
The book values of the participations were stable as at 30 June 2019 at €0.2 billion (31 December 2018: €0.2 billion).

In the reporting period, risk provisioning of around €4.2 million was made in the participations portfolio. This risk provisioning is mainly due to an investment by apoBank in a participation that is currently being set up. As a result of the budgeted start-up losses from this participation in its initial years, this investment has to be written off.

Total exposure of financial instruments 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 Bank-wide interest rate risk as well as the valuation risks of financial instruments increased significantly in the course of the year. The reasons for this are the significant drops in interest rates, higher securities portfolios as well as a higher fixed-interest position.

The applicability criterion derived from the Bank-wide UEL limit for the market risk (the latter is calculated based on the present-value interest risk and the valuation risk of the financial instruments) was complied with at all times in the first half of 2019.

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) throughout the first half of 2019. The interest rate coefficient was on its highest level in the first half of 2019 on 30 June 2019, at 18.8% (31 December 2018: 12.9%).

Here again, the further drop in interest rates as well as a higher fixed-interest position were the reasons for the higher utilisation.

The following table shows the changes in present value in the banking book with respect to the individual interest scenarios. As of 30 June 2019, the calculation of the "– 200 BP" scenario was switched to a dynamic lower limit in line with the regulatory requirement of a 0% floor. This significantly increases the positive present value effect in this scenario.

Changes in present value in the banking book

	Ad hoc interest rate scenario		
	Interest rate increase (+ 200 BP) €m	Interest rate decrease (– 200 BP) €m	Interest rate risk coefficient %
31 Dec 2017	– 356	+ 53	14.1
31 Dec 2018	– 328	+ 10	12.9
30 June 2019	– 479	+ 115	18.8

When calculating the interest rate risks in the banking book, apoBank makes modelling assumptions for certain items of the customer business in order to determine the cash flows based on 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, cash flows based on historical data are adjusted. Statutory loan termination rights are modelled based on option models.

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

Liquidity risk

The refinancing risk considered in the calculation of the risk-bearing capacity rose compared to the end of the previous year. The main reason for this trend was changes in the risk calculation method based on new ECB requirements. The applicability criterion derived from the Bank-wide UEL limit for the refinancing risk was complied with at all times.

Business risk

The applicability criterion made available for business risk out of the Bank-wide UEL limit for business was maintained at all times during the first half of 2019. The measured risks fluctuated only slightly during the first six months of the year.

Operational risk

In the reporting period, the operational losses were significantly below those in the first half of 2018. The focus continued to be on legal risks.

The operational risk considered in the risk-bearing capacity was marginally higher than at the end of the previous year; it remained, however, considerably below the defined applicability criterion for operational risks.

Overall liquidity situation

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

Liquidity supply in the first half of 2019 was guaranteed at all times, primarily due to the continued increase in deposits as well as refinancing via securitised and unsecuritised capital market issuances.

Liquidity situation – normative perspective
As at 30 June 2019, apoBank's liquidity coverage ratio (LCR) was 123.4% (31 December 2018: 144.3%). Thus, the minimum requirement of 100% was met in full.

The net stable funding ratio (NSFR), at 112.0% (31 December 2018: 111.0%), was significantly above the 100% minimum level that we are expecting but has not yet come into effect.

Liquidity situation – economic perspective
The economic analyses centre around the forecasts of the liquidity gap analysis. Here, the expected liquidity development in the planned scenario as well as the expected liquidity development in the combined stress scenario are analysed and limited. In the first half of 2019, the limits of the liquidity gap analysis were complied with at all times in both scenarios.

This is also the case for the internal minimum limits relating to the intraday liquidity as well as the long-term maturities structure.

The limits for the Pfandbrief cover stock, which serves to hedge the Pfandbrief business as an important refinancing instrument of apoBank, were also complied with at all times in the first half of 2019.

Forecast Report

Outlook for the national economy and the health care market

Global economic growth is expected to continue to weaken in the second half of 2019. This is mainly driven by the ongoing slowdown in industrial production. However, the appropriate stimuli in the form of monetary and fiscal policy measures are likely to only gradually counteract this trend. Special risks to global economic growth result in particular from any escalation of the trade war between the USA and China and for the euro area and Germany also from a potential no-deal exit of the United Kingdom from the European Union at the end of October.

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 on the same course throughout the rest of 2019.

Patient preferences, technological transformation and health care policy in particular will change the health care market for the long term. Ever new proposed legislation also increases the density of regulation, thus impacting not only the situation of health care provision but also the freedom of health care professionals to take action and shape things. Continuing pressure for innovation, quality and efficiency drives the interconnectedness, cooperation and concentration of health care service providers and will also contribute to the emergence of new, interdisciplinary and cross-sectoral health care products and services. These new, integrated health care companies are not only interesting as employers for the new generation of health care professionals; they are also increasingly becoming investment targets for industrial health care corporations and financial investors.

