Interim Report

deutsche apotheker- und ärztebank

2018

Overview of Business Development

Overview of business development

Bank data	30 June 2018	31 Dec 2017	Change[1] %
Members	112,210	111,494	0.6
Customers	448,300	436,260	2.8
Employees	2,532	2,553	− 0.8
Locations	84	84	–

Balance sheet	30 June 2018 €m	31 Dec 2017 €m	Change[1] %
Balance sheet total	44,064	41,369	6.5
Customer loans	33,415	32,013	4.4
Customer deposits	27,094	26,037	4.1

Income statement	30 June 2018 €m	31 Dec 2017 €m	Change[1] %
Net interest income[2]	339.7	325.3	4.4
Net commission income	87.1	88.0	−1.0
General administrative expenses	− 288.1	− 258.4	11.5
Operating profit before risk provisioning	134.2	158.5	−15.3
Risk provisioning from the operating business[3]	− 2.8	6.8	–
Risk provisioning with reserve character[4]	− 78.1	− 87.6	−10.8
Operating result	53.3	77.7	− 31.4
Net profit after tax	31.4	30.9	1.8

Key figures	30 June 2018 %	31 Dec 2017 %	Change[1] ppts
Total capital ratio (according to CRR)	20.6	21.8	−1.2
Common equity tier 1 capital ratio (according to CRR)	18.7	19.5	− 0.8

Rating[5]	Standard & Poor's	Fitch Ratings (group ratings)
Long-term rating	AA–	AA–
Short-term rating	A–1+	F 1+
Outlook	stable	stable
Pfandbrief rating	AAA	–

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

Contents

Interim Management Report

Fundamental Features of the Bank

The business model of apoBank: The leading bank in the health care sector

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

We position ourselves as providers of high-quality banking services in the health care market. As specialists and niche suppliers, we enjoy a strong position in our target market. This way, we assure the leading position of the cooperative FinanzGruppe in the market for financial services geared to the health care sector.

Aligned to growing health care market

apoBank's business model is aimed at sustainably utilising opportunities on the thriving health care market. In accordance with our statutory purpose, we serve as a reliable financing partner, helping to meet the growing demand for investment in the health care sector. Our customers are academic health care professionals in training, employment or retirement, professional associations, as well as different forms of cooperation and companies in the health care sector. We also support operators of pharmaceutical, medical, dental, inpatient and nursing care structures as well as members of other professional groups in the sector. We provide them with a wide range of financial and consulting services in the lending, deposit and investment business as well as in asset management. We have many years of experience in the health care market as well as specific knowledge of the occupations and market concerned. We provide our customers with specialised advisors and an offering that takes a holistic approach to the needs of our customers. This delivers tangible added value to customers as it enables high levels of quality, both in terms of expert advisory services as well as the development of strategies and solutions.

Servicing customers in two business segments

Business with our customers is divided into the two business segments Retail Clients as well as Professional Associations and Large Customers. In the Retail Clients business segment, we support students in health care as well as salaried, self-employed and retired academic health care professionals in their professional and private projects. Our apoPur integrated advisory services support our customers based on their individual needs and the various phases of their lives. We intend to continue to strengthen our business with self-employed health care professionals while simultaneously driving the expansion of our product range and consulting services for salaried health care professionals and students. Our private banking products and services are geared towards wealthy medical care professionals, rounding off our strategic orientation in this business segment.

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

Further details on the fundamental features of the Bank can be found in the Annual Financial Report 2017 (page 25 et seqq.). The statements made there continue to apply.

Economic Report

Overall economic and industry-specific conditions

Less dynamic growth

Although the global economy continued to expand in the first half of 2018, the higher growth rate of the previous year could not be sustained. Developed economies such as the euro area, Japan, the USA and the United Kingdom showed significantly reduced growth in the first quarter in comparison to the annual average in 2017. Large developing countries such as Brazil and Russia once again recorded positive growth rates. However, in these countries too, this trend was less dynamic than in the previous year. A gradual slowdown on a high level took place in China, where the continued downturn in the property market affected overall economic activity.

In the ninth year of its upswing, the US economy experienced a temporary loss of momentum, recording a lower real GDP growth rate of 0.5% due to a slower increase in household consumer expenditure. Against the backdrop of a higher utilisation of production capacities, private investment again rose noticeably, as it had in the last quarter of 2017. This boosted economic growth in the US at the beginning of the year.

After increases of 0.7% in each of the previous four quarters, real GDP growth in the euro area amounted to only 0.4% in the first quarter of 2018. This significant slowdown can be attributed in part to exceptional factors such as adverse weather conditions, strikes and unusually high rates of absenteeism due to illness. In addition, the strong appreciation of the euro through to spring 2018 and isolated bottlenecks on the labour market placed a burden on economic development.

Although at the beginning of the year the German economy continued on the course of sustainable growth set in preceding years, the 0.3% increase recorded in the first quarter indicates a significant slowdown in comparison to the previous year. In addition to unfavourable extraordinary factors, the less dynamic growth was also caused by an industrial decline due to lower demand from abroad. On the labour market, there were continued gains in employment, resulting in a further reduction in the unemployment rate to 5.2% – the lowest level since German reunification.

ECB continues highly expansive monetary policy

Against the background of continuing restrained rates of inflation in the euro area, the European Central Bank (ECB) maintained its low interest rate policy in the first half of 2018. Although the central bank reduced the monthly volume of its bond purchasing programme from €60 billion to €30 billion in January, it left the deposit facility rate and the main refinancing rate unchanged at -0.40% and 0.00% respectively. Meanwhile, the US Federal Reserve continued to tighten its monetary policy by raising the key interest rate in two increments in the first half of 2018, taking it from 1.50% to 2.00%. The yield on German Federal bonds with ten-year maturities rose at the beginning of the year by more than 0.3 percentage points, but decreased to around 0.30% by the end of June due to increasing risk awareness among investors and weaker economic indicators.

No significant rise in interest level anticipated

The ECB explained in June that it did not expect to raise interest rates before the end of summer 2019 and that subsequently, it would continue to proceed very cautiously. In light of this, it remains uncertain whether interest rates will be raised at all in 2019. However, the central bank announced a reduction in its bond purchasing programme starting from October 2018 and plans to terminate net purchases completely by the end of the year. The ECB will keep the already accumulated volume constant until further notice, however, by replacing matured bonds with new ones. By contrast, the US Federal Reserve intends to continue to raise interest rates in the upcoming quarters and further reduce its existing bond portfolios.

More turbulent times for international financial markets

The major global stock markets showed a mixed performance after having reached new record levels in February. While US shares posted further increases in value, with an ongoing high in technology stocks in particular, the share indices of the developing countries were hit by significant losses. Likewise, the European and German stock markets were unable to sustain the price increases of the beginning of the year and closed the first half with losses. The main reasons for this are intermittent fears of rising interest rates in the USA, geopolitical and europolitical risks as well as the smouldering trade dispute between the USA and its trade partners. The steep appreciation of the euro against the US dollar and other key currencies from the previous year did not persist, with the euro valued at 1.1676 against the US dollar as at the end of June, i.e. approximately 2.8% weaker than at the beginning of the year.

Health care market remains a growth market

The health care market continued on its growth path in the first half of 2018. The trends described in the Annual Financial Report 2017 (page 32 et seqq.) continue to apply.

Challenging conditions for pharmacies

The current environment facing pharmacies, entailing intense competition, more and more regulatory standards as well as national and international influences on the market, remains unchanged. Despite achieving higher revenues in 2017, pharmacies posted only marginal increases in their operating results. The reasons for this include higher costs of goods and rising expenditure on personnel. Moreover, the market differentiation that has characterised the sector for years now persists: Many small pharmacies with relatively low revenues face competition from numerous high-revenue pharmacies. While the number of pharmacies is still declining in Germany overall, the number of branches and branch networks continues to rise, even if the growth has slowed down somewhat. Accordingly, the number of salaried pharmacists has also been rising steadily for several years.

Trends of recent years continue to affect physicians and dentists

The numbers of self-employed panel doctors and panel dentists continue to decrease steadily. Young physicians and dentists in particular frequently seek (part-time) employment when starting out, rather than aspiring to open their own practice.

With regard to physicians, the trend towards larger entities and chains also continues, driven mainly by financial investors who are active Europe-wide. Taking the so-called buy-and-build approach, large health corporations and financial investors are increasingly becoming providers in the areas of medical and dental services, nursing care and rehabilitation. Since 2015 in particular, when the establishment of dental medical care centres became legally permissible, the trend in dental medicine towards larger, typically medium-sized types of businesses, organisations and services has accelerated. Since then, the number of these dental medical care centres has risen continuously and is expected to have amounted to approximately 500 facilities by the end of the first quarter of 2018.

The total remuneration of the statutory health insurance for panel doctors increased moderately in 2017. In the reporting period, dentists will likely have experienced a moderate improvement in their earnings situation with regard to the criteria revenues and profits.

The number of veterinary surgeons – both self-employed and salaried – is changing only marginally. It can be assumed, however, that the number of self-employed veterinary surgeons will decline, as veterinary medicine has become a focus for financial investors. These investors gradually buy up veterinary practices and animal hospitals as part of so-called buy-and-build strategies for the purpose of integrating these into chain concepts. The reform of the fee schedule for veterinary surgeons in July 2017 has since led to a moderate increase in total revenues.

Hospitals: Increasing pressure on costs, quality and efficiency due to limited funding

The process of increasing concentration continues in the inpatient sector. This is due to the rising pressure on costs, quality and efficiency resulting from limited financial resources of the statutory health insurance and the German federal states. Regulatory requirements concerning the quantity and quality of medical services are also having an influence on hospitals. From the current perspective, a number of other developments – the lack of specialists, an aging, multi-morbid society, technical innovations and increasing digitisation – are becoming additional drivers for lasting changes in the hospital market. This change scenario demands a high degree of innovation and long-term investments on the part of the hospitals in order to secure their economic stability. Moreover, the borders between the health care sectors are becoming increasingly blurred: More and more hospitals are now competing in the field of outpatient medicine. The integration of medical care, remuneration and quality across sectors is also a current political objective.

