2019

Annual Financial Report

Because there is more
that connects us.

deutsche apotheker-
und ärztebank

Content

481,070
customers

115,884
members

2,448
employees

49,603
balance sheet total (€m)

Overview of Business Development

Overview of business development

Bank data	31 Dec 2019	31 Dec 2018	Change[1] %
Members	115,884	113,455	2.1
Customers	481,070	458,770	4.9
Employees	2,448	2,523	– 3.0
Locations	85	85	-

Balance sheet	€m	€m	%
Balance sheet total	49,603	45,376	9.3
Customer loans	37,291	34,652	7.6
Customer deposits	29,237	27,449	6.5

Income statement	€m	€m	%
Net interest income[2]	691.1	632.4	9.3
Net commission income	175.3	164.9	6.3
General administrative expenses	– 683.9	– 597.6	14.5
Operating profit before risk provisioning	217.7	233.6	– 6.8
Risk provisioning from the operating business[3]	– 43.5	– 31.9	36.4
Risk provisioning with reserve character[4]	– 57.1	– 88.3	– 35.4
Operating result	117.1	113.4	3.3
Taxes	– 53.0	– 50.4	5.0
Net profit after tax	64.1	62.9	1.9

Key figures	%	%	ppts
Equity ratio (according to CRR)	16.5	18.3	– 1.8
Common equity tier 1 ratio (according to CRR)	15.2	16.7	– 1.5
Cost-income ratio[5]	76.3	73.1	3.2

Ratings[6]	Standard & Poor's	Fitch Ratings (group rating)
Long-term rating	AA–	AA–
Short-term rating	A–1+	F 1+
Outlook	negative	negative
Pfandbrief rating	AAA	–

1) Deviations possible due to rounding differences.
2) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies.
3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.
4) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and to provisioning reserves.
5) Ratio of operating expenses and operating income. Operating expenses include general administrative expenses as well as other operating expenses. Operating income includes net interest income, net commission income and other operating income.
6) Issuer Credit Rating as at 30 March 2020.

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Ulrich Sommer
Chair of the Board of Directors

Dear Members, Customers and Business Partners,

We have an eventful year behind us. At apoBank, it was all about designing new solutions to our customers' and members' needs so that we could become an even better partner to health care professionals. We made good progress with our projects in 2019.

A successful year

In 2019, apoBank's operating income was higher than in the previous year, with a satisfying result when compared with the banking sector as a whole. And we kept net profit (after tax) stable as planned, at 64 million euros. We were able to further strengthen our position as the leading financial services provider on the health care market. Proof of this lies in the fact that there was further growth in the number of start-ups we supported. We financed just under 3,000 start-ups of practices and pharmacies in 2019, thus making an important contribution towards health care provision in Germany. At the same time, the loan portfolio with respect to companies in the health care market continued to grow. In our business with institutional investors, we expanded our range of products once again so that we were able to increase the depository volume from 19.6 to 21.8 billion euros. We also made progress in our asset advisory services for customers: We further broadened the range of services offered by our apoPrivat brand, within which we pool our private banking, asset advisory services and asset management. Our customers appreciate our asset management expertise so that deposit volume also increased.

The expansion of our business model also took on clear contours. Our naontek AG subsidiary, founded in spring 2019, develops solutions which give health care professionals more freedom in their day-to-day activities to focus on what is most important, i.e. serving their patients. naontek has created the univiva platform, which health care professionals can use to quickly find third-party services from one source. The first step has been to offer further training courses in health care, it is planned to expand the offering on the platform. And in Dusseldorf, the first Zahnpraxis der Zukunft (dental practice of the future), which we initiated in collaboration with the Zahnärztliche Abrechnungsgenossenschaft (an invoicing cooperative for dentists), opened for business in October. This has made our mission “We enable health” even more tangible.

It is you, our customers and members, who have made this success possible. We would like to express our heartfelt thanks for that. It is your trust that carried us through the year and motivated us to make good progress with our new projects, too, always with your interests in mind of course. We are also thankful for the high level of commitment of our employees.

The net profit that we generated enables us in principle to pay our members a dividend of four percent. And this is what we were planning to do when preparing the annual financial statements. However, the effects of Covid-19 pose new challenges to the health care market: We see a great need for investment and financing here. We want to support this with all means at our disposal and make our contribution to ensuring that the health care market remains efficient and effective even in these difficult times.

In addition, the ECB asked banks in view of the corona crisis to carefully consider their dividend pay-outs and not to pay any dividends at least until October 2020. In compliance with this recommendation and taking account of all interests, the Board of Directors will now propose to decide on a dividend of two percent. According to the ECB, the dividend may only be paid out after the situation has been reassessed in October 2020 at the earliest.

A sound strategy

In the past financial year, we laid the foundation for our IT migration, which we will complete in 2020. The new, high-performance IT system is the basis on which we can become faster, more digital and more specialised for our customers and members. It will enable us to be more efficient, both in terms of creating interfaces between different applications and designing our internal processes.

This is how we will ensure we remain a high-performance financial partner to health care professionals, companies in the health care market as well as institutional investors and organisations.

Challenging times ahead

The transformation the health care market has been experiencing for years now is intensifying. Even more new draft laws are on the political agenda for 2020. In addition, the focus will be on dealing with the Covid-19 pandemic in the coming months. apoBank will remain at the side of its customers and members during this period and will support them.

We as apoBank will also continue to change, since we are convinced that those who embrace change and are able to adapt well to new conditions will be the most successful in the end. For this reason, we plan in future to provide even more reliable and competent support to health care professionals, closely accompanying them on their journey as start-up entrepreneurs and business people. We have set ourselves the goal to become the market leader also in this field for customers in the health care professions. In the corporate client business, we focus on medium-sized companies and will be expanding our expertise in all aspects of advisory services and structured financing. For our institutional investor customer group, we want to be the leading depository service provider and investment consultant. And we will continue to work towards dovetailing classical banking products with new offerings for health care professionals and companies in the health care market.

In everything we do, we keep an eye on our expenditure and will take complementary measures to reduce costs and further optimise processes. At the same time, we are preparing for Basel IV. As soon as the new guidelines are implemented, which are binding for all banks regardless of their business model, we will have to reserve an increasing amount of capital for our loans from January 2023, in spite of the fact that our loan portfolio remains low risk.

Our compass points in a clear direction: to remain the leading bank in the health care market as well as a central element within the health ecosystem in the long run. This is what we mean by our mission "We enable health". We would be delighted if you continued to accompany us along our way.

Yours sincerely

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

Dusseldorf, 3 April 2020

Report of the Supervisory Board

The Supervisory Board of apoBank fulfilled its duties in accordance with the law, the Articles of Association and the internal rules of procedure in 2019. It exercised its supervisory function and adopted all resolutions within its jurisdiction. This included the audit in accordance with Section 53 of the Cooperative Societies Act (Genossenschaftsgesetz, GenG). In addition, the Supervisory Board examined the separate non-financial report in accordance with Section 289b of the German Commercial Code (HGB). It was assisted in this by Genossenschaftsverband – Verband der Regionen e.V. (Genossenschaftsverband), which it authorized to carry out the review of this report.

At regular meetings, the Board of Directors informed the Supervisory Board as well as the committees of the Supervisory Board about apoBank's business performance, risk, net assets and financial position, earnings situation as well as about special events. In the year under review, the Supervisory Board gained an insight into the Bank's current state of affairs and the status of the IT migration preparations at its four regular meetings and discussed details at a total of 18 ordinary and four extraordinary meetings of the Loan and Risk Committee, the Nomination and Presiding Committee, the Personnel Committee, the Audit Committee and the Remuneration Control Committee. The Supervisory Board received comprehensive reports from the meetings of the respective committees. Outside of these meetings, the Chair of the Supervisory Board continued to regularly exchange information and ideas with the Board of Directors as well.

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

The 2019 annual financial statements, including the management report, were audited by the Genossenschaftsverband. The Genossenschaftsverband confirmed the objectivity of the employees involved in the audit to the Audit Committee and the Supervisory Board. The results of this audit will be reported on in the Annual General Meeting.

According to the unqualified audit certificate issued by the Genossenschaftsverband, the annual financial statements and the management report are in keeping with the law and the Articles of Association. The Supervisory Board received and critically examined the report on the statutory audit. At its joint session with the Board of Directors and the auditors, the Supervisory Board acknowledged the results of the audit and scrutinised the statements made in the auditing report. The Supervisory Board concluded that the annual financial statements were prepared and audited correctly and therefore contributed towards correct accounting. The Supervisory Board was supported by the Audit Committee in monitoring the audit. The Supervisory Board examined and verified the annual financial statements, the management report and the Board of Directors' proposal on the allocation of net profit. The audit did not give rise to objections. The proposal on the allocation of net profit – including profit carried forward – is in accordance with the Articles of Association.

The Supervisory Board intends to approve the financial statements as at 31 December 2019, which were presented by the Board of Directors, at a separate meeting. The Annual General Meeting will pass a resolution on the proposed appropriation of net profit.

The following changes were made to the composition of the Supervisory Board with effect from 28 June 2019: Wolfgang Häck and Björn Wißuwa left the Board as employee representatives. They were replaced by Günter Haardt and Dietke Schneider, who were elected in May 2019 by the employees to represent them on the Supervisory Board. The shareholder representatives Dr. med. dent. Karl-Georg Pochhammer, Friedemann Schmidt, pharmacist, and Dr. med. Torsten Hemker were reelected. Following this, the Supervisory Board confirmed Prof. Dr. med. Frank Ulrich Montgomery as Chair of the Supervisory Board at its constitutive meeting. At the end of this year's Annual General Meeting, the shareholder representative Walter Kollbach will leave the Supervisory Board. He is entitled to stand for re-election. The composition of the Board of Directors remained unchanged in the year under review. On 12 April 2019, the Supervisory Board reappointed Dr. Thomas Siekmann as a full member of the Board of Directors and as Deputy Chair of the Board of Directors for a period of five years with effect from 1 March 2020.

In the reporting year, apoBank continued to fulfil its purpose of providing economic promotion and support to health care professionals as outlined in its Articles of Association. Based on the net profit generated in 2019, the Board of Directors and Supervisory Board of apoBank will propose the payment of a dividend to its members at the Annual General Meeting.

Challenges remain for the lending industry due to the renewed intensity of the low-interest phase, numerous regulatory requirements as well as digitalisation. apoBank is dealing with these trends and changing customer needs. Even in these times, apoBank is continuing to develop its business in a structured manner and is becoming even more efficient and at the same time remaining focused on customers and solutions.

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

The Supervisory Board would like to thank the members of the Board of Directors and the entire workforce of apoBank for their good work, their trusting cooperation and their considerable personal commitment in 2019.

Dusseldorf, 9 April 2020

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

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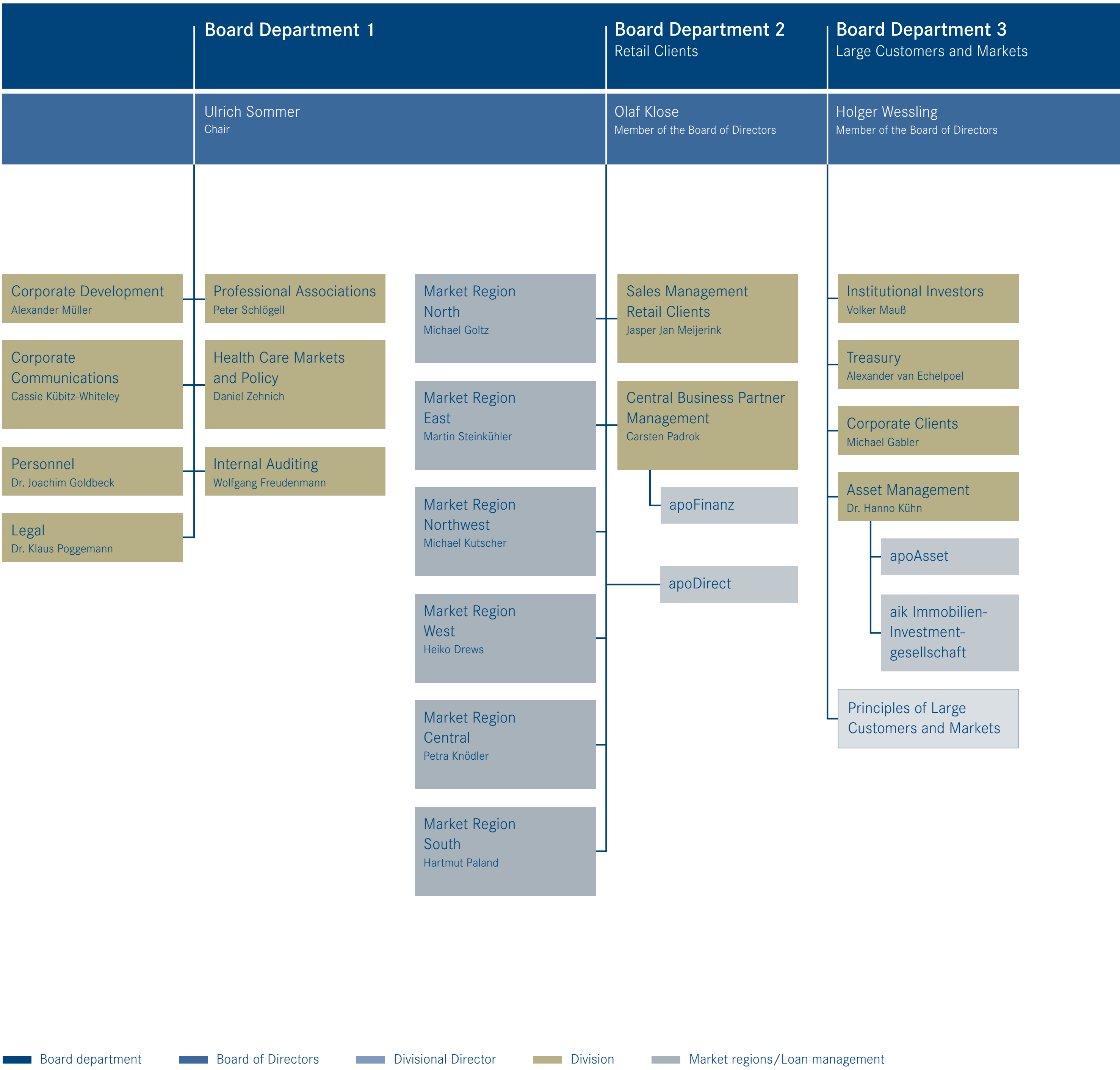
Board Departments

Organisational chart of Deutsche Apotheker- und Ärztebank eG



Board Department 4
Finance and Controlling

Dr. Thomas Siekmann
Deputy Chair

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

Board Department 5
Loans and Banking Operations

Eckhard Lüdering
Member of the Board of Directors

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

Unit reporting directly to the Board of Directors
Subsidiary

as at January 2020

Board of Directors

Ulrich Sommer
Chair

Dr. Thomas Siekmann
Deputy Chair

Supervisory Board

Prof. Dr. med. Frank Ulrich Montgomery
Chairman
Berlin

Wolfgang Häck[1] (until 28 June 2019)
Deputy Chair
Dormagen

Sven Franke[1] (since 28 June 2019)
Hanover

Ralf Baumann[1]
Langenfeld

Fritz Becker, pharmacist
Remchingen

Marcus Bodden[1]
Essen

Martina Burkard[1]
Würzburg

Mechthild Coordt[1]
Berlin

Dr. med. dent. Peter Engel
Bergisch-Gladbach

Dr. med. Andreas Gassen
Berlin

Olaf Klose
Member of the Board of Directors

Eckhard Lüdering
Member of the Board of Directors

Holger Wessling
Member of the Board of Directors

Günter Haardt[1] (since 28 June 2019)
Leubsdorf

Dr. med. Torsten Hemker
Hamburg

Steffen Kalkbrenner[1]
Dusseldorf

WP/StB Walter Kollbach
Bonn

Dr. med. dent. Helmut Pfeffer
Wohltorf

Robert Piasta[1]
Niederkassel

Dr. med. dent. Karl-Georg Pochhammer
Berlin

Christian Scherer[1]
Deidesheim

Friedemann Schmidt, pharmacist
Leipzig

Dietke Schneider[1] (since 28 June 2019)
Hanover

Susanne Wegner
Obertshausen

Björn Wißuwa[1] (since 28 June 2019)
Unna

1) Employee representative.