Heterogeneous development in earnings situation

The environment for pharmacies – characterised by intense competition, increasing digitisation as well as legal regulations from Berlin and Brussels – will continue to be challenging. The legislature will maintain its focus on pharmacies. The ban on mail-order sales of prescription medicines hoped for by many pharmacists is not likely to be implemented at a policy level. Instead, local pharmacies are to be financially compensated for new pharmaceutical services, for example. Policy makers also plan to reinstall the principle of equal pricing for prescription drugs at pharmaceutical mail-order retailers and local pharmacies.

As was already the case in the past financial year, an increase in the fees for panel doctors and psychotherapists is also expected in 2020 – however, the fee negotiations have not taken place yet. One reason for this is that the legislature has earmarked extra-budgetary funds for certain services (general practitioners arranging appointments with specialist doctors, treatment of patients sent by appointment services agencies within four weeks), effective as of 1 August 2019, for which more money is to flow into the system. In addition, more services will then be remunerated on an extra-budgetary basis (e.g. treatment of new patients, patients from appointment service agencies and patients from open consultation hours), and this is likely to lead to reallocation of the existing funds.

A positive trend in the earnings situation for panel dentists is anticipated, too. The demand for veterinary services will expand only moderately due to factors such as saturation effects among small animal practices and the increased concentration of livestock practices.

More cooperation and increasing interconnectedness

Securing health care is becoming ever more challenging due to demographic change, urbanisation, scarcity of skilled personnel as well as changing expectations concerning health care provision and prevention – and this does not only apply to rural areas.

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 consequence, increasing interconnectedness between outpatient, inpatient, rehabilitation and nursing care service providers is likely – not least because the legislature is increasingly supporting cooperation models such as practice and health care networks. The structural change in the health care sector is being driven by health policy, technological progress and digitisation, but also by the changing expectations of health care professionals. The trend among doctors, dentists and veterinarians towards larger health care units (e.g. group practices, medical and dental care centres) as well as towards forming chain and branch organisations will also continue, as will the general trend towards salaried employment. The extent to which the influence of capital investors without a medical background – a known factor in this context – will be restricted in future remains to be seen. Via restrictions in the permission for non-medical dialysis service providers to found medical care centres as well as permission for hospitals to found dental medical care centres, the legislature has made clear that it wants to prevent local monopolies and thus unlimited growth, for example of capital investors.

Regional medical care structures and processes should be aligned with the new conditions caused by demographic change in a needs-based and regionally specific manner. In order to ensure that medical innovations continue in future despite the ever stronger effects of economic and competitive factors, multi-disciplinary and cross-sectoral cooperations and partnerships will become ever more important. The goal is to create an innovative health care system, within which general practitioners, specialist doctors, hospitals, pharmacies, therapists and nursing care service providers work together in a joined up manner.

Health care market offers new opportunities

Overall, health care remains a growth market that will continue to provide entrepreneurial health care professionals and health care 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, treatment, rehabilitation and care, which will meet with corresponding demand due to demographic trends. Because of easier access to health information, patients are increasingly engaging with the topic, use health apps and expect digital services from health care professionals in relation to their own health care. As in other areas of life, this is especially true for younger patients. Health care professionals and health care companies will also have to take this trend into account in future, for example by using the functionalities offered by the telematics infrastructure and introducing digital offerings such as online appointment booking or video consultations.

Outlook on business performance

Competition in the banking sector remains high

Banks will continue to focus on making optimum use of their resources, fine-tuning their business models and developing their digitisation strategies. In 2019 again, the intensity of competition remains high: The competition among financial institutions for customers and conditions continues. Cost optimisation programmes are therefore likely to remain important in the future. Securing profitability in the long run remains the pivotal point for the future success of the banks. As before, another focus will be on capitalisation. Here, there was a further intensification of regulatory requirements after it was announced that the counter-cyclical capital buffer for German engagements will be utilised for the first time from July 2020 onwards.

Continued development of our business model

apoBank continues to develop its clearly defined business model. The solid foundation for this remains the business with the health care professionals, their organisations as well as with companies in the health care market. 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 deep understanding of both markets, we aim to develop meaningful economic products and services in the long term to create even greater benefits for our customers and members. We want to extend our offering beyond start-up financing, asset advisory services and classical banking services, for example by expanding our advisory services to support health care professionals in carrying out their profession.

