Interim Report

deutsche apotheker- und ärztebank

2020

Overview of Business Development

Overview of business development

Bank data	30 June 2020	31 Dec 2019	Change[1] %
Members	116,224	115,884	0.3
Employees	2,408	2,448	– 1.6
Locations	85	85	–

Balance sheet	30 June 2020 €m	31 Dec 2019 €m	Change[1] %
Balance sheet total	56,124	49,603	13.1
Customer loans	38,287	37,291	2.7
Customer deposits	30,990	29,237	6.0

Income statement	30 June 2020 €m	31 Dec 2019 €m	Change[1] %
Net interest income[2]	382.3	357.9	6.8
Net commission income	103.2	90.5	14.0
General administrative expenses	– 374.6	– 322.6	16.1
Operating profit before risk provisioning	103.6	135.1	– 23.3
Risk provisioning from the operating business[3]	– 43.4	– 36.1	20.2
Risk provisioning with reserve character[4]	– 4.6	– 38.8	– 88.2
Operating result	55.6	60.3	– 7.7
Net profit after tax	32.7	31.9	2.4

Key figures	30 June 2020 %	31 Dec 2019 %	Change[1] ppts
Total capital ratio (according to CRR)	15.1	16.5	– 1.4
Common equity tier 1 capital ratio (according to CRR)	14.2	15.2	– 1.0
Cost/income ratio[5]	79.3	76.3	3.0

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

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

Contents

Interim Management Report

Fundamental Features of the Bank

Business model

apoBank – the leading bank in the health care sector

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

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

Aligned to the growing health care market

apoBank's business model is aimed at sustainably utilising the opportunities presented by the thriving health care market. In accordance with our statutory purpose, we help the health care sector to meet the growing demand for investment.

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

Servicing customers in two business segments

In the Retail Clients business segment, we support students in health care as well as salaried, self-employed and retired academic health care professionals in their professional and private projects. We intend to continue to strengthen our business with self-employed health care professionals while simultaneously driving the expansion of our product range and advisory services for salaried health care professionals and students. We have underpinned our expertise in asset planning and investment advisory services by bundling all relevant offerings under the apoPrivat brand, thus rounding off our strategic focus in this business segment.

In the Professional Associations and Large Customers business segment, we support professional associations and institutional organisations as well as companies in the health care market and medical care structures. 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 medium-sized customers.

We support our customers on two levels: in banking and in the health care market. With our subsidiary naontek AG, we support health care professionals by offering advisory and other services related to the health market. These are specifically geared to the needs of self-employed and salaried health care professionals. The purpose of naontek AG is to identify and validate new business models in this environment and ultimately to bring them to market maturity.

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

Further details on the fundamental features of the Bank can be found in the Annual Financial Report 2019 (pages 24 to 27). The statements made there continue to apply.

Economic Report

Overall economic and industry-specific conditions

Global economic recession

The global economy slid into deep recession in the first half of 2020. This was due to the worldwide spread of the new coronavirus and the measures taken to contain it. While economic life in China, where the pandemic originated, already came to a virtual standstill in the first half of February, Italy, Spain and France, three large countries in the euro area, saw themselves forced to introduce drastic restrictions on economic activity in March in the face of increasing numbers of infections. In the UK and the US, too, gross domestic product decreased considerably in the first quarter of 2020. In Germany, economic output also took a massive hit in the first quarter of the year. However, with the exception of China, the main impact of the containment measures on gross domestic product will not have become evident until the second quarter in most countries. Europe and the US began to ease restrictions at the end of April, enabling economic activity to be gradually ramped up again. In spite of strong recovery in May and June in some areas, the individual economic sectors continued to be subject to significant restrictions, leading to a situation where underuse of capacity was the norm.

Central banks ease monetary policy

The economic problems that went hand in hand with the corona restrictions in the first and second quarter were ameliorated by extensive economic policy measures in many countries. Fiscal policy measures primarily entailed financial aid for the private sector, aiming to limit the number of insolvencies and avoid a drastic increase in unemployment. In addition, central banks worldwide eased their monetary policy by reducing key interest rates and launching or expanding extensive bond purchase programmes aiming to secure liquidity supply and counteract rises in financing costs. Furthermore, central banks agreed on swap lines to compensate for the temporary scarcity of the US dollar.

Financial markets impacted by corona pandemic

In the first half of the year, the key global share indices primarily trended negative after the slump that began at the end of February and the rapid recovery which started approximately in mid-March. On the pension markets, German and US government bonds benefited from their status as safe havens in an at times highly volatile financial market environment, and their prices rose in the first six months. By contrast, investment-grade and high-yield corporate bonds in Europe and the US suffered from price decreases, as did government bonds of emerging economies.

Health care market: Legislation focuses on digitalisation

In the first half of 2020, several pieces of legislation were drafted to further expand the electronic data transmission infrastucture and to integrate digital health applications into standard medical care. This includes the Digital Health Care Act (Digitale-Versorgung-Gesetz, DVG), which has already been partly in force since the beginning of 2020 and the Digital Health Applications Ordinance (Digitale-Gesundheitsanwendungen-Verordnung, DiGAV). The Patient Data Protection Act (Patientendaten-Schutzgesetz, PDSG) sets the necessary course for making digital offerings such as e-prescriptions and electronic health records (elektronische Patientenakte, ePA) usable for all patients while at the same time protecting sensitive health data to the greatest extent possible.

As Germany is facing an ageing society along with increasing scarcity of skilled workers, health care policy continues to focus on dovetailing outpatient and inpatient medicine. Integrated care offerings are designed to provide patients with simple, swift and efficient high-quality health care.

Structural developments in the outpatient sector

The structural trends apparent in the outpatient sector have continued this year. The total number of pharmacies in Germany continues to decline. While the number of individual pharmacies is further decreasing, the trend towards branch pharmacies is becoming stronger.

For doctors and dentists, the trend towards larger cooperative entities continues unabated. The number of (dental) medical care centres rose again in the last calendar year. So far, little effect has been seen as a result of the restrictions set down in the Appointment Service and Medical Care Act (Terminservice- und Versorgungsgesetz, TSVG) on permitting dialysis providers and hospitals to found (dental) medical care centres. Veterinary medicine also remains a focus area, in particular for strategic investors who are gradually buying up veterinary practices and clinics and integrating them into large chain concepts.

The number of salaried physicians, psychotherapists, dentists and veterinarians continues to rise. The total number of self-employed panel doctors and dentists remains in decline. By contrast, the number of self-employed veterinarians changed only marginally compared to the previous year.

Economic challenges during the corona pandemic

Compared to the previous year, revenue per pharmacy grew by an average of just under 9% in 2019. The operating result was approximately 3% higher than in the previous year. There was also a slight increase for panel doctors, psychotherapists and dentists in the last calendar year, and the total remuneration for 2020 will again increase moderately.

New economic challenges were beginning to emerge at the beginning of 2020, when the first wave of infection due to the global corona pandemic also reached the German health system. Due to the possible danger of infection, many planned operations and treatments at hospitals and practices were postponed or cancelled, especially in March and April. This led to significant decreases in the number of patients visiting doctors' and dentists' practices. In some cases, practices and pharmacies had to close down temporarily due to a lack of protective equipment or on the orders of the authorities. At the same time, the treatment of Covid-19 patients led to increased expenses and high additional costs for providing adequate protective equipment. As a result, revenues sank in almost all health care facilities and companies.

At the same time, the pandemic and its associated contact restrictions have acted as a catalyst for digital health care and communications offerings. In particular, applications that facilitate contact between doctor and patient or among doctors themselves were in unusually high demand in the first half of the year.

Impact of the pandemic on the outpatient sector

While at the beginning of the crisis the majority of pharmacies were very busy at times, pharmacists have noticed the impact of declining numbers of visits to doctors since April 2020. In May, pharmaceutical sales were 20 to 30% below the level of the previous year.

Thanks to the rescue package included in the Covid-19 Hospital Relief Act (Covid-19-Krankenhausentlastungsgesetz), the corona crisis has had only a moderate impact on panel doctors and psychotherapists in the area of statutory health insurance. Many associations of panel doctors have limited the overall fee losses caused by corona to a maximum of 10% by providing compensatory payments and/or adapting their fee distribution scales. The revenues for services provided by private practices, on the other hand, sank in April by an average of just under 33% according to initial analyses. Some specialist groups even experienced far greater declines in revenue. Compensation for fee losses in these groups, as seen in the area of statutory health insurance, is not planned at this juncture.

As a consequence of declining patient numbers, dentists also experienced a period of significant revenue decreases. The economic support planned by the German government for dentists in the form of the Covid-19 Medical Care Structures Protection Ordinance (Versorgungsstrukturen-Schutzverordnung) was transformed into liquidity assistance at short notice. Dentists can receive 90% of the total remuneration from 2019 in the area of statutory health insurance and must repay any excess funds received for services not rendered in the coming two years. Veterinary practices posted a drop in revenues of around 20% in March. However, they have reported increasing revenues again since April as their economic situation has recovered.

Impact of the pandemic on the inpatient sector

The suspension of a number of regulatory provisions such as those regarding nursing staff numbers, the postponement of planned operations and being on permanent standby to take in and treat Covid-19 patients are still a characteristic feature of everyday clinic life, even now that the first wave has subsided. In the medical technology industry, the significant decline in case numbers for elective operations has resulted in considerable decreases in demand. Added to this are constraints on global supply chains due to national export restrictions. A change in demand behaviour was noted in the care market as well: In the sheltered housing/daycare segment in particular, as well as in short-term care, there were fewer patients. Furthermore, there was a noticeable drop in the number of referrals from hospitals. By contrast with the hospital sector, the inpatient care market has faced more organisational rather than economic challenges as a result of the corona pandemic.