Advisory Board

Dipl.-Betriebsw. Wolfgang Abeln, Peetsch

Stephan Allroggen, dentist, Kassel

Ass. Jur. Nico Appelt, Dresden

Dipl.-Kfm. Peter Asché, Würselen

Dr./RO Eric Banthien, Hamburg

Mark Barjenbruch, Hanover

Dr. med. Andreas Bartels, Mainz

Dipl.-Vw. Georg Baum, Berlin

Dr. med. dent. Gert Beger, Bad Kreuznach

Prof. Dr. Andréa Belliger, Lucerne

Thomas Benkert, pharmacist, Grafrath

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

Christian Berger, dentist, Kempten

Dr. med. Frank Bergmann, Roetgen

Dr. med. Jörg Berling, Lüneburg

Dipl.-Vw. Christoph Besters, Waldkirch

Ulrich Böger, Dachau

Dr. med. dent. Cornel Böhringer, Ludwigslust

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

Frank Dastych, Bad Arolsen

Dr. med. dent. Michael Diercks, Kronshagen

Dipl.-Kfm. Armin Ehl, Berlin

Prof. Dr. med. Axel Ekkernkamp, Heidesee

Dr. med. Brigitte Ende, Buseck

Dr. rer. nat. Ralph Ennenbach, Ahrensburg

Dr. med. dent. Wolfgang Eßer, Mönchengladbach

Michael Evelt, Senden

Prof. Dr. Wolfgang Ewer, Kiel

Dr. med. Johannes Fechner, Emmendingen

Ass. Jur. Christian Finster, Bad Schönborn

Prof. Dr. med. Ingo Flenker, Sprockhövel

Bernd Franken, Dusseldorf

Mark Gerrit Friedrich, Leverkusen

Christiaan Johannes Gabrielse, veterinarian, Dinslaken

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

Meike Gorski-Goebel, Dresden

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

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

Dr. phil. Jörn Graue, pharmacist, Hamburg

Dr. med. Christiane Groß, Wuppertal

Dr. med. Holger Grüning, Wernigerode

Dr. med. dent. Jürgen Hadenfeldt, Bovenden

Dipl.-Stom. Dieter Hanisch, Freyburg

RA Peter Hartmann, Berlin

Reiner Haupt, Dinkelsbühl

SR Dr. med. Gunter Hauptmann, Saarbrücken

Dr. med. Klaus Heckemann, Dresden

Dr. med. Dirk Heinrich, Hamburg

Dr. med. Peter Heinz, Wiesbaden

SR Dr. med. dent. Ulrich Hell, Schiffweiler

Dipl. rer. pol. Hanno Helmker, Bremen

Martin Hendges, dentist, Overath

MdB Rudolf Henke, Aachen

Dr. med. Jörg Hermann, Bremen

Ralf-Matthias Heyder, Teltow

Andreas Hilder, Steinfurt

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

Dr. med. Stephan Hofmeister, Berlin

Dr. med. dent. Bernd Hübenthal, Sangershausen

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

Dr. med. Klaus-Ludwig Jahn, Stotel

Stephan Janko, Langenfeld

Dr. med. Burkhard John, Schönebeck

Dr. med. Max Kaplan, Pfaffenhausen

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

RA Peter Klotzki, Berlin

Dr. med. Carsten Dieter König, Dusseldorf

Dr. med. dent. Alfons Kreissl, Adendorf

Dr. rer. soc. Thomas Kriedel, Dortmund

Dr. med. Wolfgang Krombholz, Isen

Dr. med. Sylvia Krug, Leipzig

Andreas Kruschwitz, dentist, St. Augustin

Dipl.-Med. Andrea Kruse, Forst

Dr. Michael P. Kuck, Wesel

Dr. rer. pol. Herbert Lang, Germering

Dipl.-Kfm. Wolfgang Leischner, Lübeck

RA Florian Lemor, Berlin

Dr. med. dent. Gunnar Letzner, Rostock

Rainer Linke, Kleinmachnow

Dipl.-Kfm. Thomas Löhning, Dusseldorf

Dr. med. dent. Ute Maier, Dußlingen

Claudia Mairle, veterinarian, Gießen

Helmut Mälzer, Berlin

Lothar Marquardt, dentist, Essen

Dr. med. dent. Peter Matovinovic, Kaiserslautern

Johannes M. Metzger, pharmacist, Scheinfeld

Dr. med. dent. Jörg Meyer, Berlin

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

Dr. med. Josef Mischo, Saarbrücken

Dr. med. Christoph Mittmann, Münster

Dr. phil. Marc-Pierre Möll, Berlin

Dr. Hans-Georg Möller, pharmacist, Papenburg

Karl-Heinz Müller, Lage

Lutz Müller, Lehrte

Thomas Müller, Münster

MPH Dr. med. Markus Müschenich, Berlin

Dipl.-Math. Gert Nagel, Darmstadt

Dr. med. Katharina Nebel, Vlotho

Christian Neubarth, dentist, Hildesheim

MUDr. Peter Noack, Cottbus

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

Dr. med. Gerhard Nordmann, Unna

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

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

Walter Plassmann, Jersbek

Thomas Preis, pharmacist, Dusseldorf

Axel Rambow, Schwerin

Dr. med. Klaus Reinhardt, Bielefeld

RA Martin Reiss, Berlin

Dr. med. dent. Ingo Rellermeier, Berlin

Dr. med. Claudia Ritter-Rupp, Munich

Dr. med. Bernhard Rochell, Berlin

Dr. med. Annette Rommel, Hörsel

Dr. med. Karl-Friedrich Rommel, Hörsel

Caroline Roos, Hamburg

RA Dr. jur. Helmut Roth, Bad Berleburg

Dr. med. habil. Thomas Schang, Eutin

Freiherr Dr. med. Titus Schenck zu Schweinsberg, Stadtallendorf

Günter Scherer, Berlin

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

Dr. med. Pedro Schmelz, Bad Kissingen

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

Dr. jur. Sebastian Schmitz, Mainz

Dr. med. Rüdiger Schneider, Trier

Dr. med. dent. Ursula von Schönberg, Barntrup

Dr. med. dent. Rüdiger Schott, Sparneck

Harald Schrader, dentist, Schwarzenbek

Dr. med. Volker Schrage, Ledgen

Dr. med. Thomas Schröter, Weimar

RA Joachim Schütz, Bad Honnef

Dipl.-Med. Angelika von Schütz, Grimmen

Dipl.-Med. Andreas Schwark, Bernau

Dr. med. dent. Holger Seib, Schwerte

Dr. Philipp Siebelt, Meerbusch

Dirck Smolka, dentist, Bonn

Dipl.-Ing. Dr. Hermann Sommer, Starnberg

RA Harald Spiegel, Bad Segeberg

Dr. med. Eckhard Starke, Offenbach

Dr. med. Eberhard Steglich, Nuthetal

Dipl.-Vw. Helmut Steinmetz, Kiel

Dr. med. Margret Stennes, Berlin

RA Dipl.-Betriebsw. Joachim Stöbener, Hauenstein

Martin Sztraka, dentist, Bremen

Dr. med. vet. Uwe Tiedemann, Lüneburg

Stefan Tilgner, Kleinmachnow

Dr. med. Christoph Titz, Ganderkesee

Dr.-Ing. Thomas Trümper, Fischingen

Dipl.-Ing. Ernst Uhing, Lüdenscheid

Dr. med. dent. Reinhard Urbach, Wolfsburg

Axel Uttenreuther, Munich

Dr. med. Peter Velling, Berlin

Dr. Claudia Vogt, pharmacist, Cologne

Dr. med. Michael Vogt, Berlin

Frank Völz, Bremen

Dr. med. vet. Guntram Wagner, Kratzeburg

Ralf Wagner, dentist, Heimbach

Ulrich Weigeldt, Bremen

Dr. phil. nat. Martin Weiser, pharmacist, Bad Camberg

Dr. med. dent. Holger Weißig, Gaußig

Dr. med. Lothar Wittek, Moosthenning

Dr. med. dent. Walter Wöhlk, Molfsee

Ralf Wohltmann, Berlin

Dipl.-Oek. Oliver Woitke, Bremen

Prof. Dr. Christiane Woopen, Cologne

Jürgen Ziehl, dentist, Wallerfangen

Honorary Position Holders and Honorary Members

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

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

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

Berthold Bisping
Honorary member of apoBank
Neuss

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

Elfriede Girl
Honorary member of apoBank
Munich

Jürgen Helf
Honorary member of apoBank
Meerbusch

Dr. med. Ulrich Oesingmann
Honorary member of apoBank
Dortmund

Dipl.-Betriebswirt Werner Wimmer
Honorary member of apoBank
Meerbusch

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Management Report

Fundamental Features of the Bank

Business model

Aligned to the growing health care market

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

As a specialist and niche supplier, apoBank has a strong position in its target market – based on the number of its customers – thus contributing to the success of the entire cooperative FinanzGruppe.

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 advisory services in payment transactions, in the lending, deposit and investment business, as well as 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. We intend to continue to strengthen our business with self-employed health care professionals while simultaneously expanding the business with 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 focus 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 further strengthen our market position with professional associations and medium-sized enterprises.

Strategy and goals

Our mission: We enable health

As a professional bank in the health care market, it is our mission to enable health. In essence, it is about understanding the interests of our customers holistically and serving their needs beyond the banking products themselves.

To this end, we will expand our offering and provide our customers with complementary non-banking services to support them in carrying out their professions.

With our newly founded subsidiary naontek AG, we support health care professionals by offering advisory and other services specifically geared to their needs. The business purpose of naontek AG is to identify and validate new business models in the health care market and ultimately to bring them to market maturity. The first step naontek has taken in this regard is to establish the univiva digital platform which it will use to broker new services and products related to the health care market.

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 dentists choosing self-employment can rent in a turnkey condition.

Profitable growth in the customer business

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

It is our goal to continue to expand our good market position in business start-up financing in the health care sector. To achieve this, we will extend our value chain in the area of start-up advisory services. As we continue to strengthen our business with self-employed health care professionals, we are also stepping up the expansion of our market position with salaried professionals and students.

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

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

More efficiency through optimised processes

In order to safeguard our bank's long-term success, we improve our efficiency and optimise our cost structure on an ongoing basis. We achieve long-term increases in efficiency primarily by continuously improving processes (e.g. our lending processes). In addition, we work on further digitising our banking processes.

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

Using digitalisation for the customers' benefit

We see digitalisation as an opportunity to refine our business model, gearing it even more effectively to customer needs. The topics, issues and ideas around digitalisation in the health care market are pooled and addressed at our apoHealth Center of Expertise.

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

Management system

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

The primary goal of management is to secure the long-term profitability of apoBank and to generate a minimum profit, while taking account of the risk-bearing capacity of the Bank. The following key indicators are embedded in the Bank-wide finance dimension:

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

Liquidity:

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

Risk-bearing capacity:

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

In addition, non-financial performance indicators are implemented in the management system. These are also derived from the Bank's strategy and refer in particular to customer satisfaction as well as the degree to which employees identify with apoBank (Organisational Commitment Index, OCI). In 2019, the OCI reached 70. The targeted medium-term level is at least 75. In the year under review, the satisfaction rating was 82%. The Bank aims to keep the satisfaction rating stable in the medium term.

Promotion of equal opportunities for all employees

For apoBank, reconciling work and family life is a core goal. Thanks to our needs-based, practical arrangements, employees at the Bank are able to find a good balance between their work and family obligations. A family service is available to support employees who require childcare. Additionally, apoBank offers employees places at a childcare facility at its Dusseldorf location. The family service also helps employees support family members in need of care. Due to our mobile work and flexible work time models, apoBank enables its workforce to organise their work in alignment with the needs of their individual life stage. Since 2008, apoBank has been participating in "audit berufundfamilie", an audit which examines to what degree our personnel policy takes into account family needs, and has continued to set itself new goals for a healthy work-life balance for its employees. In 2017, we received the certificate for another three years and plan to recertify starting in 2021.

We actively promote our employees in their professional and personal development. With our state-of-the-art learning management system apoCampus, all employees can learn independently of place and time. The offering is specifically tailored to each function. Additionally, we offer seminars and programmes for women to help them define where they are at professionally and to plan their careers. We include apprentices with potential in our Career Pool. In addition, a special programme fosters young talent in their career development.

In the year under review, over 200 female employees of apoBank and its subsidiaries were members of the apoWomenNetwork. The network aims to offer a platform for motivated women working at apoBank to exchange experiences and to foster women's careers at the Bank.

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

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

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

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

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

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

The share of women as at 31 December 2019 was 10% at the first management level and 21% at the second level. The share at the first management level decreased year on year due to restructuring. The share rose slightly at the second management level.

The Bank is intensifying its efforts to find, qualify and deploy suitable candidates for management positions. To this end, the Board of Directors has adopted a binding personnel development programme. This ranges from specially tailored workshops, to training programmes, right through to individual coaching and mentoring programmes for women. Members of the Board of Directors and executives are being trained to encourage female and male talents equally and promote their development.

The share of women on the Supervisory Board of apoBank amounted to 20% at the end of the year under review, thus fulfilling the target of 15%. There were no changes in the composition of the Board of Directors. The team continues to consist of five male members. When the quota was defined, the status quo was maintained.

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

Economic Report

Overall economic and industry-specific conditions

Weakest growth since the financial crisis

Global economic growth declined noticeably in 2019. With an annual rate of 2.9%, worldwide growth in value creation was lower than at any time since 2009. One reason for this was the weak industrial sector in many regions. In addition, the confrontational US trade policy led to global uncertainty, which caused many companies to be reluctant to invest. The trade policy dispute between the USA and China created additional burdens for China, since the country's economic dynamism had already been in gradual decline since 2017. The increasingly expansive monetary policy on the part of China's central bank, however, combined with fiscal measures prevented a stronger deterioration of the economic situation. These burdens led in particular to a weak development of global trade, with growth of only 1.0% in 2019 compared to the previous year. Economies with strong global involvement, including many emerging markets, recorded the greatest declines in growth. Since many emerging markets had experienced only a modest recovery from 2016 onwards, when prices continued to decrease on the commodities market, this further downturn in growth led to further disillusionment. In addition, there were crises in specific countries, such as Turkey and Argentina, and regional political unrest in many Latin American countries, for example.

In contrast to the global economy, the US economy grew by 2.3% in 2019, thus recording continued high dynamic growth. Although GDP decreased by 0.6 percentage points compared with 2018, the tax reform that had taken effect in the previous year and a strong increase in military spending provided a one-off surge in growth. The effect of the tax reform, however, weakened continually in the course of 2019. Nevertheless, private consumption helped economic growth thanks to the ongoing positive labour market performance. Three key interest rate cuts by the US Federal Reserve provided further stimuli to the domestic economy. Even so, the weakening enthusiasm for investment on the part of US companies continued.

GDP growth in % compared to the previous year

	2019 (expected)	2018
	%	%
Germany	0.6	1.5
Euro area	1.2	1.9
USA	2.3	2.9
Emerging markets	3.7	4.5
World economy	2.9	3.6

Sources: Federal Statistical Office, IMF

Growth momentum within the euro area became increasingly heterogeneous in 2019. While more strongly export-focused countries like Germany saw a marked drop in growth, in countries where the domestic economy plays a greater role (e.g. France) growth rates fell only slightly. After the UK's House of Commons had approved the Brexit agreement between the EU and the UK in December, the uncertainties regarding the future relationship between the two parties were no longer as great; the detail of the trade agreement, however, must still be worked out in the coming months.

Due to the weakness of the German automotive sector, the domestic economy came close to a recession. The negative trend that has predominated since mid-2018 thus continued. In the second quarter of 2019, the German economy recorded a contraction in economic output (-0.1%) for the first time since 2013. Stable growth in the services sector and a robust labour market prevented even stronger decline.

Real economic data for the last quarter of 2019 indicate that the situation has not worsened further recently.

More expansive monetary policy boosts share markets

The weakening economic situation in Europe forced the ECB to adopt a more expansive monetary policy again in the second half of 2019. This is why it reduced its deposit rate by ten basis points to -0.50% and once again began buying government bonds at a rate of €20 billion per month. To avoid excessively negative effects on the European banking sector, it introduced a system of graduated deposit rates for the excess reserves held by the ECB. The US Federal Reserve also began adjusting its monetary policy in 2019. Following numerous interest rate increases since 2015, the Fed reduced its key interest rates again for the first time in the summer. Two further decreases followed between then and the end of the year, down to 1.75%. Because of tensions on the US money market, in October the Fed also began feeding additional liquidity into the market by buying in US government bonds.

As the economic situation continued to weaken and geopolitical tensions increased, yields on the pension markets fell during the first half of 2019. The yield for 10-year federal bonds dropped to a low of -0.72%, and the yield for US government bonds to 1.46%. Beginning in early summer, the downward trend was assisted by announcements from the central banks that they intended to adopt more expansive monetary policy strategies. An easing of political uncertainties beginning in autumn and continuing positive economic data from the USA contributed to a moderate trend correction during the first half of the year. Despite a reduction in the yield difference between the euro area and the USA, the euro showed no gains against the dollar: For the whole of 2019, the exchange rate fluctuated in a narrow band between $1.09 and $1.15 per euro.

Share prices once again rose noticeably in the first quarter of 2019, following marked price corrections on the share markets until the end of 2018. Supported by the increasing loosening of monetary policy in various economies, reduced political risks in terms of a “no deal” Brexit and an escalation in the bilateral trade conflict between the USA and China, the major international share indices posted further gains in the second half of the year. Over the entire year, the DAX posted a gain of 25%, ending the year only about 300 points below its all-time high in January 2018. Conversely, the leading US share index, the S&P 500, achieved a new all-time high at the end of 2019, at about 14% above that of January 2018.

Real-estate loans still in strong demand

The volume of loans granted to businesses and residential households in Germany continued to grow in the first six months of 2019. In the second half of the year, growth in business loans adjusted for sales and securitisations slowed; in December 2019, it was the same as at the end of 2018, at 5.8%. Lending to residential households, however, continued to develop positive momentum at the end of 2019. Demand for real-estate loans in particular was much more dynamic in November compared to the middle of the year, with year-on-year growth of 5.7%. One contributing factor will likely have been the continued decline in the lending rate in Germany: By year-end 2019, the average lending rate for real-estate loans with a term of five to ten years was down by over 50 basis points to 1.14%.

Despite higher lending, growth in prices on the German property market continued to ease in 2019. According to the vdp property price index, however, growth in the residential segment was still higher year-on-year, at 6.5%. The trend toward lower growth rates in prices in the preferred city locations became established: With a growth rate of 4.2% last year, the rise in prices was the lowest since 2010.

Health care remains a growth market

The health care market continued its growth path last year. Important factors for the growing demand for health care services and products are demographic change, progress in medical technology and an increasing awareness of health among the public. Added value in the health care industry is also rising. Digitalisation is another key growth factor. More and more established companies are expanding their product range to include digital solutions; at the same time, start-ups are developing innovative health care and medical apps, which doctors will be able to prescribe in future and will be eligible for refund from statutory health insurance. 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.

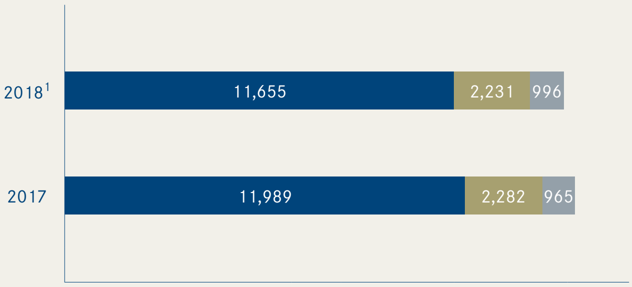
Ongoing adjustment of legal framework conditions

In 2019, extensive social legislation was adopted or initiated to achieve a long-term improvement in care and deal with the current challenges in the health care market. In May 2019, the Appointment Service and Medical Care Act (TSVG) came into force including measures to reduce waiting times for appointments for patients covered by statutory health insurance. With the regulation setting lower limits on nursing staff numbers (Personaluntergrenzen-Verordnung), the state aims to guarantee the safety and quality of patient care on a permanent basis. In addition, legislation aimed at boosting the numbers of nursing staff (Pflegepersonal-Stärkungsgesetz) initiated considerable improvements in the daily lives of nursing staff. From 2020, this act will also change the system governing hospital reimbursements. Another important ongoing focus for health policy is to bolster the role of pharmacists. The Digital Health Care Act (DVG), which has already been partly in force since the beginning of 2020, ensures not only that health care applications will be integrated into standard health care more quickly and more easily, but also that the expansion of the electronic data transmission infrastructure will continue. Health apps, electronic patient records, e-prescriptions and video consultations are thus being integrated into the practice of health care. Social legislators also advocated cross-sectoral health care in 2019. The aims are to develop a greater appreciation for and to refine the health care professions, as well as to ensure more intense coooperation, but also more competition, among the players on the health care market.

