

# Interim Report



2017

# Overview of Business Development

## Overview of business development

	30 June 2017	31 Dec 2016	Change <sup>1</sup>
	€m	€m	%
<b>Balance sheet</b>			
Balance sheet total	40,406	38,604	4.7
Customer loans	30,892	29,492	4.7
Customer deposits	26,547	25,797	2.9

	30 June 2017	31 Dec 2016	Change <sup>1</sup>
	€m	€m	%
<b>Income statement</b>			
Net interest income <sup>2</sup>	325.3	332.4	- 2.1
Net commission income	88.0	68.5	28.5
General administrative expenses	- 258.4	- 243.6	6.1
Operating profit before risk provisioning	158.5	150.2	5.5
Risk provisioning from the operating business <sup>3</sup>	6.8	9.4	- 27.3
Risk provisioning with reserve character <sup>4</sup>	- 87.6	- 81.8	7.1
Operating result	77.7	77.8	- 0.2
Net profit after tax	30.9	30.4	1.5

	30 June 2017	31 Dec 2016	Change <sup>1</sup>
	%	%	ppts
<b>Key figures</b>			
Total capital ratio (according to CRR)	22.1	26.1	- 4.0
Common equity tier 1 capital ratio (according to CRR)	19.6	22.6	- 3.0

Rating	Standard & Poor's	Fitch Ratings (group ratings)
Long-term rating	AA <sup>-5</sup>	AA-
Short-term rating	A-1+	F1+
Outlook	stable	stable
Pfandbrief rating	AAA	-

1) Deviations due to rounding differences

2) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies

3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.

4) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and general banking reserves.

5) Issuer credit rating

# Content

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Interim Management Report	Business and General Conditions	5
	Retail Clients	8
	Professional Associations, Institutional Investors and Corporate Clients	10
	Net Assets, Financial Position and Results	12
	Risk Report	16
	Outlook	23

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Interim Financial Statements	Condensed Balance Sheet	28
	Condensed Income Statement	30
	Condensed Notes	31

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Certifications	Review Report	51
	Responsibility Statement by the Legal Representatives	52

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# Interim Management Report

Business and General Conditions	5
Retail Clients	8
Professional Associations, Institutional Investors and Corporate Clients	10
Net Assets, Financial Position and Results	12
Risk Report	16
Outlook	23

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# Business and General Conditions

## World economy on moderate growth track

The real economic performance of the industrialised countries rose in the first quarter of 2017 by around 0.5% compared to the fourth quarter of 2016. At the same time, there are indications that the most important emerging markets are recovering from the lull of the past few years due to buoyant global trade and higher commodity prices.

At a rate of 0.6%, growth in the euro area countries was stronger than average in the first quarter of 2017. The economic development in the USA, however, was mixed during the same period. Although survey-based market indicators showed a robust development, growth remained below the average of previous years, at a rate of approximately 0.4%.

In Germany, the upturn of the past few years continued. In the first quarter of 2017, its economic performance increased by 0.6% compared to the previous quarter. Besides private and public consumption, the previous chronic weakness of investment in machinery and equipment contributed to this result. In addition, strong export growth resulted in positive net exports; higher investment in construction also contributed to the growth. Thanks to the positive development of the economy, the favourable trend continued on the German labour market. In May, the unemployment rate sank to 5.6%, the lowest level since German reunification. Survey-based market indicators even point to a continued and above-average expansion of the German economy. The constantly high demand on the German property market led to a further rise in property prices and rents in the first quarter. The vdp real estate price index, for example, climbed by around 6.0% compared to the same quarter in the previous year.

## Despite higher inflation, no end to low interest rate policy in sight

Energy prices, which were higher than in the previous year, led to a significant surge in the inflation rate at the beginning of 2017. The price increase in the euro area reached its highest level in February at 2.0%, but diminished again thereafter. Against the backdrop of the weak development of the so-called core inflation rate, adjusted for energy and food prices, and the restrained wage development, it can be assumed that the inflation rate will remain significantly below the inflation target level set by the European Central Bank (ECB) of just under 2%.

In March, the ECB reduced the volume of its monthly bond purchasing programme from €80 billion to €60 billion. The ECB has announced that it will continue the programme in its current form at least until the end of 2017. Although the central bank is of the view that the risks for the economic situation and price development have significantly diminished, it reserves the right not to adjust the current interest rates until after the expiry of the security purchasing programme. Meanwhile, the US Federal Reserve continued to tighten its monetary policy in the past few months, by conducting two interest rate increases of 0.25 percentage points each in March and in June, taking the final rate to 1.25% (the upper limit of the key interest rate range).

The net yield of German federal bonds with ten-year maturities was very volatile over the course of the first half of 2017, fluctuating within a range of 0.2 to 0.5%. Net yield was 0.47% as at 30 June 2017.

After the euro had substantially weakened in relation to the US dollar at the end of 2016, reaching the lowest exchange rate since 2003 at USD1.03/EUR, the common currency appreciated significantly over the course of the first half of 2017 and reached USD1.14/EUR as at the reporting date, the highest value in over a year.

Global stock markets developed positively in the first six months of 2017. Numerous important share indices reached historic heights in June, including the German DAX, which gained around 7.4% over the half-year period and closed at 12,325 points on 30 June 2017. In addition to their appreciation in value, the low volatility of the share prices was also remarkable. Besides the welcome improvement in the economic data, the initially reassuring results of political risk events such as the elections in France and the Netherlands also contributed to these positive developments on the stock exchanges.

### Health care market remains a growth market

During the previous legislative period, a number of proposals were put forward. These included the Act to Strengthen Care Provision in the Statutory Health Insurance System (GKV-Versorgungsstärkungsgesetz), the Hospital Structures Act (Krankenhausstrukturgesetz), the E-Health Act (E-Health-Gesetz) and the Long-Term Care Strengthening Acts (Pflegerstärkungsgesetze). These reforms aim to secure financing for continuously increasing health care expenditure and the nationwide provision of medical treatment close to patients' homes. In addition, they propose to improve the quality, effectiveness and efficiency of medical care and nursing care. At the same time, competition among service providers is intensifying and regulation is also increasing.