Outpatient and inpatient nursing care facilities: Constantly rising demand for new and alternative capacities

The demand for nursing care of the ageing population is growing continuously and with it the number of nursing care facilities required. There is already a wide range of existing facilities. This is now being supplemented by a growing number of innovative options offering community-based living, service and support.

Health care enterprises and digitisation

Technological change and increasing digitisation have given rise to new health care services, which are offered by innovative companies providing diagnostics and therapy. Within the reporting period, some key regulations were modified; these include permitting consultations via video and a relaxation of the ban on remote treatment. The market is thus becoming increasingly attractive for innovative digital health care offerings. In apoBank's view, the main focus when defining the regulatory framework should be on the aspects of patient safety, quality of care and accelerating innovation.

Business performance

Satisfactory first half of 2018

Overall, we rate the business performance in the first six months of 2018 as satisfactory.

In spite of consistently challenging conditions, in the first half of 2018 we succeeded in recording a net profit after tax to the amount of €31.4 million, thus achieving our planned level (30 June 2017: €30.9 million). This was due to our strong market position and the largely favourable economic conditions in the health care sector.

In accordance with our statutory purpose, apoBank supports its members and clients in achieving their professional and private goals by offering specialised banking services. Thanks to this focus, we continued the positive development of our customer business in the reporting period. Our member and customer base expanded further: As at 30 June 2018, we served 448,300 customers (31 December 2017: 436,260 customers). At the same time, the number of remaining members increased to 112,210 (31 December 2017: 111,494 members).

The intense competition in our customer business continued on a high level. In the area of lending, new business remained dynamic in spite of ongoing competition on terms. Loans and advances to customers rose by 4.4% to €33.4 billion (31 December 2017: €32.0 billion). The reasons for this rise were the consistently high demand from our retail and corporate clients for our financing expertise, as well as the continuously growing number of customers.

Our lending business was primarily refinanced via liabilities to customers; these rose slightly to €27.1 billion (31 December 2017: €26.0 billion). As a result, the balance sheet total as at 30 June 2018 was up 6.5% to €44.1 billion (31 December 2017: €41.4 billion), thus almost completely reaching the level targeted for 2018.

Positive development in the Retail Clients business segment

In the Retail Clients business segment, we support the professional and private endeavours of pharmacists, physicians, dentists, veterinarians and psychotherapists with our apoPur advisory concept, which is specially tailored to their needs and life phases.

Business with retail clients was positive in the first six months of 2018. We gained a large number of new customers, especially among students in the health care professions, but also among salaried and self-employed health care professionals.

Strong growth in loan portfolio on the balance sheet

Thanks to the excellent development in new business, the loan portfolio with respect to retail clients increased slightly to €28.2 billion (31 December 2017: €27.1 billion). We expanded the business start-up financing portfolio to €7.0 billion (31 December 2017: €6.6 billion). Thus, we continued to strengthen our leading market position in business start-up financing.

The demand for real estate financing remained high in the first half of the year due to the low interest level. Despite the strong competition over terms, the real estate financing portfolio amounted to €16.5 billion, slightly above the figure reported at the end of last year (31 December 2017: €15.6 billion). Investment and private financing were stable at €4.8 billion (31 December 2017: €4.8 billion).

Customer deposits up again

In the first six months of 2018, the average volume of the demand, savings and fixed-term deposits of our retail clients rose again significantly, reaching €16.9 billion (2017: €15.9 billion). Due to the persistently low interest rates, our customers were primarily interested in investments with short-term maturities and high availability.

Modest growth in deposit volume

In the first half of 2018, the securities business was characterised by the introduction of the new financial market guideline MiFID II. As a result, security yields showed restrained performance in comparison to the same period last year and the focus remained on mandated business. However, the deposit volume continued to grow despite a slight slowdown on the stock markets: It increased to €8.2 billion (31 December 2017: €8.0 billion).

Growth in asset management

The positive growth trend persisted in the first half of 2018: The volume managed rose to more than €3.4 billion (31 December 2017: €3.2 billion); customer numbers increased to more than 8,700 (31 December 2017: 6,600). Traditional asset management, including asset management funds, developed positively. In addition, our new asset management option, apoVV SMART, with an initial investment of €50,000 made a significant contribution to the high number of new customers in particular.

Volume in insurance and building society business increased

The insurance business grew significantly once again compared to the previous year's level, with a brokerage volume of €268 million (30 June 2017: €239 million). This increase was driven by a rise in demand for index-linked insurance products and the use of insurance products as redemption replacement for financing.

In the building society business, the total contract value rose noticeably to €279 million (30 June 2017: €262 million). Investments in real estate and thus in building society contracts continued to be in high demand.

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

apoBank traditionally cooperates closely with the professional associations representing all groups of health care professionals. These include the associations of panel doctors and panel dentists, the chambers as well as the professional organisations. In the reporting period, we continued our trust-based business relations with the professional associations. Due to the continuation of the low interest policy of the European Central Bank and corresponding liquidity management on the part of our customers, the average deposit volume at apoBank as at the reporting date 30 June 2018 was €3.5 billion (2017: €3.7 billion).

We support the smooth operation of prescription invoicing by providing lines of credit for the pharmacies' billing centres. In addition, we are financing the construction of a new administration building for a large entity.

Our subsidiary medisign GmbH is making an important contribution to the establishment of a system of electronic data transmission in Germany by providing electronic identification for medical practices. In the reporting period, medisign obtained its authorisation from gematik, which is responsible for the set-up, operation and refinement of the electronic data transmission infrastructure and is funded by the major associations in the German health care sector.

Positive development of business with our institutional investors

The customer group of institutional investors comprises occupational pension funds for the health care and other liberal professions, as well as other financial intermediaries. These include health care facilities, pension funds and other professional investors. With our individually tailored advisory approach, we offer customers reliable and comprehensive all-round support. Our range of products and services extends from advice, to designing the actual investment solution and, finally, custody of the product.

Continuity in advisory mandates and product solutions

In view of the growing complexity of the capital markets, persistently low interest rates as well as increasing regulatory requirements, a holistic view of the risk and yield situation remains key for our customers.

We support our customers with custom-made solutions for the development of individual investment strategies, as well as in risk control and strategic asset allocation. Here, we take both balance sheet criteria as well as the regulatory requirements into account. Our product solutions, such as portfolio management with risk monitoring and our independent credit rating analysis tool apoScore, also continued to meet with high demand from our institutional customers in the reporting period.

Strong market position in the depository business

The depository function is one of the key competencies offered by apoBank. Depository volume increased to €19.7 billion (31 December 2017: €18.3 billion); the number of managed funds rose to 248 (31 December 2017: 205). With the expansion of our depository business, we further strengthened our favourable position in the competitive depository market.

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

Ongoing growth in the corporate client segment

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

Thanks to our deep understanding of the entire health care market, which our range of advisory services is built on, we again succeeded in strengthening our market presence in the first half of 2018, broadening our customer base in all industry segments and consolidating existing customer relationships. In response to the wants and needs of our corporate clients, we are constantly extending our portfolio of products and services. For example, last year we set up our own Corporate Finance department in order to provide even better support to customers, in particular with regard to special financing needs. The product has been very well received by the market and also contributes to increasing our commission income.

The low interest level and the ongoing positive growth prospects in the health care market had a beneficial impact on our business performance. Demand for financing increased, in particular by the initiators of real estate projects as well as inpatient care providers (clinics, nursing homes). In spite of continued intense competition, the loan volume in the Corporate Clients business segment rose again in the reporting period, amounting to €3.5 billion (31 December 2017: €3.1 billion).

Net assets, financial position and results

In the following sections, we provide details of the main income and expenditure items for the first half of 2018.

Income statement

	30 June 2018	30 June 2017	Change[1]
	€m	€m	%
Net interest income[2]	339.7	325.3	4.4
Net commission income	87.1	88.0	−1.0
General administrative expenses	− 288.1	− 258.4	11.5
Net trading result	0	0	0
Balance of other operating income / expenses	− 4.5	3.5	–
Operating profit before risk provisioning	134.2	158.5	−15.3
Risk provisioning from the operating business[3]	− 2.8	6.8	–
Risk provisioning with reserve character[4]	− 78.1	− 87.6	−10.8
Operating result	53.3	77.7	− 31.4
Taxes	− 21.9	− 46.9	− 53.3
Net profit after tax	31.4	30.9	1.8

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

Net interest income up slightly

In spite of the challenging interest environment, we posted a moderate rise in net interest income of 4.4% to €339.7 million (30 June 2017: €325.3 million). We thus slightly exceeded our target. This was mainly due to the interest expenses, which decreased more significantly than planned.

We recorded a substantial gain in the lending business, with new loans amounting to €3.6 billion (30 June 2017: €3.4 billion).

On the refinancing side, the trend towards short-term demand deposits continued. In the year to date, apoBank once again avoided charging custodial fees to retail clients.

Net commission income lower than expected

Net commission income remained on a par with the previous year’s level at €87.1 million, which was slightly lower than expected (30 June 2017: €88.0 million). We continued to expand the deposit volume of our retail clients; however, at the beginning of the year we were burdened by challenging conditions on the financial markets as well as by the revised European Union directive on investment services, known as MiFID II since January 2018. Overall, however, we succeeded in acquiring new customers for our private asset management services. We also further developed our business with institutional customers. In addition, we recorded gains in payment transactions.

General administrative expenses increased

In the period under review, our general administrative expenses rose significantly to €288.1 million (30 June 2017: €258.4 million). However, this was still considerably lower than the budgeted amount. Personnel expenses were €130.1 million, which is on par with the level of the previous year (30 June 2017: €131.3 million), and were thus slightly lower than planned. Operating expenditure including depreciation rose considerably by 24.3% to €158.0 million (30 June 2017: €127.1 million). This was primarily due to the expenses relating to the IT migration. The increase was temporarily significantly lower than planned. We anticipate that the budgets for the IT migration will be exhausted by the end of the year.

Operating result higher than expected

The operating result, i.e. profit before risk provisioning, amounted to €134.2 million (30 June 2017: €158.5 million). Due to the developments described above, this was temporarily higher than planned.