The extent to which standard compensation fees for beds held vacant as well as billable services related to the treatment of Covid-19 patients will balance out the strong decline in elective patient treatments in hospitals cannot be accurately assessed at this stage. However, it has already become clear that a standard compensation payment will not do justice to the different cost levels of individual hospitals. In order to counteract liquidity and revenue problems, the standard compensatory payments for beds held vacant in the second half of 2020 will therefore be calculated on a case-by-case basis in accordance with the average stay in 2019 and the corresponding average annual case severity.

Business performance satisfactory so far

The reporting period (1 January to 30 June 2020) was characterised by two particular challenges. Firstly, coronavirus appeared for the first time at the beginning of the year in China and spread very rapidly throughout the rest of the world, so that public and economic life in Germany too was subject to massive restrictions from the middle of March onward. Although the individual German federal states began to gradually roll back the restrictions as of the beginning of May, it is not yet clear when a full return to normality will be possible. Secondly, apoBank migrated to its new core banking system on 1 June 2020. The switchover led to considerable difficulties for customers in the first weeks. There were various unforeseeable problems and not all functions of the new system, for example in online banking, ran without error. These difficulties resulted in an increase in customer enquiries to the sales team.

In spite of this, with regard to the earnings situation we rate the business performance in the first six months of 2020 as satisfactory overall. The Bank succeeded in achieving a net profit after tax to the amount of €32.7 million, which is in line with the forecast (30 June 2019: €31.9 million).

In accordance with our statutory purpose, we support our members and customers in achieving their professional and private goals by offering specialised banking services. In the first half of the year, the number of remaining members increased to 116,224 (31 December 2019: 115,884 members).

Our lending business continued to grow in the first half of 2020. Loans and advances to customers rose by 2.7% to €38.3 billion (31 December 2019: €37.3 billion). The reason for this rise was the consistently high demand from our retail and corporate clients.

We primarily refinanced our lending business via liabilities to customers; these rose by 6.0% to €31.0 billion (31 December 2019: €29.2 billion). The growth in securitised liabilities to €7.5 billion is mainly due to our Pfandbrief issuances (31 December 2019: €7.4 billion). As at the reporting date 30 June 2020, the balance sheet total was €56.1 billion (31 December 2019: €49.6 billion). The main reason for this significant increase was our participation in a long-term ECB tender that served to expand our liquidity reserves.

Retail clients

In the Retail Clients business segment, we support the professional and private endeavours of pharmacists, physicians, dentists, veterinarians and psychotherapists. The reporting period was particularly marked by the challenges to the German health care system resulting from the rapid worldwide spread of coronavirus.

Loan portfolio slightly higher

The loan portfolio with respect to retail clients increased to €32.1 billion[1] in the reporting period (31 December 2019: €31.2 billion). This also includes the liquidity assistance we provided to health care professionals.

Increased customer deposits

The average volume of demand, savings and term deposits of our retail clients amounted to €20.6 billion (2019: €19.4 billion). The lockdown had no significant effects on the development of customer deposits.

1) Estimated

Securities business with customers stable

The first half of 2020 was characterised by significant disturbances on the stock markets. This was due to the rapid global spread of coronavirus and the reactions of the markets to the measures taken by the respective countries. Overall, new business held its ground so that the deposit volume remained stable at €9.7 billion (31 December 2019: €9.7 billion).

The volume of assets under our management rose slightly to €4.3 billion (31 December 2019: €4.1 billion).

Insurance and building society business down

The life insurance business shrank slightly, with a brokerage volume of €298 million (30 June 2019: €307 million).

The positive effect of continuing low interest rates on the building society business diminished, so that the total contract value remained below that of the previous year, at €216 million (30 June 2019: €337 million).

Professional associations, institutional customers and corporate clients

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

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

In the reporting period, apoBank continued to maintain its business relations with the professional associations. The average deposit volume amounted to €3.4 billion (2019: €3.8 billion).

Individually tailored advisory concept for institutional investors

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

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

We provide comprehensive support to our customers in managing their risk and earnings situation. With apoConsult+ we offer them independent advisory services to review strategic asset allocation and monitor risk on an ongoing basis. To complement this, we support them with a creditworthiness analysis and other services such as direct portfolio management and custody of their securities. Our tailored services remained in demand in the reporting period. In the volatile market phase caused by the corona pandemic, additional reports were prepared and stress tests calculated.

Depository business remains core business

The depository business is one of the key competencies offered by apoBank. As at 30 June 2020, we managed 246 funds (31 December 2019: 253); the depository volume amounted to €21.5 billion (31 December 2019: €21.8 billion).

Continuous growth in the corporate clients business

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

The unchanged growth prospects in the health care market had a positive impact on our business performance. We recorded increased demand for financing across almost all segments in the first half of 2020 again. In spite of continued intense competition, the loan volume in the Corporate Clients business area rose again, amounting to €4.6 billion[1] as at the reporting date (31 December 2019: €4.3 billion). This included liquidity assistance for companies in difficulty due to the lockdown.

Net assets, financial position and results

Net interest income up

In spite of the fact that the interest environment remained challenging, we posted a rise in net interest income of 6.8% to €382.3 million (30 June 2019: €357.9 million). As before, the reason for this growth was the new lending business.

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

Overall, we clearly exceeded our expectations with regard to net interest income. In addition to the new lending business, other reasons for this were measures taken in strategic interest rate management as well as a moderate payout from our special fund.

Income statement

	30 June 2020	30 June 2019	Change[1]
	€m	€m	%
Net interest income[2]	382.3	357.9	6.8
Net commission income	103.2	90.5	14.0
General administrative expenses	– 374.6	– 322.6	16.1
Balance of other operating income/expenses	– 7.3	9.2	-
Operating profit before risk provisioning	103.6	135.1	– 23.3
Risk provisioning from the operating business[3]	– 43.4	– 36.1	20.2
Risk provisioning with reserve character[4]	– 4.6	– 38.8	– 88.2
Operating result	55.6	60.3	– 7.7
Taxes	– 22.9	– 28.3	– 19.1
Net profit after tax	32.7	31.9	2.4

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.

1) Estimated

Growth in net commission income

Net commission income rose by 14.0% to €103.2 million (30 June 2019: €90.5 million). The securities business performed well with respect to both institutional and retail clients. In addition, commission income from the insurance business showed a clearly positive trend. The bottom line was that commission-based business was significantly above our expectations.

General administrative expenses higher, as expected

In the reporting period, our general administrative expenses rose by 16.1%. At €374.6 million, these were slightly higher than planned (30 June 2019: €322.6 million). Personnel expenses increased to €134.2 million, and thus remained marginally lower than the budgeted figure (30 June 2019: €130.4 million). Operating expenditure including depreciation rose to €240.4 million (30 June 2019: €192.2 million). The main reasons for this were the costs of the IT migration as well as higher regulatory expenditure; this also led to operating expenditure being considerably higher than we had expected.

Operating result below previous year's level, as expected

The operating result, i.e. the profit before risk provisioning, at €103.9 million, was below the previous year's level, as expected (30 June 2019: €135.1 million). Nevertheless, we clearly exceeded our target. The reasons for this were primarily the developments in net interest income and net commission income.

Higher risk provisioning for the operating business

Risk provisioning for the operating business was at -€43.4 million (30 June 2019: -€36.1 million). It was thus very much higher than expected. This increase is mainly due to necessary loan loss provisions in the large customers portfolio as well as to the adjustment of parameters in the automatic calculation of value adjustments. So far it has not been necessary to carry out special risk provisioning related to consequences of the corona pandemic.

Risk provisioning with reserve character amounted to -€4.6 million (30 June 2019: -€38.8 million).

Stable net profit

The bottom line operating result, at €55.6 million, was slightly below our expectations (30 June 2019: €60.3 million). Net profit after tax amounts to €32.7 million, which is in line with our forecast (30 June 2019: €31.9 million).

Higher balance sheet total and comfortable liquidity situation

The balance sheet total rose significantly to €56.1 billion as at 30 June 2020 (31 December 2019: €49.6 billion). Loans and advances to customers increased to €38.3 billion (31 December 2019: €37.3 billion). In connection with the corona pandemic, we provided liquidity assistance in the low triple-digit million range for retail clients. In the case of corporate clients, the liquidity assistance was an amount in the mid-double-digit million range. The securities portfolio reached €8.4 billion (31 December 2019: €5.8 billion) due to an expansion of our liquidity reserve.

apoBank's liquidity situation remained comfortable throughout the first half of 2020. During these six months, we comfortably fulfilled both our internal and the external minimum requirements for our liquidity position. As a well-established market participant with good credit ratings, we secure funds for refinancing through various sources and support ourselves with a broadly diversified customer and investor base. The largest source of refinancing comes from liabilities to customers. In the period under review, these showed a clear increase to €31.0 billion (31 December 2019: €29.2 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €2.4 billion (31 December 2019: €2.5 billion). We also use covered bonds (Pfandbriefe) as well as unsecured bonds (preferred and non-preferred), which we were able to place with our institutional clients, members of the cooperative FinanzGruppe and the capital market. Against the backdrop of the uncertain overall economic situation, we also participated in the long-term tender offered by the ECB again in June. This led to a strong rise in liabilities to banks and was one of the main reasons for the significantly higher balance sheet total.

In the Pfandbrief business, we placed a further benchmark mortgage Pfandbrief at a value of €500 million on the European capital market in January. This early issuance served to create a liquidity buffer, and we took advantage of good market opportunities here. This enabled us to weather the tense market environment from the beginning of March without difficulty. The total volume of the Pfandbrief portfolio as at the reporting date of 30 June 2020 rose to €6.8 billion (31 December 2019: €6.3 billion).