Nevertheless, the health market still offers good, sustainable earnings and growth prospects to health care professionals and companies with the capacity for entrepreneurial thinking and action.

### Health care expenditure continuously rising

According to the statutory health insurance (GKV) data recorded in the first quarter of 2017, there was a moderate increase of 2.7% in spending per person insured.

The figures for insurance benefits paid by the private health insurance (PKV) in 2016 are not yet available. Based on provisional figures, these rose by around 2 to 3%.

### Economic and structural developments – pharmacies

The revenues recorded by pharmacies in 2016 increased by a good 5%. It must be noted, however, that the cost of sales has soared as the share of more expensive, innovative medicines continues to rise and purchasing discounts are reduced more and more. Other costs for the pharmacies have remained relatively constant, so that the pharmacies increased their operating result by 4.6% overall in comparison to the previous year.

In terms of revenue and operating results, the differentiation of the market in the pharmacy sector is ongoing. While the typical medium-sized pharmacies become less important, many smaller pharmacies with relatively low turnovers face competition from the large numbers of higher-revenue pharmacies.

While the number of pharmacies is still declining in Germany, the number of branches and highly effective branch networks continues to rise. Accordingly, the number of salaried pharmacists has also been growing steadily for years.

### Economic and structural developments – panel doctors and dentists

There was a moderate increase in panel doctors' fees in 2016. The fees for panel dentists are likewise expected to have risen slightly in 2016.

There is still a trend among young physicians and dentists in particular to tend to seek (part-time) salaried employment in outpatient care when starting out and thus not initially aspire to open their own practice. This is why the number of self-employed panel doctors and dentists continues to decrease steadily. At the same time, the number of salaried physicians and dentists is growing.

Since 2015, when the establishment of dental medical care centres became legally permissible, the trend in dental medicine has been towards larger, typically medium-sized types of businesses, organisations and services. At the end of 2016, there were already 288 dental medical care centres in Germany.

### **Developments with respect to veterinarians**

The development of the total revenues for veterinarians in 2016 is expected to have seen a moderate increase compared to the previous year. This will apply to small animal practices in particular. The number of self-employed or salaried veterinarians did not change substantially in 2016.

### **Hospitals remain under pressure**

In the inpatient medical sector, the concentration process continues. This is due to the sustained pressure to curb costs and improve efficiency, which hospitals have already been exposed to for years. Moreover, they are confronted with increasing regulatory requirements on the quantity and quality of their services. In order for hospitals to continue to operate profitably and to grow, long-term investments must be made. In view of the lack of government funding, hospitals increasingly fall back on alternative means of financing to secure their capacity for innovation and investment. Another change concerns the growing interdependence between the health care sectors: More and more frequently, hospitals are offering outpatient services for economic and health policy reasons and are thus becoming competitors in the outpatient medical sector. The aims of health policy in the next legislature are expected to be the alignment of remuneration in the two sectors and the establishment of cross-sector medical care planning.

### **Increasing demand for nursing care capacity**

The demand for nursing care of an ageing population is growing and with it the number of inpatient and outpatient nursing care facilities. The range of services is already large; this will continue to expand with more community-based care facilities offering innovative concepts around living, service and support. New or alternative care services will also be in strong demand in future.

### **Great opportunities for health care companies**

The increasing demand for health products and services, as well as advances in medical technology, pharmaceuticals, biotechnology, information and communications technologies have brought sustainable growth to companies in the German health care sector. Correspondingly, there are numerous opportunities for health care businesses to successfully position new products and product variations on the market. In view of ever more, ever-stricter regulatory requirements, it is crucial to strike a balance between the aspects of patient security, the quality of medical care and the dynamics of innovation.

## Retail Clients

### Positive development continues in the Retail Clients business segment

In the Retail Clients business segment, we support the professional and private plans and projects of pharmacists, physicians, dentists, veterinarians and psychotherapists with our apoPur advisory concept, which is tailored especially to their needs and life phases. Thanks to this consulting approach, we continued our successful development in the first half of 2017. Our business with retail clients benefited from a very lively new lending business; we also noted a strong momentum with customers in the securities business. One factor that contributed to these pleasing business results was our intensive support for all customer groups, with specialised advisors to cater for each of them.

### Vigorous growth in the loan portfolio

Thanks to the strong new business and declining redemptions, the loan portfolio with respect to retail clients increased significantly. At the reporting date, this amounted to €26.2 billion (31 December 2016: €25.2 billion). In spite of the continued decline in the number of start-ups in the outpatient health care market in Germany, we expanded our leading market position as a provider of business start-up financing, with a loan portfolio of €6.5 billion (31 December 2016: €6.3 billion).

### Strong demand for real estate loans

The demand for real estate financing remained high in the first six months of 2017 due to the low interest level. In addition to public development programmes provided by the Kreditanstalt für Wiederaufbau (KfW) and the state development banks, demand for apoFestzinsDarlehen, fixed-interest loans for real estate financing, also increased. The market was still characterised by aggressive competition over terms and conditions. Nevertheless, apoBank boosted its portfolio in real estate financing to €14.8 billion (31 December 2016: €14.1 billion). Investment and private financing was down slightly, to €4.8 billion (31 December 2016: €4.9 billion).

### Further expansion of customer deposits

In the reporting period, the average volume of demand, savings and fixed-term deposits of our retail clients amounted to €15.3 billion (2016: €14.0 billion). Because of the continuously low interest level, deposits with short-term maturities and high availability continued to be in demand. The average volume of demand deposits grew to €9.0 billion (2016: €7.8 billion). The average volume of the apoZinsPlus and apoCash call accounts increased marginally to €5.7 billion (2016: €5.6 billion). Term deposits and savings deposits were of only little significance.