With our newly founded subsidiary naontek AG, we support health care professionals by offering advisory and other services specifically geared to their needs. Services outside of the banking business are to be bundled and offered via the univiva platform that went online on 1 July 2019. The first product on the platform is training courses for health care professionals. To promote self-employment, we have developed an innovative practice model together with the Zahnärztliche Abrechnungsgenossenschaft (an invoicing cooperative for dentists), the aim being to facilitate the path to self-employment for health care professionals. The newly founded Zahnpraxis der Zukunft GmbH (dental practice of the future, a limited company) stands for state-of-the-art practices that self-employed dentists to be can rent in a turnkey condition. It is scheduled to become operational in the second half of 2019.

Growth in the customer business in a challenging environment

Business planning at apoBank is based on a continuously growing customer business. Due to our unchanged strong market position and already high level of 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 care market and be an elementary component in it, as well as to strengthen and expand customer loyalty with our added-value services.

In the retail clients business, start-up financing and consulting are sources 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 also have a positive effect.

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

As a result, we expect the loans and advances to customers shown in the balance sheet to continue to rise. 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 focus on expanding the securities business and asset management for retail clients and institutional customers. We will increase the number of customer contacts in particular. To achieve this, we will simplify the procedures for advisory services in the investment business. By consolidating all asset-related offerings under the apoPrivat brand, we emphasise 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 clients 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 investment and pensions business with our customers, and in asset management for our retail clients. However, the rise in revenue could be less dynamic and more volatile due to the new financial market directive MiFID II and market developments. Our aim remains to achieve further growth in our deposit volume and to 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 the planned amount in the middle double-digit millions, and therefore higher than in 2018.

For the 2019 financial year, we plan for net profit to be on 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 in 2019, but to remain at an adequate level. The reason for the decrease is the planned significant 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 remains 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 as well as acceptance among our customers. This means we have an opportunity to achieve our strategic objectives more quickly, in particular those defined in our growth strategy for our customer business, and to hone our business profile.

Risks can result from 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 practices, branches and cooperations. 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 numbers of self-employed health care professionals by providing our specialised advisory services, thus helping to reduce reservations about opening their own practice. We work closely with the professional associations here. At the same time, we are expanding our 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 digital information, communication and also health care offerings are emerging. This opens up new business and collaboration opportunities for us. Such opportunities arise from expanding our offerings at the interface between the health care market and the financial market. This allows us to leverage new sources of income and provide our customers and members with additional benefit based on our unique expertise in both markets. We intend to implement our "We enable health" mission. To this end, we are developing value-added offerings for our customers – also in collaboration with external partners – in the form of services that give health care professionals greater freedom for their work with patients.

Services above and beyond the banking business will be bundled and brought to market via the new univiva platform. For this purpose, the Bank founded its naontek AG subsidiary at the beginning of 2019. The business purpose of naontek AG is to identify and validate new business models in the health ecosystem and ultimately bring them to market maturity.

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

As digitisation advances, new access channels are opening up for our customers, which can have a positive impact on apoBank's earnings situation. In the long term, we expect to continue to improve our process efficiency thanks to advancing 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. Allowing for a transition period, the floor limits capital relief from the internal regulatory risk measuring models. 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 extremely low level of interest rates and increasingly fierce competition have a negative impact on the earnings situation of the banks – with correspondingly negative effects on the development of margins in the lending, deposit and commission business. In the first half of 2019, interest rates fell even further below the previous years' levels. While interest rates in the money market segment initially remained more or less constant, the continued marked decrease in interest rates in the capital market segment led to a further flattening of the yield curve. A turnaround is not expected in the foreseeable future.

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 pushing ever more vehemently into the market 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 cybercrime, which both fintechs and banks must protect themselves against. This happens, for example, when more and more customers do their banking on mobile devices, which can be vulnerable to unauthorised access by third parties. In addition, new risks may result from the growth in use of customer data, which form the core of new business models. Opportunities arise from new business ideas, but these also entail risks if the data are used improperly or misappropriated.

Risks specific to apoBank could emerge from the planned migration of the IT systems to the new provider's system; this could also have a potential impact on the income statement. The migration 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.