Low risk provisioning

Risk provisioning for the operating business was at -€2.8 million (30 June 2017: €6.8 million). Since the net new allocations to loan loss provisions were significantly below the standard risk costs, the overall figure is a substantial positive deviation from the budgeted amount. In addition, we posted further high recoveries from previously written down receivables due to our successful risk management.

Risk provisioning with reserve character amounted to -€78.1 million (30 June 2017: -€87.6 million). As the operating result was above the targeted figure overall, we accumulated much higher reserves than expected.

Stable net profit

After allocations to reserves, the operating result amounted to €53.3 million (30 June 2017: €77.7 million), down by a larger amount on the previous year than planned. After taxes, net profit totalled €31.4 million (30 June 2017: €30.9 million), and was thus on target.

Higher balance sheet total – comfortable liquidity situation

The balance sheet total rose to €44.1 billion as at 30 June 2018 (31 December 2017: €41.4 billion), thereby reaching the target level almost completely. Loans and advances to customers increased to €33.4 billion (31 December 2017: €32.0 billion); this was due to the consistently high demand for our financing expertise. The securities portfolio amounted to €5.8 billion (31 December 2017: €5.7 billion).

apoBank's liquidity situation remained comfortable throughout the first half of 2018. As a well-established market participant with good credit ratings, we secure funds for refinancing through various sources and are supported by a widely diversified customer and investor base.

The largest source of refinancing comes from liabilities to customers. In the period under review, these rose slightly to €27.1 billion (31 December 2017: €26.0 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €3.2 billion (31 December 2017: €3.4 billion). We also issue covered bonds (Pfandbriefe) as well as unsecured bonds to our institutional clients, members of the cooperative FinanzGruppe and the capital market. In the Pfandbrief business, we once again successfully placed a benchmark mortgage Pfandbrief at a value of €500 million on the European capital market in February 2018. The total volume of the Pfandbrief portfolio at the reporting date of 30 June 2018 rose to €4.4 billion (31 December 2017: €3.7 billion).

In addition, we employ refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks. In order to fulfil the regulatory requirements for liquidity, we held €4.6 billion in ECB-eligible securities as at the reporting date (31 December 2017: €4.4 billion).

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

Good rating assessment maintained

apoBank's creditworthiness, or its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor's. Standard & Poor's confirmed apoBank's good ratings in January 2018. Bonds which are potentially used as a liability in a bail-in are defined by Standard & Poor's as senior subordinated bonds and receive the rating A+ with a stable outlook. Senior unsecured bonds continue to be rated AA- with a stable outlook.

In addition, apoBank is assessed indirectly according to the ratings by Standard & Poor's and Fitch Ratings for the cooperative FinanzGruppe.

As apoBank is part of the cooperative FinanzGruppe and is a member of the cooperative protection systems, these ratings also apply to apoBank.

Summary

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

The intense competition persisted on a high level in the customer business. While net interest income rose slightly, net commission income remained at the previous year's level. At the same time, general administrative expenses increased significantly. Risk provisioning from the operating business was slightly down. In addition, we strengthened our reserves and achieved a stable net profit overall.

On the basis of this result, we expect to again pay our members a stable dividend for the current financial year and expand our reserves at the same time. The liquidity situation remained comfortable throughout the reporting period; this is due to our broadly diversified refinancing base.

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

Sustainability report

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

Risk Management Report

Principles of risk management and risk control

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

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

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

For a detailed description of risk management including the essential elements listed above, please refer to the risk report published in our Annual Financial Report 2017 (pages 44 to 63).

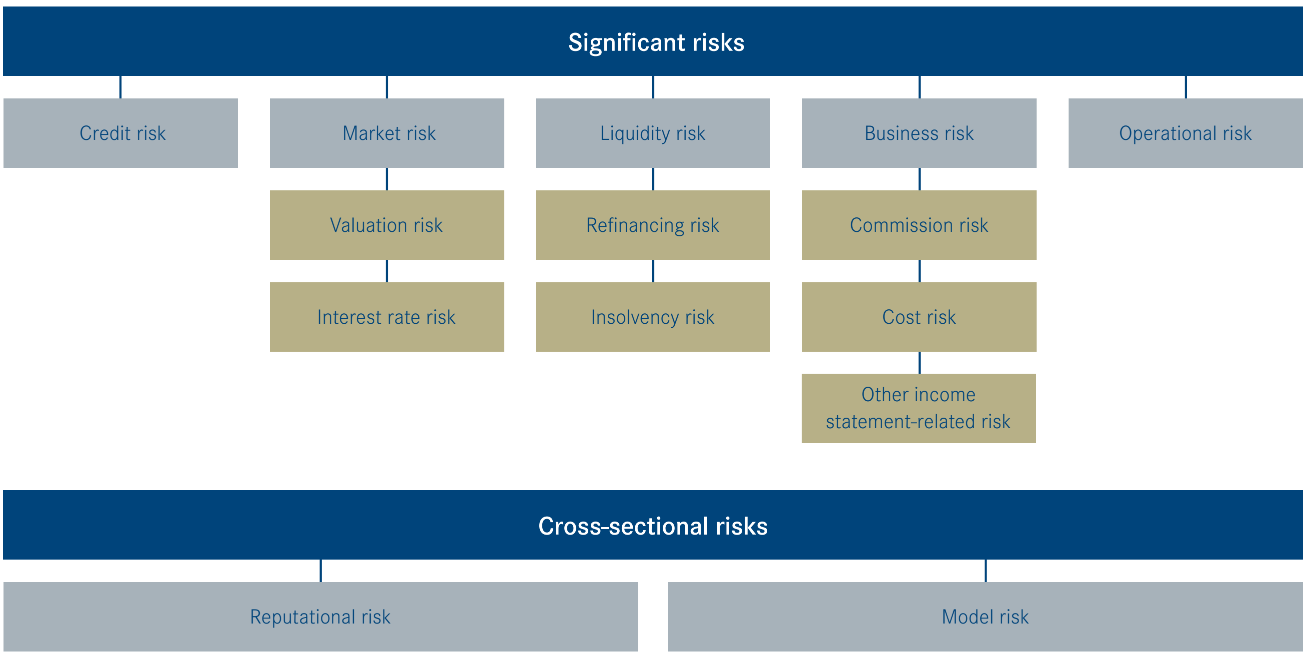
The diagram below provides an overview of the risk types at apoBank.

Development of the risk position in the first half of 2018

Overall capital situation

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

Classification of apoBank's types of risk



Regulatory capital situation

Overall, the Bank rates its capital situation as comfortable.

As at the reporting date, the total capital ratio of apoBank calculated pursuant to the Capital Requirements Regulation (CRR) amounted to 20.6% (31 December 2017: 21.8%) and the common equity tier 1 capital ratio was at 18.7% (31 December 2017: 19.5%). This indicates that apoBank's equity ratios were below the previous year's level as at 30 June 2018; however, they continue to significantly exceed the minimum requirements and remain at a comparatively high level for this sector.

Regulatory equity capital totalled €2,567 million as at 30 June 2018 (31 December 2017: €2,528 million). Common equity tier 1 capital rose slightly from €2,254 million as at the end of 2017 to €2,332 million. This increase was driven on the one hand by renewed growth in non-terminated members' capital contributions to €1,167 million (31 December 2017: €1,160 million), while on the other hand allocations to the fund for general banking risks as well as the revenue reserves from the 2017 annual result in particular strengthened our equity position.

Supplementary capital declined significantly to €235 million (31 December 2017: €275 million) as expected. The main reasons for this were that subordinated capital was accounted for to a lesser degree due to offsetting directly to the day within the last five years of the residual term and the fact that, from the beginning of 2018, the uncalled liabilities adjustment and the reserve pursuant to Section 340f of the German Commercial Code (HGB) were not considered to the same extent as previously due to regulatory legislation.

Risk-weighted assets amounted to €12,492 million as at 30 June 2018, a significant increase on the previous year's figure (31 December 2017: €11,584 million). This rise reflects in particular the continued growth of our lending business as well as refinements in our internal rating methods.

Due to the strong balance sheet growth, the leverage ratio, at 5.0%, was below the previous year's level (31 December 2017: 5.2%) and thus on the average level of European banks.

Economic capital situation

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

In the going-concern approach, the utilisation rate of our economic capital by the measured risks was again on a low level, at 40.5% (31 December 2017: 39.6%). In the course of the year, the utilisation rate largely reflected the effects of regular business activities and moderate volatilities in the financial market environment. It fluctuated between 34.5% and a maximum of 40.5%, remaining at all times significantly below the budgeted figure and the internal warning threshold.

The risks measured at a confidence level of 97% in this risk management approach increased to €421 million as at the reporting date (31 December 2017: €412 million).

The utilisation rate of the Bank-wide risk limit of €510 million adopted for the going-concern approach (31 December 2017: €540 million) was thus 82.6% as at 30 June 2018 (31 December 2017: 76.3%).

At the same time, the risk cover potential remained unchanged compared to the end of 2017, totalling €1,040 million (31 December 2017: €1,040 million). This was mainly due to the fact that the continued business growth and the effective allocations to the reserves from the 2017 annual result offset each other.

The Bank-wide stress tests carried out in this risk management approach confirm that the risk-bearing capacity of the Bank is assured across all scenarios.

In the complementary gone-concern risk management approach, the economic utilisation rate was on a comparably comfortable level as in the going-concern risk management approach. The utilisation of the risk cover potential by the risks amounted to 39.5% as at the reporting date (31 December 2017: 39.1%). The risks,

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

		Share of risk cover potential
as at 30 June 2018	€m	%
Risk cover potential	1,040/3,692	100.0/100.0
Bank-wide risk position	421/1,457	40.5/39.5

Significant risks

	Actual risk	Limit utilisation
as at 30 June 2018	€m	%
Credit risk	125/847	86.3/–
Liquidity risk	11/7	44.7/–
Operational risk	67/110	89.0/–
Market risk	119/411	77.0/–
Business risk	99/82	89.9/–
Bank-wide risk limit	510/1,800	82.6/81.0

which in this management approach are measured on the basis of a confidence level of 99.9%, amounted to €1,457 million (31 December 2017: €1,459 million) against a risk cover potential of €3,692 million (31 December 2017: €3,731 million). The utilisation rate of the Bankwide risk limit adopted for this approach, amounting to €1,800 million (31 December 2017: €1,750 million), was 81.0% as at 30 June 2018 (31 December 2017: 83.4%).