### Growth in securities business

The securities business with our customers was very lively in the reporting period. Our comprehensive provision of customer advice services through the apoPur advisory process paid off here, in addition to our investments in sales.

The focus of the securities business continued to be on products offering participation in the equity market at reduced risk and active portfolio management. Mixed funds particularly benefited from this ongoing trend. The deposit volume in the Retail Clients business segment grew to €7.6 billion in the first half of 2017 (31 December 2016: €7.2 billion).

### Private asset management still in demand

The positive growth trend in asset management continued. The number of customers increased to approximately 5,400 (31 December 2016: approximately 5,000 customers); managed volume expanded to €2.9 billion (31 December 2016: €2.7 billion). Both traditional asset management and our asset management funds experienced dynamic growth.

### Volume in insurance and building society business increased

The insurance business grew significantly compared to the previous year with a brokerage volume of around €239 million (30 June 2016: €194 million). This increase was driven by a rise in demand for index-linked insurance products and the use of insurance products as a replacement for redemptions in financing.

In the case of building society savings, too, brokered business intensified compared to the previous year's period. The total sum of brokered building society savings amounted to €262 million as at 30 June 2017 (30 June 2016: €237 million). The high demand for real estate investments bolstered interest in building society contracts which can be included in real estate financing. In addition, in the context of our customers' life planning, the accumulation of equity capital and financing provisions for future real estate acquisition also had a crucial impact on the overall positive development.

## Professional Associations, Institutional Clients and Corporate Clients

### Close collaboration with professional associations representing groups of health care professionals

In the case of the customer group of professional associations, advice on financial matters against the backdrop of health policy plays a major role. Deposits made by professional associations, particularly by associations of panel doctors and dentists as well as professional clearing centres, constitute an important part of apoBank's customer deposits.

Business relations with the professional associations are based on a solid foundation. In the first half of 2017, customer deposits remained on a par with the previous year's level at an average of €3.9 billion (2016: €3.9 billion). In the lending business, the focus was again on providing pre-financing lines to professional pharmacy data processing centres. The average volume in the lending business amounted to €256 million in total, higher than the previous year (2016: €242 million).

### Positive development of business with institutional clients

The customer group of institutional clients includes occupational pension funds for the health care and other liberal professions, as well as other financial intermediaries such as pension plans and funds and other professional investors. To help our customers achieve their target yields, we provide them with comprehensive support – ranging from advice and product solutions to custody of the investment product.

### Further expansion of advisory services

Demand for our modular advisory services remained high in the reporting period. In light of the continuously challenging capital market environment with mounting regulatory requirements, our customers are looking for objective support for the management of their capital investments. With our apoConsult service, we offer them tailored strategic asset allocation appropriate for their risk-bearing capacity, combined with continuous risk monitoring and investor-specific reporting. Our asset liability studies provide our customers with important insights for the management of liabilities.

### Demand for portfolio management in the low-interest environment

We support our institutional customers with the professional management of their direct pension portfolios. In the reporting period, the volume of our portfolio management remained stable at €2.4 billion (31 December 2016: €2.4 billion).

In the direct pension investment business, our customers benefit from our independent credit analysis tool, apoScore. This gives capital investors a fast and founded insight into issuers' risk situations as well as timely recommendations for alternatives that enable them to make sound decisions. For many of our customers, the systematic risk evaluation of their direct pension investment is increasingly important. In the first half of 2017, we therefore continuously gained new mandates.

### Depository volume on track for growth

With regard to the custody of special investment funds for securities and real estate, our customers benefit from our long-standing experience and our specialised knowledge in the field, combined with considerable customisation. Thanks to this level of performance, we have continued to expand our position compared to international financial establishments amid ongoing intense competition. With 165 funds held (31 December 2016: 158 funds), the depository volume as at the reporting date amounted to €15.4 billion (31 December 2016: €14.5 billion). A positive development could also be seen in the area of real estate, particularly in the special funds and investment limited partnerships.

### Positive development continues in corporate clients business

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

Thanks to our in-depth knowledge of the health care market, which our range of advisory services is built on, we succeeded in further strengthening our market presence and customer base in the first half of 2017. The low interest level and the ongoing positive growth prospects in the health care market were also advantageous here. Demand for financing increased, in particular by the initiators of real estate projects as well as inpatient care providers (clinics, nursing homes). This trend was reflected in our business figures: The lending volume in the Corporate Clients business segment rose again in the reporting period and amounted to €2.9 billion (31 December 2016: €2.6 billion).

## Net Assets, Financial Position and Results

### Positive business development in the first half of 2017

Despite the fact that general conditions remained difficult and continued to be affected by a very low interest rate level, intense competition and political uncertainties, apoBank enjoyed a positive start to the 2017 financial year. The operating result amounted to €77.7 million as at 30 June 2017 (30 June 2016: €77.8 million). Net profit after tax was €30.9 million (30 June 2016: €30.4 million).

### Continued growth in member and customer numbers

In accordance with our statutory purpose, apoBank supports its members and clients in achieving their professional and private goals by supplying specialised banking services. Based on this focus, we continued the positive development of our customer business in the year under review. This is evident in the further broadening of our customer and member base. In the first half of 2017, apoBank customers numbered 426,700 (31 December 2016: 415,700 customers). At the same time, the number of members climbed to 110,284 (31 December 2016: 109,680 members).

In the following sections, we provide details of the main income and expenditure items for the first half of 2017.

### Net interest income only marginally down on previous year

The low interest rates continued to affect the development of net interest income in the first months of 2017; nevertheless, the drop was not as severe as in the previous year. One reason for this was that we succeeded to a large extent in compensating for the shrinkage in contributions to earnings from our strategic interest rate risk management and for smaller margins due to fierce competition. A decisive factor here was a strong upturn in volume in the lending business – in both the Retail Clients and the Corporate Clients segment. New loans amounted to €3.4 billion (first half of 2016: €3.0 billion), resulting in a substantial gain in the loan portfolio on the balance sheet. Net interest income reached a total of €325.3 million, only 2.1% lower than in the previous year (30 June 2016: €332.4 million).