Interim Financial Statements

Condensed Balance Sheet

Assets

	(Notes)	30 June 2019 €	31 Dec 2018 €
1. Cash reserves		**3,953,920,422.66**	**3,333,781,273.45**
a) Cash on hand		22,629,402.78	35,163,988.63
b) Cash in central banks		3,931,291,019.88	3,298,617,284.82
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, 20)	**1,336,512,075.11**	**1,186,004,165.18**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,336,512,075.11	1,186,004,165.18
4. Loans and advances to customers	(2, 13, 20)	**36,129,057,496.35**	**34,652,283,951.38**
a) Mortgage loans		10,221,360,635.87	9,836,340,176.30
b) Local authority loans		172,400,481.05	163,458,361.01
c) Other receivables		25,735,296,379.43	24,652,485,414.07
5. Debt securities and other fixed-interest securities	(3, 13, 15, 20)	**4,744,955,557.02**	**4,373,496,277.66**
a) Money market papers		370,299,874.86	400,281,657.15
aa) of public issuers		0.00	0.00
ab) of other issuers		370,299,874.86	400,281,657.15
b) Bonds and debt securities		4,068,798,603.98	3,964,662,442.54
ba) of public issuers		1,206,392,029.42	1,403,009,530.62
bb) of other issuers		2,862,406,574.56	2,561,652,911.92
c) Own debt securities		305,857,078.18	8,552,177.97
6. Shares and other non-fixed-interest securities	(3, 13, 14, 15)	**1,183,817,896.22**	**1,184,567,906.22**
6a. Trading assets	(4)	**0.00**	**0.00**
7. Participating interests and capital shares in cooperatives	(6, 16)	**233,408,845.33**	**219,466,735.31**
a) Participations		233,236,797.94	219,294,687.92
b) Capital shares in cooperatives		172,047.39	172,047.39
8. Shares in affiliated companies	(6, 16)	**13,690,287.32**	**13,665,285.32**
9. Trust assets		**2,660,826.85**	**2,660,826.85**
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	(8)	**88,817,559.22**	**61,787,223.51**
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		1,308,013.00	380,679.00
c) Goodwill		0.00	0.00
d) Payments in advance		87,509,546.22	61,406,544.51
12. Tangible assets	(7, 17)	**136,587,818.03**	**140,602,839.51**
13. Other assets	(18)	**174,178,406.49**	**189,100,776.87**
14. Prepayments and accrued income		**23,564,961.00**	**18,257,667.82**
a) from the issuing and lending business		15,898,292.88	14,372,337.19
b) Others		7,666,668.12	3,885,330.63
15. Deferred tax assets		**0.00**	**0.00**
Total assets		**48,021,172,151.60**	**45,375,674,929.08**

Liabilities

	(Notes)	30 June 2019 €	31 Dec 2018 €
1. Liabilities to banks	(9)	**9,433,264,863.53**	**8,950,191,340.95**
a) Registered mortgage Pfandbriefe issued		162,572,754.12	189,811,704.05
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		9,270,692,109.41	8,760,379,636.90
2. Liabilities to customers	(9)	**28,693,357,679.18**	**27,448,585,059.09**
a) Registered mortgage Pfandbriefe issued		1,243,198,324.51	1,567,440,597.71
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		91,162,004.72	90,528,802.11
ca) with an agreed notice period of three months		88,038,746.69	86,999,393.04
cb) with an agreed notice period of more than three months		3,123,258.03	3,529,409.07
d) Other liabilities		27,358,997,349.95	25,790,615,659.27
3. Securitised liabilities	(9)	**6,674,669,805.31**	**5,875,756,288.79**
a) Debt securities issued		6,674,669,805.31	5,875,756,288.79
aa) Mortgage Pfandbriefe		4,397,552,122.19	3,395,038,632.23
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		2,277,117,683.12	2,480,717,656.56
b) Other securitised liabilities		0.00	0.00
3a. Trading liabilities	(4)	**0.00**	**0.00**
4. Trust liabilities		**2,660,826.85**	**2,660,826.85**
5. Other liabilities	(21)	**131,277,880.77**	**65,311,543.52**
6. Prepayments and accrued income		**33,452,782.95**	**22,158,316.40**
a) from the issuing and lending business		19,416,416.82	10,015,064.15
b) Others		14,036,366.13	12,143,252.25
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	(10)	**404,827,717.60**	**395,900,200.84**
a) Provisions for pensions and similar obligations		225,325,465.32	215,863,637.82
b) Tax provisions		1,682,358.00	3,887,103.35
c) Other provisions		177,819,894.28	176,149,459.67
8. - - -		**0.00**	**0.00**
9. Subordinated liabilities		**105,872,554.69**	**103,525,095.90**
10. Participating certificate capital		**0.00**	**0.00**
11. Fund for general banking risks		**735,679,901.00**	**701,185,901.00**
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	(22)	**1,806,108,139.72**	**1,810,400,355.74**
a) Subscribed capital		1,201,680,169.79	1,190,953,169.79
b) Capital reserves		0.00	0.00
c) Revenue reserves		572,491,249.19	556,491,249.19
ca) Legal reserves		426,750,000.00	418,750,000.00
cb) Other revenue reserves		145,741,249.19	137,741,249.19
d) Balance sheet profit		31,936,720.74	62,955,936.76
Total liabilities		**48,021,172,151.60**	**45,375,674,929.08**