In addition, we utilise refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks. In order to fulfil the regulatory requirements for liquidity, we held €6.7 billion in ECB-eligible securities as at the reporting date (31 December 2019: €4.2 billion). The main reason for the significant rise is that we invested existing excess liquidity.

Details on the numbers of 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, in other words its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor's. Standard & Poor's confirmed apoBank's good ratings in January 2020. Senior unsecured bonds are rated AA-. Bonds which are potentially used as a liability in a bail-in are defined by Standard & Poor's as senior subordinated bonds, these are rated A+. The outlook on the issuer credit rating is negative.

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

Summary

In the customer business, the intense competition and the associated pressure on margins continued. Nevertheless, we succeeded in increasing both net interest income and net commission income. By contrast, general administrative expenses and risk provisioning from the operating business increased significantly. Net profit remained stable. The liquidity situation remained comfortable throughout the reporting period. We benefited here from a widely diversified refinancing base.

Customer confidence in apoBank is also supported by the stability of the cooperative FinanzGruppe and its integration into the protection systems provided by the Federal Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V., BVR).

Sustainability report

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

Risk Management Report

Principles of risk management and risk control

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

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

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

For a detailed description of risk management including the essential elements listed above, please refer to the risk management report published in our Annual Financial Report 2019 (pages 41 to 62).

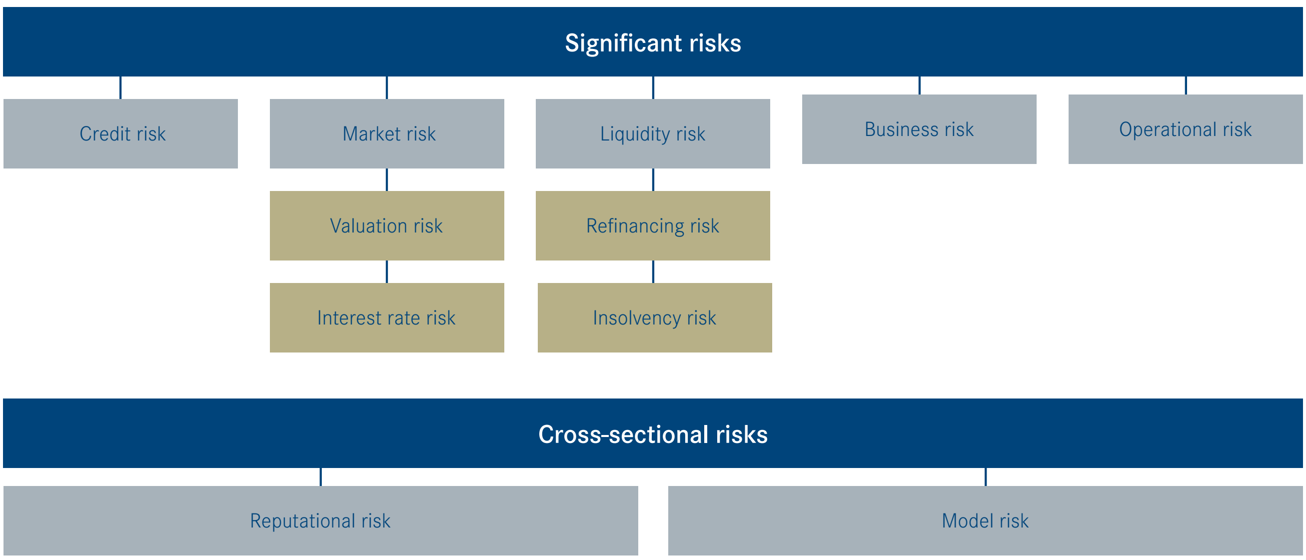
The following diagram provides an overview of the risk types at apoBank.

Development of the risk position in the first half of 2020

Overall capital situation

In its internal capital adequacy assessment process (ICAAP), apoBank controls the capital situation in a sophisticated manner by applying a normative and an economic perspective. In order to comprehensively monitor the capital adequacy, the correlations between the two perspectives are taken into account.

Classification of apoBank's types of risk



Capital situation – normative perspective

apoBank's capital ratios were above the regulatory minimum capital requirements and recommendations as at 30 June 2020, including in the rolling capital forecast that covers a minimum of three years. Thus, the Bank rates its overall capital situation as good.

As at the reporting date, the total capital ratio of apoBank pursuant to the Capital Requirements Regulation (CRR) amounted to 15.1% (31 December 2019: 16.5%) and the common equity tier 1 capital ratio was at 14.2% (31 December 2019: 15.2%).

As at 30 June 2020, regulatory capital totalled €2,547 million (31 December 2019: €2,519 million).

Common equity tier 1 capital rose from €2,325 million as at the end of 2019 to €2,398 million. Allocations to reserves from the annual result generated in 2019 made by far the largest contribution to this increase. This was counteracted by a rise in regulatory capital deduction items.

Non-terminated members' capital contributions as part of the common equity tier 1 capital were at €1,225 million, slightly above the level at the end of 2019 (31 December 2019: €1,222 million).

Supplementary capital declined very significantly to €149 million (31 December 2019: €194 million). The decline mainly resulted from regulatory changes leading to decreased assignability of uncalled liabilities to capital.

Risk-weighted assets (RWA) amounted to €16,917 million as at 30 June, a substantial increase compared to the figure at the end of 2019 (31 December 2019: €15,294 million). In addition to a growth in loans, the RWA increase reflects in particular modifications to our rating models as approved by the regulatory authorities as well as the expansion of credit lines to support our customers within the context of the corona pandemic. The utilisation rate of the Bank-wide limit of €17,450 million was 96.9% as at 30 June 2020.

The leverage ratio pursuant to transitional arrangements amounted to 4.1% (31 December 2019: 4.4%); it therefore continued to be very significantly above the regulatory minimum requirement of 3.0%.

Capital situation – economic perspective

In the economic perspective of the ICAAP, the internal target ratio was complied with as at 30 June 2020.

The economic capital ratio, which represents the relation between the risk cover potential and the measured economic risks, was at 145.8%. This is below the level on the balance sheet date in 2019 (31 December 2019: 177.0%) but above the internal target ratio of 135.0%.

The economic risks measured at a confidence level of 99.9% amounted to €2,019 million as at the reporting date (31 December 2019: €1,657 million). The main drivers of the increase in the first half of the year were higher credit risks related to loan growth, securities purchases that were part of the liquidity management optimisation process and deteriorating market parameters due to the corona pandemic. The utilisation rate of the Bank-wide limit of €2,320 million was 87.0% as at 30 June 2020.

Risk-bearing capacity (economic perspective)

as at the reporting date 30 June 2020	€m	Economic capital ratio %
Risk cover potential	2,943.3	
Bank-wide risk position	2,018.5	145.8

Significant risks

as at the reporting date 30 June 2020	Actual risk €m	Utilisation of applicability criterion %
Credit risk	1,104.6	88.4
Liquidity risk	44.6	37.2
Operational risk	116.2	96.8
Market risk	462.8	94.4
Business risk	290.4	96.8

As at the reporting date, the risk cover potential was €2,943 million (31 December 2019: €2,932 million).

Credit risk

The unexpected loss (UEL) from credit risks faced by apoBank was €1,105 million as at 30 June 2020 (31 December 2019: €869 million). The applicability criterion for credit risk derived from the Bank-wide risk-bearing capacity limit thus continued to be complied with as at 30 June 2020.

In addition to the growth in loans, the rise in the first half of the year is mainly due to securities purchases that were part of the liquidity management optimisation process and deteriorating market parameters due to the corona pandemic.

The key developments in credit risks for the individual business segments are presented below.

The rating system of apoBank

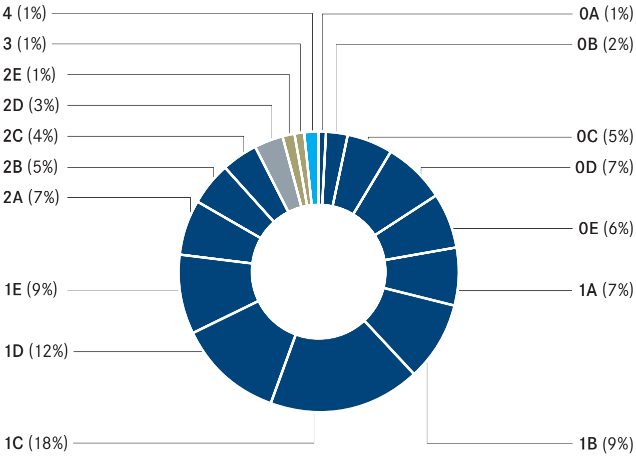
Meaning	Rating class (BVR master scale)	Probability of default %	External rating class[1]
Commitments with **excellent** creditworthiness, no risk factors (standard loan management)	0A	0.01	Aaa
	0B	0.02	Aa1
	0C	0.03	Aa2
	0D	0.04	
	0E	0.05	Aa3
Commitments with **good** creditworthiness, individual risk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

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

Rating class distribution in the retail clients portfolio

Volume distribution based on drawdowns

Total of €33,522 million[1]

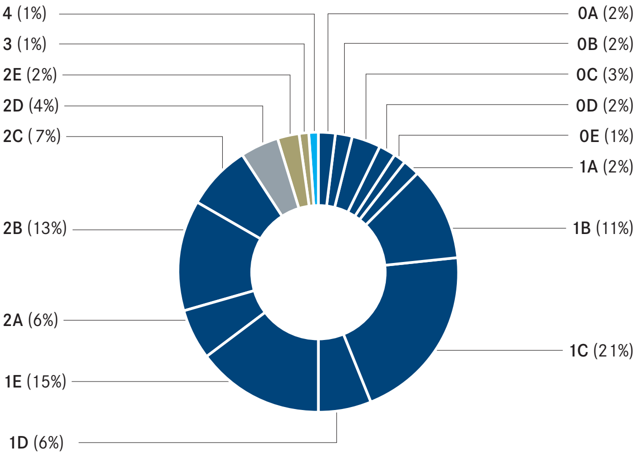


1) Percentages rounded.