Economic trend: Moderate growth course

Revenue per pharmacy grew by an estimated average of about 4% year on year in 2019. Besides reallocation following the closure of pharmacies, this is also determined by the growing proportion of high-priced pharmaceuticals. Despite the higher revenue, the operating result before taxes is likely to have been slightly down on the previous year’s level, particularly on account of the higher cost of goods and rising personnel costs. The market differentiation between high-revenue and low-revenue pharmacies that has been observed for years continues.

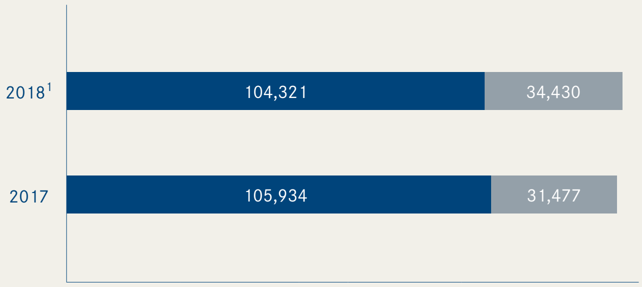
Development of pharmacies' branch structure



Pharmacies without branches
Main pharmacies with one branch
Main pharmacies with at least two branches

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

Number of self-employed/salaried physicians and psychotherapists



Self-employed panel doctors
Salaried physicians in outpatient facilities

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

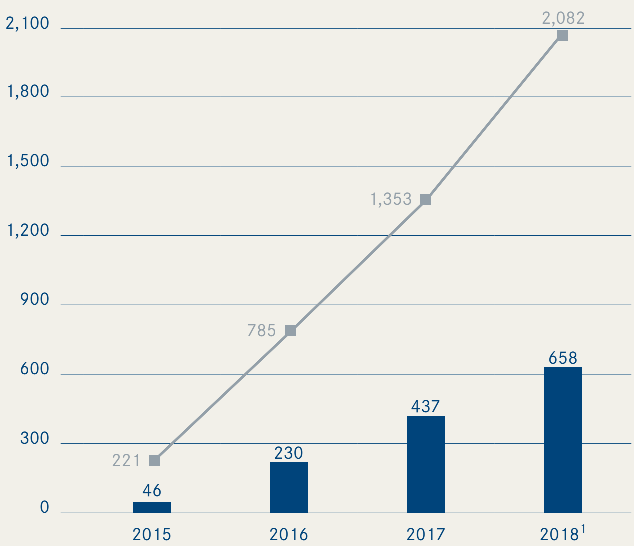
Total remuneration for panel doctors and psychotherapists increased moderately in 2019. One reason for this is the extra-budgetary remuneration for certain services under the TSVG. Panel dentists also recorded an increase in the past calendar year. A positive aspect is the fact the TSVG abolished the declining point scale for panel dentist services, which previously led to a graduated decrease in fees if particular point limits were exceeded. The abolition of fee deductions should help to encourage the establishment of practices in rural, structurally weak regions in particular.

Structural development: Trends toward 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, the number of pharmacy networks with two or three branches in particular is increasing. 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, psychotherapists and panel dentists is also decreasing steadily. For these groups of health care professionals, too, the trend toward larger cooperative entities continues unabated, promoted in particular by global health care groups and financial investors. Adopting a “buy-and-build” approach, these are increasingly becoming providers in the areas of medical and dental services, rehabilitation and nursing care.

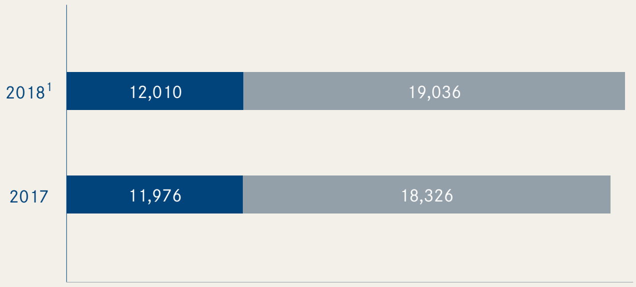
Development of licensed dental medical care centers



Salaried dentists in dental medical care centers
Dental medical care centers engaged in contractual dental care

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

Number of self-employed/salaried veterinarians



Self-employed veterinarians
Salaried veterinarians

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

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 considerably. To give dentists in individual practices and professional cooperatives greater flexibility to structure their own practices, employment limits were expanded in 2019 to allow three dentists to be employed by each panel dentist, or four in exceptional cases.

The number of veterinarians – both self-employed and salaried – changed only marginally. However, veterinary medicine is also a focus area for investors (primarily foreign corporations and investment firms), which 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

Pressure on the hospital market in Germany increased once again as a result of structural, political and financial developments. The shortage of skilled staff – especially in nursing and medical services – remains a challenge for hospitals, and is further intensified by demographic change. At the same time, legal requirements are rising, either in the form of introducing minimum levels of nursing staff or by excluding nursing personnel costs from DRG flat rates (DRG = diagnosis-related groups). Not only does this pose organisational and staff-related challenges for hospitals, but it also causes substantial liquidity problems for them. To counteract the surplus of doctors in densely populated areas and the shortage of doctors in rural areas, while maintaining a high standard of health care that is efficient and tailored to patients' needs, the focus in future must be on quality requirements, minimum volumes and continuation of the hospital structure fund (Krankenhausstrukturfonds). A reform of hospital financing is also planned.

The increasing trend toward moving patients into the outpatient system means hospitals can no longer control their business development through growth in inpatient case numbers alone. Instead, they have the opportunity of expanding their range of health care services with a clear focus on the outpatient sector. In addition, many hospitals have not yet fully exhausted the efficiency potentials offered by digitalisation. To withstand external pressure and ensure their business development in future, hospitals will rely more on mergers, long-term financing strategies and specialisation in specific services. Moreover, hospitals are increasingly establishing closer relations with GPs, specialists, pharmacists and other service providers on the health care market.

Prevention, rehabilitation and care: Demographic change affects the health care market in two ways

Employees are having to work longer and longer. As the age of retirement increases, measures to maintain good health are becoming more urgent. The focus is therefore increasingly on prevention and rehabilitation. The Prevention Act (PrävG) from 2016 and the Intensive Care and Rehabilitation Strengthening Act (GKV-IPREG) are designed to bolster both of these pillars of the social system. This will create new challenges for service providers and facilities.

The need for nursing services is growing and changing continuously. There is a demand for sustainable, innovative and multifunctional care strategies. The trend toward outpatient treatment is ensuring that more and more outpatient services are rendered in inpatient health care, and it also promotes new living styles and new forms of service and care. However, there will still be a long-term need for in-house care services on account of the growing number of older patients with a complex morbidity spectrum and higher levels of nursing care needs. Because labour supply is dropping at the same time, a number of measures were adopted in 2019 as part of a concerted campaign to make nursing care occupations more attractive in the longer term. These include creating additional positions, better conditions and offering higher salaries.

Digitalisation of health market in full swing

Technological change and increasing digitalisation have given rise to new digital health care services, especially in communications, diagnostics and treatments, which are offered by innovative (new) companies and are enriching the health care market. In 2020, patients covered by statutory health insurance are expected to receive the opportunity to have applications of this nature prescribed by their doctor and refunded by the health insurance companies. 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 already be offered in almost all federal states in Germany. The rollout of telematics infrastructure and the accompanying legislation will further accelerate the delivery of digital treatment and management applications (e.g. e-prescriptions and electronic patient records). The digitalisation of many processes as well as the evolving additional diagnostic and therapeutic options help to significantly improve the quality and increase the efficiency of health care.

Business performance

Respectable result

In the 2019 financial year, the priority for financial institutions continued to be to adjust their business models to a consistently challenging market environment. The profitability of many banks is under substantial pressure, not least because the interest environment in the year under review deteriorated substantially once again. The focus of banks was still on process optimisation and improving competitiveness, together with cost reduction programmes in many cases; these also include measures to reduce complexity in the banks' business models. Many banks also initiated digitalisation campaigns to improve customer loyalty and gain new customers. The German banking sector received little support from overall macroeconomic trends in 2019, so that its performance recently weakened somewhat. Positive stimuli, however, came from the financial markets, where stock indices and bond markets improved markedly during the year under review.

Overall, we consider the business performance of apoBank in 2019 as respectable when compared with our expectations. In a consistently challenging environment, we succeeded in recording a net profit after tax of €64.1 million, thus achieving our planned level (31 December 2018: €62.9 million).

In accordance with our statutory purpose, we support our members and customers in achieving their professional and private goals by offering specialised banking services. Thanks to this focus, our customer business continued to perform well during 2019: Growth in the lending business continued during the year. Loans and advances to customers rose by 7.6% to €37.3 billion (31 December 2018: €34.7 billion). The reasons for this rise were the consistently high demand from our retail and corporate clients, as well as continuously growing customer numbers.

We primarily refinanced our lending business via liabilities to customers; these rose by 6.5% to €29.2 billion (31 December 2018: €27.4 billion). The growth in securitised liabilities of 25.9% to €7.4 billion (31 December 2018: €5.9 billion) is mainly due to our Pfandbrief issuances. As at 31 December 2019, the balance sheet total reached €49.6 billion (31 December 2018: €45.4 billion).

Retail clients

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.

We rate the business with retail clients during the reporting period as highly positive due to the growth in the lending and securities business. Nevertheless, the pressure on margins remained. We gained 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

What we consider a good level of new business led to an increase in our loan portfolio with retail clients to a total of €31.2 billion in the reporting period (31 December 2018: €29.1 billion). The volume of business start-up financing increased to €7.5 billion (31 December 2018: €7.1 billion).

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 €19.1 billion (31 December 2018: €17.3 billion). Investment and private financing remained almost stable at €4.6 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 €19.4 billion (2018: €17.4 billion). Due to the persistently low interest rates, our customers still prefer short maturities and high availability for their investments.

Considerable growth in securities business with customers

After the declines on the stock markets as at the end of 2018, the year 2019 was characterised by marked improvements in stock market prices. Boosted by this positive market performance and as a result of the intensification of our marketing campaigns, our deposit volume rose to €9.7 billion (31 December 2018: €7.8 billion).

Positive trend in asset management continued

In asset management, the positive trend continued: Managed volume rose to €4.1 billion (31 December 2018: €3.3 billion). Both classic asset management and our new apoVV SMART asset management developed positively.

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 €482 million (2018: €447 million). This increase was once again mainly driven by 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 so that the total contract value increased to €575 million (31 December 2018: €553 million).

Professional associations, institutional customers and corporate clients

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

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

In the reporting period, apoBank continued its business relations with the professional associations on a stable basis. The average deposit volume increased to €3.8 billion (2018: €3.6 billion).

Our subsidiary medisign GmbH is contributing to the establishment of an electronic data transmission infrastructure in Germany by issuing electronic identification cards in the health care sector. In 2019 alone, medisign issued about 85,000 electronic practice ID cards (SMC-B). It had obtained the appropriate approvals from gematik and the relevant corporate bodies for physicians and dentists at the end of 2018, with approvals for pharmacists following in mid-2019. From mid-2020, medisign will also issue the second-generation electronic ID card for physicians and pharmacists (eHBA G2), a further element in the electronic data transmission infrastructure.

Individually tailored advisory concept for institutional investors

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

With our individually tailored advisory approach, we offer our customers 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

The capital markets are becoming ever more challenging as interest rates remain low, making it more and more difficult to achieve appropriate yields. At the same time, regulatory requirements are increasing for our customers. In view of this, we provided comprehensive support to our customers in managing their risk and earnings situation. Based on this, our tailor-made services and products for developing and implementing strategic asset allocation and ongoing risk control remained in high demand. With apoConsult+ we offer our customers independent advisory 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. As at the reporting date, we managed 253 funds (31 December 2018: 253); the depository volume increased to €21.8 billion (31 December 2018: €19.6 billion). With this rise, we further strengthened our position in the competitive depository market. We also continued to expand the segment of special real estate funds and investment stock corporations.

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

We further strengthened our market presence 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, our own Corporate Finance department is continuously working on developing its services in order to provide even better support to customers, in particular with regard to special financing needs.

The unchanged growth prospects in the health care market had a positive impact on our business performance. We recorded increased demand for financing across almost all segments in 2019 again. Furthermore, additional services were in demand. In spite of continued intense competition, the loan volume in the Corporate Clients business area rose again, amounting to €4.3 billion as at the balance sheet date (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 9.3% to €691.1 million (31 December 2018: €632.4 million). The growth driver was the lending business, where we achieved a further increase with new loans amounting to €7.6 billion (2018: €7.1 billion).

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

Overall, we did not achieve our target for net interest income. This can be attributed to lower payouts from apoBank's own special funds as well as an interest environment that proved less favourable than expected.

The net interest margin remained unchanged at 1.5% (2018: 1.5%).

Growth in net commission income

Net commission income rose by 6.3% to €175.3 million (2018: €164.9 million). The securities business performed well with respect to both institutional and retail clients. In addition, commission income from the pension business and from payment transactions showed a positive trend. The bottom line was that commission-based business was slightly below our expectations.

General administrative expenses higher, as expected

In the reporting period, our general administrative expenses rose significantly, by 14.5%. At €683.9 million, these were slightly higher than planned (2018: €597.6 million).

Personnel expenses amounted to €260.1 million, and were thus slightly below the figure for the previous year (2018: €272.3 million), and also slightly below the budgeted amount. Job creation proceeded at a slower pace than expected. By contrast, operating expenditure including depreciation rose substantially, to €423.9 million (2018: €325.2 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 and for strategic projects. The growth in operating expenditure was much higher than planned, mainly due to the costs for the IT migration.

In the year under review, the cost-income ratio amounted to 76.3% (2018: 73.1%), slightly above the planned level.

Operating result below previous year's level

The operating result, i.e. the profit before risk provisioning, at €217.7 million, was below the previous year's value (2018: €233.6 million), and thus well below the budgeted amount. The reasons for this include the trend in net interest income as well as an increase in operating expenditure.

Higher risk provisioning for the operating business

Risk provisioning for the operating business was at -€43.5 million in the year under review (2018: -€31.9 million), and thus much lower than planned. Net new allocations to loan loss provisions were stable at the previous year's level.

Risk provisioning with reserve character amounted to -€57.1 million (2018: -€88.3 million), and was thus lower than planned.

Income statement

	1 Jan - 31 Dec 2019 €m	1 Jan - 31 Dec 2018 €m	Change %[1]
Net interest income[2]	691.1	632.4	9.3
Net commission income	175.3	164.9	6.3
General administrative expenses	– 683.9	– 597.6	14.5
Balance of other operating income/expenses	35.2	33.9	4.1
Operating profit before risk provisioning	217.7	233.6	– 6.8
Risk provisioning from the operating business[3]	– 43.5	– 31.9	36.4
Risk provisioning with reserve character[4]	– 57.1	– 88.3	– 35.4
Operating result	117.1	113.4	3.3
Taxes	– 53.0	– 50.4	5.0
Net profit after tax	64.1	62.9	1.9

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

Stable net profit

After allocations to reserves, the operating result before taxes increased by 3.3% to €117.1 million (2018: €113.4 million), thus reaching the planned level. Net profit after taxes totalled €64.1 million (2018: €62.9 million), and was thus on target. The return on equity after taxes amounted to 3.6% (31 December 2018: 3.6%); the return on investment was 0.13% (31 December 2018: 0.14%).

Higher balance sheet total and comfortable liquidity situation

The balance sheet total rose to €49.6 billion as at 31 December 2019 (31 December 2018: €45.4 billion). Loans and advances to customers increased to €37.3 billion (31 December 2018: €34.7 billion). The securities portfolio amounted to €5.8 billion (31 December 2018: €5.6 billion).

apoBank’s liquidity situation remained comfortable in 2019: Throughout the year, we comfortably fulfilled the internal and external minimum requirements for our liquidity position. As a well-established market participant with good credit ratings, we secure funds for refinancing through various sources and support ourselves with a broadly diversified customer and investor base. The largest source of refinancing comes from liabilities to customers. In the reporting period, these increased noticeably, to €29.2 billion (31 December 2018: €27.4 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €2.5 billion (31 December 2018: €3.1 billion). We also use covered bonds (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 successfully placed three further mortgage Pfandbriefe at a value of €500 million each on the European capital market in 2019. The total volume of the Pfandbrief portfolio as at the reporting date of 31 December 2019 rose to €6.3 billion (31 December 2018: €5.1 billion).

In addition, we utilise refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks. In order to fulfil the regulatory requirements for liquidity, we held €4.2 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 on the “Overview of Business Development” page. The equity capital item and the development of member numbers are described in the section “Overall capital situation” in the risk management report.

Good rating assessment

apoBank’s creditworthiness, in other words its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor’s. Standard & Poor’s confirmed apoBank’s good ratings in January 2020. apoBank bonds which are potentially used as liable equity in a bail-in are defined by Standard & Poor’s as senior subordinated bonds and are rated A+. apoBank’s senior unsecured bonds are rated AA-. Earlier, in September 2019, the agency lowered its outlook to negative for a number of German banks, including apoBank, since S&P perceives growing risks in the German banking market.

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

Summary

Our business model geared to the health care market and our growth strategy for our core business proved effective once again in the reporting period. We succeeded in further expanding our loan volume. 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. Risk provisioning from the operating business also rose considerably. However, we were once again able to strengthen our reserves. Net profit remained stable.

We view the liquidity situation as comfortable. We benefited here from a widely 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).

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 may be viewed at www.apobank.de/nachhaltigkeit and on the German Sustainability Code website (www.deutscher-nachhaltigkeitskodex.de).

Risk Management Report

Principles of risk management and risk control

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

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

We discuss each of these items in more detail below. We then provide an overview of the development of the risk situation in 2019 and, pursuant to Article 435 of the Capital Requirements Regulation (CRR), we present the details of our risk management objectives and policy. apoBank's risk management system does not assess opportunities; it deals exclusively with risks.