1. Contingent liabilities	**552,373,428.46**	**577,918,255.68**
a) Contingent liabilities from rediscounted, settled bills	0.00	0.00
b) Liabilities from guarantees and indemnity agreements	552,373,428.46	577,918,255.68
c) Liabilities arising from the provision of collateral for third-party liabilities	0.00	0.00
2. Other obligations	**2,989,245,920.96**	**2,974,916,664.89**
a) Obligations under optional repurchasing agreements	0.00	0.00
b) Placement and underwriting obligations	0.00	0.00
c) Irrevocable loan commitments	2,989,245,920.96	2,974,916,664.89

Condensed Income Statement

Income statement

	(Notes)	1 Jan – 30 June 2019 €	1 Jan – 30 June 2018 €
1. Interest income from	(24)	**417,222,782.80**	**415,311,002.48**
a) lending and money market transactions		417,334,254.78	416,747,654.00
b) fixed-interest securities and debt register claims		−111,471.98	−1,436,651.52
2. Interest expenses	(25)	**−81,278,344.30**	**−88,253,956.88**
3. Current income from		**21,931,855.69**	**12,598,001.74**
a) shares and other non-fixed-interest securities		15,000,000.00	300,003.91
b) participating interests and capital shares in cooperatives		5,671,855.69	9,145,257.73
c) shares in affiliated companies		1,260,000.00	3,152,740.10
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		**0.00**	**0.00**
5. Commission income	(26)	**137,573,273.86**	**130,243,967.90**
6. Commission expenses	(26)	**−47,031,873.95**	**−43,114,511.83**
7. Net trading result		**0.00**	**0.00**
8. Other operating income	(27)	**17,691,460.94**	**21,055,783.94**
9. - - -		**0.00**	**0.00**
10. General administrative expenses		**−317,317,433.42**	**−281,857,306.61**
a) Personnel expenses		−130,355,928.87	−130,072,249.49
aa) Wages and salaries		−101,541,396.94	−101,405,174.88
ab) Social security contributions and expenses for pensions and benefits		−28,814,531.93	−28,667,074.61
b) Other administrative expenses		−186,961,504.55	−151,785,057.12
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**−5,242,872.16**	**−6,249,677.30**
12. Other operating expenses	(27)	**−8,451,712.83**	**−25,558,960.31**
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**−34,165,496.90**	**−47,553,854.88**
14. Income from write-ups in respect of receivables and specific securities and 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		**−6,174,235.98**	**−1,089,277.60**
16. Income from write-ups in respect of participations, shares in affiliates and securities treated as fixed assets		**0.00**	**0.00**
17. Expenses from the assumption of losses		**0.00**	**0.00**
18. - - -		**0.00**	**0.00**
19. Operating surplus		**94,757,403.75**	**85,531,210.65**
20. Extraordinary income		**0.00**	**0.00**
21. Extraordinary expenses		**0.00**	**0.00**
22. Extraordinary result		**0.00**	**0.00**
23. Taxes on income	(28)	**−29,179,668.96**	**−22,507,193.68**
24. Other taxes not reported in item 12 (income; previous year: expenses)		**843,572.84**	**621,654.24**
24a. Allocations to the fund for general banking risks		**−34,494,000.00**	**−32,250,000.00**
25. Net profit		**31,927,307.63**	**31,395,671.21**
26. Profit carried forward from the previous year		**9,413.11**	**9,520.55**
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		**31,936,720.74**	**31,405,191.70**

Condensed Notes

A. General information

1. Framework for the preparation of the interim financial statements

The interim financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf (Local Court of Dusseldorf, GnR 410), as at 30 June 2019 were prepared according to the regulations of Section 115 of the Securities Trading Act (WpHG), the German Commercial Code (HGB) as well as the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV). At the same time, the interim 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 interim 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.