Rating class distribution in the professional associations and large customers portfolio

Volume distribution based on drawdowns

Total of €5,798 million[1]



1) Percentages rounded.

Retail Clients business segment
In the retail clients portfolio, drawdowns rose to €33.5 billion (31 December 2019: €32.8 billion) due to the new business.

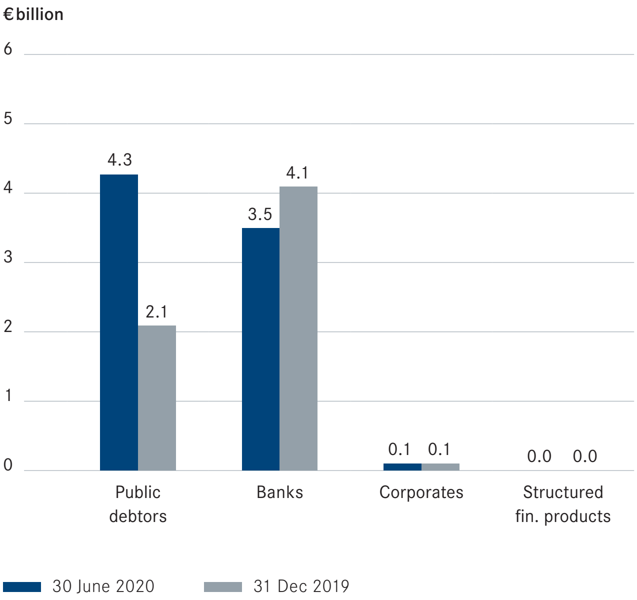
The rating structure shows a rating distribution with an emphasis on good and average rating classes, which is typical of this customer group. The rating coverage is very close to 100%. The portfolio is highly diversified: With around 208,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

After offsetting new and no longer necessary provisioning measures, value adjustments to the amount of €27.5 million were made in the first half of 2020. This amount is around €1.7 million lower than the pro rata net allocations of €29.2 million budgeted for the year.

Professional Associations and Large Customers business segment
Drawdowns in the professional associations and large customers portfolio increased by €0.4 billion to €5.8 billion as at 30 June 2020 (31 December 2019: €5.4 billion). The rating distribution of the portfolio is balanced. The rating coverage is very close to 100%.

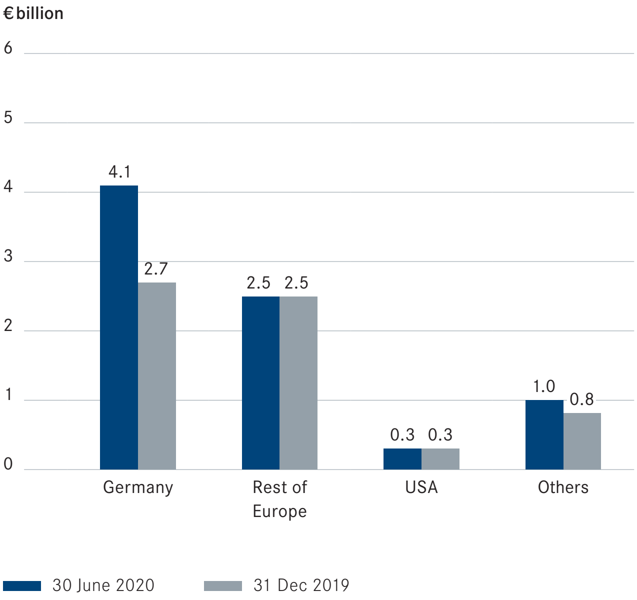
For the professional associations and large customers portfolio, value adjustments were made as at the 30 June 2020 reporting date to the amount of €17.3 million after offsetting. The pro rata budgeted amount for the year of €6.7 million was thus exceeded by €10.6 million.

Total exposure of financial instruments portfolio by sector[1]



1) Deviations possible due to rounding differences.

Risk volume of financial instruments portfolio by country[1]



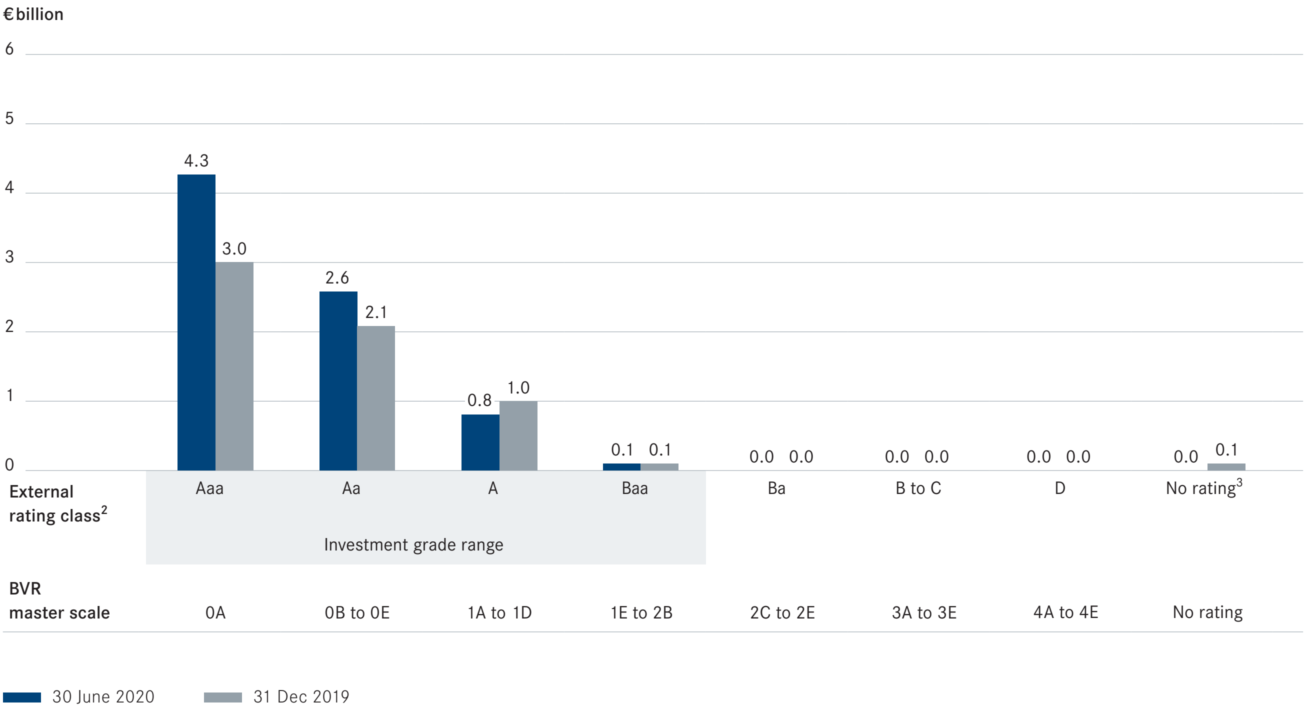
1) Deviations possible due to rounding differences.

Treasury business segment
The risk volume of the financial instruments portfolio managed by the Treasury business segment amounted to €7.9 billion on the reporting date and was thus very clearly above the previous year's figure (31 December 2019: €6.3 billion). The rise is mainly a result of higher securities issued by public debtors. At the beginning of the corona pandemic in particular, the Bank used the existing market opportunities and optimised its liquidity management portfolio.

The risk volume of the derivatives in the financial instruments portfolio was stable at €0.1 billion (31 December 2019: €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 €27.5 billion (31 December 2019: €29.7 billion).

As in the previous year, more than 99% of the financial instruments portfolio had an investment grade rating as at 30 June 2020. In the first half of 2020, no risk provisioning measures were required after offsetting.

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. Deviations possible due to rounding differences.
2) The letter ratings shown here comprise all rating classes of the respective rating segment (i.e. Aa comprises Aa1 to Aa3, for example).
3) The unrated exposures are mainly composed of interbank and fund items.

Participations business segment
The book values of the participations were stable at €0.2 billion as at 30 June 2020 (31 December 2019: €0.2 billion).

In the reporting period, no risk provisioning was made in the participations portfolio after offsetting.

Market risk

The UEL from market risks faced by apoBank was at €463 million as at 30 June 2020 (31 December 2019: €556 million). The applicability criterion derived from the Bank-wide risk-bearing capacity limit for the market risk thus continued to be complied with as at 30 June 2020.

The decrease in risk mainly results from the fact that the calculation of interest rate risk was changed to an internal interest perspective in 2020. This entailed an exclusion of some of the components of the margin from the interest rate cash flow and their allocation to business risk.

Net of this special effect, market risk increased considerably in the first half of 2020 overall. This is mainly due to higher securities in the liquidity management portfolio.

The results of the present-value regulatory stress calculations, which are carried out monthly, confirm a moderate interest rate risk at Bank-wide level. apoBank remained below the regulatory reporting limit of 20% of regulatory capital (Basel II interest risk coefficient) throughout the first half of 2020. The Basel II interest rate risk coefficient was 11.6% as at 30 June 2020 (31 December 2019: 11.7%).