Risk inventory

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

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

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

Credit risk

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

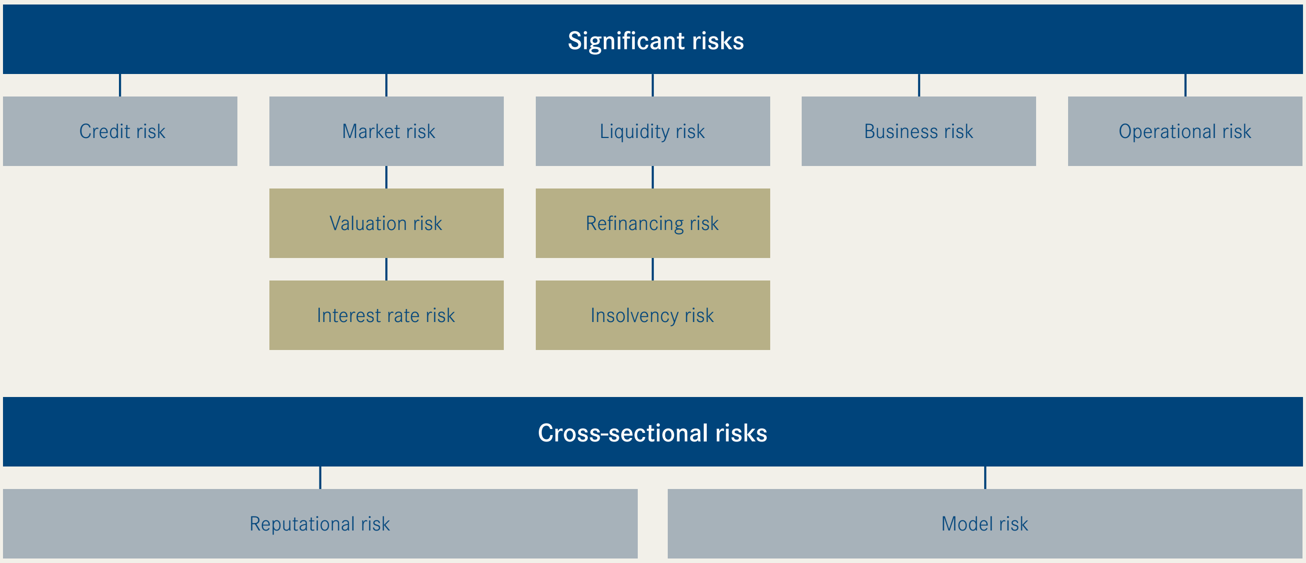
Market risk

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

Liquidity risk

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

Classification of apoBank's types of risk



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

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

Business risk

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

Cost risk is defined by the Bank as an unexpected development in material and personnel costs. Under other income statement-related risk, the risk of other operating income and expenditure is quantified that is not already accounted for in operational risk.

Operational risk

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

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

Reputation risk

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

Model risk

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

Business and risk strategy

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

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

Organisation of risk management

Organisational principles

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

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

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

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

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

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

Accounting management and control

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

Issues of particular relevance to risk

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

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

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

Risk-bearing capacity concept including stress test framework

Risk-bearing capacity concept

The risk-bearing capacity concept is the operational tool of the ICAAP and serves to monitor the capital adequacy of the Bank on an ongoing basis. It sets the capital parameters against risk and exposure parameters.

Further components of the risk-bearing capacity concept are a sophisticated traffic-light and limit system for the capital-related performance indicators to be calculated and for the significant risks, the corresponding reporting as well as suitable escalation mechanisms.

In line with the regulatory specifications of the ICAAP guidelines of the European Central Bank (ECB), apoBank's risk-bearing capacity concept includes a normative and an economic perspective. Both perspectives aim to ensure the continuing existence of apoBank and enable a sophisticated view of the capital adequacy of the Bank based on different parameters and observation periods.

Both perspectives complement each other: The respective capital that can be burdened by losses incurred is set against risks pursuant to supervisory or regulatory minimum specifications as well as to economic benchmarks.

In the normative perspective, the capital adequacy is described based on the current and/or expected regulatory and supervisory specifications. The starting point for ongoing monitoring is the annual capital planning. On this basis, the development of the capital performance indicators is monitored over a rolling period of at least three years. In addition to the original planning data, account is taken of key learnings from the current business performance as well as from the measures that have been decided upon or are foreseeable and situations with recognisable implications for capital.

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

Internal capital includes all capital that is available to the Bank for compensation of future losses. This primarily comprises the parts of the regulatory capital that can be used for loss compensation. In addition, when calculating capital, economic elements such as hidden reserves and burdens in selected items are considered.

Internal capital is defined conservatively. It is therefore lower than the economic value that an external investor would pay for the Bank under consideration of its future earnings potential and simultaneous expenditure.

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

In addition to the risk appetite limits in the traffic light system of the regulatory capital ratios or the economic capital ratio, the Board of Directors decides on a normative and economic Bank-wide limit that is spread across the regulatory exposure classes and significant risk types and limits the assumption of risk.

Stress test framework

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

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

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

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

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

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

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

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

In addition, the Bank carries out reverse stress tests in both perspectives of the ICAAP. The reverse stress tests analyse under which circumstances apoBank’s business model would no longer be sustainable.

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

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

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

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

The “Liquiditätstragfähigkeit concept” including stress test framework

Liquiditätstragfähigkeit

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

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

The LCR specifications determine apoBank’s liquidity stock. Due to this significance, in addition to the daily monitoring of the actual key figure a daily forecast of the LCR takes place. Although the regulatory requirement for NSFR compliance has not yet been finalised, the ratio is calculated regularly in order to create transparency regarding anticipated fulfilment of the expected minimum limit.

An internal limit system ensures that the actual figures and the forecasts of the LCR which reflect the risk appetite of the Board of Directors are adhered to at all times.

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

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

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

Stress test framework

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

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

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

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

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

Risk control, measurement and limitation

Risk concentrations

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

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

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

Credit risk

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

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

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

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

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

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

Retail Clients business segment

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

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

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

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

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

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

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

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

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

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

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

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

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

The Corporate Centers support the Board of Directors in the management of the Bank by advising and supporting its members in the areas of strategy, risk management and control. In addition, the Corporate Centers assist the business segments in their activities.

Market risk

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

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

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

Interest rate risk

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

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

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

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

Valuation risk of financial instruments

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

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

Liquidity risk

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

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

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

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

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

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

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

Business risk

Generally, it is not possible to actively limit business risks through specific measures. Regardless of this, the risk measurement shows by way of low historical plan/actual deviations that the planning process is supported by appropriate premises.

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

Operational risk

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

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

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

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

Risk reporting

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

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

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

As monitoring bodies, the Supervisory Board and its Loan and Risk Committee are informed regularly about the current economic situation and risk position of the Bank as well as about risk control and limitation measures. The Loan and Risk Committee also discusses significant investments, the sale and purchase of properties and the acquisition and divestment of participations. The committee held a total of four meetings in the 2019 financial year.

Recovery governance and the resolution plan

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

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

Details on the development of the risk position in 2019

Overall capital situation

apoBank has further refined its Internal Capital Adequacy Assessment Process (ICAAP), and has adapted it to comply with the binding guidelines of the ECB, which have been 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 adequacy, the correlations between the two perspectives are taken into account.

Capital situation – normative perspective

apoBank's capital ratios were above the binding and recommended minimum capital requirements at all times in 2019; thus, the Bank rates its capital situation as good.

As at the reporting date, the total capital ratio of apoBank pursuant to the Capital Requirements Regulation (CRR) amounted to 16.5% (31 December 2018: 18.3%) and the common equity tier 1 capital ratio was at 15.2% (31 December 2018: 16.7%). apoBank's equity ratios as at 31 December 2019 thus remained below the previous year's level. However, they continued to be above the minimum requirements and the internal target values.

As at 31 December 2019, regulatory equity capital totalled €2,519 million (31 December 2018: €2,543 million). Common equity tier 1 capital rose from €2,310 million as at the end of 2018 to €2,325 million as at the reporting date. This increase was driven on the one hand by renewed growth in non-terminated capital contributions of members to €1,228 million (31 December 2018: €1,187 million), which was accompanied by a simultaneous rise in the number of members to 115,884 (31 December 2018: 113,455). On the other hand, our equity position was strengthened by allocations to the fund for general banking risks in particular as well as to the revenue reserves from the 2018 earnings. Counteracting this was a rise in regulatory capital deduction items of €106 million, mainly due to the increasing capitalisation of intangible assets from the IT migration project.

Risk-bearing capacity (normative perspective)

as at 31 December 2019	€m	Total capital ratio %
Total capital	2,519.0	
Risk-weighted assets (RWA)	15,293.6	16.5

Risk-bearing capacity (credit risk items)

as at 31 December 2019	Actual risk €m	Utilisation of applicability criteria %
Sovereign states	0.0	not relevant
Institutes	956.7	70.9
Companies	3,421.0	91.2
Retail business	8,555.9	93.0
Participations	888.7	88.9
Other assets	289.9	72.5

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

as at 31 December 2019	€m	Share of risk cover potential %
Risk cover potential	2,932.4	
Bank-wide risk position	1,657.0	177.0

Significant risks

as at 31 December 2019	Actual risk €m	Limit utilisation %
Credit risk	869.2	74.3
Liquidity risk	35.8	89.4
Operational risk	110.9	92.4
Market risk	555.8	95.8
Business risk	85.3	94.8

Supplementary capital declined to €194 million (31 December 2018: €233 million) as expected. The main reasons for this were regulatory changes leading to decreased assignability of uncalled liabilities to capital and of the reserve pursuant to Section 340f of the German Commercial Code since the beginning of 2019 as well as the fact 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.

Risk-weighted assets amounted to €15,294 million as at 31 December 2019, a considerable 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 model-dependent effects such as the regular recalibration of the rating procedures.

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

The leverage ratio pursuant to transitional arrangements amounted to 4.4% (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 internal target ratio was complied with at all times.

The economic capital ratio, which represents the relation between the risk cover potential and the measured economic risks, was considerably higher than the internal target ratio of 140.0%, at 177.0% (31 December 2018: 191.2%), despite a higher unexpected loss (UEL) than in the previous year. The economic risks measured at a confidence level of 99.9% amounted to €1,657 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 82.9% as at 31 December 2019.

As at the reporting date, the risk cover potential was €2,932 million (31 December 2018: €2,819 million).

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.

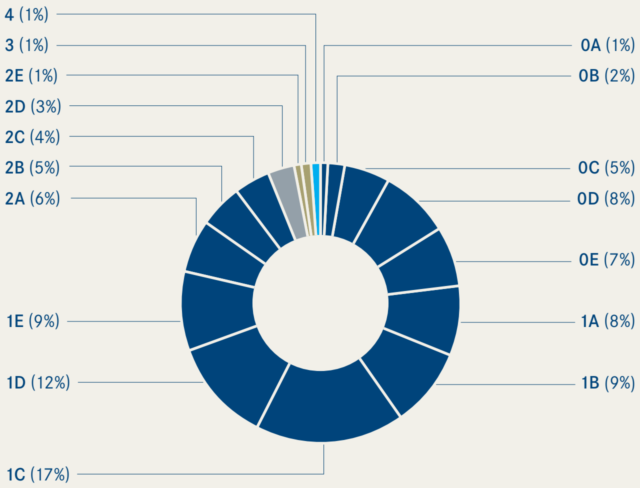
Credit risk

At the end of 2019, the UEL from credit risks faced by apoBank was at the same level as the UEL stated in the previous year (+0.8%). Here, while new business and a more conservative modelling of risks with regard to sovereign states increased risk, this was offset by the risk-reducing effects from methodological improvements in the loan portfolio model of IT provider parcIT and lower money market items as a result of maturities. The risk-increasing and risk-reducing effects more or less cancelled each other out in the year under review.

Rating class distribution in the retail clients portfolio

Volume distribution based on drawdowns

Total of €32,847 million[1]

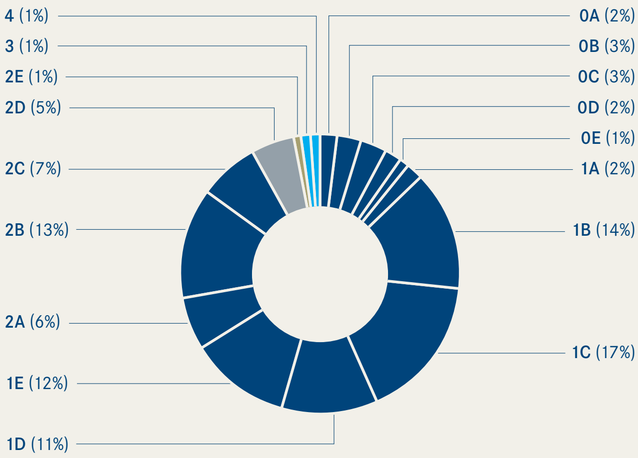


1) Percentages rounded.

Rating class distribution in the professional associations and large customers portfolio

Volume distribution based on drawdowns

Total of €5,394 million[1]



1) Percentages rounded.

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

Retail Clients business segment

In the retail clients portfolio, drawdowns rose to €32.8 billion (31 December 2018: €30.7 billion) due to new business.

The rating structure shows a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group. The rating coverage is very close to 100%. The portfolio is highly diversified: With around 218,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

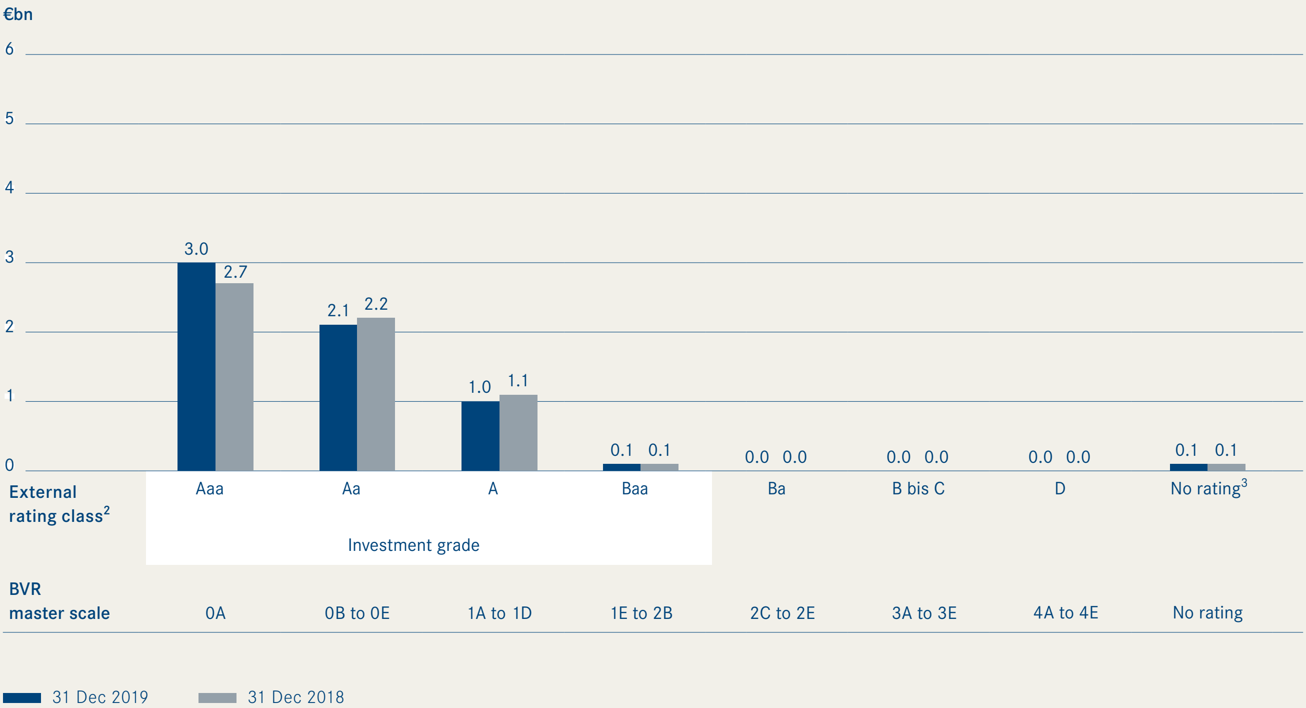
After offsetting new and no longer necessary precautionary measures, value adjustments totalling €29.4 million were made at the end of the financial year. This amount is slightly above the previous year's figure but very considerably below the budgeted amount.

Professional Associations and Large Customers business segment

Total drawdowns in the professional associations and large customers portfolio increased by €0.5 billion to €5.4 billion as at 31 December 2019 (31 December 2018: €4.9 billion). The rating distribution of the portfolio is balanced and the rating coverage complete.

On the reporting date, allocations to risk provisioning for the professional associations and large customers portfolio reached €1.1 million; the figure was far below the budgeted amount.

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



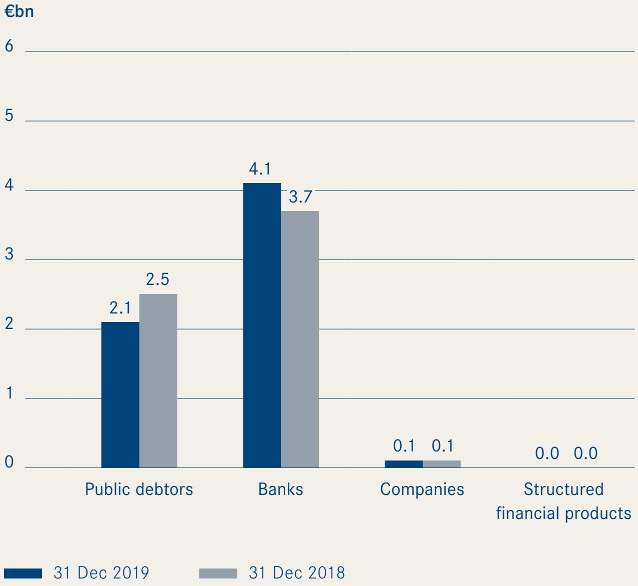
1) Total exposure is generally the book value (loan drawdowns or credit equivalent amount). The exposure for the INKA funds is determined by looking at the underlying assets; the exposure is accounted for on a cost value basis.
2) The letter ratings shown here comprise all rating classes of the respective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

Treasury business segment
The risk volume of the financial instruments portfolio managed by the Treasury business segment amounted to €6.3 billion on the reporting date and was thus above the previous year's figure (31 December 2018: €6.2 billion). An increase in securities and interbank accounts exceeded the lower volumes in money market products.

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 €29.7 billion (31 December 2018: €28.9 billion).