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 were broken down into their components and reported and valued individually pursuant to relevant regulations. As a result, these instruments were recognised separately in the balance sheet where unconditional or conditional purchase obligations existed 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, its value is calculated as the difference between the fair value of the structured financial instrument as a whole 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 €625,000 thousand as at the reporting date (31 December 2018: €250,000 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, with the fair value method being applied for some of the portfolio valuation units. Prospective and retrospective effectiveness tests are 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 sums 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 reporting date, the total volume of the risks hedged amounted to €844.0 million (31 December 2018: €617.0 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 681 micro hedges with a nominal value of €11,938 million:
- 459 hedges on the Bank's own issuances against the interest rate risk with a nominal value of €8,333 million, including
  - 13 caps with a nominal value of €186 million,
  - 15 floors with a nominal value of €196 million,
  - 107 swaptions with a nominal value of €1,443 million,
  - 324 swaps with a nominal value of €6,508 million,
- 222 asset swaps to hedge against the interest rate risk of 133 acquired securities with a nominal value of €3,605 million.

As at 30 June 2019, a volume of foreign currency swaps from FX trading had been used in the amount of €317 million within the scope of valuation units, including €171 million to hedge offsetting FX swaps, €106 million to hedge own issuances in a foreign currency and €40 million to hedge several loans in a foreign currency.

The FX swaps can be broken down based on their currency as follows:
- €112 million in US dollars,
- €60 million in British pounds,
- €110 million in Danish kroner,
- €25 million in Swedish kroner,
- €10 million in other currencies.

As at the reporting date, apoBank had a volume of foreign-currency FX forward transactions of €236 million as valuation units, including €235 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 (€236 million) were denominated in their entirety in British pounds.

6. Participating interests and shares in affiliated companies

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

7. Fixed assets/tangible assets

Tangible assets were carried at acquisition cost less scheduled depreciation.

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

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 30 June 2019 were calculated in line with the actuarial tables 'Richttafeln 2018 G' (Heubeck) using the projected unit credit method. The calculation is based on an updated forecast derived from the report as at 31 December 2018, an interest rate of 2.75% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 1.75%. As at 30 June 2019, the difference pursuant to Section 253 (6) of the HGB amounted to €23,700 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 pursuant to Section 246 (2) sentence 2 of the HGB. In this case, the fair value is equivalent to the acquisition costs.

The provisions for part-time retirement and anniversary payments were made on the basis of an interest rate of 2.02% and a wage increase trend of 3.00%. The provisions as at 31 December 2018 were extrapolated accordingly for the interim report.

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 serve 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 reporting 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. 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

	30 June 2019 €thous	31 Dec 2018 €thous
Loans and advances to banks		
Fixed assets	2,648	2,584

	30 June 2019 €thous	31 Dec 2018 €thous
Loans and advances to customers		
Fixed assets	2,628	3,033

	30 June 2019 €thous	31 Dec 2018 €thous
Debt securities and other fixed-interest securities		
Fixed assets	4,058,569	3,831,060
Liquidity reserve	686,386	542,436
Total	**4,744,955**	**4,373,496**

	30 June 2019 €thous	31 Dec 2018 €thous
Shares and other non-fixed-interest securities		
Fixed assets	1,183,818	1,184,568
Liquidity reserve	0	0
Total	**1,183,818**	**1,184,568**

14. 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	607,576	63,572	15,000	no
APO 2 INKA	Domestic and international bonds	245,560	28,902	0	no
APO 3 INKA	Domestic and international bonds	428,754	54,142	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	46,426	2,341	0	no

15. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

	Book value as at 30 June 2019 €thous	Fair value as at 30 June 2019 €thous	Omitted depreciation €thous
Banks	441,589	440,785	804
Public debtors	21,000	20,996	4
Corporations	2,600	2,577	23
Total	**465,189**	**464,358**	**831**

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

16. 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 as at 30 June 2019 %	Year	Equity of the company €thous	Result of the last financial year €thous
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	64	2018	11,018	3,352
aik Management GmbH, Dusseldorf[1]	100	2018	88	63
Apo Asset Management GmbH, Dusseldorf	70	2018	12,473	4,597
APO Beteiligungs-Holding GmbH i.L., Dusseldorf	100	2018	4,164	6[2]
APO Data-Service GmbH, Dusseldorf	100	2018	4,915	351
ARZ Haan AG, Haan/Rheinland	38	2018	53,108	6,721
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2018	17,336	7,696
DSP Düsseldorf Securities Processing GmbH, Dusseldorf[3]	100			
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	16	2018	26,122	20,372
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2018	869	247
GAD Beteiligungs GmbH & Co. KG, Münster	5	2018	117,992	2,991
gbs – Gesellschaft für Bankensysteme mbH	10	2018	4,616	2,073
Konnektum GmbH, Dusseldorf	100	2017	390	242
medisign GmbH, Dusseldorf	50	2018	855	262
naontek AG, Dusseldorf[3]	90			
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich[4]	100	2018	4,228	2,169
RiOsMa GmbH, Dusseldorf	90	2018	25	–1
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2018	35,767	839
WGZ Beteiligungs GmbH & Co. KG, Dusseldorf	5	2018	2,946,830	79,006
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2018	6,964	1,837
ZPdZ - Zahnpraxis der Zukunft GmbH, Dusseldorf	50	2018	24	–1

1) Indirect participation.
2) Before profit transfer or loss absorption.
3) New company established in 2019.
4) Indirect participation of just under 50% via RiOsMa GmbH.