The utilisation rates of the risk cover potentials confirm that the risks entered into are in line with the objectives of the two risk management approaches, i.e. owner protection (going concern) and creditor protection (gone concern).

Credit risk

At the end of the first half of 2018, the unexpected loss (UEL) from credit risks of apoBank in the retail clients as well as professional associations and large customers portfolios was above the level reported at the end of 2017. Reasons for this are the higher volume in the professional associations and large customers portfolio as well as an adjustment in the method of calculating the loss ratio for the volume business.

With regard to financial instruments, there was a general rise in the spread level compared to the end of the previous year due to growing political uncertainties. The overall risk reported in the financial instruments portfolio decreased as a result of a change in the calculation method. Items from this portfolio that are similar in character to equity have been shown in the risk calculation under participations since the beginning of 2018.

The limit for credit risk derived from the risk-bearing capacity was complied with at all times in the reporting period.

The key developments in credit risks for the individual portfolios are as follows.

The rating system of apoBank

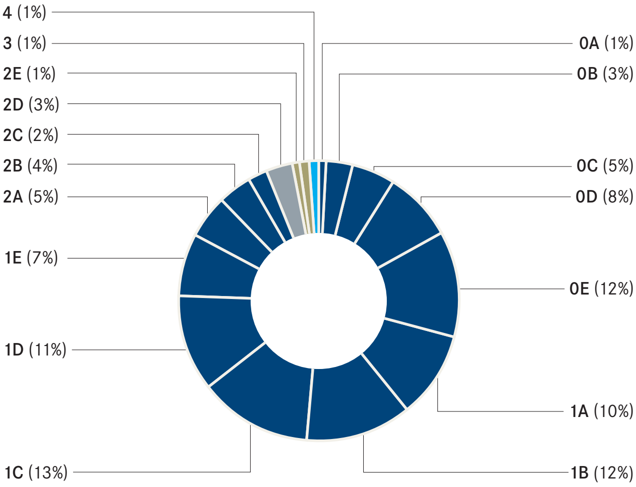
Meaning	Rating class (BVR master scale)	Probability of default %	External rating class[1]
Commitments with **excellent** creditworthiness, no risk factors (standard loan management)	0A	0.01	Aaa
	0B	0.02	Aa1
	0C	0.03	Aa2
	0D	0.04	
	0E	0.05	Aa3
Commitments with **good** creditworthiness, individual risk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

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

Rating class distribution in the retail clients portfolio

Volume distribution based on drawdowns

Total of €29.711 million[1]

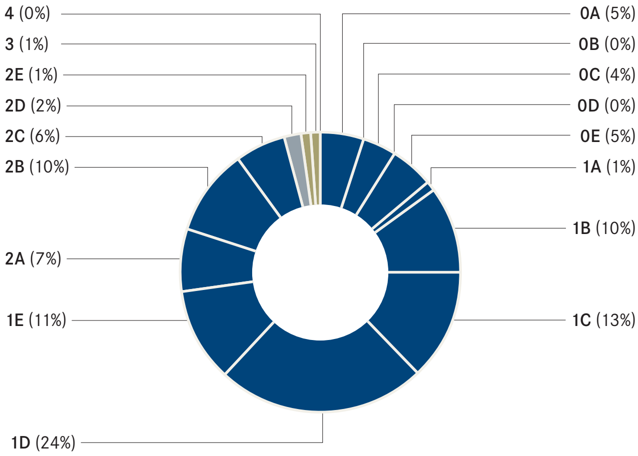


1) Percentages rounded.

Rating class distribution in the professional associations and large customers portfolio

Volume distribution based on drawdowns

Total of €4.661 million[1]



1) Percentages rounded.

Retail clients portfolio

In the retail clients portfolio, drawdowns rose to €29.7 billion (31 December 2017: €28.7 billion) due to the positive development of new business.

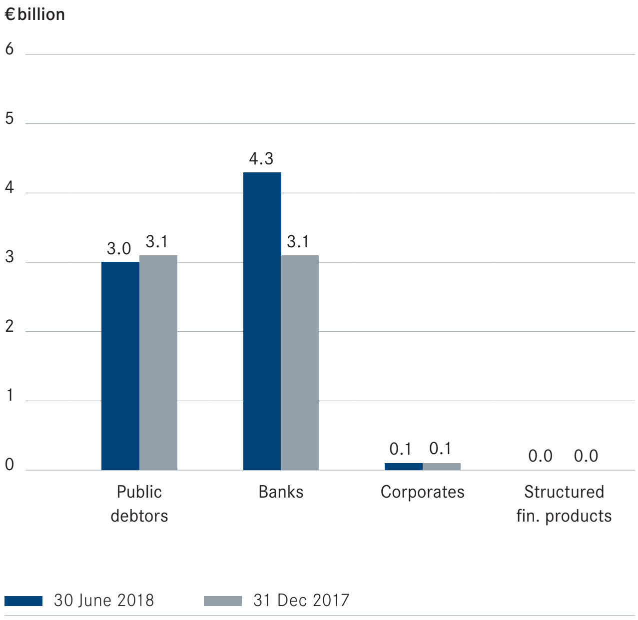
The rating structure shows a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group. The rating coverage is very close to 100%. The portfolio is highly diversified: With around 202,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

After offsetting new and no longer necessary precautionary measures, almost no additional value adjustments needed to be made in the first half of 2018. Thus, apoBank only had to employ an extraordinarily small share of the budgeted figure. This reflects the above-average creditworthiness of health care professionals as well as apoBank's comprehensive financing expertise and effective risk management.

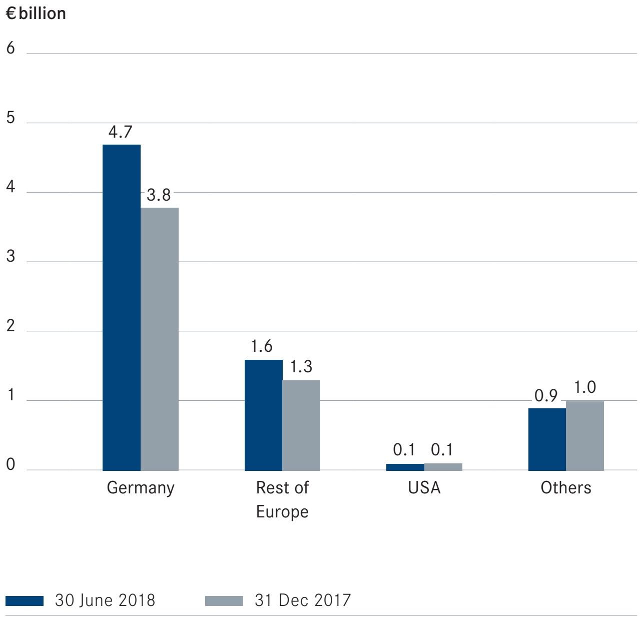
Professional associations and large customers portfolio

Total drawdowns in the professional associations and large customers portfolio increased by €0.4 billion to €4.7 billion as at 30 June 2018 (31 December 2017: €4.3 billion). The rating distribution of the portfolio is balanced. The rating coverage is very close to 100%.

Total exposure of financial instruments portfolio by sector



Risk volume of financial instruments portfolio by country



For the professional associations and large customers portfolio, apoBank only needed to take minor precautionary measures as at the reporting date of 30 June 2018 after offsetting. The figure was far below the budgeted amount.

Financial instruments portfolio

The risk volume of the financial instruments portfolio amounted to €7.3 billion on the reporting date, an increase on the previous year's figure (31 December 2017: €6.2 billion). Reasons for this were higher holdings of call money and commercial papers as well as higher balances in the inter-bank business.

The risk volume of the derivatives in the financial instruments portfolio was stable at €0.1 billion (31 December 2017: €0.1 billion). apoBank uses derivatives primarily to hedge against interest rate risks stemming from the customer business. As at the reporting date, the nominal volume amounted to €30.2 billion (31 December 2017: €30.3 billion).

As in the previous year, 99% of the financial instruments portfolio had an investment grade rating as at 30 June 2018. In the first half of 2018, risk provisioning measures were required to a very small degree only and remained below budget.