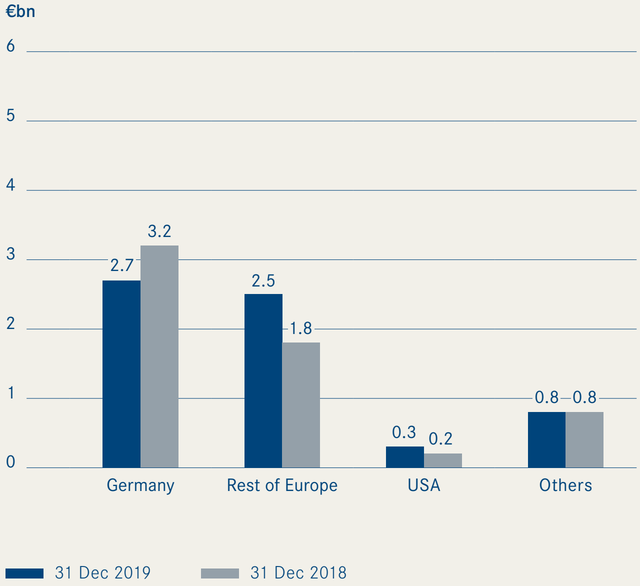
As at 31 December 2019, as in the previous year, around 99% of the financial instruments portfolio was rated in the investment grade range. The risk provisioning after offsetting of around €2.9 million was below the budgeted amount as at the reporting date 31 December 2019.

Total exposure of financial instruments portfolio by sector



1) Deviations possible due to rounding differences.

Total exposure of financial instruments portfolio by country



1) Deviations possible due to rounding differences.

Participations business segment

The book values of the participations were stable at €0.2 billion as at the reporting date (31 December 2018: €0.2 billion).

In the reporting period, risk provisioning amounting to €10.2 million was made in the participations portfolio. This risk provisioning is mainly due to a write-off we made on a subsidiary founded in the year under review based on our value adjustment strategy for participations and the planned start-up losses of the subsidiary.

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 limit for the market risk was complied with at all times in 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 (Basel II interest risk coefficient) at all times in 2019. The Basel II interest rate risk coefficient was 11.7% as at 31 December 2019 (31 December 2018: 12.9%).

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

Changes in present value in the banking book

	Ad hoc interest scenario		
	Interest increase (+ 200 BP)	Interest decrease (– 200 BP)	Interest rate risk coefficient
	€m	€m	%
31 Dec 2017	– 356	+53	14.1
31 Dec 2018	– 328	– 10[1]	12.9
31 Dec 2019	– 297	+89	11.7

1) Correction of figure stated in previous year's table.

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 are adjusted based on historical data. Statutory loan termination rights are modelled based on option models.

In the liabilities business, the cash flows for customer balances are modelled without a specific interest rate adjustment date. Here, in accordance with the concept of moving averages, cash flows based on 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 were changes in the risk calculation method. The applicability criterion derived from the Bank-wide limit for the refinancing risk was complied with at all times.

Business risk

The applicability criterion made available from the Bank-wide limit for business risk was maintained at all times in 2019. Overall, the measured risks fluctuated only slightly.

Operational risk

In the reporting period, the operational losses were markedly below those in the previous year. Here, the main factors were once again legal risks, although to a lesser extent than in the previous years.

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

Overall liquidity situation

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

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

Liquidity situation – normative perspective
As at 31 December 2019, apoBank's LCR was 140.0% (31 December 2018: 144.3%). Thus, the minimum requirement of 100% was met in full. The LCR forecast also shows that the internal and external minimum limits for the observation periods defined were complied with at all times.

The net stable funding ratio (NSFR), at 112.8% (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 liquidity forecasts of the liquidity gap analysis. Here, the expected liquidity development in the planned scenario as well as the expected liquidity development in the combined stress scenario are analysed and limited. In 2019, the limits of the liquidity gap analysis were complied with at all times. 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 were also complied with at all times in 2019.

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

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

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

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

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

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

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

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

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

In addition to their tasks on the board, the members of our Board of Directors also hold one executive mandate as well as eight supervisory mandates (as at 31 December 2019). The Supervisory Board members hold an additional five executive mandates as well as three supervisory mandates (as at 31 December 2019). This was determined based on the first-time application of the simplification provisions pursuant to Sec. 25c (2) sentence 3 and 4 of the KWG (German Banking Act) and Sec. 25d (3) sentence 3 and 4 of the KWG.

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

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

According to the legal requirements, the Supervisory Board must be configured such that its members collectively have the necessary knowledge, skills and professional experience for the proper performance of the required duties. In 2019, the Supervisory Board refined its strategy for selecting the members of the board. The strategy aims to ensure, maintain and further develop the individual and collective qualification of the boards. To achieve this goal, the Supervisory Board has prepared and approved role and competence profiles for the Board of Directors and the Supervisory Board in particular. These profiles lay out the personal and professional requirements for each board member as well as for the boards overall. In addition, requirements were set down for special positions such as the Chair of the Supervisory Board and for the engagement in Supervisory Board committees. To ensure that future members of the Supervisory Board and Board of Directors fulfil these requirements to the greatest extent possible, the role profiles in particular are to be used in the selection process. Therefore, the main documents can be made available to potential Supervisory Board members and the Annual General Meeting before the election.

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

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

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

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

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

Forecast Report

Outlook for the economy and the health care market

Global economy

For 2020, the IMF forecasts global economic growth of 3.3%, and thus a slight economic recovery of 0.4 percentage points compared to 2019. Developments will differ greatly from region to region, however. In the USA, for example, growth momentum is expected to weaken further. The background in this case is that fiscal stimuli will run out, and weak investment and profits will continue for a growing number of businesses. Stable developments in consumption thanks to a robust labour market, however, can at least partly offset these negative effects. A recession is therefore unlikely. For the emerging markets, however, the IMF projections suggest an economic upturn. Positive stimuli are provided by a more expansive monetary policy in many parts of the world, the fact that cyclical burdens in the tech and automobile sectors are coming to an end, and an easing of some geopolitical conflicts. We expect that economic stimuli originating in China might bring an end to the weak phase in the global industrial sector. This would provide increased benefits to export-oriented economies.

We expect that the growth momentum within the euro area will be less heterogeneous in 2020 than in the previous year. An improvement in global economic conditions traditionally benefits countries with a larger export sector – Germany and Italy, for example. Domestic economic uncertainties, however, will continue beyond 2019, since fiscal stimuli will have less impact than in the previous year.

However, we assume that the consequences of the spread of the new coronavirus might slow down economic recovery significantly worldwide. The extent to which this impact is long-term and what kind of burdens could arise globally depends on how the virus spreads going forward.

German economy

We expect the cyclical burdens caused by global weakness in the automobile sector to ease in 2020; this development should be supported by the moderate economic recovery in Asia in particular. Since the domestic economy is still very stable and a continuation of the wage momentum in a context of low inflation promises further growth in purchasing power, the risk of recession in the German economy continues to decline. The fact that interest rates have seen further decreases into January 2020 should provide further stimuli. With Britain’s exit from the EU, however, the short period left to negotiate a future trade agreement could lead to increased uncertainties.

Interest rate policy of ECB and Fed

Under the leadership of its new President, Christine Lagarde, the ECB is undergoing an intensive internal strategic discussion to evaluate its policy to date. Until the process is complete, the ECB is likely to adhere to its existing policy, so the key interest rate will probably remain at 0%. Plans for further reductions in the deposit rate, which has grown in importance compared to the key interest rate on account of the extensive liquidity provided by the ECB, are not likely since the ECB has recently been focusing more strongly on the negative side effects of a low-interest policy. If the economic situation worsens, however, reductions should not be ruled out. But before the ECB considers raising interest rates, it will first end the bond-purchasing programme that it resumed in November 2019.

After the gap between key interest rates in the USA and the euro area narrowed in 2019, it is now expected to remain constant during the current year, since the projections for 2020 by the Fed, issued in December, assume interest rates will neither rise nor fall. US monetary policy would thus be following the strategy communicated by Fed chair Powell, involving only adjustments rather than reversals in monetary policy. Because economic growth remains robust despite a recent decline and inflation rates are moving close to target, the Fed also sees no need to take action on monetary policy. The Fed's balance sheet total should rise again during the current year on account of the programme of quantitative easing, which is less dependent on interest rate policy, and has been applied since October 2019 to stabilise the development of the interest rate on the money market.

Geopolitical risks

By reaching a partial agreement in the trade dispute between their two countries, the USA and China put an end to the spiral of escalation that led to constant rises in customs duties in their bilateral trade from mid-2018 onwards. This should provide positive stimuli for global trade. Further-reaching agreements in the sensitive areas of intellectual property protection, state subsidies for the economy and free access to the Chinese market cannot be expected ahead of the US presidential elections.

In addition, state subsidies for aircraft manufacturers Boeing and Airbus remain a bone of contention between the USA and the EU. The US government has also made it clear that it rejects the introduction of taxes on digital services, which are being considered by a number of EU countries, since this would mainly affect US companies, which would have to pay higher levies. This could encourage President Trump to put the question of automobile duties back on the table.

As a consequence of Brexit on 31 January 2020, too, there will be risks for the European economies in particular that a "hard" Brexit could still be the outcome after the end of 2020. The timeframe for bringing negotiations on a new trade agreement to a successful conclusion is extremely ambitious. Although there is the opportunity to extend the transitional period for two years beyond the end of 2020, the UK government has recently insisted it will not make use of this option.

Expansion of the health care market

We expect the trends in the health care market described in the "Overall economic and industry-specific conditions" section to continue on the same course in 2020.

Patient preferences, health care policy aspirations, technological change and digitalisation in particular are changing the health care market for the long term. A growing awareness of health among the population means that patients are increasingly making use of preventive products and services, preferably via digital channels. The focus on nutrition, sports, leisure and wellness is contributing to growth in the health care market and is resulting in a greater readiness to pay. More and more new legislative proposals are changing the health care policy environment and increasing the density of regulation. This impacts not only on the situation of health care provision for patients but also on the freedom of health care professionals and providers to take action and shape things. Continuing pressure for innovation, quality and efficiency in the health care market drives the interconnectedness, cooperation and concentration of health care service providers and will contribute to the emergence of new, interdisciplinary and cross-sectoral health care products and services. The appropriate strategies are already being developed, calling for new health care processes and forms of reimbursement, which will change the health care market for the long term. Digitalisation thus offers huge potential as it is taking over the function of networking the relevant players, improving health care and making it more efficient.

Trend in earnings situation

The environment for pharmacies, characterised by intense competition, increasing digitalisation as well as legal regulations from Berlin and Brussels, remains challenging. Although the ban on mail-order sales of prescription medicines is not being pursued at a policy level, changes in the rules governing the operation of pharmacies and those governing pharmaceutical prices have triggered a series of measures that should provide a financial boost to local pharmacists. From 2020, the fees for pharmacists will increase by just under €55 million per year. Efforts are also being made to reinstate the principle of equal pricing for prescription drugs at pharmaceutical mail-order retailers and local pharmacies. It remains to be seen when these and other measures from the law bolstering the position of local pharmacies (VOASG) will be implemented.

As also happened last year, a moderate increase in remuneration for panel doctors and psychotherapists was approved for 2020. Moreover, the National Association of Statutory Health Insurance Physicians (KBV) and the Association of Statutory Health Insurance Funds agreed on a “minor” reform of the German standard fee scale for physicians (EBM), following several years of negotiations. In addition to a few structural changes, the assessment of all panel doctors’ services was reviewed and adapted to the current cost structure. Besides other objectives, this will result in funding for narrative-based medicine in particular. The new EBM will apply from April 2020.

We anticipate a positive trend in the earnings situation for panel dentists and self-employed veterinarians, too. In the case of dentistry, this is due to an increase in the point value for tooth prostheses and crowns by 3.0% compared to the current figure. The fees for dental prosthetic services for the almost 50,000 panel dentists in Germany will thus increase accordingly. The new point value will apply to all treatment and cost plans drawn up after 1 January 2020. Among animal owners, there is growing price acceptance for cost-intensive treatments, which goes hand-in-hand with a rise in expenditure on veterinary services. In addition, policy-makers are focusing on the idea of a universal emergency veterinary service, and an “emergency fee schedule for veterinary surgeons” came into force at the beginning of the year to ensure its creation. This allows for additional remuneration for emergency services to provide financial compensation for veterinarians and clinics offering a standby service.

More cooperation and increasing connectedness

Securing health care is becoming ever more challenging due to demographic change, scarcity of skilled personnel and changing expectations concerning health care provision and prevention – and this does not apply only to rural areas. The goal of health care policy is therefore cross-sectoral health care. Abolishing the strict separation between outpatient and inpatient care is intended to make the benefits of integrated care accessible. Policy makers will rely in future on the federal/state task force on cross-sectoral health care, which is commissioned to develop strategies for refining the current systems by 2020. These should range from sector networking through to a realignment of fundamental framework conditions. The agenda includes subjects like needs planning, fees, service coding, and increased collaboration between the health care professions. The possibilities offered by the electronic data transmission infrastructure should also be taken into consideration. We assume that the financial flows within the sectors will change, and that there will be a greater focus on competition to provide services.

The structural change in the health care sector is being driven by societal developments, regulatory plans, digitalisation, as well as the shift in expectations of health care professionals and their own plans regarding their professional life. In this context, the trend toward larger health care units (e.g. professional cooperatives or medical care centres) and the establishment of chains and branch structures is likely to continue just as much as the general trend toward collaboration, salaried positions and more part-time activity of health care professionals. The new, cooperative health care facilities are of interest as more than just employers; indirectly, they are also increasingly being demanded by patients who want to be treated as quickly, as effectively and as safely as possible "from a single source" and "under one roof". This is one reason why these larger entities are also increasingly becoming potential investment targets for industrial health care corporations and financial investors. It remains to be seen how much influence capital investors will have on health care structures in the future. By restricting permission to establish medical care centres under the Appointment Service and Medical Care Act (TSVG), legislators have made clear that they want to prevent local monopolies and thus unlimited growth, for example of capital investors.

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. As a result of the reform of needs planning, a total of 3,500 new openings for new panel doctor and psychotherapist practices will become available as of 1 January 2020. Medical and technological progress as well as advancing digitalisation regularly result in new possibilities for prevention, diagnosis, treatment, rehabilitation and care, which will meet with corresponding demand due to population trends. According to apoBank analyses, patients are increasingly engaging with topics around health, they use health apps and expect health care professionals to provide them with digital health care services. Thanks to the expansion of electronic data transmission infrastructure, the service sectors are becoming increasingly interwoven, and the various players are becoming more connected across disciplinary and sectoral boundaries. Health care professionals and health care companies will also have to take up this trend in future, for example by introducing digital services like online appointment booking or video consultations and prescribing health apps. After the legal preconditions for the introduction of pharmacy-based electronic prescriptions and video consultations were established in 2019, pharmacists can now expect their work routines to change in 2020.

This upgrading of the health care professions will have a stronger impact on the health care market in the future: More attractive training opportunities, expanded professional skills and the transfer of more responsibility will enable potentials that have previously been largely ignored to be drawn on to deal with demographic change and the shortage of skilled personnel.

Outlook on business performance

The competition in the banking sector is losing none of its intensity. Banks will continue to focus on making optimum use of their resources, fine-tuning their business models and developing their digitalisation strategies. The competition among banks for customers and conditions is set to continue. Cost optimisation programmes are therefore likely to remain important in the future. Securing profitability for the long term remains the pivotal point for the future success of the banks. As before, another focus will be on capitalisation. In 2020, banks will continue to prepare for the much more stringent capital regulations that they must observe in future.

Continued development of our business model

apoBank continues to develop its clearly defined business model. The solid foundation for this remains the business with health care professionals and their organisations, as well as with companies in the health care market. We continue to pursue a targeted growth strategy with a focus on profitability in this regard. For this reason, we are investing in our customer business, our performance quality and our IT system. In 2020, our focus will be on further optimising structures and processes in the bank and making them leaner. This includes bundling our resources in profitable fields of business. Our “Oskar” program was initiated for this purpose. This program is used to develop measures to optimise revenues, expenditure, processes and capital on a lasting basis. This involves adjusting the business, finance, operating and control model in equal measure. Work and planning regarding these measures were still in progress while this management report was being drafted.

We support our customers on two levels: in banking and in the health care sector. Building on our expertise in both markets, we aim to develop additional, meaningful economic products and services in the long term to create even greater benefits for our customers and members. We want to extend our products and services beyond traditional banking services, for example by expanding our advisory services to support health care professionals in carrying out their profession. Our subsidiary naontek AG supports health care professionals by offering advisory and other services specifically geared to their needs in all areas of the health care market; it will offer new products via its digital platform univiva. 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. Zahnpraxis der Zukunft GmbH (dental practice of the future, a limited company) stands for state-of-the-art practices that upcoming self-employed dentists can rent on a turnkey basis. A second practice of this kind is scheduled to become operational in 2020.

Growth in the customer business in a challenging environment

Business planning at apoBank is based on a targeted, growing customer business. Due to our high level of customer penetration based on our market share, 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 of it, as well as to strengthen and expand customer loyalty with our value-added services.

In the retail clients business, start-up financing and consulting are sources of new stimuli. Our main focus here is on expanding our securities advisory business. We aim to achieve much higher returns in this area and increase the number of customer contacts in the future. 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. Rising customer numbers and higher customer penetration will also have a positive effect overall.

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 with businesses with outpatient care facilities operated by health care professionals. We are further expanding our product portfolio in the Corporate Clients segment, for example with respect to debt advisory and loan structuring. We plan to enhance our consulting services for institutional investors. The focus here will be on independent advice based on a comprehensive range of solutions.

As a result, we expect the loans and advances to customers shown in the balance sheet to rise slightly. At the bottom line, this means a gradual increase in the balance sheet total.

We forecast the development of the key income statement items as follows: Opposing effects will impact on net interest income. On the one hand, we expect growing customer numbers and a slightly higher loan volume, both in the retail and the corporate clients business. A pay-out from our special fund to finance the IT migration is also a possibility. On the other hand, declining margins in the loans and deposit business and a lower volume in our construction financing business will have a slightly negative effect on net interest income. Assuming a constant yield curve and an ongoing favourable refinancing mix, these effects will result overall in a substantial increase in net interest income for 2020.

Rising customer numbers will have a positive effect on net commission income. We want to increase this significantly, primarily through growth in our investment and pensions business with our customers, and in asset management for our retail clients. Securities margins, however, could also remain under pressure on account of the strong competition in commission-based business. Our aim remains to achieve further growth in our deposit volume and to win new customers and mandates in investment advisory services. Additional profit contributions will also be generated through business with our institutional clients. To this end, we intend to further expand the depository volume of this customer segment.

Administrative expenses in 2020 will be substantially determined by the investments in the IT migration. Excluding the costs of the IT migration, administrative expenses would decline very significantly. But taking the conversion costs into account, there will be a tangible increase in operating expenditure. Personnel expenses will be slightly higher in the current financial year.