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

Changes in present value in the banking book

	Ad hoc interest rate scenario		
	Interest rate increase (+ 200 BP) €m	Interest rate decrease (– 200 BP) €m	Interest rate risk coefficient %
31 Dec 2018	– 328	– 10	12.9
31 Dec 2019	– 297	+ 89	11.7
30 June 2020	– 297	+ 69	11.6

Liquidity risk

The UEL from refinancing risks faced by apoBank was €45 million as at 30 June 2020 (31 December 2019: €36 million). The applicability criterion derived from the Bank-wide risk-bearing capacity limit for the refinancing risk thus continued to be complied with as at 30 June 2020.

The refinancing risk considered in the calculation of the risk-bearing capacity rose compared to the end of the previous year. Among other things, this trend was due to securities purchases that were part of the liquidity management optimisation process, which tend to extend the terms on the assets side and thus increase the need for longer-term, more expensive refinancing.

Business risk

The UEL from apoBank's business risk was €290 million as at 30 June 2020 (31 December 2019: €85 million). The applicability criterion for business risk derived from the Bank-wide risk-bearing capacity limit thus continued to be complied with as at 30 June 2020.

Overall, the measured risks fluctuated only slightly. As described in the paragraph on market risk, the internal interest perspective was introduced in 2020 and some components of the margin were allocated to business risk. For this reason, the business risk rose compared to the previous year; this results in a decrease of the same amount in the market risk.

Operational risk

The UEL from apoBank’s operational risk was at €116 million as at 30 June 2020 (31 December 2019: €111 million). The applicability criterion for operational risk derived from the Bank-wide risk-bearing capacity limit thus continued to be complied with as at 30 June 2020.

As a result of the IT migration, the operational losses already incurred in the first half of 2020 were above those of the previous year but below the budgeted pro rata amount for 2020.

Overall liquidity situation

apoBank uses the ILAAP (internal liquidity adequacy assessment process) to analyse and assess its liquidity position in both a normative and economic perspective. The main aim of the ILAAP is to ensure that apoBank is solvent at all times. In order to provide a stable supply of liquidity, both perspectives and their correlations are assessed in detail. Liquidity supply in the first half of 2020 was guaranteed at all times, primarily due to the continued increase in deposits as well as the expansion of securitised capital market issuances.

Liquidity situation – normative perspective
As at 30 June 2020, apoBank’s liquidity coverage ratio (LCR) was 144.7% (31 December 2019: 140.0%). Thus, the minimum requirement of 100% was met in full.

The net stable funding ratio (NSFR) was significantly above the 100% minimum level that has not yet come into effect but is expected to in the future.

Liquidity situation – economic perspective
The economic analyses centre around the liquidity forecasts of the liquidity gap analysis. Here, the expected development of liquidity in the planned scenario as well as the expected development of liquidity in the combined stress scenario are analysed and limited. The limits of the liquidity gap analysis were complied with in the reporting period.

The requirements concerning the Pfandbrief cover stock were also complied with on a daily basis in the first half of the year, in line with legal provisions.

Forecast Report

Outlook for the national economy and the health care market

Uncertain prospects for the global economy

The outlook for global economic development in the second half of 2020 is exceedingly uncertain. As a vaccine is not yet available, the further development of the corona pandemic and the extent of government-imposed restrictions on economic activity will remain of key significance to the world's economy. Even if the worldwide spread of the virus were contained and eventually brought under control, the OECD estimates that global economic activity could decline by 6% this year and that worldwide unemployment could grow to 9.2%. Should a second wave of infection emerge before the end of the year and new lockdowns follow, the economic decline could be even greater, at 7.6%, and unemployment could rise to almost 10%. Even though in both scenarios there would likely be a recovery in global economic performance in 2021, it would not be possible to return to the pre-crisis level before 2022.

A view to the future: The health care market under the influence of corona

The structural trends that have been observed for some years now (salaried employment, part-time work, cooperation models, networking, dovetailing of sectors) are continuing. In this year at least, the corona pandemic will have only a moderate impact on what is happening with respect to health care professionals establishing their own practices and pharmacies, as setting up a new business always entails a certain lead time.

The economic situation of health care professionals will primarily depend on how the pandemic progresses going forward, on the behaviour of customers and patients as well as on any further regulatory conditions introduced. It is not yet clear to what extent (specialist) doctors' visits were simply postponed, and what kind of catch-up effects there may be.

The corona crisis will have a noticeable impact on the annual earnings of panel dentists this year and probably also for the next two years. Although there has been an upward trend in patient demand after the lockdown, it has so far remained below the pre-corona level. Panel dentists face particular challenges as the financial assistance for dentists originally planned by the German government only materialised as a temporary liquidity assistance in the end. In 2021 and 2022, any fees paid in excess in 2020 must be returned in full. It is not yet possible, however, to make a reliable forecast regarding the financial impact on panel dentists.

In the inpatient sector, the operational management of hospitals will be determined by the restricted ability to plan patient care until a vaccine is universally available. Space and staff capacity will become a competitive factor with regard to possible catch-up effects in elective operations in combination with increasing case severity. Here, the scarcity of skilled workers will remain a challenge.

Apart from the corona crisis, other topics that will be of great significance in the coming months are electronic data transmission infrastructure, electronic patient records and e-prescriptions. For example, in June 2020, the first provider of "Kommunikation im Medizinwesen" (Communications in the Medical Sector, KIM) was approved. This enables cross-sectoral sending of confidential messages, data and other documents such as doctors' letters, invoices and electronic certificates of incapacity to work.

Digitalisation as an engine for the health care market

We expect that technological innovations and the process of digitalisation that continues to be promoted by the legislature will further increase the dynamism in the market. Both health care provision as well as health-related information and communications will become faster, more mobile and more interactive. This trend will be accelerated by the corona pandemic. Since the beginning of the spread of infection, the use of digital care and service models in the health care system has increased rapidly. Patients want to minimise the risk of infection while at the same time continuing their therapy, having access to medical examinations and receiving answers to their questions. It remains to be seen how sustainable the boom in telemedical applications remains after the corona pandemic. With the “App auf Rezept” (app on prescription) health apps for smartphones and tablets, which are prescribed in the same way as medication, the German health care system has created a fresh impetus internationally. For the first time, manufacturers of digital medical products have reliable, systematic access to the primary health care market. From August 2020 onward, doctors could start prescribing the first apps to patients with statutory health insurance.

In addition to the technical innovations for care provision by doctors, dentist-patient communications are also increasingly moving online. The first providers of video consultations were approved on the dental market in July 2020. The corresponding invoicing options for use with patients in nursing care already exist. Due to the corona crisis, telemedical provision options are also gaining the attention of veterinarians. The German Federal Association of Practising Veterinary Surgeons is already working to ensure that its members can make full use of telemedical provision and the benefits it offers them. It can therefore be assumed that the telemedical care landscape will be expanded in the veterinary sector too. We expect that digitalisation will pick up speed in hospitals due to the German government’s stimulus package “Zukunftsprogramm Krankenhäuser” (future programme for hospitals). For the medical technology sector, this could also trigger interesting demand on the domestic market.

Outlook on business performance

Competition in the banking sector remains high

Banks will continue to focus on making optimum use of their resources, fine-tuning their business models and developing their digitalisation strategies. This is even more important in view of the fact that the consequences of the corona pandemic are not yet fully predictable and are likely to affect the risk provisioning of banks. In addition, competition remains intense in 2020. The competition among financial institutions for customers and conditions continues. Cost optimisation programmes are therefore likely to remain important in the future. Securing profitability for the long term remains pivotal for the future success of the banks. As before, another focus will be on capitalisation.

Continued development of apoBank’s business model

In the second half of 2020, the focus will be on follow-up activities around the IT migration. This will involve stabilising the technical functionalities as well as repairing the reputational damage to apoBank caused by the initial IT issues. apoBank continues to develop its clearly defined business model. We will continue to pursue our strategy to grow the business with health care professionals and their organisations as well as enterprises in the health care market. We support our customers strategically on two levels: in banking and in the health care market. Building on our expertise in both markets, we aim to develop additional, meaningful economic products and services in the long term to create even greater benefits for our customers and members. With our mission “We enable health”, we aim to be an elementary part of the German health care market as well as to consolidate and expand customer loyalty with our value-added services. It is in this area that our naontek AG subsidiary comes into play, which is establishing advisory and other health-market-related services specifically geared to the needs of health care professionals.

In addition, we want to further optimise structures and processes in the Bank and make them leaner. To achieve this, we will develop measures to improve revenues, expenditure, processes and capital on a lasting basis. Work and planning around these measures were still in progress while this interim management report was being drafted.

For further details on the business strategy, please refer to the Annual Financial Report 2019 (page 67f.).

Outlook for earnings situation in 2020

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

Net commission income is likely to be at around the level of the previous year. Securities margins are expected to remain under pressure on account of the strong competition in the commission-based business too. In addition, the follow-up activities around the IT migration could have an impact here. Nevertheless, we want to intensify the investment and pensions business with our customers, and in asset management for our retail clients.

IT migration costs will impact operating expenditure until the end of the year. Operating expenditure will increase significantly. Personnel expenses will be slightly higher in the current financial year than in the previous year.

As a result, the cost-income ratio is expected to be temporarily much higher.

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

Risk provisioning for the operating business will be influenced by the loan loss provisions made in the large customers portfolio and is therefore likely to be almost twice as high for fiscal 2020 as the comparatively low level of the previous year.

For the 2020 financial year, we plan a slight increase in net profit. This rise would enable us to distribute an appropriate dividend to our members.

Capital and liquidity situation

For 2020, we expect capital ratios to be at the level of the previous year. Changes in our internal rating model will partially offset growth in the customer lending business and lead on balance to increasing risk assets. We will use reserves to bolster our core capital. In our opinion, apoBank's liquidity situation will remain comfortable, since it is supported by a broadly diversified customer and investor base.