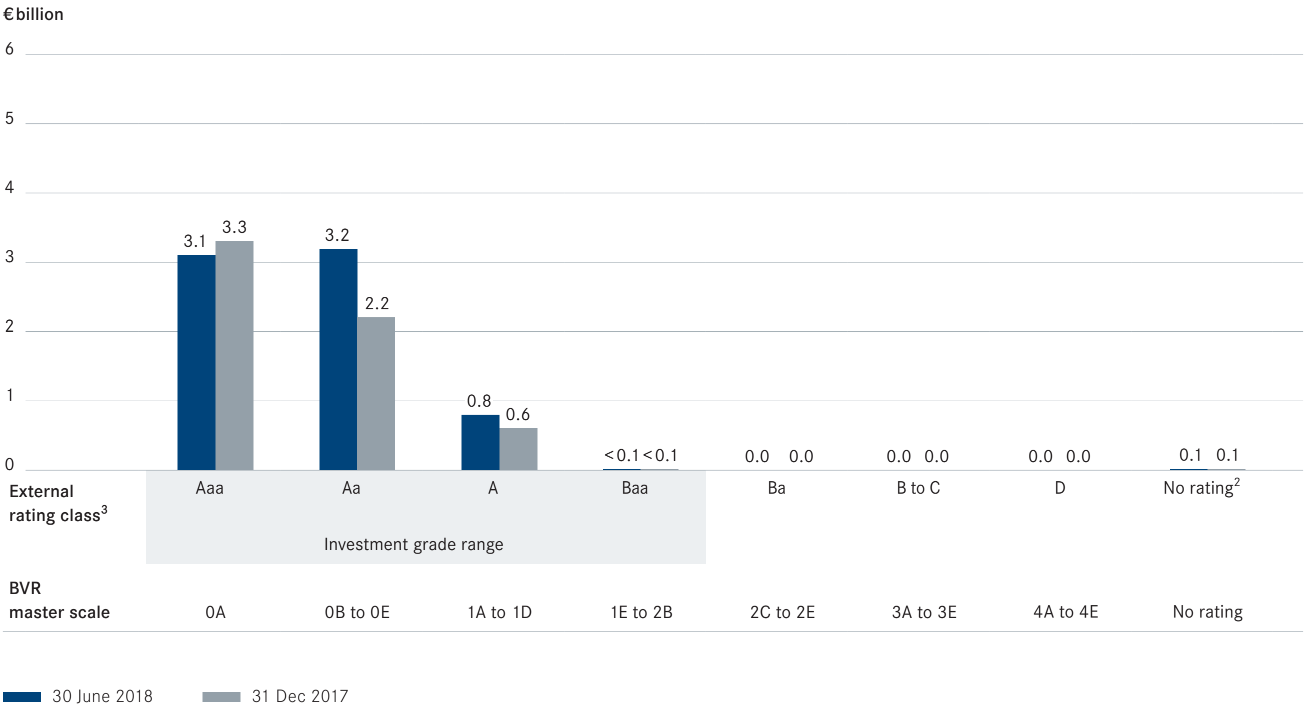
Participations portfolio

There were no significant developments in this portfolio. The book values of the participations remained unchanged at a total of €0.2 billion (31 December 2017: 0.2 billion).

Market risk

The overall limit for market risk derived from the risk-bearing capacity (i.e. for periodic net interest income risk as well as for the financial instrument valuation risk) was complied with at all times in the first half of 2018.

Total exposure of financial instruments by rating class[1]



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

The stressed value at risk, applied within the scope of the risk-bearing capacity for valuation risks of financial instruments, decreased compared to the end of the previous year. The main reason for this is a refinement of the risk measuring procedure, which has now ceased to employ a scale that overestimates risks.

The periodic net interest income risk also declined during the first half of the year. This was primarily due to remodelling of one-off redemptions and open loan commitments based on customer behaviour. The valuation risk of the financial instruments in the current assets measured within the operative market risk management also increased slightly at a low level overall.

The results of the present-value regulatory stress calculations confirm a moderate interest rate risk at Bank-wide level. The regulatory reporting limit of 20% of regulatory equity (interest risk coefficient) was not reached at any time in the first six months of 2018. The interest rate risk coefficient was on its highest level in the first half of the year in April, at 16.5%; as at 30 June 2018, it was 15.2% (31 December 2017: 14.1%).

Liquidity risk

The refinancing risk accounted for in the calculation of the risk-bearing capacity decreased during the first six months of the year. This was due to lower spread volatilities as well as a reduction in refinancing volume as a result of the increase in the liquidity position. The limit derived from the risk-bearing capacity was complied with at all times.

With regard to insolvency risk, the limits of the funding matrix and the regulatory requirements from the liquidity coverage ratio were complied with at all times. apoBank more than fulfils the minimum requirement of 100% for the liquidity coverage ratio: As at 30 June 2018, apoBank's liquidity coverage ratio was 136.7%, higher than the level reported at the end of the previous year (31 December 2017: 131.8%).

Liquidity supply in the first half of 2018 was guaranteed at all times, primarily due to the continued increase in deposits as well as the growth in refinancing via securitised and unsecuritised capital market issuances.

Compliance with the Pfandbrief cover pool limits was assured throughout the first half of 2018.

Business risk

The limit for business risks derived from the risk-bearing capacity was complied with at all times in the first six months of 2018. Overall, the measured risks fluctuated only slightly in the first half of the year.

Operational risk

Operational losses were incurred at the budgeted level in the reporting period. The focus continued to be on legal risks.

The operational risk (OpRisk) considered in the calculation of the risk-bearing capacity decreased compared to the end of the previous year.

The limit for operational risks derived from the risk-bearing capacity was complied with at all times in the first half of 2018.

Forecast Report

Outlook for the national economy and the health care market

In spite of the recent slowdown in the global economy, the cyclical upswing is expected to continue. This is suggested by the robustness of growth as well as a large number of leading economic indicators. In view of the tax reform adopted by the US Congress at the end of last year and the planned increase in expenditure for the next two fiscal years that was decided in February, an acceleration of growth in the USA is anticipated for 2018 and 2019. In the euro area, the economy is expected to grow robustly, although it is unlikely to achieve the rates of expansion of the previous year. A slowdown in growth is also forecast for the German economy. Opportunities for an expansion of the national economy are likely to result from the expected move towards a more expansive fiscal policy, whereas risks are concentrated around foreign trade.

Dynamic changes continue in health care market

The trends described in the “Overall economic and industry-specific conditions” section also apply in the second half of 2018 and will stabilise further. Proposed legislation and advancing digitisation will have a fundamental impact on the health care market. Digitisation continues to drive the interconnectedness, cooperation and concentration of health care service providers and contributes to the emergence of new, interdisciplinary and cross-sectoral health care products and services. These new companies are not only interesting as employers for the new generation of health care professionals; they are also increasingly becoming potential investment targets for industrial health care corporations and financial investors.

Cooperation and integration promote structural change

It is to be anticipated that the importance of new cooperative business and organisational forms will continue to increase in outpatient medicine – on the one hand due to economic considerations, and on the other hand in the interests of a continuous improvement in treatment quality. The integration of outpatient, inpatient, rehabilitative and nursing care service providers will also intensify more and more. The structural change in the health care sector will continue – not only because of health policy developments, technological progress and digitisation, but also because the expectations of patients are changing.

The trend towards larger medical and dental entities (medical and dental care centres) and chains, driven in particular by large pan-European financial investors, will also continue to increase, as will the general tendency in favour of salaried employment.

Different trends in earnings situation of health care professionals

We expect the earnings situation for pharmacies in 2018 to remain constant at around the previous year’s level. The political discourse will continue to be shaped by the issues of prohibition of mail-order sales of prescription medications and the future system of remuneration – in this regard, the expert report on fees published by the Federal Ministry for Economic Affairs and Energy at the end of 2017 will lead to lively discussions. Overall, the number of pharmacies is likely to decrease further. The number of branches as well as high-revenue branch networks is set to rise again in 2018. The context in which pharmacies operate – intense competition, more and more regulatory standards as well as national and international influences on the market – will continue to be challenging.

As a result of the fee negotiations for panel doctors in September 2017, a rise in their remuneration for 2018 of approximately €1 billion was decided; the total compensation of the statutory health insurance will thus increase moderately in 2018.

The earnings situation for panel dentists is anticipated to remain stable.

The demand for veterinary services will expand only moderately due to factors such as saturation effects among small animal practices and the increased concentration of livestock practices. Both should also be considered against the background of continuously growing cost awareness among animal owners.

More cooperations and partnerships

In order to ensure that medical innovations continue in future despite the ever stronger effects of economic and competitive factors, the number of cooperations and partnerships between outpatient and inpatient health care companies will grow. Nursing care facilities will be able to strengthen their earnings base due to steadily growing demand and rising rates of contribution to nursing care insurance.

Health care market continues to offer new opportunities

Overall, the health care market remains a growth market that will continue to provide entrepreneurial health care professionals and health care companies with ongoing earnings and growth prospects in the future, too. Medical and technological progress as well as advancing digitisation will result in new possibilities for prevention, diagnosis and treatment, which will meet with corresponding demand due to demographic trends.

Outlook on business performance

Banking sector continues to be characterised by changes

In 2018, banks will focus on fine-tuning their business models and further implementing their digitisation strategies. New technological possibilities in the financial industry are changing existing value chains, and the entry of new market participants is leading to even more intense competition. In addition, new laws such as the recent payment services directive and MiFID II are opening up the market to new providers. The competition for customers and conditions is set to continue. For this reason, the banks are still pushing ahead with their cost-cutting programmes. However, in future it will take more and more time to implement savings. It will therefore be all the more important for banks to find strategies that lead to a sustainable increase in earnings, for example based on a clear positioning regarding digital financial services or individual growth strategies. The goal is to secure long-term profitability. The favourable overall economic conditions may provide tailwind for the banks.

Continued development of the business model

apoBank is continuing to develop its clearly defined business model in the current financial year. Our growth strategy in the business with health care professionals and their organisations as well as enterprises in the health care market remains effective. In the light of the current situation and foreseeable changes on the banking and health care market, we want to develop new solutions in the long term to provide even greater benefit to our customers and members. The Bank plans to extend its range of products and services beyond business start-up financing, asset advisory services and classical banking services, for example by expanding its advisory activities.

Growth in the customer business in a challenging environment

Planning for the current financial year at apoBank is based on our continuously growing customer business.

In the Retail Clients segment, business start-up financing is a source of new stimuli. In real estate financing, however, we expect the intense competition on terms and conditions to continue.

Rising customer numbers and higher customer penetration will also have a positive effect. In the Corporate Clients segment, we will be strengthening our marketing efforts with regard to enterprises in the health care market, hospitals, nursing care facilities and medical care structures. In addition, we want to intensify our contact to medical care businesses with outpatient care facilities initiated by health care professionals. As a result, we expect the loans and advances to customers shown in the balance sheet to continue to rise. At the bottom line this means a noticeable increase in the balance sheet total.

In addition, we expect a growing commission-based business. Our focus here is on the expansion of the securities business and asset management for retail clients and institutional customers. As well as providing new technological solutions, we will simplify and standardise the advisory processes in the investment business in order to increase the number of customer contacts. We will also expand the range of private banking services at our branches and strengthen its focus on the securities business. In addition, we will step up the marketing of our asset management expertise. For this purpose, we have consolidated all of our asset management products and services in our new independent asset management brand, “apoPrivat”. These include investment advisory services, our multiple award-winning private asset management and private banking.

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

The intensification of the customer business, which is scheduled to go hand in hand with increasing customer numbers and a higher loan volume, both in the retail and the corporate client segment, will make a key contribution to net interest income. In addition, net interest income is dependent on the shape of the yield curve. Assuming a constant yield curve, we expect a significant increase in net interest income for 2018.