The cost-income ratio is thus expected to rise moderately.

On balance, we expect that the operating income for 2020, i.e. profit before risk provisioning, will be well below the 2019 level because of the exceptional financial burden.

Risk provisioning for the operating business in the 2020 financial year is anticipated to be in line with the planned amount in the middle double-digit millions, and therefore substantially higher than the figure for the previous year.

For the 2020 financial year, we plan for net profit to be at the same level as the previous year. This development would allow us to distribute a stable dividend to our members.

Capital and liquidity situation

We expect regulatory capital ratios to increase significantly in 2020. Ongoing changes in the internal rating model will offset growth in the customer lending business and lead on balance to perceptibly lower risk-weighted assets. Core capital will be noticeably strengthened through new members' capital contributions as well as reserves. In our opinion, apoBank's liquidity situation will remain comfortable, since it is supported by a broadly diversified customer and investor base.

Opportunities and risk report

The main prerequisites for continuing to consolidate and expand our market position are the success of our customer advisory 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 selective growth strategy for our customer business, and to hone our business profile. An important foundation for our growth ambitions is the introduction of a new and powerful core bank system, which we are planning for the 2020 financial year. With this system, we hope to achieve greater process efficiency for the longer term and generate growth stimuli for our loan business, and for our securities business in particular.

However, the migration to the new core bank system is also associated with extraordinary cost risks inherent to a large project of this nature for the current financial year. In addition, the extremely low level of interest rates and fierce competition continue to 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.

The outbreak of the new corona virus SARS-CoV-2, which started in China, and its spreading are now having a worldwide impact. The corona pandemic is posing new challenges for the global economy. Its overall impact – also on the net assets and earnings situation of apoBank – is not yet foreseeable. Therefore, a truly reliable outlook is not possible at this time. How the situation will further progress is uncertain and apoBank is monitoring it closely.

As part of the Basel III finalisation process, the raising of the capital floor is likely to significantly increase our regulatory capital requirements 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 by nationwide comparison is being taken less and less into account when calculating risk-weighted assets.

The extent of regulatory requirements facing the financial industry in the area of sustainability will also increase. This could result in possible adjustments to banks' internal processes becoming necessary, e.g. in the areas of investment and loans.

Additional uncertainties arise from the opportunities and risks associated with the ongoing digitalisation of the banking business, specifically in banking processes, and the resulting opportunities for sustainable business models. On the one hand, this results in new access channels promising returns for customers, but on the other, for payment transactions in particular, providers from outside the industry ("fintechs" or "BigTechs") are pushing into the market and staking claims on one of the banks' traditional branches of business.

With the increasing number of new financial IT companies, fresh business opportunities are also opening up for the financial industry. Another effect of digitalisation is the growing risk of cybercrime, which both fintechs and banks must protect themselves against. The supervisory authorities are therefore focusing increasingly on IT security.

Further risks may arise from the fact that customers are increasingly conducting their banking transactions on mobile devices, which can sometimes be susceptible 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.

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

Our specialised advisory services counteract the downward trend in the numbers of self-employed health care professionals, by helping to reduce reservations about opening their own practice. We work closely with the professional associations here. At the same time, we are expanding our 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 by increasing their number.

As digitalisation progresses in the health care market, 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 in particular from expanding our offerings at the interface between the health care market and the financial market. This allows us to leverage new sources of income and provide our customers and members with additional benefit based on our expertise in both markets. To this end, we will develop – also together with external partners – value-added offerings for our customers, i.e. services that give health care professionals greater freedom to work with their patients. Services above and beyond the banking business will be bundled and brought to market via the new univiva platform of our subsidiary naontek AG. And Zahnpraxis der Zukunft (dental practice of the future) was also established during the previous year. With this new concept, which was initiated in collaboration with the Zahnärztliche Abrechnungsgenossenschaft (an invoicing cooperative for dentists), we support young dentists on their path to self-employment by removing the need to make a high initial investment and supporting them with solid, practical business expertise.

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

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

4

Annual Financial Statements

Balance Sheet

Assets

	(Notes)	31 Dec 2019 €	31 Dec 2018 €
1. Cash reserves		**4,570,460,477.71**	**3,333,781,273.45**
a) Cash on hand		29,058,760.00	35,163,988.63
b) Cash in central banks		4,541,401,717.71	3,298,617,284.82
Including: in the German Federal Bank (Bundesbank)		(4,541,40,717.71)	(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, 14, 17, 22, 26)**	**1,225,075,544.92**	**1,186,004,165.18**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,225,075,544.92	1,186,004,165.18
Including: due on demand		(862,113,577.14)	(634,444,868.26)
Including: lending against securities		(0.00)	(0.00)
4. Loans and advances to customers	**(2, 13, 14, 17, 22, 26, 47, 48)**	**37,291,003,160.24**	**34,652,283,951.38**
a) Mortgage loans		10,443,972,455.18	9,836,340,176.30
b) Local authority loans		195,001,917.37	163,458,361.01
c) Other receivables		26,652,028,787.69	24,652,485,414.07
Including: lending against securities		(0.00)	(0.00)
5. Debt securities and other fixed-interest securities	**(3, 5, 14, 15, 16, 17, 19, 22, 26, 47, 48)**	**4,609,889,722.26**	**4,373,496,277.66**
a) Money market instruments		50,031,002.31	400,281,657.15
aa) of public issuers		0.00	0.00
Including: acceptable as collateral by the Bundesbank		(0.00)	(0.00)
ab) of other issuers		50,031,002.31	400,281,657.15
Including: acceptable as collateral by the Bundesbank		(50,031,002.31)	(400,281,657.15)
b) Bonds and debt securities		4,256,512,062.63	3,964,662,442.54
ba) of public issuers		1,193,115,301.93	1,403,009,530.62
Including: acceptable as collateral by the Bundesbank		(1,193,115,301.93)	(1,403,009,530.62)
bb) of other issuers		3,063,396,760.70	2,561,652,911.92
Including: acceptable as collateral by the Bundesbank		(2,937,901,177.00)	(2,548,003,872.47)
c) Own debt securities		303,346,657.32	8,552,177.97
Nominal amount		(300,193,600.00)	(8,581,700.00)
6. Shares and other non-fixed-interest securities	**(3, 5, 16, 17, 18, 19, 22)**	**1,190,106,136.82**	**1,184,567,906.22**
6a. Trading assets	**(4, 16)**	**0.00**	**0.00**
7. Participating interests and capital shares in cooperatives	**(6, 14, 16, 20, 22, 30)**	**233,504,049.44**	**219,466,735.31**
a) Participations		233,332,002.05	219,294,687.92
Including: in banks		(113,185.48)	(113,185.48)
Including: in financial services institutions		(13,292,807.39)	(13,292,807.39)
b) Capital shares in cooperatives		172,047.39	172,047.39
Including: in cooperative banks		(0.00)	(0.00)
Including: in financial services institutions		(0.00)	(0.00)
8. Shares in affiliated companies	**(6, 14, 16, 20, 22, 30)**	**13,690,287.32**	**13,665,285.32**
Including: in banks		(0.00)	(0.00)
Including: in financial services institutions		(1,317,236.21)	(1,292,236.21)
9. Trust assets	**(21)**	**51,130.18**	**2,660,826.85**
Including: fiduciary loans		(0.00)	(0.00)
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	**(8, 22)**	**139,419,612.02**	**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		1,539,267.50	380,679.00
c) Goodwill		0.00	0.00
d) Payments in advance		137,880,344.52	61,406,544.51
12. Tangible assets	**(7, 22, 48)**	**133,662,531.64**	**140,602,839.51**
13. Other assets	**(23)**	**169,869,090.17**	**189,100,776.87**
14. Prepayments and accrued income	**(24)**	**26,753,531.96**	**18,257,667.82**
a) from issuing and loan transactions		17,967,561.44	14,372,337.19
b) Others		8,785,970.52	3,885,330.63
15. Deferred tax assets	**(25)**	**0.00**	**0.00**
Total assets		**49,603,485,274.68**	**45,375,674,929.08**

Liabilities

	(Notes)	31 Dec 2019 €	31 Dec 2018 €
1. Liabilities to banks	**(9, 29, 30, 47)**	**9,635,989,404.56**	**8,950,191,340.95**
a) Registered mortgage Pfandbriefe issued		157,929,847.21	189,811,704.05
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		9,478,059,557.35	8,760,379,636.90
Including: due on demand		(149,306,560.40)	(128,111,996.17)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
2. Liabilities to customers	**(9, 29, 30, 47)**	**29,237,013,212.22**	**27,448,585,059.09**
a) Registered mortgage Pfandbriefe issued		1,265,362,829.25	1,567,440,597.71
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		93,454,205.03	90,528,802.11
ca) with an agreed notice period of three months		90,422,786.18	86,999,393.04
cb) with an agreed notice period of more than three months		3,031,418.85	3,529,409.07
d) Other liabilities		27,878,196,177.94	25,790,615,659.27
Including: due on demand		(25,366,808,048.01)	(23,043,919,137.15)
Including: mortgage Pfandbriefe and registered public Pfandbriefe delivered to the lender as collateral		(0.00)	(0.00)
3. Securitised liabilities	**(9, 29, 30, 47)**	**7,395,932,544.35**	**5,875,756,288.79**
a) Debt securities issued		7,395,932,544.35	5,875,756,288.79
aa) Mortgage Pfandbriefe		4,921,672,115.68	3,395,038,632.23
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		2,474,260,428.67	2,480,717,656.56
b) Other securitised liabilities		0.00	0.00
Including: money market instruments		(0.00)	(0.00)
Including: own acceptances and promissory notes outstanding		(0.00)	(0.00)
3a. Trading liabilities	**(4)**	**0.00**	**0.00**
4. Trust liabilities	**(31)**	**51,130.18**	**2,660,826.85**
Including: fiduciary loans		(0.00)	(0.00)
5. Other liabilities	**(9, 32)**	**258,930,715.09**	**65,311,543.52**
6. Prepayments and accrued income	**(33)**	**31,650,748.00**	**22,158,316.40**
a) from issuing and loan transactions		17,209,976.54	10,015,064.15
b) Others		14,440,771.46	12,143,252.25
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	**(10)**	**394,807,726.68**	**395,900,200.84**
a) Provisions for pensions and similar obligations		234,295,029.49	215,863,637.82
b) Tax provisions		3,308,839.00	3,887,103.35
c) Other provisions		157,203,858.19	176,149,459.67
8. - - -		**0.00**	**0.00**
9. Subordinated liabilities	**(9, 30, 34)**	**9,561,970.58**	**103,525,095.90**
10. Participating certificate capital		**0.00**	**0.00**
Including: due within two years		(0.00)	(0.00)
11. Fund for general banking risks		**771,513,901.00**	**701,185,901.00**
Including: special items pursuant to Section 340e (4) of the HGB		(0.00)	(0.00)
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	**(35, 45, 51, 52)**	**1,868,033,922.02**	**1,810,400,355.74**
a) Subscribed capital		1,231,405,746.57	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		64,136,926.26	62,955,936.76
Total liabilities		**49,603,485,274.68**	**45,375,674,929.08**

1. Contingent liabilities	**(37)**	**621,263,999.26**	**577,918,255.68**
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		621,263,999.26	577,918,255.68
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
2. Other obligations		**2,946,178,151.13**	**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		2,946,178,151.13	2,974,916,664.89

Income Statement

Income statement

	(Notes)	1 Jan – 31 Dec 2019 €	1 Jan – 31 Dec 2018 €
1. Interest income from	(39)	**832,411,329.73**	**815,717,833.64**
a) lending and money market transactions		832,620,840.94	818,587,160.96
b) fixed-interest securities and debt register claims		– 209,511.21	– 2,869,327.32
Including: from negative interest rates		(– 20,475,944.08)	(–16,796,879.73)
2. Interest expenses	(40)	**– 171,738,035.90**	**– 198,322,671.40**
Including: from positive interest rates		(19,485,076.08)	(22,157,135.70)
3. Current income from		**30,430,729.16**	**15,027,676.95**
a) shares and other non-fixed-interest securities		15,540,004.55	900,010.60
b) participating interests and capital shares in cooperatives		10,709,428.97	10,974,926.25
c) shares in affiliated companies		4,181,295.64	3,152,740.10
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		**0.00**	**6,185.20**
5. Commission income	(41)	**268,002,689.55**	**258,429,046.66**
6. Commission expenses	(41)	**– 92,710,485.39**	**– 93,576,310.93**
7. Net trading revenues		**0.00**	**0.00**
8. Other operating income	(42)	**52,295,078.22**	**71,341,207.54**
Including: from discounting		(0.00)	(0.00)
9. ---		**0.00**	**0.00**
10. General administrative expenses		**– 673,369,941.61**	**– 585,027,657.48**
a) Personnel expenses		– 260,087,908.25	– 272,314,454.80
aa) Wages and salaries		– 203,477,040.17	– 219,400,235.71
ab) Social security contributions and expenses for pensions and benefits		– 56,610,868.08	– 52,914,219.09
Including: for pensions		(– 26,767,753.51)	(– 23,152,947.73)
b) Other administrative expenses		– 413,282,033.36	– 312,713,202.68
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**– 10,576,892.80**	**– 12,522,355.79**
12. Other operating expenses	(42)	**– 17,047,025.08**	**– 37,470,694.29**
Including: from discounting		(– 7,897,008.20)	(– 8,634,232.31)
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**– 18,135,577.32**	**– 53,501,652.24**
14. Income from write-ups in respect of receivables and specific securities and from the release of provisions for credit risks		**0.00**	**0.00**
15. Write-downs and value adjustments in respect of participating interests, shares in affiliates and securities treated as fixed assets		**– 12,129,850.73**	**– 2,495,230.09**
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	(56)	**187,432,017.83**	**177,605,377.77**
20. Extraordinary income	(43)	**0.00**	**0.00**
21. Extraordinary expenses	(43)	**0.00**	**0.00**
22. Extraordinary result	(43)	**0.00**	**0.00**
23. Taxes on income	(44)	**– 53,617,316.92**	**– 50,851,300.59**
24. Other taxes not reported in item 12		640,812.24	408,339.03
24a. Allocations to the fund for general banking risks		**70,328,000.00**	**64,216,000.00**
25. Net profit	(45)	**64,127,513.15**	**62,946,416.21**
26. Profit carried forward from the previous year	(45)	**9,413.11**	**9,520.55**
27. Withdrawals from revenue reserves	(45)	**0.00**	**0.00**
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
28. Allocations to revenue reserves	(45)	**0.00**	**0.00**
a) To legal reserves		0.00	0.00
b) To other revenue reserves		0.00	0.00
29. Balance sheet profit	(45)	**64,136,926.26**	**62,955,936.76**

Statement of Changes in Equity

Capital development

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

Capital development

	Subscribed capital		Capital reserves	Revenue reserves		Balance sheet profit/loss
	Members' capital contributions[1]	Contributions of silent partners		Legal reserves	Other revenue reserves	
	€thous	€thous	€thous	€thous	€thous	€thous
31 Dec 2018	1,190,953	0	0	418,750	137,741	62,956
Withdrawals	23,142	0	0	0	0	16,000
Additions	63,595	0	0	8,000	8,000	64,128
Distribution of annual result	0	0	0	0	0	46,947
31 Dec 2019	**1,231,406**	**0**	**0**	**426,750**	**145,741**	**64,137**

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

Cash Flow Statement

Cash flow statement

	1 Dec 2019 €m	1 Dec 2018 €m
Result for the period (net profit/loss)	**64.1**	**62.9**
Write-downs, value adjustments and write-ups in respect of receivables and fixed assets	55.6	82.8
Increase/decrease in provisions	–1.1	– 7.9
Other non-cash expenses/income	67.5	62.8
Profit/loss from the sale of fixed assets	– 0.4	–17.7
Other adjustments (on balance)	– 0.2	0.1
Increase/decrease in loans and advances to banks	– 62.3	– 92.3
Increase/decrease in loans and advances to customers	– 2,662.2	– 2,698.5
Increase/decrease in securities (unless financial assets)	185.5	1,245.5
Increase/decrease in other assets from operating activities	30.0	– 34.5
Increase/decrease in liabilities to banks	698.4	853.7
Increase/decrease in liabilities to customers	1,807.6	1,432.8
Increase/decrease in securitised liabilities	1,518.6	1,667.5
Increase/decrease in other liabilities from operating activities	168.5	3.2
Interest expenses/interest income	– 660.7	– 617.4
Current income from shares, non-fixed-interest securities, participating interests, capital shares in cooperatives and shares in affiliated companies	– 30.4	–15.0
Expenses/income from extraordinary items	0.0	0.0
Income tax expense/income	53.6	50.9
Interest payments and dividend payments received	879.1	840.0
Interest paid	–173.7	–165.4
Extraordinary deposits	0.0	0.0
Extraordinary payments	0.0	0.0
Income tax payments	– 65.2	– 60.5
Cash flow from operating activities	**1,872.3**	**2,593.0**
Deposits from the sale of financial assets	625.6	274.5
Payments for investments in financial assets	– 1,082.6	–1,380.7
Deposits from the sale of tangible assets	0.2	24.7
Payments for investments in tangible assets	–3.2	–6.3
Deposits from the sale of intangible assets	0.0	0.0
Payments for investments in intangible assets	– 78.2	–47.1
Deposits from the sale of consolidated companies	0.0	0.0
Payments for additions to the scope of consolidation	0.0	0.0
Fund changes from other investment activities (on balance)	0.0	0.0
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Cash flow from investment activities	**–538.2**	**–1,134.9**
Payments from increases in equity capital by partners	63.6	50.2
Payments for decreases in equity capital to partners	– 23.1	– 24.7
Deposits from extraordinary items	0.0	0.0
Payments for extraordinary items	0.0	0.0
Dividends paid to partners	– 46.9	– 45.9
Fund changes from other capital (on balance)	– 91.0	–13.0
Cash flow from financing activities	**– 97.4**	**– 33.4**
Cash changes in liquid assets	1,236.7	1,424.7
Changes to liquid assets due to foreign currency and valuation	0.0	0.0
Changes in liquid assets due to the scope of consolidation	0.0	0.0
Liquid funds at the start of the reporting period	3,333.8	1,909.1
Liquid funds at the end of the reporting period	**4,570.5**	**3,333.8**

Notes

A. General information

1. Framework for the preparation of the annual financial statements

The annual financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf (Local Court of Dusseldorf, GnR 410), as at 31 December 2019 were prepared according to the regulations of the German Commercial Code (HGB), the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV) as well as the Securities Trading Act (WpHG). At the same time, the annual financial statements meet the requirements of the Cooperative Societies Act (GenG), the German Pfandbrief Act (PfandBG) and the Articles of Association of apoBank.