Opportunities and risks report

The new IT system we introduced at the beginning of June is an important basis on which to further refine our business model. With this new system, we hope to achieve greater process efficiency for the longer term, generate growth stimuli for our loan business and for our securities business in particular as well as develop new products and services.

There were unforeseeable problems immediately after the IT migration and not all functions of the new system ran without error. This resulted in a large number of customer enquiries and complaints to the sales team. Although most of the issues have now been dealt with, we cannot fully estimate the impact this will have on the income statement for the year as a whole. The migration to the new IT system is also associated with extraordinary cost risks inherent to a large project of this nature for the current financial year.

In addition, the low interest rates and intense competition continue to have a negative impact on the earnings situation of the Bank – with correspondingly negative effects on the development of margins in the lending, deposits and commission business.

The spread of the SARS-CoV-2 corona virus is having a massive impact worldwide and is creating new challenges for the global economy. So far, we have not determined any clearly noticeable impact on our financial and earnings situation; however, a reliable forecast of further consequences, in particular in the case of a second wave of infection, is not possible at this juncture.

As part of the Basel III finalisation process, the raising of the capital floor will significantly increase our regulatory capital requirements in the long term. The floor limits capital relief from the internal regulatory risk measuring models; however, this requires a transition period. As a result of this change, the above-average risk quality of our loan portfolio by nationwide comparison will be taken less and less into account when calculating risk-weighted assets.

The extent of regulatory requirements facing the financial industry in the area of sustainability will also increase. This will possibly result in adaptations to internal bank processes. Going forward, this could create opportunities to differentiate ourselves from the competition, for example in the investment and lending area.

Additional uncertainties arise from the opportunities and risks associated with the ongoing digitalisation of the banking business, as well as banking processes in particular, and the resulting opportunities for sustainable business models. On the one hand, this leads to new access channels promising returns for customers, but on the other hand, providers from outside the industry – "fintechs" or "BigTechs" – are pushing into the market and staking claims on banks' traditional branches of business. With the increasing number of new financial IT companies, fresh business opportunities are also opening up for the financial industry.

Digitalisation is resulting in a growing risk of cybercrime, which both fintechs and banks must protect themselves against. The supervisory authorities are therefore focusing increasingly on IT security. In addition, new risks may emerge from the growth in use of customer data, which form the core of new business models. Here, opportunities arise from new business ideas, but these also entail risks if the data are used improperly or misappropriated.

Changes in the health care market as an opportunity

Opportunities and risks can also result from changes in apoBank's core market of health care. The sustained trend towards salaried employment is leading to a decline in the number of self-employed health care professionals. At the same time, however, new opportunities are emerging for practices, branches and cooperations. Outpatient and inpatient care are also converging more and more. Health care corporations and financial investors are increasingly becoming providers in the areas of medicine, dental medicine, nursing care and rehabilitation.

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

As digitalisation progresses in the health care market, a large number of digital information, communication and also health care offerings are emerging. This opens up new business and collaboration opportunities for us.

Such opportunities arise in particular from expanding our offerings at the interface between the health care market and the financial market. This allows us to tap into new sources of income and provide our customers and members with additional benefit based on our expertise in both markets. We develop – also together with external partners – value-added offerings for our customers, i.e. services that give health care professionals greater freedom to work with their patients. Services above and beyond the banking business will be bundled and brought to market via the new univiva platform of our subsidiary naontek AG.

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

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

Interim Financial Statements

Condensed Balance Sheet

Assets

	(Notes)	30 June 2020 €	31 Dec 2019 €
1. Cash reserves		**7,217,088,464.09**	**4,570,460,477.71**
a) Cash on hand		20,862,395.12	29,058,760.00
b) Cash in central banks		7,196,226,068.97	4,541,401,717.71
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)	**1,480,888,099.83**	**1,225,075,544.92**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,480,888,099.83	1,225,075,544.92
4. Loans and advances to customers	(2, 13, 20)	**38,286,886,175.12**	**37,291,003,160.24**
a) Mortgage loans		10,292,746,161.83	10,443,972,455.18
b) Local authority loans		187,374,964.24	195,001,917.37
c) Other receivables		27,806,765,049.05	26,652,028,787.69
5. Debt securities and other fixed-interest securities	(3, 13, 15, 20)	**7,243,324,199.93**	**4,609,889,722.26**
a) Money market papers		108,595,591.13	50,031,002.31
aa) of public issuers		0.00	0.00
ab) of other issuers		108,595,591.13	50,031,002.31
b) Bonds and debt securities		6,832,124,008.24	4,256,512,062.63
ba) of public issuers		3,146,837,106.11	1,193,115,301.93
bb) of other issuers		3,685,286,902.13	3,063,396,760.70
c) Own debt securities		302,604,600.56	303,346,657.32
6. Shares and other non-fixed-interest securities	(3, 13, 14, 15)	**1,161,193,336.82**	**1,190,106,136.82**
6a. Trading assets	(4)	**0.00**	**0.00**
7. Participating interests and capital shares in cooperatives	(6, 16)	**233,373,296.53**	**233,504,049.44**
a) Participations		233,201,249.14	233,332,002.05
b) Capital shares in cooperatives		172,047.39	172,047.39
8. Shares in affiliated companies	(6, 16)	**13,665,287.32**	**13,690,287.32**
9. Trust assets		**51,130.18**	**51,130.18**
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	(8)	**160,408,038.36**	**139,419,612.02**
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		160,408,038.36	1,539,267.50
c) Goodwill		0.00	0.00
d) Payments in advance		0.00	137,880,344.52
12. Tangible assets	(7, 17)	**129,484,010.82**	**133,662,531.64**
13. Other assets	(18)	**170,682,878.23**	**169,869,090.17**
14. Prepayments and accrued income		**27,021,584.28**	**26,753,531.96**
a) from the issuing and lending business		13,963,324.91	17,967,561.44
b) Others		13,058,259.37	8,785,970.52
15. Deferred tax assets	(19)	**0.00**	**0.00**
Total assets		**56,124,066,501.51**	**49,603,485,274.68**

Liabilities

	(Notes)	30 June 2020 €	31 Dec 2019 €
1. Liabilities to banks	(9)	**14,443,393,303.84**	**9,635,989,404.56**
a) Registered mortgage Pfandbriefe issued		157,503,399.41	157,929,847.21
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		14,285,889,904.43	9,478,059,557.35
2. Liabilities to customers	(9)	**30,989,569,609.59**	**29,237,013,212.22**
a) Registered mortgage Pfandbriefe issued		1,262,729,639.54	1,265,362,829.25
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		95,877,472.23	93,454,205.03
ca) with an agreed notice period of three months		95,612,202.64	90,422,786.18
cb) with an agreed notice period of more than three months		265,269.59	3,031,418.85
d) Other liabilities		29,630,962,497.82	27,878,196,177.94
3. Securitised liabilities	(9)	**7,462,194,601.32**	**7,395,932,544.35**
a) Debt securities issued		7,462,194,601.32	7,395,932,544.35
aa) Mortgage Pfandbriefe		5,412,764,384.77	4,921,672,115.68
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		2,049,430,216.55	2,474,260,428.67
b) Other securitised liabilities		0.00	0.00
3a. Trading liabilities	(4)	**0.00**	**0.00**
4. Trust liabilities		**51,130.18**	**51,130.18**
5. Other liabilities	(21)	**108,888,870.92**	**258,930,715.09**
6. Prepayments and accrued income		**30,400,004.81**	**31,650,748.00**
a) from the issuing and lending business		15,622,548.36	17,209,976.54
b) Others		14,777,456.45	14,440,771.46
6a. Deferred tax liabilities	(19)	**0.00**	**0.00**
7. Provisions	(10)	**427,560,287.28**	**394,807,726.68**
a) Provisions for pensions and similar obligations		242,583,948.49	234,295,029.49
b) Tax provisions		663,740.95	3,308,839.00
c) Other provisions		184,312,597.84	157,203,858.19
8. - - -		**0.00**	**0.00**
9. Subordinated liabilities		**8,615,943.72**	**9,561,970.58**
10. Participating certificate capital		**0.00**	**0.00**
11. Fund for general banking risks		**772,029,901.00**	**771,513,901.00**
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	(22)	**1,881,362,848.85**	**1,868,033,922.02**
a) Subscribed capital		1,236,115,183.58	1,231,405,746.57
b) Capital reserves		0.00	0.00
c) Revenue reserves		612,555,705.05	572,491,249.19
ca) Legal reserves		434,750,000.00	426,750,000.00
cb) Other revenue reserves		177,805,705.05	145,741,249.19
d) Balance sheet profit		32,691,960.22	64,136,926.26
Total liabilities		**56,124,066,501.51**	**49,603,485,274.68**

1. Contingent liabilities	**569,225,123.69**	**621,263,999.26**
a) Contingent liabilities from rediscounted, settled bills	0.00	0.00
b) Liabilities from guarantees and indemnity agreements	569,225,123.69	621,263,999.26
c) Liabilities arising from the provision of collateral for third-party liabilities	0.00	0.00
2. Other obligations	**3,061,942,704.80**	**2,946,178,151.13**
a) Obligations under optional repurchasing agreements	0.00	0.00
b) Placement and underwriting obligations	0.00	0.00
c) Irrevocable loan commitments	3,061,942,704.80	2,946,178,151.13