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.

17. Tangible assets

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

Tangible assets

	30 June 2019	31 Dec 2018
	€thous	€thous
Land and buildings used for the Bank's own business activities	100,810	102,814
Office furniture and equipment	34,961	36,963

18. Other assets

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

Other assets

	30 June 2019	331 Dec 2018
	€thous	€thous
Capitalised premiums from options and caps	82,714	93,248
Tax receivables	24,405	26,475
Receivables from asset management	19,411	31,457
Receivables from profit distributions	15,000	0
Receivables from margin payments	4,761	23,656

19. Deferred tax assets

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

As at 30 June 2019, a net deferred tax asset existed. This was essentially due to differences between the valuations in the trading and in the 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 €210,262 thousand, including deferred tax assets of €215,062 thousand and deferred tax liabilities of €4,800 thousand.

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

20. Subordinated assets

Subordinated assets are included in the following items:

Subordinated assets

	30 June 2019	31 Dec 2018
	€thous	€thous
Loans and advances to banks	2,648	2,584
Loans and advances to customers	87,670	57,593
Debt securities and other fixed-interest securities	13,878	13,649
Total	**104,196**	**73,826**

Notes to liabilities

21. Other liabilities

The item ‘Other liabilities’ includes the following larger amounts:

Other liabilities

	30 June 2019	31 Dec 2018
	€thous	€thous
Dividend to be paid	46,947	0
Premiums from options and caps carried as liabilities	16,494	19,181
Tax liabilities	13,149	10,397
Trade payables	9,560	17,993
Cooperative shares to be paid out	7,003	0
Margin payments received	5,944	5,029

22. Capital and reserves

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

Subscribed capital

	30 June 2019	31 Dec 2018
	€thous	€thous
Capital contributions	**1,201,681**	**1,190,953**
of remaining members	1,198,697	1,187,078
of departing members	2,607	3,302
of terminated cooperative shares	377	573
Compulsory contributions due on shares in arrears	2	9

The revenue reserves (liabilities, 12.c)) have so far developed as follows in the current financial year:

Revenue reserves

	Legal reserves €thous	Other revenue reserves €thous
As at 1 Jan 2019	418,750	137,741
Transfers		
from the balance sheet profit of the previous year	8,000	8,000
from the net profit of the current financial year	0	0
Withdrawals	0	0
As at 30 June 2019	**426,750**	**145,741**

Derivative financial instruments

23. 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 €29,204 million as at 30 June 2019 (31 December 2018: €28,906 million). As at 30 June 2019, the following types of transactions were included therein:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions

- Interest rate swaps
- Swaptions
- Caps/floors

Currency-related transactions

- FX forward transactions
- FX swaps

Stock-related transactions

- Stock options

apoBank enters into these forward transactions, which are subject to fluctuations in interest rates, exchange rates and market prices, for asset liability management as well as for strategic reasons within the scope of its participation management. Existing derivatives contracts are broken down according to their risk structure in the following table. 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 reporting 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	
	30 June 2019	31 Dec 2018	30 June 2019	31 Dec 2018
Interest rate-related transactions[1]				
Time to maturity up to 1 year	3,102	2,851	16	24
more than 1 year to 5 years	11,080	11,209	– 159	– 101
more than 5 years	13,845	13,851	– 70	–136
Subtotal	**28,027**	**27,911**	**–213**	**–213**
Currency-related transactions				
Time to maturity up to 1 year	1,160	978	– 1	1
more than 1 year to 5 years	14	14	0	1
more than 5 years	0	0	0	0
Subtotal	**1,174**	**992**	**-1**	**2**
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	**29,204**	**28,906**	**– 214**	**– 211**

1) Interest rate- and stock-related transactions are reported under the items ‘Other assets’ (€83 million), ‘Prepayments and accrued income (assets)’ (€7 million) as well as under the items ‘Other liabilities’ (€2 million) and ‘Prepayments and accrued income (liabilities)’ (€14 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

24. Interest income

The ‘Interest income’ item includes €9,123 thousand (30 June 2018: €7,376 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 €7,289 thousand for prepayment penalties (30 June 2018: €8,358 thousand).