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

B. Accounting, valuation and translation methods

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

2. Loans, advances and risk provisioning

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

3. Securities

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

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

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

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

Securities that are lent within the context of securities lending continue to be posted under the item “Debt securities and other fixed interest securities”, as the significant opportunities and risks that result from them remain with apoBank. The book value of lent securities was €400,000 thousand as at the balance sheet 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. For some of the portfolio valuation units, the fair value method is applied. A prospective and a retrospective effectiveness test is performed.

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

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

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

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

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

As at the balance sheet date, the total volume of the risks hedged amounted to €776 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. The major part of the changes in value and of the payment flows will probably be balanced over a period of ten years.

As at the reporting date, apoBank had designated a total of 631 micro hedges with a nominal value of €11,758.7 million:

- 426 hedges on the Bank's own issuances against the interest rate risk with a nominal value of €8,399.8 million, including
  - 13 caps with a nominal value of €185.7 million,
  - 15 floors with a nominal value of €195.7 million,
  - 105 swaptions with a nominal value of €1,434.7 million,
  - 293 swaps with a nominal value of €6,583.7 million,
- 205 asset swaps to hedge against the interest rate risk of 120 acquired securities with a nominal value of €3,358.9 million.

As at 31 December 2019, a volume of foreign currency swaps from FX trading had been used in the amount of €446 million within the scope of valuation units, including €184 million to hedge offsetting FX swaps, €221 million to hedge own issues in a foreign currency and €41 million to hedge several loans in a foreign currency.

The FX swaps can be broken down based on their currency as follows:
- €124 million in US dollars,
- €192 million in British pounds,
- €110 million in Danish kroner,
- €20 million in other currencies.

As at the reporting date, apoBank had a volume of foreign-currency FX forward transactions of €246 million as valuation units, including €245 million to hedge offsetting FX forward transactions and €1 million to hedge interest payments on a loan denominated in a foreign currency. The FX forward transactions can be broken down based on their currency as follows:
- €244 million in British pounds,
- €2 million in other currencies.

6. Participating interests and shares in affiliated companies

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

In the reporting period, apoBank increased its participation in PROFI – Erste Projektfinanzierungs- und Beteiligungsgesellschaft from 24% to 49.996%. Taking into account the indirect interest held via RiOsMa GmbH, apoBank's share in PROFI's capital amounts to 95%.

7. Fixed assets/tangible assets

Tangible assets were carried at acquisition cost less scheduled depreciation.

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

8. Fixed assets/intangible assets

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

9. Liabilities

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

10. Provisions

The provisions for pension liabilities as at 31 December 2019 were calculated based on the actuarial tables "Richttafeln 2018 G" (Heubeck) using the projected unit credit method. The calculation was based on an interest rate of 2.71% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 1.75%. As at 31 December 2019, the difference pursuant to Section 253 (6) of the HGB subject to a bar on distribution amounted to €24,604 thousand on an accounting basis.

apoBank recorded the releases and allocations to the balance sheet item "Provisions for pensions and similar obligations" in relation to the interest effects under other operating income and otherwise as a net item under "Personnel expenses". Pension provisions and the provision for deferred compensation were netted with the corresponding plan assets (initially under "Other assets") at their fair value in the amount of €15,569 thousand pursuant to Section 246 (2) sentence 2 of the HGB. In this case, the fair value is equivalent to the acquisition costs.

The difference between income of €873 thousand and expenses of €434 thousand in connection with the reinsurance for pension obligations was netted with the expenses from the compounded interest of pension provisions amounting to €7,261 thousand.

The provisions for part-time retirement were calculated based on the projected unit credit method, for anniversary payments the entry age normal cost method was applied. Both types of provisions were made on the basis of an interest rate of 1.97%, a wage increase trend of 3.00% as well as the actuarial tables "Richttafeln 2018 G" (Heubeck).

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

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 HAFA 22, apoBank treats separable embedded derivatives from structured financial instruments as primary derivatives.

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

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

12. Currency translation

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

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

C. Notes to the balance sheet

Notes to assets

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

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

Breakdown of loans and advances by residual terms

	Loans and advances to banks (A 3) €thous		Loans and advances to customers (A4) €thous	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Accrued interest	36,014	59,225	3,464	3,479
Up to 3 months	951,487	979,205	964,724	912,270
More than 3 months to 1 year	235,000	145,000	2,621,614	2,318,581
More than 1 year to 5 years	2,574	2,574	12,012,463	11,268,836
More than 5 years	0	0	19,908,325	18,432,560

Loans and advances to banks (assets, 3) include receivables from the relevant central cooperative bank (DZ BANK AG) of €743,053 thousand (31 December 2018: €687,277 thousand).

Loans and advances to customers (assets, 4) include receivables with unspecified maturities of €1,780,413 thousand (31 December 2018: €1,716,557 thousand).

14. Affiliated and associated companies

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

Affiliated and associated companies

	Loans and advances to banks (A3) €thous		Loans and advances to customers (A4) €thous		Debt securities and other fixed-interest securities (A5) €thous	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Loans and advances to affiliated companies	0	0	14,694	17	0	0
Loans and advances to associated companies	743,053	664,837	270,484	260,429	20,869	13,649

15. Debt securities and other fixed-interest securities

Of the debt securities and other fixed-interest securities (assets, 5) reported in the balance sheet, €633,397 thousand (31 December 2018: €1,136,813 thousand) will mature during the financial year following the balance sheet date. These amounts do not include accrued interest.

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

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

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

	Debt securities and other fixed-interest securities (A5) €thous		Shares and other non-fixed-interest securities (A6) €thous		Trading assets and liabilities (A6a) €thous	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Non-negotiable	0	0	1,190,106	1,184,568	0	0
Negotiable	4,609,890	4,373,496	0	0	0	0
Quoted	4,543,983	3,917,478	0	0	0	0
Unquoted	65,906	456,018	0	0	0	0
Negotiable securities not valued at the lower of cost or market	1,071,247	745,321	0	0		

	Participating interest and capital shares in cooperatives (A7) €thous		Shares in affiliated companies (A8) €thous	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Non-negotiable	233,391	219,354	13,690	13,665
Negotiable	113	113	0	0
Quoted	0	0	0	0
Unquoted	113	113	0	0

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

17. Securities portfolio/receivables by purpose

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

Securities portfolio/receivables by purpose

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

	31 Dec 2019 €thous	31 Dec 2018 €thous
Loans and advances to customers		
Fixed assets	2,224	3,033

	31 Dec 2019 €thous	31 Dec 2018 €thous
Debt securities and other fixed-interest securities		
Fixed assets	4,256,512	3,831,060
Liquidity reserve	353,378	542,436
Total	**4,609,890**	**4,373,496**

	31 Dec 2019 €thous	31 Dec 2018 €thous
Shares and other non-fixed-interest securities		
Fixed assets	1,190,106	1,184,568
Liquidity reserve	0	0
Total	**1,190,106**	**1,184,568**

18. Shares in special investment funds

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

Shares in special investment funds

Name of fund	Investment objective	Value in accordance with Section 278 of the KAGB in conjunction with Section 168 of the KAGB or comparable international regulations €thous	Difference to book value €thous	Distributions made for the total financial year €thous	Restriction of daily redemption
APO 1 INKA	Domestic and international bonds	559,004	63,285	15,000	no
APO 2 INKA	Domestic and international bonds	216,658	28,727	0	no
APO 3 INKA	Domestic and international bonds	374,611	54,528	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	35,884	1,963	0	no

19. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

	Book value as at 31 Dec 2019 €thous	Fair value as at 31 Dec 2019 €thous	Omitted depreciation €thous
Banks	1,052,692	1,046,961	5,731
Public debtors	2,200	2,190	10
Companies	10,414	10,142	272
Total	**1,065,306**	**1,059,293**	**6,013**

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

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

20. List of holdings

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

List of holdings

Company	Share in company capital on 31 Dec 2019 %	Year	Capital and reserves of the company €thous	Result of the past 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
APO Data-Service GmbH, Dusseldorf	100	2019	4,677	646
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[2]	100	2019	25	
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	2019	119,565	3,008
gbs – Gesellschaft für Bankensysteme mbH, Münster	10	2018	4,616	2,073
apoDirect GmbH, Dusseldorf[3]	100	2019	976	278
medisign GmbH, Dusseldorf	50	2018	855	262
naontek AG, Dusseldorf[2]	91	2019	7,928	– 2,122
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich[4]	100	2019	2,090	1,451
RiOsMa GmbH, Dusseldorf	90	2018	25	– 1
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2018	35,767	839
WGZ Beteiligungs GmbH & Co. KG, Dusseldorf	5	2019	3,093,038	82,757
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2018	6,964	1,837
ZPdZ – Zahnpraxis der Zukunft GmbH, Dusseldorf[4]	50	2018	24	– 1

1) Indirect participation.
2) Company newly established in 2019.
3) Formerly Konnektum GmbH, Dusseldorf.
4) Including indirect participation of almost 50% via RiOsMa GmbH.
5) Earnings before profit transfer or loss absorption.

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

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

21. Trust assets

The trust transactions shown on the assets side of the balance sheet are fiduciary loans (participations) totalling €51 thousand (31 December 2018: €2,661 thousand).

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

22. Development of fixed assets

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

Tangible assets

	31 Dec 2019	31 Dec 2018
	€thous	€thous
Land and buildings used within the scope of apoBank's own operations	99,106	102,814
Office furniture and equipment	33,749	36,963

Development of fixed assets

	Acquisition/ production costs as at 1 Jan 2019	Changes in the reporting period Additions	Disposals	Transfers	Acquisition/ production costs as at 31 Dec 2019
	€thous	€thous	€thous	€thous	€thous
Intangible assets	111,451	78,232	14,531	0	175,152
Tangible assets					
Land and buildings	215,585	335	169	– 58	215,693
Office furniture and equipment	119,146	2,905	475	58	121,634
Loans and advances to banks	2,574	0	0	0	2,574
Loans and advances to customers	3,000	0	800	0	2,200
Fixed-asset securities	4,980,685	1,044,355	611,160	0	5,413,880
Participating interests and capital shares in cooperatives	219,749	28,134	14,097	0	233,786
Shares in affiliated companies	14,583	10,087	0	0	24,670
Total	**5,666,773**	**1,164,048**	**641,232**	**0**	**6,189,589**

Amortisation/ depreciation (accumulated) as at 1 Jan 2019	Amortisation/ depreciation	Write-ups	Changes in total amortisation/depreciation as a result of			Amortisation/ depreciation (accumulated) as at 31 Dec 2019	Book values at the balance sheet date
			additions	disposals	transfers		
€thous	€thous	€thous	€thous	€thous	€thous	€thous	€thous
– 49,664	– 590	0	0	14,522	0	– 35,732	139,420
–111,945	– 3,834	0	0	0	0	–115,779	99,914
– 82,183	– 6,154	0	0	452	0	– 87,885	33,749
0	0	0	0	0	0	0	2,574
0	0	0	0	0	0	0	2,200
– 2,963	– 1,487	92	0	0	0	– 4,358	5,409,522
– 282	0	0	0	0	0	– 282	233,504
– 918	– 10,062	0	0	0	0	– 10,980	13,690
– 247,955	**– 22,127**	**92**	**0**	**14,974**	**0**	**– 255,016**	**5,934,573**

23. Other assets

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

Other assets

	31 Dec 2019 €thous	31 Dec 2018 €thous
Capitalised premiums from options and caps	73,622	93,248
Receivables from asset management	36,885	31,457
Tax receivables	33,335	26,475

24. Prepayments and accrued income (assets)

The prepayments and accrued income items include discount amounts from assumed liabilities of €17,968 thousand (31 December 2018: €14,372 thousand) and upfront payments of €6,246 thousand (31 December 2018: €1,846 thousand).

25. Deferred tax assets

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

As at 31 December 2019, a net deferred tax asset existed. This was essentially due to differences between the valuations in the trading and tax accounts for shares and other non-fixed-interest securities, loans and advances to customers, provisions for pensions as well as intangible assets.

The total net surplus of deferred tax assets amounted to €206,514 thousand, including deferred tax assets of €211,453 thousand and deferred tax liabilities of €4,939 thousand.

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

26. Subordinated assets

Subordinated assets are included in the following items:

Subordinated assets

	31 Dec 2019 €thous	31 Dec 2018 €thous
Loans and advances to banks	2,584	2,584
Loans and advances to customers	70,169	57,593
Debt securities and other fixed-interest securities	20,869	13,649
Total	**93,622**	**73,826**

27. Repurchase agreements

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

28. Foreign currency items

Assets include foreign currency items with a value of €324,101 thousand (31 December 2018: €372,980 thousand).

Notes to liabilities

29. Breakdown of liabilities by residual terms and other items

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

Breakdown of liabilities by residual term

	Liabilities to banks (P1) €thous		Savings deposits (P2c) €thous		Liabilities to customers without savings deposits (P2a, 2b, 2d) €thous		Securitised liabilities (P3) €thous	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Accrued interest	50,559	63,158	0	0	23,954	43,101	15,552	13,975
Up to 3 months	449,490	396,115	90,610	87,152	26,074,245	23,964,008	506,812	699,350
More than 3 months to 1 year	921,546	879,191	558	929	395,831	711,472	504,324	180,560
More than 1 year to 5 years	4,161,420	3,900,140	2,287	1,782	1,141,215	948,495	2,838,945	2,331,571
More than 5 years	4,052,975	3,711,588	0	667	1,508,314	1,690,980	3,530,300	2,650,300

Liabilities to banks include €84,529 thousand (31 December 2018: €50,499 thousand) of liabilities to the relevant central cooperative bank (DZ BANK AG).

Of the liabilities to banks, €8,338,639 thousand (31 December 2018: €7,707,394 thousand) are secured by transfer of assets. These liabilities are mainly publicly refinanced loans.

Further securities with a book value of €35,000 thousand (31 December 2018: €75,000 thousand) have been pledged as additional security for publicly refinanced loan programmes. Irrespective of liabilities to be assigned, apoBank deposited cash collaterals of €304,279 thousand (31 December 2018: €291,981 thousand) within the framework of our collateral management for interest rate derivatives. Moreover, securities with a book value of €506,214 thousand (31 December 2018: €372,533 thousand) were pledged as collateral for margin obligations at futures and options exchanges and to secure payment obligations from securities transactions.

Of the debt securities issued (liabilities, 3.a)), €1,010,230 thousand (31 December 2018: €878,999 thousand) will mature in the year following the balance sheet date.

30. Liabilities due from affiliated or associated companies

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

Liabilities due from affiliated or associated companies

	Liabilities to affiliated companies €thous		Liabilities to associated companies €thous	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Liabilities to banks (P1)	0	0	84,529	50,499
Liabilities to customers (P2)	31,122	25,702	55,146	56,795
Securitised liabilities (P3)	0	0	0	0
Subordinated liabilities (P9)	0	0	0	0

31. Trust liabilities

The trust transactions shown on the liabilities side of the balance sheet are liabilities for contributions (participations) held in trust of €51 thousand (31 December 2018: 2,661 thousand).

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

32. Other liabilities

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

Other liabilities

	31 Dec 2019 €thous	31 Dec 2018 €thous
Premiums from options and caps carried as liabilities	40,301	17,993
Tax liabilities	13,923	10,397
Trade payables	13,603	19,181

33. Prepayments and accrued income (liabilities)

“Prepayments and accrued income” (liabilities) includes:

Prepayments and accrued income (liabilities)

	31 Dec 2019 €thous	31 Dec 2018 €thous
Premium from liabilities (securitised or unsecuritised)	12,989	4,737
Discount from claims	4,221	5,278
Other prepayments and accrued income	14,441	12,143

34. Subordinated liabilities

Expenses of €3,863 thousand were incurred in the past financial year (31 December 2018: €7,304 thousand). Early redemption of the subordinated liabilities is excluded.

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

Subordinated liabilities with a nominal value of €9,500 thousand (31 December 2018: €100,500 thousand) carry the following interest rates:

- subordinated bearer bonds with a 6-month Euribor variable rate plus 1.00%,
- subordinated promissory note bonds with fixed interest rates of 7.42%.

As at the balance sheet date, borrowings exceeding 10% of the balance sheet item amounted to €9,500 thousand (31 December 2018: €15,000 thousand); their interest rates and maturities were as follows:

- promissory note bonds with a nominal value of €1,500 thousand, due on 30 July 2020, fixed interest rate of 7.42%,
- bearer bond with a nominal value of €8,000 thousand, €1,000 thousand due every year, variable interest rate according to 6-month-Euribor plus 1.00%.

35. Capital and reserves

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

Subscribed capital

	31 Dec 2019 €thous	31 Dec 2018 €thous
Members’ capital	**1,231,406**	**1,190,953**
Of remaining members	1,227,747	1,187,078
Of departing members	3,290	3,302
Of terminated cooperative shares	369	573
Compulsory contributions due on shares in arrears	2	9

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

Revenue reserves

	Legal reserves €thous	Other revenue reserves €thous
As at 1 Jan 2019	418,750	137,741
Transfers		
from balance sheet profit of the previous year	8,000	8,000
from net profit of the financial year	0	0
Withdrawals	0	0
As at 31 Dec 2019	**426,750**	**145,741**

36. Foreign currency items

Foreign currency items with an equivalent value of €485,079 thousand (31 December 2018: €327,464 thousand) are included in liabilities and with an equivalent value of €73,929 thousand (31 December 2018: €77,230 thousand) in off-balance-sheet contingent liabilities and other obligations.

37. Contingent liabilities

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

Derivative financial instruments

38. Derivative financial instruments

The volume of unsettled forward transactions affected by a settlement risk or currency, interest rate and/or other market risks arising from open positions, and in the event of counterparty default also from closed positions, amounted to €29,683 million as at 31 December 2019 (31 December 2018: €28,906 million). As at 31 December 2019, the following types of transactions were included therein:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions	Currency-related transactions	Stock-related transactions
▪ Interest rate swaps ▪ Swaptions ▪ Caps/floors	▪ FX forward transactions ▪ FX swaps	▪ 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 purposes within the scope of its participation management. Existing derivatives contracts are broken down according to their risk structure in the table on the following page. The nominal volumes are stated in accordance with standard international practice; however, these figures are not identical with the default risk value.