The increasing customer numbers will also be reflected in net commission income. We want to increase this primarily through growth in the investment business and in private asset management for our retail clients, although the increase in revenue could be less dynamic due to the new financial market directive MiFID II and other market developments. Our aim remains to considerably increase the deposit volume. Additional contributions to profit will also be made through our commission-based business with institutional clients.

General administrative expenses will see a tangible rise in 2018, in particular due to investments in the planned IT migration. Personnel expenses will go up slightly in 2018 due to the tariff increases.

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

On balance, we therefore expect that the operating income for 2018, i.e. profit before risk provisioning, will be above that of 2017.

Risk provisioning for the operating business in the 2018 financial year is anticipated to be in the low double-digit millions and therefore below the planned standard risk costs.

Based on our planning, net profit in 2018 should remain at the 2017 level overall. This would allow us to further strengthen our capital position, albeit to a lesser extent than in 2017, and to distribute a stable dividend to our members.

Comfortable capital and liquidity situation

After starting out at a high level, we expect slightly declining regulatory capital ratios in 2018. The reason for the decrease is the substantial growth planned both in the Retail Clients and the Corporate Clients segment. Core capital will be strengthened through new members' capital contributions as well as reserves. apoBank's liquidity situation is likely to remain comfortable, since it is supported by a broadly diversified customer and investor base. The liquidity gap analysis is solid both on a short and long-term basis.

Opportunities and risk report

The main prerequisites for continuing to consolidate and expand our market position are the success of our customer advisory approach and acceptance among our customers. This means we have an opportunity to achieve our strategic objectives more quickly, in particular those defined in our growth strategy for our core business, and to hone our business profile. In addition, we are continually working towards improving customer satisfaction and, by doing so, increasing customer loyalty.

We are counteracting the downward trend in the numbers of economically independent health care professionals by providing our specialised advisory services, thus helping to reduce health care professionals' reservations about opening their own practice or branch. We collaborate closely with the professional associations and work in regional networks to strengthen the integration of our range of advisory and customer support services. At the same time, we are continuing to expand the range of products and advisory services for salaried health care professionals and students.

Opportunities also arise from establishing ourselves more broadly at the interface of health care and the financial market. This allows us to leverage new sources of income and provide our customers and members with additional benefit based on our unique expertise in both markets.

Gradually adapting our range of services as digitisation advances opens up new access channels for our customers, which can have a positive impact on the earnings situation. Moreover, we expect higher customer loyalty and success in customer acquisition as a result of our investments in sales and our (digital) value-added services. In the long term, we also hope to continue to improve our process efficiency thanks to digitisation. We also want to open up new opportunities in our business with corporate clients, whose number we plan to increase.

The Basel III reform is expected to have a markedly negative impact on apoBank's capital ratios as of 2022: Due to the raising of the capital floor, our regulatory capital ratio will be reduced significantly in the long term. Allowing for a transition period, the floor limits capital relief from the internal regulatory risk measuring models. As a consequence, the above average risk quality of our loan portfolio is given less and less consideration. It is possible that legislators will take further measures to strengthen capital again in future. Moreover, new legal regulations, specifically for consumer protection, are also going to lead to higher expenses. Legal practice regarding consumer protection has become increasingly unforeseeable in the past few years. In addition, the extremely low interest level and ever tougher competition are a burden on the banks' earnings situation. This will have a negative impact on margin development in the lending, deposit and commission business. By contrast, rising interest rates could have a positive effect on the banks' income situation.

Added uncertainties arise from the opportunities and risks associated with the ongoing digitisation of the banking business, specifically in banking processes. Digitisation creates favourable market conditions for the entry of fintech enterprises, which offer services in high-tech areas of the banking business. The extent of their impact on the financial sector will depend on how successful their services prove on the market. In any case, due to the increasing significance of these new IT financial enterprises, there should also be a large number of new business opportunities for the financial industry. However, another effect of digitisation is the increasing risk of cybercrime, which both fintechs and banks must protect themselves against. One of the main reasons behind this development is that customers are increasingly conducting their banking transactions on mobile devices, which can sometimes be susceptible to unauthorised access by third parties.

Risks can also result from changes in the health care market. The financing requirements in the area of statutory health insurance will continue to act as a constraint on innovation for the part of the health market that is financed by the solidarity-based system. The shortage of physicians and health care experts will continue to increase in the future, while at the same time the treatment and nursing care needs of an aging society will grow. The sustained trend towards salaried employment is leading to a decline in the number of self-employed health care professionals. Within the framework of so-called buy-and-build concepts (chains of medical care centres), health care corporations and financial investors are increasingly becoming providers in the areas of medicine, dental medicine, nursing care and rehabilitation. From the point of view of apoBank, the health care market offers more opportunities than risks. Risks specific to apoBank could also arise from the migration of the IT systems to the new provider's system, which is planned for 2020. We have analysed these risks and taken measures to effectively counteract them.

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

Interim Financial Statements

Condensed Balance Sheet

Assets

	(Notes)	30 June 2018 €	31 Dec 2017 €
1. Cash reserves		**2,541,848,586.53**	**1,909,145,961.51**
a) Cash on hand		29,161,949.12	31,308,944.96
b) Cash in central banks		2,512,686,637.41	1,877,837,016.55
c) Cash in post office giro accounts		0.00	0.00
2. Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks		**0.00**	**0.00**
3. Loans and advances to banks	(2, 13, 20)	**1,635,110,915.22**	**1,107,886,654.92**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,635,110,915.22	1,107,886,654.92
4. Loans and advances to customers	(2, 13, 20)	**33,415,438,896.15**	**32,013,100,349.09**
a) Mortgage loans		9,256,546,769.68	8,870,572,606.07
b) Local authority loans		154,378,037.67	156,321,299.56
c) Other receivables		24,004,514,088.80	22,986,206,443.46
5. Debt securities and other fixed-interest securities	(3, 13, 15, 20)	**4,633,834,095.84**	**4,526,835,971.26**
a) Money market papers		525,767,429.71	233,238,649.05
aa) of public issuers		0.00	0.00
ab) of other issuers		525,767,429.71	233,238,649.05
b) Bonds and debt securities		4,092,366,131.57	4,271,259,207.11
ba) of public issuers		1,459,253,954.09	1,484,009,014.69
bb) of other issuers		2,633,112,177.48	2,787,250,192.42
c) Own debt securities		15,700,534.56	22,338,115.10
6. Shares and other non-fixed-interest securities	(3, 13, 14, 15)	**1,185,317,916.22**	**1,186,967,936.22**
6a. Trading assets	(4)	**0.00**	**0.00**
7. Participating interests and capital shares in cooperatives	(6, 16)	**211,358,144.94**	**211,122,027.16**
a) Participations		211,186,097.55	210,949,979.77
b) Capital shares in cooperatives		172,047.39	172,047.39
8. Shares in affiliated companies	(6, 16)	**13,642,785.32**	**11,300,972.59**
9. Trust assets		**2,737,520.63**	**2,737,520.63**
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	(8)	**25,494,107.56**	**15,430,851.00**
a) Internally-generated industrial and similar rights and assets		0.00	0.00
b) Concessions, industrial property rights and similar rights and assets acquired for a consideration, as well as licenses to such rights and assets		530,039.00	728,401.00
c) Goodwill		0.00	0.00
d) Payments in advance		24,964,068.56	14,702,450.00
12. Tangible assets	(7, 17)	**149,370,845.99**	**153,031,961.00**
13. Other assets	(18)	**235,876,014.52**	**219,542,498.72**
14. Prepayments and accrued income		**13,524,120.51**	**11,570,989.26**
a) from issuing and lending business		10,654,924.73	7,975,139.22
b) Others		2,869,195.78	3,595,850.04
15. Deferred tax assets		**0.00**	**0.00**
Total assets		**44,063,553,949.43**	**41,368,673,693.36**

Liabilities

	(Anhang)	30 June 2018 €	31 Dec 2017 €
1. Liabilities to banks	(9)	**8,784,978,337.41**	**8,104,944,381.13**
a) Registered mortgage Pfandbriefe issued		172,743,053.17	77,919,462.74
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		8,612,235,284.24	8,027,024,918.39
2. Liabilities to customers	(9)	**27,094,498,814.37**	**26,036,948,653.23**
a) Registered mortgage Pfandbriefe issued		1,617,445,631.85	1,509,409,316.63
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		90,737,665.66	90,891,378.98
ca) with an agreed notice period of three months		86,695,405.53	85,368,670.44
cb) with an agreed notice period of more than three months		4,042,260.13	5,522,708.54
d) Other liabilities		25,386,315,516.86	24,436,647,957.62
3. Securitised liabilities	(9)	**5,110,780,610.59**	**4,201,927,386.50**
a) Debt securities issued		5,110,780,610.59	4,201,927,386.50
aa) Mortgage Pfandbriefe		2,657,986,230.35	2,112,534,697.96
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		2,452,794,380.24	2,089,392,688.54
b) Other securitised liabilities		0.00	0.00
3a. Trading liabilities	(4)	**0.00**	**0.00**
4. Trust liabilities		**2,737,520.63**	**2,737,520.63**
5. Other liabilities	(21)	**98,957,412.92**	**82,958,530.18**
6. Prepayments and accrued income		**17,953,477.96**	**13,569,971.51**
a) from issuing and lending business		9,694,630.50	8,283,023.08
b) Others		8,258,847.46	5,286,948.43
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	(10)	**402,614,763.52**	**403,795,389.11**
a) Provisions for pensions and similar obligations		206,989,265.96	197,187,765.96
b) Tax provisions		4,899,445.18	8,563,183.97
c) Other provisions		190,726,052.38	198,044,439.18
8. - - -		0.00	0.00
9. Subordinated liabilities		**119,702,000.29**	**116,924,849.47**
10. Participating certificate capital		**0.00**	**0.00**
11. Fund for general banking risks		**669,219,901.00**	**636,969,901.00**
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	(22)	**1,762,111,110.74**	**1,767,897,110.60**
a) Subscribed capital		1,174,214,669.79	1,165,482,095.16
b) Capital reserves		0.00	0.00
c) Revenue reserves		556,491,249.19	540,491,249.19
ca) Legal reserves		418,750,000.00	410,750,000.00
cb) Other revenue reserves		137,741,249.19	129,741,249.19
d) Balance sheet profit		31,405,191.76	61,923,766.25
Total liabilities		**44,063,553,949.43**	**41,368,673,693.36**