The trend towards short-term demand deposits continued on the refinancing side. Due to the negative deposit interest rate set by the ECB and the negative return on shorter term maturities, the surplus from the deposit business declined considerably nonetheless. Another factor contributing to this was that we avoided introducing custody fees for the majority of our customer business.

### Dynamic growth in net commission income

Net commission income increased significantly, rising by 28.5% to €88.0 million (30 June 2016: €68.5 million). This positive development is the result of renewed expansion in the securities business with our retail customers despite the strong competition. Furthermore, our business with institutional investors also gained further momentum. Asset management continued to develop well.

## Income statement

€m	30 June 2017	30 June 2016	Change % <sup>1</sup>
Net interest income <sup>2</sup>	325.3	332.4	- 2.1
Net commission income	88.0	68.5	28.5
General administrative expenses	- 258.4	- 243.6	6.1
Net trading result	0	- 0.5	-100
Balance of other operating income/expenses	3.5	- 6.6	-
Operating profit before risk provisioning	158.5	150.2	5.5
Risk provisioning from the operating business <sup>3</sup>	6.8	9.4	- 27.3
Risk provisioning with reserve character <sup>4</sup>	- 87.6	- 81.8	7.1
Operating result	77.7	77.8	- 0.2
Taxes	- 46.9	- 47.4	- 1.2
Net profit after tax	30.9	30.4	1.5

1) Deviations due to rounding differences

2) Including current income from shares, fixed-interest securities, participations and shares in affiliated companies

3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and participations.

4) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and general banking reserves.

### General administrative expenses higher, as anticipated

With respect to general administrative expenses, we recorded an increase in the reporting period of around 6.1% to €258.4 million (30 June 2016: €243.6 million). Due to higher pension provisions in particular, personnel expenditure rose by around 8.6% to €131.3 million (30 June 2016: €120.9 million). Operating expenditure including depreciation reached €127.1 million (30 June 2016: €122.7 million). The main reason for this increase were major projects; the planned IT migration is of particular note here.

### Operating income up on previous year

The operating income, i.e. the operating profit before risk provisioning, was boosted by positive business development to total €158.5 million (30 June 2016: €150.2 million).

### Positive risk provisioning due to write-ups

At €6.8 million, risk provisioning for the operating business was again positive (30 June 2016: €9.4 million). Net allocations remained below 2016 levels, due to the good ratings in the credit portfolio as well as our successful risk management. In addition, there was a further gain in income recovered from receivables we had already written down. We also recorded write-ups in financial instruments and participations, resulting in a positive profit contribution for this item.

Risk provisioning with reserve character amounted to €87.6 million (30 June 2016: €81.8 million). This item includes precautionary measures for unexpected future burdens.

### Stable net profit

The operating result, at €77.7 million (30 June 2016: €77.8 million), was on a par with the previous year's level. This already accounts for the accumulation of reserves, which once again expanded in comparison to the previous year. Net profit after tax was €30.9 million, level with the same period last year (30 June 2016: €30.4 million).

### Balance sheet total up slightly

The balance sheet total amounted to €40.4 billion on 30 June 2017 (31 December 2016: €38.6 billion), an increase of around 4.7% compared with the 2016 balance sheet date. Loans and advances to customers rose to €30.9 billion (31 December 2016: €29.5 billion). This was due to continuing high demand for our financing expertise, resulting in an increase in the loan portfolio on the balance sheet. The securities portfolio amounted to €5.8 billion (31 December 2016: €6.1 billion). On the liabilities side, we increased customer deposits. These amounted to €26.5 billion (31 December 2016: €25.8 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €3.7 billion (31 December 2016: €3.8 billion).

### Liquidity situation remains comfortable

apoBank's liquidity situation remained comfortable throughout the first half of 2017. As a well-established market participant with good credit ratings, we secure funds for refinancing through various sources and are supported by a widely diversified customer and investor base. Customer funds make up the bulk of refinancing; these include customer deposits and apoObligations placed with retail clients. We also issue covered bonds (Pfandbriefe) and unsecured bonds to our institutional

clients, members of the cooperative FinanzGruppe and the capital market. In addition, we use refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks.

As at the reporting date, customer deposits amounted to €26.7 billion (31 December 2016: €26.1 billion). Thus, they dominate the liabilities side of the balance sheet.

Capital market-based refinancing funds, including promissory note funds placed with banks, totalled €3.4 billion as at the balance sheet date (31 December 2016: €3.3 billion). Since customer deposits were sufficiently high and we were able to draw down from a long-term loan, there was only limited need for the mobilisation of further refinancing funds. New issues in our Pfandbrief business thus only amounted to €37 million. The total volume of the Pfandbrief portfolio remained stable at €3.2 billion (31 December 2016: €3.2 billion).

The Bank used the last tranche of the ECB's targeted long-term refinancing operation (TLTRO) in order to secure itself €0.5 billion for a longer term at an attractive interest rate. Owing to the comfortable liquidity situation, we reduced the volume of the ECB-eligible securities to €4.7 billion (31 December 2016: €5.0 billion).

### Equity capital ratios still at high level

By the end of June 2017, the total capital ratio of apoBank calculated pursuant to the Capital Requirements Regulation (CRR) had fallen to 22.1% (31 December 2016: 26.1%), while the common equity tier 1 capital ratio dropped to 19.6% (31 December 2016: 22.6%). This reduction is the result of an increase of the risk-weighted assets, which was only partly compensated for by higher equity capital.

Regulatory equity capital amounted to €2,531 million on 30 June 2017 (31 December 2016: €2,465 million). Common equity tier 1 capital grew from €2,141 million at the end of 2016 to €2,245 million due to allocations to the fund for general banking risks as well as revenue reserves from the 2016 annual financial statements. In addition, the increase in members' contributions<sup>1</sup> to €1,143 million (31 December 2016: €1,134 million) strengthened the capital position.