Condensed Income Statement

Income statement

	(Notes)	1 Jan – 30 June 2020 €	1 Jan – 30 June 2019 €
1. Interest income from	(24)	**420,106,431.42**	**417,222,782.80**
a) lending and money market transactions		423,957,692.57	417,334,254.78
b) fixed-interest securities and debt register claims		– 3,851,261.15	– 111,471.98
2. Interest expenses	(25)	**– 57,481,873.41**	**– 81,278,344.30**
3. Current income from		**19,648,668.86**	**21,931,855.69**
a) shares and other non-fixed-interest securities		10,008,507.90	15,000,000.00
b) participating interests and capital shares in cooperatives		6,149,965.04	5,671,855.69
c) shares in affiliated companies		3,490,195.92	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)	**145,310,457.72**	**137,573,273.86**
6. Commission expenses	(26)	**– 42,129,037.81**	**– 47,031,873.95**
7. Net trading result		**0.00**	**0.00**
8. Other operating income	(27)	**13,611,841.03**	**17,691,460.94**
9. - - -		**0.00**	**0.00**
10. General administrative expenses		**– 368,082,732.58**	**– 317,317,433.42**
a) Personnel expenses		–134,181,211.61	–130,355,928.87
aa) Wages and salaries		–106,390,861.06	–101,541,396.94
ab) Social security contributions and expenses for pensions and benefits		– 27,790,350.55	– 28,814,531.93
b) Other administrative expenses		– 233,901,520.97	–186,961,504.55
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**– 6,520,934.33**	**– 5,242,872.16**
12. Other operating expenses	(27)	**– 20,906,389.17**	**– 8,451,712.83**
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**– 48,830,098.07**	**– 34,165,496.90**
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		**0.00**	**– 6,174,235.98**
16. Income from write-ups in respect of participations, shares in affiliates and securities treated as fixed assets		**1,395,463.72**	**0.00**
17. Expenses from the assumption of losses		**0.00**	**0.00**
18. - - -		**0.00**	**0.00**
19. Operating surplus	(31)	**56,121,797.38**	**94,757,403.75**
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)	**– 22,748,323.20**	**– 29,179,668.96**
24. Other taxes not reported in item 12		**– 173,528.72**	**843,572.84**
24a. Allocations to the fund for general banking risks		**516,000.00**	**34,494,000.00**
25. Net profit		**32,683,945.46**	**31,927,307.63**
26. Profit carried forward from the previous year		**8,014.76**	**9,413.11**
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		**32,691,960.22**	**31,936,720.74**

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 (Dusseldorf Local Court, GnR 410), as at 30 June 2020 were prepared according to the regulations of Section 115 of the Securities Trading Act (WpHG), the German Commercial Code (HGB), and the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV). At the same time, the interim financial statements meet the requirements of the Cooperative Societies Act (GenG), the German Pfandbrief Act (PfandBG) and the Articles of Association of apoBank.

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

B. Accounting, valuation and translation methods

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

2. Loans, advances and risk provisioning

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

3. Securities

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

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

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

The acquisition costs of the equity components that were reported separately are the result of breaking down the acquisition costs of the structured financial instrument in accordance with the relative fair values of the individual components. In the event that the fair value of the embedded derivative cannot be determined, its value is calculated as the difference between the fair value of the structured financial instrument as a whole and the fair value of the underlying instrument.

Securities loaned within the context of securities lending continue to be posted under the item 'Debt securities and other fixed interest securities', as the significant opportunities and risks arising from them remain with apoBank. There were no securities lending transactions as at the reporting date (31 December 2019: €400,000 thousand).

Since 1 January 2020, the amortized cost method has been applied to all interest-bearing securities in compliance with the effective interest method. Existing premiums and discounts that are similar in nature to interest are amortized and recognized in interest income in the same way as effective interest. In the past, premiums and discounts were generally released to income in the valuation result at maturity. This change means that the effects on earnings are no longer disclosed differently in net interest income and in the valuation result, but are reported uniformly and on an accrual basis under income interest, resulting in an overall improvement in the way the earnings situation is presented. This change led to a €5.6 million increase in interest expenditures. Interest income rose by €1.2 million, while debt securities and other fixed interest securities decreased by €4.4 million on balance. The effects on the financial position and result are of minor importance.

4. Trading assets and liabilities

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

5. Valuation units

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

In the case of the micro-hedge units, the effective portion of the valuation units formed is presented in the balance sheet according to the cost method, with the fair value method being applied for some of the portfolio valuation units. Prospective and retrospective effectiveness tests are performed.

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

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

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. A portfolio is formed for each currency and each underlying transaction, in which both the sums of 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 hedged risks amounted to €640.0 million (31 December 2019: €776.0 million). These risks arise from an omitted depreciation of assets, an omitted appreciation of debt or omitted provisions for contingent losses, and are quantified based on the gross net present values of the derivative transactions. The majority of changes in value and payment flows are expected to balance out over a period of up to ten years.

As at the reporting date, apoBank had designated a total of 489 micro hedges with a nominal value of €10,248 million:

- 307 hedges on the Bank's own issuances against the interest rate risk with a nominal value of €7,269 million, including
  - 12 caps with a nominal value of €159 million,
  - 14 floors with a nominal value of €170 million,
  - 101 swaptions with a nominal value of €1,404 million,
  - 180 swaps with a nominal value of €5,536 million,
- 182 asset swaps to hedge against the interest rate risk of 118 acquired securities with a nominal value of €2,979 million.

As at 30 June 2020, a volume of foreign currency swaps from FX trading in the amount of €176 million had been used within the scope of valuation units, all with the purpose of hedging offsetting FX swaps.

The FX swaps can be broken down based on their currency as follows:
- €174 million in US dollars,
- €2 million in British pounds.

As at the reporting date, apoBank had used a volume of foreign-currency FX forward transactions of €512 million as part of valuation units, including €473 million to hedge offsetting FX forward transactions and €39 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:
- €499 million in British pounds,
- €4 million in US dollars,
- €9 million in Danish kroner.

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 amortized over their useful life on a straight-line basis or using declining-balance rates; movable assets were depreciated over their useful life on a straight-line basis. 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 ten years, compared to between three and five years in the previous year. The longer useful life is the result of activating the software of the new Avaloq core banking system.

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 2020 were calculated in line with the actuarial tables 'Richttafeln 2018 G' (Heubeck) using the projected unit credit method. The calculation is based on an updated forecast derived from the report as at 31 December 2019 using an interest rate of 2.33% (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 2020, the difference pursuant to Section 253 (6) of the HGB amounted to €24,200 thousand on an accounting basis.

apoBank recorded the releases and allocations to the balance sheet item 'Provisions for pensions and similar obligations' in relation to the interest effects under 'Other operating income' and otherwise as a net item under 'Personnel expenses'. Pension provisions and the provision for deferred compensation were netted with the corresponding plan assets (initially under 'Other assets') at their fair value in the amount of €15,715 thousand pursuant to Section 246 (2) sentence 2 of the HGB. In this case, the fair value is equivalent to the acquisition costs.

The provisions for part-time retirement and anniversary payments were calculated using the projected unit credit method. Both provisions were made on the basis of an interest rate of 1.63% and a wage increase trend of 3.00% in line with the actuarial tables 'Richttafeln 2018 G' (Heubeck). The provisions as at 31 December 2019 were extrapolated accordingly for the interim financial statements.

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 generally 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'. The results from the change in the discount rate on other provisions are shown in the item 'Other operating income' or 'Other operating expenses'.

apoBank also made adequate provisions for the remaining uncertain liabilities.

11. Derivative financial instruments

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

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

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

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

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

12. Currency translation

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

apoBank considers the special coverage pursuant to Section 340h of the HGB to be adequate as long as 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 were 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 (figures including accrued interest):

Securities portfolio/receivables by purpose

	30 June 2020 €thous	31 Dec 2019 €thous
Loans and advances to banks		
Fixed assets	2,760	2,584

	30 June 2020 €thous	31 Dec 2019 €thous
Loans and advances to customers		
Fixed assets	1,819	2,224

	30 June 2020 €thous	31 Dec 2019 €thous
Debt securities and other fixed-interest securities		
Fixed assets	6,823,317	4,256,512
Liquidity reserve	420,008	353,378
Total	**7,243,325**	**4,609,890**

	30 June 2020 €thous	31 Dec 2019 €thous
Shares and other non-fixed-interest securities		
Fixed assets	1,161,193	1,190,106
Liquidity reserve	0	0
Total	**1,161,193**	**1,190,106**

14. Shares in special investment funds

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

Shares in special investment funds

Name of fund	Investment objective	Value in accordance with Section 278 of the KAGB in conjunction with Section 168 of the KAGB or comparable international regulations €thous	Difference to book value €thous	Distributions made for the total financial year €thous	Restriction of daily redemption
APO 1 INKA	Domestic and international bonds	933,615	103,510	10,000	no
APO 2 INKA	Domestic and international bonds	216,658	27,970	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	7,571	301	0	no

APO 3 INKA was merged with APO 1 INKA in the first half of 2020.

15. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

	Book value as at 30 June 2020 €thous	Fair value as at 30 June 2020 €thous	Omitted depreciation €thous
Banks	1,398,324	1,392,883	5,441
Public debtors	414,584	413,017	1,566
Corporations	0	0	0
Total	**1,812,908**	**1,805,900**	**7,007**

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

Impairments of these unstructured securities are not regarded as permanent since 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 no. 11 of the HGB. Participations that are of minor importance for apoBank's net assets, financial position and earnings situation are not listed, pursuant to Section 286 (3) of the HGB:

List of holdings

Company	Share in company capital as at 30 June 2020 %	Year	Equity of the company €thous	Result of the last financial year €thous
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	64	2019	11,472	3,654
aik Management GmbH, Dusseldorf[1]	100	2018	88	63
Apo Asset Management GmbH, Dusseldorf	70	2019	14,323	3,650
APO Beteiligungs-Holding GmbH i.L., Dusseldorf[2]	100	2018	4,164	6
APO Data-Service GmbH, Dusseldorf	100	2019	4,677	646
apoDirect GmbH, Dusseldorf[3]	100	2019	976	278
ARZ Haan AG, Haan/Rheinland	38	2019	55,633	4,087
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2019	19,355	7,754
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	16	2019	29,465	22,715
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2019	1,684	815
GAD Beteiligungs GmbH & Co. KG, Münster	5	2019	119,565	3,008
gbs – Gesellschaft für Bankensysteme mbH, Münster	10	2019	4,878	1,643
medisign GmbH, Dusseldorf	50	2019	962	607
naontek AG, Dusseldorf	91	2019	7,928	– 2,122
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich[4, 5]	100	2020	1,786	1,392
RiOsMa GmbH, Dusseldorf	90	2019	213	189
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2019	36,373	791
WGZ Beteiligungs GmbH & Co. KG, Dusseldorf	5	2019	3,093,038	82,757
ZA Zahnärztliche Abrechnungsgesellschaft Dusseldorf AG, Dusseldorf	25	2019	7,232	1,869
ZPdZ - Zahnpraxis der Zukunft GmbH, Dusseldorf	50	2019	742	– 245

1) Indirect participation.
2) Before profit transfer or loss absorption.
3) Formerly Konnektum GmbH, Dusseldorf.
4) Including indirect participation of almost 50% via RiOsMa GmbH.
5) Values as at 30 June 2020.

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

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

17. Tangible assets

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

Tangible assets

	30 June 2020 €thous	31 Dec 2019 €thous
Land and buildings used for the Bank's own business activities	96,975	99,106
Office furniture and equipment	31,260	33,749

18. Other assets

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

Other assets

	30 June 2020 €thous	31 Dec 2019 €thous
Capitalised premiums from options and caps	65,924	73,622
Tax receivables	40,597	33,335
Receivables from asset management	23,022	36,885

19. Deferred tax assets

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

As at 30 June 2020, a net deferred tax asset was identified. This was essentially due to differences between the valuations in the trading and tax accounts for shares and other non-fixed-interest securities, loans and advances to customers, provisions for pensions as well as intangible assets.

The total net surplus of deferred tax assets amounted to €207,571 thousand on balance, including deferred tax assets of €212,510 thousand and deferred tax liabilities of €4,939 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 2020	31 Dec 2019
	€thous	€thous
Loans and advances to banks	2,760	2,584
Loans and advances to customers	70,050	70,169
Debt securities and other fixed-interest securities	21,193	20,869
Total	**94,003**	**93,622**

Notes to liabilities

21. Other liabilities

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

Other liabilities

	30 June 2020 €thous	31 Dec 2019 €thous
Trade payables	11,674	40,301
Tax liabilities	13,498	13,923
Premiums from options and caps carried as liabilities	11,456	13,603
Dividend to be paid	24,064	0

22. Capital and reserves

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

Subscribed capital

	30 June 2020 €thous	31 Dec 2019 €thous
Capital contributions	**1,236,115**	**1,231,406**
of remaining members	1,233,433	1,227,747
of departing members	2,433	3,290
of terminated cooperative shares	249	369
Compulsory contributions due on shares in arrears	1	2

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

Revenue reserves

	Legal reserves €thous	**Other revenue reserves** €thous
As at 1 Jan 2020	426,750	145,741
Transfers		
from the balance sheet profit of the previous year	8,000	32,064
from the net profit of the current financial year	0	0
Withdrawals	0	0
As at 30 June 2020	**434,750**	**177,806**

Derivative financial instruments

23. Derivative financial instruments

The volume of unsettled forward transactions affected by a settlement risk or currency, interest rate and/or other market risks arising from open positions, and in the event of counterparty default also from closed positions, amounted to €27,443 million as at 30 June 2020 (31 December 2019: €29,683 million). As at 30 June 2020, they included the following types of transactions:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions

- Interest rate swaps
- Swaptions
- Caps/floors

Currency-related transactions

- FX forward transactions
- FX swaps

Stock-related transactions

- Stock options

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

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

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

apoBank measures stock options from structured financial instruments by comparing them with unstructured bonds of the same issuer and with 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 2020	31 Dec 2019	30 June 2020	31 Dec 2019
Interest rate-related transactions[1]				
Time to maturity up to 1 year	2,599	2,407	– 14	– 5
more than 1 year to 5 years	10,098	12,436	– 128	– 135
more than 5 years	14,055	13,634	– 48	– 41
Subtotal	**26,752**	**28,477**	**– 190**	**– 181**
Currency-related transactions				
Time to maturity up to 1 year	675	1,189	1	8
more than 1 year to 5 years	13	14	0	0
more than 5 years	0	0	0	0
Subtotal	**688**	**1,203**	**1**	**8**
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	**27,443**	**29,683**	**– 189**	**– 173**

1) Interest rate- and stock-related transactions are reported under the items “Other assets” (€66 million), “Prepayments and accrued income (assets)” (€11 million) as well as under the items “Other liabilities” (€1 million) and “Prepayments and accrued income (liabilities)” (€15 million).

The vast majority of derivative financial instruments is 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 €10,135 thousand (1 January 2019 to 30 June 2019: €9,123 thousand) in negative interest income from deposits with the ECB and other banks, from collateral management, as well as from fixed-interest securities.

This item also includes material income relating to other periods in the amount of €11,144 thousand (1 January 2019 to 30 June 2019: €7,289 thousand) from prepayment penalties.

25. Interest expenses

The item ‘Interest expenses’ includes €15,245 thousand (1 January 2019 to 30 June 2019: €9,547 thousand) in positive interest expenses from borrowings from the ECB, from other banks and specific customer groups, from collateral management as well as from securitised liabilities.

This item also includes material expenses relating for prepayment penalties amounting to €1,022 thousand (1 January 2019 to 30 June 2019: €797 thousand).

26. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €13,729 thousand (1 January 2019 to 30 June 2019: €12,661 thousand).

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 results of the company in accordance with the applicable accounting principles for interim reporting, and that the interim management report gives a true and fair account of the development of the business, including the company's performance and position, as well as describing the material opportunities and risks associated with the company's expected development in the remaining business year.

Dusseldorf, 21 August 2020
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer

Dr. Thomas Siekmann

Olaf Klose
(member of the
Board of Directors
until 19 June 2020)

Eckhard Lüdering

Holger Wessling

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

Other operating income of €13,612 thousand (1 January 2019 to 30 June 2019: €17,691 thousand) includes, among other things:

Other operating income

	1 Jan – 30 June 2020	1 Jan – 30 June 2019
	€thous	€thous
Rental income	2,066	1,894
Release of provisions (related to other periods)	4,216	4,985
Accounting gains from the disposal of tangible and intangible assets (related to other periods)	0	7,094
Interest income from tax refunds (related to other periods)	3,896	863

Other operating expenses of €20,906 thousand (1 January 2019 to 30 June 2019: €8,452 thousand) result primarily from the following items:

Other operating expenses

	1 Jan – 30 June 2020	1 Jan – 30 June 2019
	€thous	€thous
Provisions for litigation costs	11,861	1,742
Expenses from compounding	3,397	3,759
Expenses from currency translation	2,273	153

28. Taxes on income

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

E. Other notes

29. Events after the reporting date

No events took place that were subject to reporting requirements between 30 June 2020 and when the interim financial statements were prepared by the Board of Directors on 21 August 2020.

30. Disclosures according to Section 28 of the PfandBG

Please refer to apoBank's quarterly report as at 30 June 2020, prepared pursuant to the German Pfandbrief Act (PfandBG), for information with respect to the mortgage Pfandbriefe included in the items 'Liabilities to banks', 'Liabilities to customers' and 'Securitised liabilities'.

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

Deutsche Apotheker- und Ärztebank eG, 40547 Dusseldorf, Germany

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

The turnover of €478,2 million results from the operating result, excluding risk provisioning, depreciation in respect of intangible and tangible assets, and general administrative expenses. Deutsche Apotheker- und Ärztebank's operating result amounted to €56.1 million based on HGB accounting.

The number of employees (excluding members of the Board of Directors) as at 30 June 2020 was 2,210 (full-time equivalents).

The profit before tax of €56.1 million as at 30 June 2020 was largely generated in Germany. Income tax on this amount was €22.7 million.

apoBank does not receive any public aid.

32. Board of Directors

Members of the Board of Directors

- Ulrich Sommer, Chairman, Corporate Development, Corporate Communications, HR, Legal, Professional Associations, Health Care Markets and Policy, Internal Auditing
- Dr. Thomas Siekmann, Deputy Chairman, Finance and Controlling
- Olaf Klose (Member of the Board of Directors until 19 June 2020), Retail Clients
- Eckhard Lüdering, Loans and Banking Operations
- Holger Wessling, Large Customers and Markets as well as Retail Clients (provisionally)

33. Supervisory Board

Members of the Supervisory Board

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

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 2020
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Ulrich Sommer

Dr. Thomas Siekmann

Olaf Klose
(member of the
Board of Directors
until 19 June 2020)

Eckhard Lüdering

Holger Wessling

Certifications

Review Report

to Deutsche Apotheker- und Ärztebank eG, Dusseldorf

We have reviewed the condensed interim financial statements (comprising the condensed balance sheet, the condensed income statement as well as the condensed notes) and the interim management report of Deutsche Apotheker- und Ärztebank eG for the period from 1 January 2020 to 30 June 2020, which are components of the interim report pursuant to Section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). The preparation of the condensed interim financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Board of Directors of the cooperative. Our responsibility is to issue a report on the condensed interim financial statements and the interim management report based on our review.

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

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

Dusseldorf, 21 August 2020
Genossenschaftsverband – Verband der Regionen e. V.

Dieter Schulz	Arndt Schumacher
Auditor	Auditor

Imprint

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

Because there is more connecting us.