1. Contingent liabilities		**539,202,637.16**	**561,163,356.61**
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		539,202,637.16	561,163,356.61
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
2. Other obligations		**2,864,072,918.45**	**2,645,515,137.26**
a) Obligations under optional repurchasing agreements		0.00	0.00
b) Placement and underwriting obligations		0.00	0.00
c) Irrevocable loan commitments		2,864,072,918.45	2,645,515,137.26

Condensed Income Statement

Income statement

	(Notes)	1 Jan – 30 June 2018 €	1 Jan – 30 June 2017 €
1. Interest income from	(24)	415,311,002.48	419,201,893.08
a) lending and money market transactions		416,747,654.00	421,446,723.59
b) fixed-interest securities and debt register claims		−1,436,651.52	−2,244,830.51
2. Interest expenses	(25)	−88,253,956.88	−106,239,795.61
3. Current income from		12,598,001.74	12,348,832.77
a) shares and other non-fixed-interest securities		300,003.91	1,500,021.26
b) participating interests and capital shares in cooperatives		9,145,257.73	9,588,811.51
c) shares in affiliated companies		3,152,740.10	1,260,000.00
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		0.00	0.00
5. Commission income	(26)	130,243,967.90	130,652,570.65
6. Commission expenses	(26)	−43,114,511.83	−42,626,597.89
7. Net trading result		0.00	0.00
8. Other operating income	(27)	21,055,783.94	21,191,892.81
9. - - -		0.00	0.00
10. General administrative expenses		−281,857,306.61	−252,225,040.29
a) Personnel expenses		−130,072,249.49	−131,296,717.97
aa) Wages and salaries		−101,405,174.88	−100,988,117.25
ab) Social security contributions and expenses for pensions and benefits		−28,667,074.61	−30,308,600.72
b) Other administrative expenses		−151,785,057.12	−120,928,322.32
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		−6,249,677.30	−6,204,474.23
12. Other operating expenses	(27)	−25,558,960.31	−17,646,495.50
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		−47,553,854.88	−58,179,134.73
14. Income from write-ups in respect of receivables and specific securities and release of provisions for credit risks		0.00	0.00
15. Write-downs and value adjustments in respect of participating interests, shares in affiliates and securities treated as fixed assets		−1,089,277.60	0.00
16. Income from write-ups in respect of participations, shares in affiliates and securities treated as fixed assets		0.00	6,484,132.67
17. Expenses from the assumption of losses		0.00	0.00
18. - - -		0.00	0.00
19. Operating surplus		85,531,210.65	106,757,783.73
20. Extraordinary income		0.00	0.00
21. Extraordinary expenses		0.00	0.00
22. Extraordinary result		0.00	0.00
23. Taxes on income	(28)	−22,507,193.68	−46,600,947.94
24. Other taxes not reported in item 12 (income; previous year: expenses)		621,654.24	−254,467.14
24a. Allocations to the fund for general banking risks		32,250,000.00	29,047,714.87
25. Net profit		31,395,671.21	30,854,653.78
26. Profit carried forward from the previous year		9,520.55	8,979.10
27. Withdrawals from revenue reserves		0.00	0.00
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
28. Allocations to revenue reserves		0.00	0.00
a) To legal reserves		0.00	0.00
b) To other revenue reserves		0.00	0.00
29. Balance sheet profit		31,405,191.76	30,863,632.88

Condensed Notes

A. General information

1. Framework for the preparation of the interim financial statements

The interim financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf (Local Court of Dusseldorf, GnR 410), as at 30 June 2018 were prepared according to the regulations of the German Commercial Code (HGB), taking into account the amendments resulting from the German Accounting Directive Implementation Act (BilRUG), the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV) as well as the German Securities Trading Act (WpHG). At the same time, the interim financial statements meet the requirements of the Cooperative Societies Act (GenG), the German Pfandbrief Act (PfandBG) and the Articles of Association of apoBank.

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

B. Accounting, valuation and translation methods

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

2. Loans, advances and risk provisioning

Loans and advances to banks and customers were carried at nominal value or acquisition cost, with the difference between the higher nominal value and the amount disbursed being posted to accruals and deferred income. Identifiable credit risks in loans and advances to customers are covered by individual loan loss provisions. apoBank made a general value adjustment for inherent credit risks 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 (distinct) risks or opportunities compared to the underlying instruments due to the embedded derivatives are broken down into their components and reported and valued individually pursuant to relevant provisions. As a result, these instruments are recognised separately if unconditional or conditional purchase obligations exist for additional financial instruments.

The acquisition costs of the equity components reported separately are the result of the breakdown of the acquisition costs of the structured financial instrument in accordance with the fair value 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.

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 (hedge accounting)

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, enabling it to hedge against interest rate 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 the portfolio valuation units, the fair value method is also partly 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 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 reporting date, the total volume of the risks hedged amounted to €637.7 million (31 December 2017: €745.0 million). These risks result from an omitted depreciation of assets, an omitted appreciation of debt or omitted provisions for contingent losses, and are quantified based on the gross net present values of the derivative transactions.

As at the reporting date, apoBank had designated a total of 719 micro hedges with a nominal value of €12,074.6 million:

- 471 hedges on the Bank’s own issuances against the interest rate risk with a nominal value of €8,037.8 million, including
  - 13 caps with a nominal value of €185.7 million,
  - 15 floors with a nominal value of €195.7 million,
  - 98 swap options with a nominal value of €1,337.4 million,
  - 345 swaps with a nominal value of €6,319.0 million,
- 248 asset swaps to hedge against the interest rate risk of 151 acquired securities with a nominal value of €4,036.8 million.

As at 30 June 2018, a volume of foreign currency swaps from FX trading had been used in the amount of €247.5 million within the scope of valuation units, including €201.4 million to hedge offsetting FX swaps and €46.1 million to hedge a loan in a foreign currency.

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

- €122.6 million in US dollars,
- €80.1 million in British pounds,
- €9.4 million in Japanese yen,
- €35.4 million in other currencies.

As at the reporting date, apoBank had a volume of foreign-currency FX forward transactions of €298.2 million as valuation units, including €297.3 million to hedge offsetting FX forward transactions and €0.9 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:

- €30.1 million in US dollars,
- €189.6 million in British pounds,
- €11.1 million in Canadian dollars,
- €58.7 million in Danish kroner,
- €8.7 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.

7. Fixed assets/tangible assets

Tangible assets were carried at acquisition cost less scheduled depreciation.

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

8. Fixed assets/intangible assets

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

9. Liabilities

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

10. Provisions

The provisions for pension liabilities as at 30 June 2018 were calculated based on the actuarial tables 'Richttafeln 2005 G' (Heubeck) using the projected unit credit method. The calculation was based on an updated forecast of the expert report dated 31 December 2017, taking into account an interest rate of 3.21% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 1.75%. As at 30 June 2018, the difference pursuant to Section 253 (6) of the HGB amounted to €26,500 thousand.

apoBank recorded the releases and allocations in 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 pursuant to Section 246 (2) sentence 2 of the HGB, whereby the fair value is equivalent to the acquisition costs.

The provisions for part-time retirement and anniversary payments were made on the basis of an interest rate of 2.32% and a wage increase trend of 3.00%. The provisions as at 31 December 2017 were projected accordingly for the interim report based on these figures.

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

apoBank also made adequate provisions for the other uncertain liabilities.

11. Derivative financial instruments

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

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

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

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

Pursuant to IDW RS BFA 3, apoBank is required to provide proof of a loss-free valuation of interest rate-related banking book transactions. For all interest rate-related financial instruments (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 test was based on the net present value/book value method, which compares the book values of the interest rate-related transactions of the banking book with the net present values attributable to interest rates, taking account of credit 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 special coverage pursuant to Section 340h of the HGB as given when the total item is financially balanced for each foreign currency as at the reporting date. To the extent that special coverage was in place, income and expenditure from currency translation are shown in the income statement under the items ‘Other operating income’ or ‘Other operating expenses’.

C. Notes to the balance sheet

Notes to assets

13. Securities portfolio/receivables by purpose

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

Securities portfolio/receivables by purpose

	30 June 2018 €thous	31 Dec 2017 €thous
Loans and advances to banks		
Fixed assets	2,648	2,584

	30 June 2018 €thous	31 Dec 2017 €thous
Loans and advances to customers		
Fixed assets	3,437	3,842

	30 June 2018 €thous	31 Dec 2017 €thous
Debt securities and other fixed-interest securities		
Fixed assets	3,708,752	3,868,743
Liquidity reserve	925,082	658,093
Total	**4,633,834**	**4,526,836**

	30 June 2018 €thous	31 Dec 2017 €thous
Shares and other non-fixed-interest securities		
Fixed assets	50,045	51,695
Liquidity reserve	1,135,273	1,135,273
Total	**1,185,318**	**1,186,968**

14. Shares in special investment funds

apoBank holds more than 10% of shares in domestic investment funds in accordance with Section 1 (10) of the German Capital Investment Code (KAGB) or 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	619,183	75,180	0	no
APO 2 INKA	Domestic and international bonds	245,430	28,772	0	no
APO 3 INKA	Domestic and international bonds	423,513	48,901	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	47,758	3,672	0	no

15. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

	Book value as at 30 June 2017 €thous	Fair value as at 30 June 2017 €thous	Omitted depreciation €thous
Banks	174,000	173,792	208
Public debtors	0	0	0
Corporations	8,563	8,506	57
Total	**182,563**	**182,298**	**265**

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

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

16. List of holdings

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

List of holdings

Company	Share in company capital as at 30 June 2018 %	Year	Equity of the company €thous	Result of the last financial year €thous
Apo Asset Management GmbH, Dusseldorf	70	2017	9,676	3,732
APO Beteiligungs-Holding GmbH, Dusseldorf	100	2017	4,163	182[1]
APO Data-Service GmbH, Dusseldorf	100	2017	5,177	534
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	64	2017	9,582	2,072
aik Management GmbH, Dusseldorf[2]	100	2017	87	63
ARZ Haan AG, Haan/Rheinland	23	2017	35,786	5,593
CP Capital Partners AG, Zurich	24	2018	1,248	505
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2017	15,375	7,722
DZ BANK AG Deutsche Zentral Genossenschaftsbank, Frankfurt	1	2017	10,504,000	320,000
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	16	2017	26,478	20,728
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2017	622	49
GAD Beteiligungs GmbH & Co. KG, Münster	5	2017	117,992	3,001
Konnektum GmbH, Dusseldorf	100	2017	390	242
medisign GmbH, Dusseldorf	50	2017	593	76
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	24	2018	4,228	2,169
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2017	35,113	3,394
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2017	6,126	1,367

1) Before profit transfer or loss absorption.
2) Indirect participation.