The risk-weighted assets expanded significantly to total €11,437 million (31 December 2016: €9,456 million). This reflects the growth in the lending business and, above all, a regulatory adjustment in our internal rating procedures.

The leverage ratio pursuant to transitional arrangements amounted to a stable 5.3% (31 December 2016: 5.3%).

### Consistently good ratings from rating agencies

apoBank's creditworthiness, or its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor's.

Standard & Poor's continues to rate apoBank's senior unsecured bonds as AA- with a stable outlook. Senior subordinated bonds have a rating of A+ with a stable outlook.

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

1) Terminated capital contributions include those terminations that are already known as at 30 June 2017, but are not due to come into effect until the end of 2017.

### Summary of net assets, financial position and results

Our sustainable business model and our growth strategy for our core business with our customers continued to prove effective in the reporting period. Thanks to the stability and strength of our market position as well as our in-depth knowledge of the health care market, we succeeded in further expanding our customer and member base. In doing so, we are continuing the positive trend of previous years. While net interest income remained only marginally behind that of the previous year, net commission income rose significantly. At the same time, general administrative expenses increased. Risk provisioning yielded a positive contribution to profits. In addition, we once again strengthened our reserves and achieved a stable net profit overall.

apoBank's equity ratios remained at a high level. They benefited from a broader capital base as well as the Bank's consistently good and solid risk profile. The liquidity situation was comfortable at all times during the reporting period.

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

# Risk report

## Principles of risk management and risk control

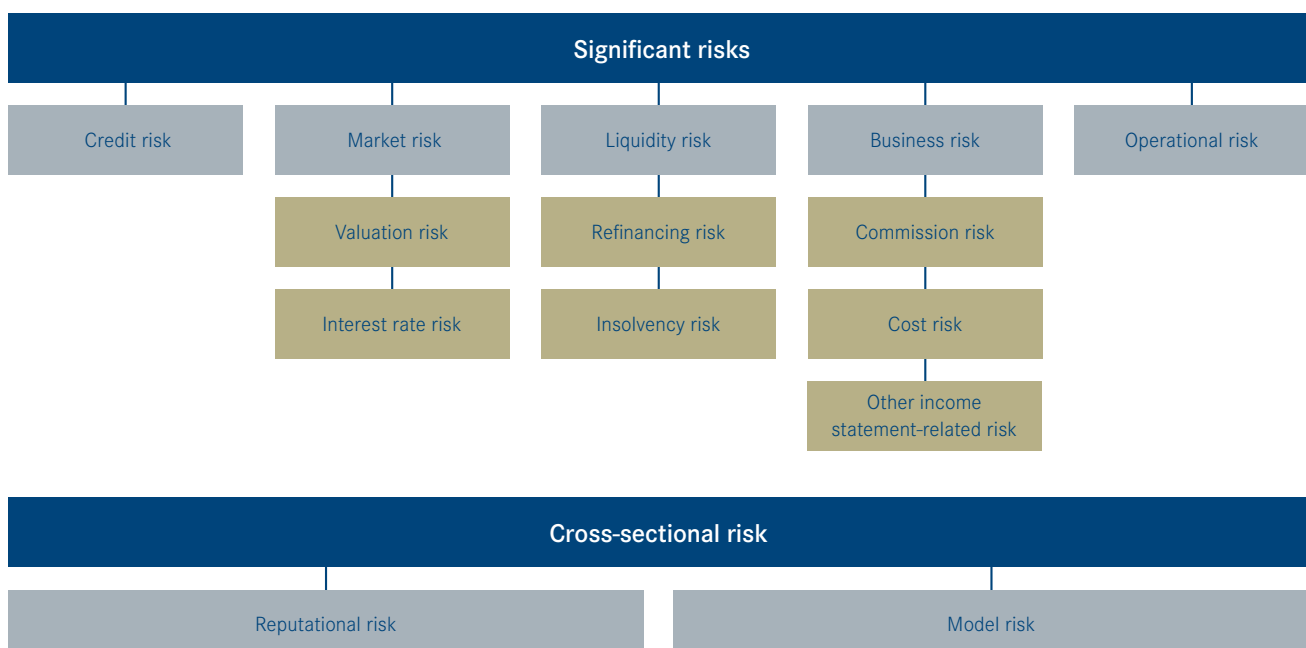
The main objective of apoBank's risk management is to secure the Bank's long-term existence. This includes guaranteeing its ongoing ability to pay out dividends and the option of retaining earnings beyond this to finance its planned business growth.

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

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

For a detailed description of risk management including the essential elements listed above, please refer to the risk report published in our Annual Financial Report 2016 (pages 77 to 97). In this chapter, we focus only on the description of the risk situation during the reporting period of the first half of 2017.

## Classification of apoBank's types of risk





## Development of the risk position in the first half of 2017

### Risk-bearing capacity including stress tests

apoBank's risk-bearing capacity was guaranteed at all times during the first half of 2017. The limits for the defined significant risks, derived from the risk cover potential and planning, and also the Bank-wide risk limits for the financial year 2017 were adhered to at all times.

In the going-concern risk management approach, the rate of utilisation of our economic capital by the measured risks rose slightly overall in comparison to the end of 2016, totalling 41.2% (31 December 2016: 39.1%). In the first half of 2017, utilisation fluctuated minimally and varied between 38.9 and 41.2%.

The risk cover potential declined in comparison to the end of 2016 to €1,013 million (31 December 2016: €1,106 million). In the same period, we also registered a decrease in the risks in this risk management approach, down to €417 million (31 December 2016: €432 million). The Bank-wide risk limit for the financial year 2017, at €540 million (31 December 2016: €562 million), was therefore utilised at a rate of 77.3% by the end of the first half-year (31 December 2016: 76.9%).