25. Interest expenses

The item ‘Interest expenses’ includes €9,547 thousand (30 June 2018: €11,246 thousand) in positive interest expenses from borrowings from the ECB, 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 €0 thousand (30 June 2018: €1,544 thousand) resulting from a loan from the ECB, interest expenses to the amount of €886 thousand (30 June 2018: €0 thousand) for close-out payments from interest swap transactions, and interest expenses relating to prepayment penalties amounting to €797 thousand (30 June 2018: €803 thousand).

26. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €12,661 thousand (30 June 2018: €9,894 thousand).

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

Other operating income of €17,691 thousand (30 June 2018: €21,056 thousand) includes, among other things:

Other operating income

	30 June 2019 €thous	30 June 2018 €thous
Rental income	1,894	2,129
Release of provisions (related to other periods)	4,985	9,354
Accounting gains from the disposal of tangible and intangible assets (related to other periods)	0	1,772
Interest income from tax refunds (related to other periods)	0	4,980
Income from discounting	7,094	0
Income from currency translation	863	934

Other operating expenses of €8,452 thousand (30 June 2018: €25,559 thousand) result primarily from the following items:

Other operating expenses

	30 June 2019 €thous	30 June 2018 €thous
Provisions for litigation costs	1,742	17,624
Interest expenses from tax arrears (related to other periods)	0	51
Expenses from compounding	3,759	4,261
Expenses from currency translation	153	50

28. Taxes on income

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

E. Other notes

29. Events after the reporting date

No events took place that were subject to reporting requirements between 30 June and 13 August 2019 when the interim financial statements were prepared by the Board of Directors.

30. Disclosures according to Section 28 of the PfandBG

Please refer to apoBank's quarterly report as at 30 June 2019, prepared pursuant to the German Pfandbrief Act (PfandBG), for information with respect to the mortgage Pfandbriefe included in the items 'Liabilities to banks', 'Liabilities to customers' and 'Securitised liabilities'.

31. 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 €457.7 million resulted from the operating result, excluding risk provisioning and general administrative expenses. Deutsche Apotheker- und Ärztebank's operating result amounted to €94.8 million based on HGB accounting.

The number of employees (excluding members of the Board of Directors) as at 30 June 2019 was 2,312 (full-time equivalents).

The profit before tax of €94.8 million as at 30 June 2019 was largely generated in Germany.
Income tax on this amount was €29.2 million.

apoBank does not receive any public aid.

32. Board of Directors

Members of the Board of Directors
- Ulrich Sommer, Chairman
- Dr. Thomas Siekmann, Deputy Chairman
- Olaf Klose
- Eckhard Lüdering
- Holger Wessling

33. Supervisory Board

Members of the Supervisory Board
- Prof. Dr. med. Frank Ulrich Montgomery, Chairman, physician
- Wolfgang Häck[1](Member of the Supervisory Board until 28 June 2019), Deputy Chairman, bank employee
- Sven Franke[1], Deputy Chairman (since 28 June 2019), 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
- Dr. med. Andreas Gassen, physician
- Günter Haardt[1] (Member of the Supervisory Board since 28 June 2019), general manager
- 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
- Dietke Schneider[1] (Member of the Supervisory Board since 28 June 2019), bank employee
- Susanne Wegner, general manager
- Björn Wißuwa[1] (Member of the Supervisory Board until 28 June 2019), trade union secretary

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

34. Name and address of the responsible auditing association

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

Dusseldorf, 13 August 2019
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer

Dr. Thomas Siekmann

Olaf Klose

Eckhard Lüdering

Holger Wessling

Certifications

Review Report

to Deutsche Apotheker- und Ärztebank eG, Dusseldorf

We have reviewed the condensed interim financial statements (comprising the condensed balance sheet, the condensed income statement as well as the condensed notes) and the interim management report of Deutsche Apotheker- und Ärztebank eG for the period from 1 January 2019 to 30 June 2019, which are components of the interim report pursuant to Section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). The preparation of the condensed interim financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Board of Directors of the cooperative. Our responsibility is to issue a report on the condensed interim financial statements and the interim management report based on our review.

We conducted our review of the condensed interim financial statements and the interim management report in accordance with generally accepted German standards for the review of financial statements published by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and conduct the review to obtain a certain level of assurance in our critical appraisal in order to ensure that the interim condensed financial statements have been prepared, in all material respects, in accordance with German commercial law and that the interim management report has been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim management reports. A review is limited primarily to interrogating the cooperative's personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit. As we were not asked to perform an audit, we cannot provide an auditor's certificate.

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

Dusseldorf, 20 August 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, 13 August 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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The interim report is available in German and English.
The German version is legally binding.

Because there is more connecting us.