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, ARZ Haan AG, Haan/Rheinland, Deutsche Ärzte Finanz Beratungs- und Vermittlungsaktiengesellschaft, Cologne, and DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart.

In accordance with Section 290 (5) of the HGB combined with Section 296 (2) of the HGB, apoBank has not prepared consolidated financial statements, as the relevant companies are of minor importance overall in terms of presenting a realistic picture of the net assets, financial position and earnings situation.

17. Tangible assets

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

Tangible assets

	30 June 2018	31 Dec 2017
	€thous	€thous
Land and buildings used for the Bank's own business activities	111,154	114,205
Office furniture and equipment	37,377	37,977

18. Other assets

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

Other assets

	30 June 2018	31 Dec 2017
	€thous	€thous
Capitalised premiums from options and caps	133,570	147,975
Tax receivables	44,199	18,478
Receivables from asset management	15,631	27,700
Receivables from margin payments	10,485	13,375

19. Deferred tax assets

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

As at 30 June 2018, there was a surplus of deferred tax assets. These deferred tax assets were 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 net surplus of deferred tax assets amounted to €215,550 thousand, including deferred tax assets of €218,646 thousand and deferred tax liabilities of €3,096 thousand.

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

20. Subordinated assets

Subordinated assets are included in the following items:

Subordinated assets

	30 June 2018	31 Dec 2017
	€thous	€thous
Loans and advances to banks	2,648	2,584
Loans and advances to customers	51,127	38,283
Debt securities and other fixed-interest securities	13,880	13,650
Total	**67,655**	**54,517**

Notes to liabilities

21. Other liabilities

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

Other liabilities

	30 June 2018 €thous	31 Dec 2017 €thous
Premiums from options and caps carried as liabilities	22,565	24,176
Tax liabilities	14,296	11,740
Trade payables	0	16,594
Margin payments received	12,871	945

22. Capital and reserves

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

Subscribed capital

	30 June 2018 €thous	31 Dec 2017 €thous
Capital contributions	**1,174,215**	**1,165,482**
of remaining members	1,170,933	1,160,343
of departing members	2,571	4,385
of terminated cooperative shares	711	754
Compulsory contributions due on shares in arrears	188	2

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

Revenue reserves

	Legal reserves	Other revenue reserves
	€thous	€thous
As at 1 Jan 2018	410,750	129,741
Transfers		
from balance sheet profit of the previous year	8,000	8,000
from net profit of the current financial year	0	0
Withdrawals	0	0
As at 30 June 2018	**418,750**	**137,741**

Derivative financial instruments

23. Derivative financial instruments

The volume of unsettled forward transactions affected by a settlement risk or currency, interest rate and/or other market risks arising from open positions, or in the event of counterparty default from closed positions, amounted to €30,214 million as at 30 June 2018 (31 December 2017: €30,272 million). As at 30 June 2018, this included the following types of transactions:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions	Currency-related transactions	Stock-related transactions
▪ Interest rate swaps ▪ Swap options ▪ 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 the purpose of hedging positions, 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 as at the reporting date. The fluctuating interest payment flows were calculated based on forward rates derived from the current yield curve and then discounted with the swap curve in the same way as fixed payment flows. Interest limit agreements were measured on the basis of the Bachelier model, and swap options were measured on the basis of the Hull-White model.

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

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

Risk structure

	Nominal value €m		Fair value €m	
	30 June 2018	31 Dec 2017	30 June 2018	31 Dec 2017
Interest rate-related transactions[1]				
Time to maturity up to 1 year	2,548	3,576	5	17
more than 1 year to 5 years	11,898	10,852	–30	–45
more than 5 years	14,721	14,343	–161	–152
Subtotal	**29,167**	**28,771**	**–186**	**–180**
Currency-related transactions				
Time to maturity up to 1 year	989	1,443	1	1
more than 1 year to 5 years	55	55	0	0
more than 5 years	0	0	0	0
Subtotal	**1,044**	**1,498**	**1**	**1**
Stock-related transactions[1]				
Time to maturity up to 1 year	0	0	0	0
more than 1 year to 5 years	3	3	0	0
more than 5 years	0	0	0	0
Subtotal	**3**	**3**	**0**	**0**
Total	**30,214**	**30,272**	**–185**	**–179**

1) Interest rate- and stock-related transactions are reported under the items 'Other assets' (€134 million), 'Prepayments and accrued income (assets)' (€2 million) as well as under the items 'Other liabilities' (€2 million) and 'Prepayments and accrued income (liabilities)' (€8 million).

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

D. Notes to the income statement

24. Interest income

The ‘Interest income’ item includes €7,376 thousand (30 June 2017: €3,879 thousand; previous year’s figure adjusted) in negative interest income from deposits with the ECB and other banks, from collateral management, as well as from fixed-interest securities.

This item also includes material income related to other periods of €8,358 thousand for prepayment penalties (30 June 2017: €8,308 thousand).

25. Interest expenses

The item ‘Interest expenses’ includes €11,246 thousand (30 June 2017: €4,456 thousand; previous year’s figure adjusted) in positive interest expenses from borrowings from the ECB, other banks as well as specific customer groups, from collateral management as well as from securitised liabilities.

This item also includes material income related to other periods in the form of positive interest expenses to the amount of €1,544 thousand (30 June 2017: €0 thousand) resulting from a loan from the ECB.

26. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €9,894 thousand (30 June 2017: €9,303 thousand; previous year’s figure adjusted).

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

Other operating income of €21,056 thousand (30 June 2017: €21,192 thousand) includes, among other things:

Other operating income

	30 June 2018 €thous	30 June 2017 €thous
Rental income	2,129	2,166
Release of provisions (related to other periods)	9,354	13,868
Accounting gains from the disposal of tangible and intangible assets (related to other periods)	1,772	183
Interest income from tax refunds (related to other periods)	4,980	131
Income from discounting	0	0
Income from currency translation	934	1,146

Other operating expenses of €25,559 thousand (30 June 2017: €17,646 thousand) result primarily from the following items:

Other operating expenses

	30 June 2018 €thous	30 June 2017 €thous
Provisions for litigation costs	17,624	9,953
Accounting losses from the disposal of tangible and intangible assets (related to other periods)	0	5
Interest expenses from tax arrears (related to other periods)	51	119
Expenses from compounding	4,261	4,409
Expenses from currency translation	50	207

28. Taxes on income

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

E. Other notes

29. Events after the reporting date

No events that were subject to reporting requirements took place between 30 June 2018 and 21 August 2018, when the interim financial statements were prepared by the Board of Directors.

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

Please refer to apoBank's quarterly report as at 30 June 2018, prepared pursuant to the German Pfandbrief Act (PfandBG), for information with respect to the mortgage Pfandbriefe included in the items 'Liabilities to banks', 'Liabilities to customers' and 'Securitised liabilities'.

31. Additional notes pursuant to Section 26a of the German Banking Act (KWG) and the 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 €422.3 million resulted from the operating result, excluding risk provisioning and general administrative expenses. Deutsche Apotheker- und Ärztebank's operating result amounted to €85.5 million based on HGB accounting.

The average number of employees (excluding members of the Board of Directors) in 2018 (January to June) was 2,531.5.

The profit before tax of €85.5 million as at 30 June 2018 was largely generated in Germany. Income tax on this amount was €22.5 million.

apoBank does not receive any public aid.

32. Board of Directors

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

33. Supervisory Board

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

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

34. Name and address of the responsible auditing association

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

Dusseldorf, 21 August 2018
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer | Dr. Thomas Siekmann

Olaf Klose | Eckhard Lüdering | Holger Wessling

Certifications

Review Report

to Deutsche Apotheker- und Ärztebank eG, Düsseldorf

We have reviewed the condensed interim financial statements (comprising the condensed balance sheet, the condensed income statement as well as the condensed notes) and the interim management report of Deutsche Apotheker- und Ärztebank eG for the period from 1 January 2018 to 30 June 2018, which are components of the interim report pursuant to Section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). The preparation of the condensed interim financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Board of Directors of the cooperative. Our responsibility is to issue a report on the condensed interim financial statements and the interim management report based on our review.

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

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

Dusseldorf, 22 August 2018
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 interim financial statements give a true and fair view of the net assets, financial position and earnings situation in accordance with the applicable accounting principles for interim financial reporting and that the interim management report gives a true and fair account of the business performance, including the company's results and position, as well as the material opportunities and risks associated with the company's expected performance in the remaining months of the financial year.

Dusseldorf, 21 August 2018
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer

Dr. Thomas Siekmann

Olaf Klose

Eckhard Lüdering

Holger Wessling

Imprint

Published by
Deutsche Apotheker- und Ärztebank eG
Richard-Oskar-Mattern-Straße 6
40547 Dusseldorf
www.apobank.de
Phone +49 (0)211-59 98-0
Fax +49 (0)211-59 38 77
E-mail info@apobank.de

Concept and layout
Lesmo, Galeriehaus, Poststraße 3, 40213 Dusseldorf, Germany

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

Because there is more connecting us.