In the gone-concern risk management approach, the rate of economic utilisation was at 41.6%, which was again only marginally higher than the previous year's figure (31 December 2016: 40.0%). A modest increase in the risk cover potential could thus be determined in this period. This was accompanied by a slightly higher risk growth.

### Credit risk

In total, the unexpected loss (UEL) from credit risk faced by apoBank as at the end of the reporting period was slightly lower than as at 31 December 2016. The principal causes for the decrease in UEL lay in the financial instruments portfolio. Here, the reductions in credit spreads and the drop in volume in the interbank business had a risk-minimising effect. The limit for credit risk derived from the risk-bearing capacity was maintained at all times in the reporting period.

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

## apoBank's rating system

Meaning	Rating class (BVR master scale)	Probability of default in %	External rating class <sup>1</sup>
Commitments with <b>impeccable</b> creditworthiness, no risk factors (standard credit management)	0A	0.01	Aaa
	0B	0.02	Aa1
	0C	0.03	Aa2
	0D	0.04	
	0E	0.05	Aa3
Commitments with <b>good</b> creditworthiness, individual risk factors (standard credit 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 <b>low</b> risks (standard credit management)	2B	0.75	Baa3
	2C	1.10	Ba1
Commitments with <b>greater</b> risks (intensive credit management)	2D	1.70	Ba2
<b>High-risk</b> commitments (problem credit management)	2E	2.60	Ba3
	3A	4.00	B1
	3B	6.00	B2
<b>Higher-risk</b> commitments (problem credit management)	3C	9.00	B3
	3D	13.50	
	3E	30.00	Caa1 to C
Commitments <b>threatened by default</b> (defaulted according to SolvV definition) – Commitments overdue by more than 90 days – Commitments for which a loss provision was allocated in the previous year or a loss provision has been made in the current year (problem credit management) – Write-offs – Insolvency	4A to 4E	100.00	D
<b>No rating</b>			

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. Since the BVR master scale is broken down into very small steps und thus contains more rating classes than Moody's rating system, not every external rating class is matched with an internal one.

### Retail clients portfolio

The retail clients portfolio primarily consists of loans to health care professionals, cooperations in outpatient care as well as small companies in the health care sector if these companies' risks can be assigned to health care professionals.

In this portfolio, due to the positive development of new business, drawdowns rose to €27.8 billion (31 December 2016: €26.8 billion). 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 192,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

apoBank only needed to take minimal risk provisioning measures for this portfolio during the first half of the year. These were even lower than the previous year's already low level. This reflects the above-average creditworthiness of health care professionals as well as apoBank's comprehensive financing expertise and effective risk management.

### Professional associations and large customers portfolio

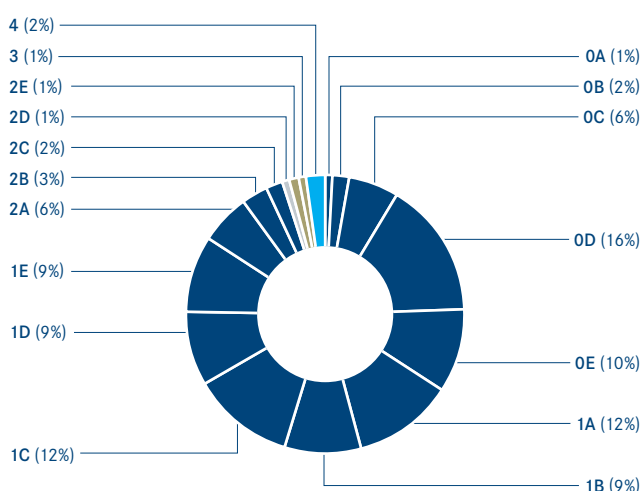
The professional associations and large customers portfolio consists of loans to institutional health care organisations, inpatient care facilities and health care companies as well as other institutional customers.

Compared to the previous year, total drawdowns in the professional associations and large customers portfolio increased by €0.5 billion as at 30 June 2017, to a total of €4.1 billion (31 December 2016: €3.6 billion). The rating distribution of the portfolio remains balanced. The rating coverage was complete.