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

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

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

Risk structure

		Nominal value €m		Fair value €m
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Interest rate-related transactions[1]				
Time to maturity up to 1 year	2,407	2,851	–5	24
more than 1 year to 5 years	12,436	11,209	–135	–101
more than 5 years	13,634	13,851	–41	–136
Subtotal	**28,477**	**27,911**	**– 181**	**– 213**
Currency-related transactions				
Time to maturity up to 1 year	1,189	978	8	1
more than 1 year to 5 years	14	14	0	1
more than 5 years	0	0	0	0
Subtotal	**1,203**	**992**	**8**	**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	**29,683**	**28,906**	**– 173**	**– 211**

1) Interest rate- and stock-related transactions are reported under the items “Other assets” (€73.6 million), “Prepayments and accrued income (assets)” (€6.2 million) as well as under the items “Other liabilities” (€1.1 million) and “Prepayments and accrued income (liabilities)” (€14.3 million).

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

D. Notes to the income statement

39. Interest income

The 'Interest income' item includes €20,476 thousand in negative interest income from deposits with the ECB and other banks, from collateral management, as well as from fixed-interest securities (1 January to 31 December 2018: €16,797 thousand).

40. Interest expenses

The item 'Interest expenses' includes €19,485 thousand in positive interest expenses from borrowings from other banks and specific customer groups, from collateral management as well as from securitised liabilities (1 January to 31 December 2018: €22,157 thousand).

41. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €23,405 thousand (1 January to 31 December 2018: €21,444 thousand).

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

Other operating income of €52,295 thousand (1 January to 31 December 2018: €71,341 thousand) includes, among other things:

Other operating income

	1 Jan - 31 Dec 2019 €thous	1 Jan - 31 Dec 2018 €thous
Rental income	3,968	4,077
Release of reserves (related to other periods)	32,309	38,210
Accounting gains from the disposal of fixed assets and intangible assets	0	17,712
Related to other periods	(0)	(26)
Interest income from tax refunds (related to other periods)	0	4,983
Income from discounting	2,291	1,939

Other operating expenses of €17,047 thousand (1 January to 31 December 2018: €37,471 thousand) result primarily from the following items:

Other operating expenses

	1 Jan - 31 Dec 2019 €thous	1 Jan - 31 Dec 2018 €thous
Provisions for litigation costs	2,587	17,893
Accounting losses from the disposal of fixed assets and intangible assets	22	25
Interest expenses from tax arrears (related to other periods)	0	57
Provisions for derivatives valued separately	0	2,228
Expenses from compounding	7,897	8,.634
Expenses from currency translation	913	194

43. Extraordinary income and expenses

As in the previous year, no extraordinary income or extraordinary expenses were incurred in 2019.

44. Taxes on income

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

The item “Taxes on income” includes other material income related to other periods of €2,946 thousand from tax refunds for previous years (1 January to 31 December 2018: €20,936 thousand), and expenses related to other periods of €586 thousand from tax arrears for previous years (1 January to 31 December 2018: €1,212 thousand).

45. Proposal for the appropriation of the balance sheet profit

In 2019, apoBank recorded a net profit of €64,127,513. The profit carried forward from the previous year amounted to €9,413. The Supervisory Board and the Board of Directors will propose the following appropriation of profit at the Annual General Meeting:

Appropriation of balance sheet profit

	31 Dec 2019 €	31 Dec 2018 €
Net profit	64,127,513.15	62,946,416.21
Profit carried forward from the previous year	9,413.11	9,520.55
Balance sheet profit	64,136,926.26	62,955,936.76
Allocations to legal reserves	8,000,000.00	8,000,000.00
Allocations to other revenue reserves	8,000,000.00	8,000,000.00
Dividends (4%)	48,128,911.67	46,946,523.65
Carried forward to new account	8,014.59	9,413.11

E. Other notes

46. Events after the reporting date

No events took place that were subject to reporting requirements between 31 December 2019 and 11 March 2020 when the Annual Financial Statements were prepared by the Board of Directors.

47. Disclosures according to Section 28 of the PfandBG

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

Total amount and maturity structure

	Total amount of outstanding Pfandbriefe €m		Total amount of cover pool €m		Overcollateralisation %	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Nominal value	6,326	5,125	7,151	6,218	13	21
Net present value	6,701	5,250	7,933	6,737	18	28
Risk net present value[1]	7,278	5,250	8,346	6,737	15	28

	Maturity structure of outstanding Pfandbriefe €m		Maturity profile of cover pool €m	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Up to 6 months	15	415	352	359
More than 6 months to 12 months	70	5	338	267
More than 12 months to 18 months	540	15	294	304
More than 18 months to 2 years	20	70	420	290
More than 2 years to 3 years	1,045	560	743	627
More than 3 years to 4 years	623	545	715	648
More than 4 years to 5 years	165	623	727	613
More than 5 years to 10 years	2,736	1,835	2,698	2,425
More than 10 years	1,112	1,057	864	685

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

There are no derivatives included in the cover pool.

Composition of the cover pool

Total amount of receivables used as cover	€m 31 Dec 2019	€m 31 Dec 2018	Share in the total amount of cover pool 31 Dec 2019	% 31 Dec 2018
By size class				
Up to €300 thousand	5,177	4,452	– – –	– – –
More than €300 thousand to €1 million	767	608	– – –	– – –
More than €1 million to €10 million	701	567	– – –	– – –
More than €10 million	321	326	– – –	– – –
By type of use (I) in Germany				
Residential	5,486	4,648	– – –	– – –
Commercial	1,480	1,305	– – –	– – –
By type of use (II) in Germany				
Flats	1,669	1,413	24	24
Single- and two-family homes	3,228	2,708	46	46
Multi-family homes	589	527	9	9
Office buildings	11	11	0	0
Retail buildings	24	8	0	0
Industrial buildings	0	0	0	0
Other commercially used buildings	1,445	1,286	21	21
Unfinished new buildings not yet ready to generate a return as well as building sites	0	0	0	0
Of which: building sites	0	0	0	0

There are no mortgage cover assets outside Germany.

Summary of overdue claims

	31 Dec 2019 €m	31 Dec 2018 €m
Total amount of claims being more than 90 days past due	0	0
Total amount of the impaired receivables, provided that the respective arrears amount to at least 5% of the receivable	0	0

Other notes

	Residential		Commercial	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Number of pending forced auctions and forced administrations	0	0	0	0
Number of forced auctions carried out in the fiscal year	0	0	0	0
Number of real estate taken over in the fiscal year to prevent losses	0	0	0	0
Total amount of overdue interest payments in €m	0	0	0	0

48. Cover statement mortgage Pfandbriefe

Cover statement mortgage Pfandbriefe

	31 Dec 2019 €thous	31 Dec 2018 €thous
Loans and advances to customers		
Mortgage loans	6,966,267	5,952,970
Tangible fixed assets (land charges on the Bank's own property)	0	0
Debt securities and other fixed-interest securities (book value as at 31 Dec 2019: €185,000 thousand, 31 December 2018: €265,085 thousand)	185,000	265,000
Total cover assets	7,151,267	6,217,970
Total mortgage Pfandbriefe requiring cover	6,325,000	5,125,200
Overcollateralisation	825,667	1,092,770

49. Other financial obligations

Other financial obligations amounted among others to €118,020 thousand at the end of 2019 (31 December 2018: €118,020 thousand) and result from an optional obligation to purchase shares in a company within the scope of the lending business. This obligation does not currently pose a risk.

apoBank is a member of the protection scheme with a guarantee fund and a guarantee network operated by the National Association of German Cooperative Banks (Deutsche Volksbanken und Raffeisenbanken e.V., BVR). Within the scope of the guarantee network, apoBank has assumed a guarantee obligation that amounted to €54,116 thousand as at the end of the past financial year (31 December 2018: €39,441 thousand).

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

50. Average number of employees

The average number of employees in 2019 was 2,009 (2018: 2,075) full-time and 465 (2018: 455) part-time employees. In addition, apoBank also employed an average of 75 apprentices (2018: 85).

51. Changes in membership

Changes in membership

	Number of members	Number of cooperative shares	Uncalled liabilities €thous
Beginning of 2019	113,455	791,425	1,187,138
Additions 2019	4,238	42,395	63,593
Departures 2019	1,809	15,286	22,929
End of 2019	115,884	818,534	1,227,801

52. Capital contributions and uncalled liabilities of members

Capital contributions and uncalled liabilities of members

	31 Dec 2019 €thous	31 Dec 2018 €thous
The capital contributions of the remaining members increased in the year under review by	40,669	26,736
Uncalled liabilities increased in the year under review by	40,664	26,745

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

53. Auditors' fee

The expenses for the audit of the annual financial statements, other certification services, tax advice and other services of the auditor, GV (Genossenschaftsverband – Verband der Regionen e.V.), were €1,905 thousand in the year under review (2018: €1,607 thousand).

The expenses can be broken down as follows:

Auditors' fee

	2019 €thous	2018 €thous
Audit of the annual financial statements	1,351	1,268
Other assurance services	444	182
Tax advice	0	0
Other services	110	157

54. Board compensation

According to Section 285 sentence 1 no. 9a of the HGB, the total remuneration granted to the Board of Directors amounted to €4,505 thousand in 2019 (2018: €5,660 thousand); the performance-related share of this total remuneration was 19.7% (2018: 40.7%). The total remuneration paid to Board members in 2019 amounted to €5,236 thousand (2018: €5,034 thousand).

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

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

The total remuneration for former members of the Board of Directors and their surviving dependants amounted to €2,735 thousand (2018: €3,035 thousand). Pension provisions for this group of persons as at the balance sheet date amounted to €38,225 thousand (31 December 2018: €36,581 thousand).

The total remuneration for members of the Supervisory Board was €1,082 thousand (2018: €1,032), which was divided up as follows: annual remuneration €603 thousand (2018: €601 thousand), attendance fees €420 thousand (2018: €372 thousand) and other benefits €59 thousand (2018: €59 thousand).

55. Amounts due from Board members

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

Amounts due from Board members

	31 Dec 2019 €thous	31 Dec 2018 €thous
Members of the Board of Directors	10	77
Members of the Supervisory Board	5,303	6,064

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

Deutsche Apotheker- und Ärztebank eG, 40547 Dusseldorf, Germany

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

The turnover of €901.6 million resulted from the operating result, excluding risk provisioning and general administrative expenses. Deutsche Apotheker- und Ärztebank's operating result amounted to €187.4 million based on HGB accounting.

The number of employees (excluding members of the Board of Directors) as at 31 December 2019 was 2,331 (full-time equivalents).

The profit before tax of €187.4 million as at 31 December 2019 was largely generated in Germany. Income tax on this amount was €53.6 million.

apoBank does not receive any public aid.

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

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

58. Board of Directors

Members of the Board of Directors

- Ulrich Sommer, Chair
- Dr. Thomas Siekmann, Deputy Chair, responsible for Finance and Controlling
- Olaf Klose, responsible for Retail Clients
- Eckhard Lüdering, responsible for Loans and Banking Operations
- Holger Wessling, responsible for Large Customers and Markets

59. Supervisory Board

Members of the Supervisory Board

- Prof. Dr. med. Frank Ulrich Montgomery, Chair, Chair of the Board of the World Medical Association
- Wolfgang Häck[1](member until 28 June 2019), Deputy Chair, bank employee
- Sven Franke[1], Deputy Chair, bank employee
- Ralf Baumann[1], bank employee
- Fritz Becker, Chair of the Board of the German Pharmacists Association
- Marcus Bodden[1], bank employee
- Martina Burkard[1], bank employee
- Mechthild Coordt[1], bank employee
- Dr. med. dent. Peter Engel, President of the German Dentists Association
- Dr. med. Andreas Gassen, Chair of the Board of the German National Association of Statutory Health Insurance Physicians
- Günter Haardt[1](member since 28 June 2019), General Manager Asset Management at ver.di GmbH
- Dr. med. Torsten Hemker, Chair of the Administrative Committee of the Versorgungswerk der Ärztekammer Hamburg
- Steffen Kalkbrenner[2], bank employee
- Walter Kollbach, tax consultant/auditor (retired)
- Dr. med. dent. Helmut Pfeffer, Chair of the Pension Committee of the Versorgungswerk der Ärztekammer Hamburg
- Robert Piasta[1], bank employee
- Dr. med. dent. Karl-Georg Pochhammer, Deputy Chair of the National Association of Statutory Health Insurance Dentists
- Christian Scherer[1], bank employee
- Friedemann Schmidt, President of the Federal Union of German Associations of Pharmacists (ABDA)
- Dietke Schneider[1](member since 28 June 2019), bank employee
- Susanne Wegner, General Manager of the Verwaltungsgesellschaft Deutscher Apotheker mbH
- Björn Wißuwa[1](member until 28 June 2019), trade union secretary at ver.di

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

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

In 2019, members of the Board of Directors and employees of the Bank held seats on the supervisory boards or comparable boards of the following joint-stock companies pursuant to Section 267 (3) of the HGB or comparable organisations:

Name	Company	Function
Ulrich Sommer	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	2nd Deputy Chair of the Supervisory Board
	Apo Asset Management GmbH, Dusseldorf	Deputy Chair of the Supervisory Board
	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf	Member of the Supervisory Board until 8 July 2019
	Deutsche Ärzteversicherung AG, Cologne	Member of the Supervisory Board
Dr. Thomas Siekmann	ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf Aktiengesellschaft, Dusseldorf	Member of the Supervisory Board
Olaf Klose	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	Member of the Supervisory Board
	Deutsche Ärzte Finanz Beratungs- und Vermittlungs-AG, Cologne	Deputy Chair of the Supervisory Board
	Finanz-Service GmbH der APO-Bank, Dusseldorf	Deputy Chair of the Supervisory Board
Eckhard Lüdering	CP Capital Partners AG i. L., Zurich	Member of the Administrative Board
	PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	Member of the Administrative Board
	Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	Deputy Chair of the Supervisory Board
Holger Wessling	Internationale Kapitalanlagegesellschaft mbH, Dusseldorf	Member of the Supervisory Board since 15 August 2019
	PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	Member of the Administrative Board since 9 January 2019
Mirko Engels	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
Michael Gabler	ARZ Haan AG, Haan	Member of the Supervisory Board
Steffen Kalkbrenner	ARZ Haan AG, Haan	Deputy Chair of the Supervisory Board
Dr. Hanno Kühn	aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	Member of the Supervisory Board
	Apo Asset Management GmbH, Dusseldorf	Member of the Supervisory Board
Alexander Müller	naontek AG, Dusseldorf	Member of the Supervisory Board since 19 March 2019
Carsten Padrok	Finanz-Service GmbH der APO-Bank, Dusseldorf	Member of the Supervisory Board
Peter Schlögell	Apotheken-Rechen-Zentrum GmbH, Darmstadt	Member of the Administrative Board

61. Name and address of the responsible auditing association

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

Dusseldorf, 11 March 2020
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer

Dr. Thomas Siekmann

Olaf Klose

Eckhard Lüdering

Holger Wessling

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Certifications

Report of the Independent Auditor

Audit opinions

We have audited the annual financial statements of Deutsche Apotheker- und Ärztebank eG, Dusseldorf (hereinafter referred to as the "Cooperative"), comprising the balance sheet as at 31 December 2019, the income statement, the cash flow statement and the statement of changes in equity for the fiscal year from 1 January to 31 December 2019, as well as the notes to the financial statements, including the accounting and measurement methods. We also audited the management report of the Cooperative for the fiscal year from 1 January to 31 December 2019. We did not audit the parts of the management report referred to in the "Other information" section of the management report in accordance with German legal requirements.

According to the findings obtained within the scope of our audit

- the attached annual financial statements comply with applicable German commercial law requirements for cooperative banks in all key aspects and, in consideration of German standard accounting practice, give a true and fair view of the net assets and financial position of the Cooperative as of 31 December 2019 as well as of the results of operations for the fiscal year from 1 January to 31 December 2019, and
- the attached management report gives an accurate picture of the Cooperative's position. This management report is consistent with the annual financial statements in all key aspects, complies with German legal requirements and gives a true and fair view of the opportunities and risks associated with future developments. Our audit opinion on the management report does not cover the content of the parts of the management report referred to in the "Other information" section.

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

Basis for the audit opinions

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

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

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

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

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

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

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

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

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

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

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

2.a)
Loans and advances to customers amount to €37.2 billion when netted with risk provisions; this corresponds to 75.2% of the balance sheet total. In addition, contingent liabilities exist in the amount of €0.6 billion and irrevocable loan commitments in the amount of €2.9 billion.

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

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

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

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

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

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

Other information
The legal representatives are responsible for other information.

Other information comprises the following section of the management report, the content of which is not audited:
- the corporate governance statement pursuant to Section 336 (2) sentence 1 no. 3 in conjunction with Section 289f (4) of the HGB (disclosures concerning the proportion of women).

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

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

In the context of our audit, it is our responsibility to read other information and assess whether it
- contains any material discrepancies to the annual financial statements, the management report, or the findings we obtained during the audit or
- appears to have been otherwise incorrectly presented.

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

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

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

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

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

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

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

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

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

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

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

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

Other statutory and legal requirements

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

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

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

- audit of securities and custody business pursuant to Section 89 (1) sentence 1 and 2 of the German Securities Trading Act (WpHG) as well as its custodian function pursuant to Section 68 (7) of the German Capital Investment Code (KAGB),
- review of the non-financial declaration pursuant to Section 340a (1) of the HGB in conjunction with 289b and c of the HGB,
- audit of the data migration planned for 2020 from the bank21 systems of Fiducia & GAD to the bank-specific Avaloq applications,
- issuance of a letter of comfort,
- review of the abridged interim financial statements and the interim management report as at 30 June 2019 pursuant to Section 115 (5) of the WpHG (new version),
- audit of regulatory reporting obligations to calculate the amounts concerning the settlement fund for the year 2019 (bank levy),
- assessment whether a duty exists to present a comparative period in the first IFRS financial statements,
- project-specific evaluation of individual issues as well as acknowledgement of group accounting guidelines and of the illustrative IFRS group financial statements in connection with the switch to IFRS accounting,
- conduct a training for the members of the Supervisory Board.

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

Dusseldorf, 27 March 2020
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, 11 March 2020
Deutsche Apotheker- und Ärztebank eG
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Obituary

In Memoriam 130

In Memoriam

Volker Articus, pharmacist

Dr. rer. nat. Karl-Dieter Fuchsberger, pharmacist

Dr. med. dent. Rolf Koschorrek

Dr. med. Klaus Penndorf
The deceased effectively supported the development of apoBank as a member of the Supervisory Board.

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

We will cherish our memories of the deceased.

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This annual financial report is available at www.apobank.de.

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

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

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