Rating class distribution in the retail clients portfolio

#### Volume distribution based on drawdowns

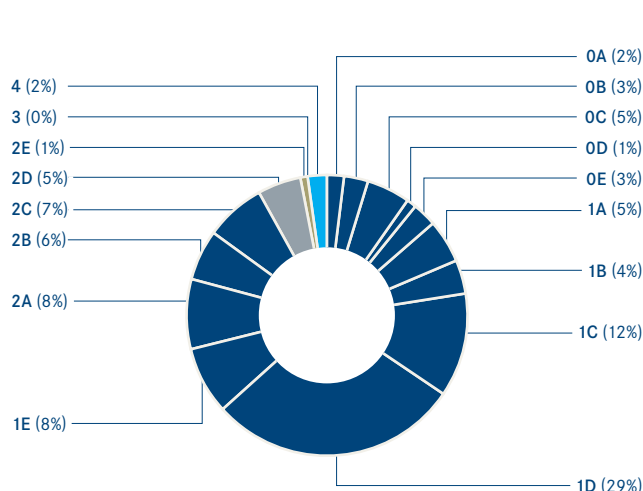
Total of €27,759 million



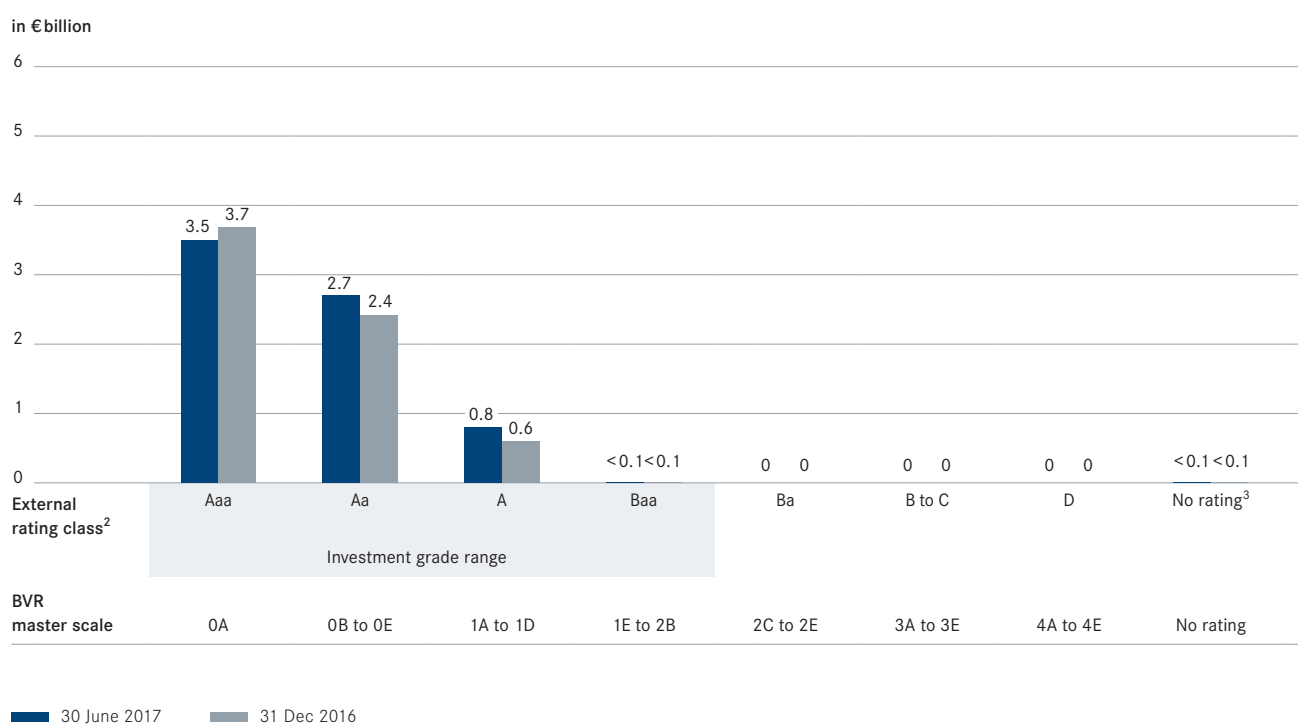
Rating class distribution in the professional associations and large customers portfolio

#### Volume distribution based on drawdowns

Total of €4,079 million



## Total exposure of financial instruments by rating class<sup>1</sup>



1) Total exposure is generally the book value (loan drawdowns or credit equivalent amount). The exposure for the INKA funds is determined by looking at the underlying assets; the exposure is accounted for on a cost value basis.

2) The letter ratings shown here comprise all rating classes of the respective rating segment (i.e. Aa comprises Aa1 to Aa3, for example).

3) The unrated exposures are mainly composed of interbank and fund items.

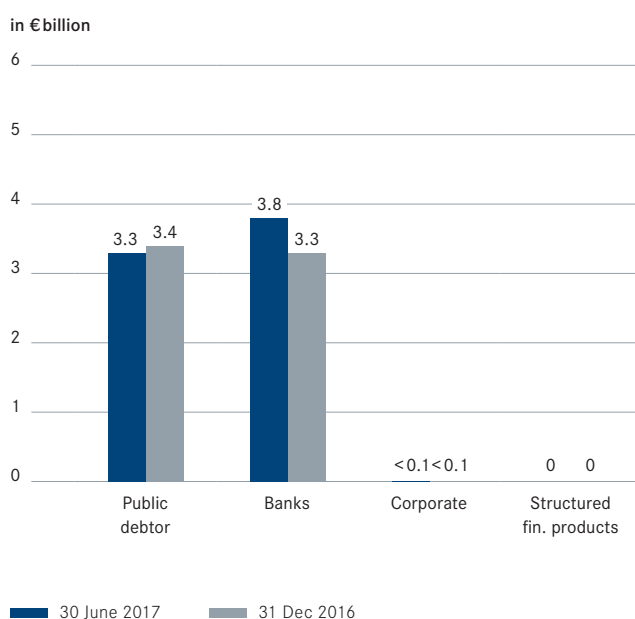
apoBank did not need to take any significant risk provisioning measures for the professional associations and large customers portfolio as at the reporting date of 30 June 2017. The previous year's level, which was already low, was reduced further in the reporting period.

### Financial instruments portfolio

Money and capital market investments (traditional securities, money market instruments) as well as derivative transactions are combined in the financial instruments portfolio.

The risk volume of the financial instruments portfolio amounted to €7.1 billion on the reporting date, an increase of €0.3 billion on the figure at the end of 2016 (31 December 2016: €6.8 billion). The reason for this was a higher amount of liquid assets in the form of cash call and term deposits. The risk volume of the derivatives in the financial instruments portfolio remained unchanged at €0.1 billion, maintaining the same low level as at the 2016 reporting date (31 December 2016: €0.1 billion). apoBank uses derivatives primarily to hedge against interest rate risks stemming from the customer business. As at 30 June 2017, the nominal volume amounted to €30.8 billion (31 December 2016: €31.8 billion).

### Total exposure of financial instruments portfolio by sector



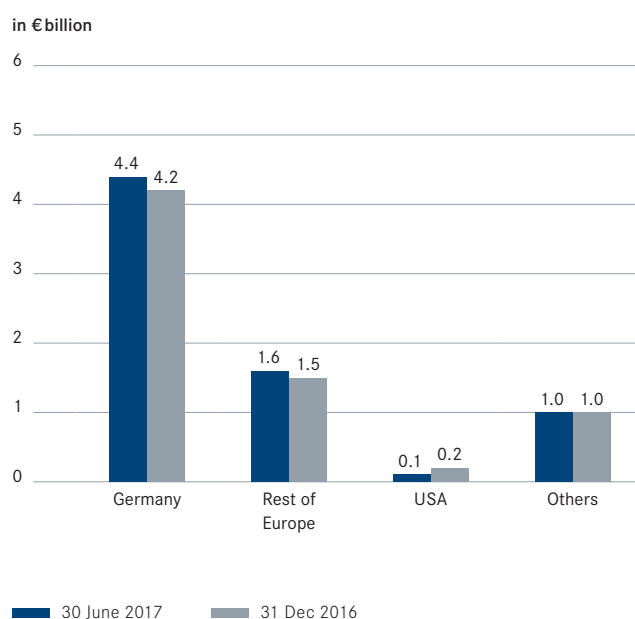
As at the end of the first half of 2017, 99% of the financial instruments portfolio was rated as investment grade. On balance, risk provisioning measures were not necessary in the first half of 2017.

#### Participations portfolio

This portfolio comprises apoBank's participations. Depending on their business purpose, these are classified as strategic, credit-substituting or financial participations.

There were no significant developments in this portfolio from a risk perspective. After the realisation of a partial sale of a participation which relieved risk provisions, no value adjustments were necessary overall for this portfolio in the first six months.

### Risk volume of financial instruments portfolio by country



#### Market risk

The overall limit for market risk derived from the risk-bearing capacity (i.e. periodic net interest surplus risk and financial instrument valuation risk) was met consistently in the first half of 2017.

The stressed value at risk, applied within the scope of the risk-bearing capacity of financial instrument valuation risk, was sharply reduced in the going-concern approach. This is because valuation risks from financial instruments classified as fixed assets no longer needed to be considered in the going-concern approach as a result of the adoption of the gone-concern approach. By contrast, the periodic net interest income risk increased in the course of the year due to the expansion of the lending business. The valuation risk of the financial instruments, measured as part of operational market risk management, rose in the reporting period.

The results of the present-value regulatory stress calculations confirm moderate interest rate risks at a Bank-wide level. The regulatory reporting limit of 20% of regulatory equity (interest risk coefficient) was not reached at any time in the first six months of 2017. The interest risk coefficient fluctuated between 13.9 and 15.4% (31 December 2016: 16.1%).

### Liquidity risk

apoBank's liquidity supply was guaranteed at all times in the first half of 2017. The refinancing risk accounted for in the calculation of the risk-bearing capacity decreased during the first six months of the year. This is a reflection of the Bank's good liquidity levels due to the continued high inflows from customer deposits. The limit established based on the risk-bearing capacity was complied with at all times. With regard to insolvency risk, both the limits of the liquidity gap analysis and the limits according to regulatory requirements (liquidity coverage ratio - LCR) were maintained at all times. apoBank is already fully compliant with the final minimum requirements with respect to the LCR. As at the mid-year reporting date, this amounted to 125% (31 December 2016: 135%).

Compliance with the Pfandbrief cover pool limits was assured at all times in the first half of 2017.

### Business risk

The limit for business risks derived from the risk-bearing capacity was maintained at all times in the first six months of 2017. Overall, the measured risks fluctuated only slightly in that period.

### Operational risk

Operational loss decreased in comparison to the previous year's period. The focus continued to be on legal risks. The operational risk (OpRisk) considered in the calculation of the risk-bearing capacity rose compared to the end of the previous year. This is due to an increase in the premium for reputation risks being taken into account as a consequence of new risk scenarios. The limit for operational risks derived from the risk-bearing capacity was maintained at all times throughout the first half of 2017.

# Outlook

## Consolidation in growth of global economy

Compared to the widespread concern for the global economy that characterised the year 2016, the current situation is significantly more relaxed: All the major economic blocs are currently in a growth phase. Moreover, at least the immediate consequences of several political developments that had previously been assessed as residual risks, such as the outcome of the US presidential elections or the result of the British referendum on withdrawal from the EU, have proven far less dramatic than previously anticipated. Survey-based economic indicators currently also point to a continuation of the world-wide recovery on a steady level.

The German economy is likewise expected to experience continuing expansion, which should be solid if not exceptionally strong. According to apoBank's estimation, the real growth of the gross domestic product (GDP) in Germany will be about 1.9% in the year 2017. Contrary to real economic development, a lasting upward momentum is still not apparent with respect to inflation. Accordingly, a continuation of the ECB's zero interest rate policy can be expected in the medium term.

## Dynamic changes continue in health care market

The trends described in the "Business and general conditions" section continue to apply in 2017 and will stabilise further.

Significant changes for the health care market result from the development of new core technologies as well as the advance of digitisation: These continue to drive the integration, cooperation and concentration of service providers in the health care market and will contribute to the emergence of new, interdisciplinary or cross-sector health care products and services. These new companies are not only interesting as employers for the new generation of health care professionals; they are also increasingly becoming potential investments for industrial health care corporations and financial investors.

## Cooperation and integration promote structural change

It is to be anticipated that the importance of new cooperative business and organisational forms will further increase in outpatient medicine. This is driven both by efforts to permanently improve quality as well as economic motives.

The integration of outpatient, inpatient, rehabilitative and nursing care service providers will also intensify more and more. Increasing cooperation, integration and capitalisation of the health care market lead to a growing number of medium-size supply, service or brand networks.

The structural change in the health care sector will endure – not only because of health policy developments, technological progress and digitisation, but also because the expectations of patients are changing.

### Different trends in earnings situation of health care professionals

In the case of pharmacies, we expect a stable earnings situation in 2017. Looking a little further into the future, we anticipate that the average operating profit will decline slightly. Overall, the number of self-employed pharmacists is likely to decrease further. Pharmacy start-ups will continue to primarily take the form of transfers, rather than new business ventures; the takeover of entire pharmacy networks will also increase. The current environment for pharmacies, entailing intense competition as well as national and international influences on the market development (such as the ruling of the European Court of Justice on the subject of bonuses on prescription medicines), will remain challenging.

The total remuneration of the statutory health insurance for panel doctors will increase moderately in 2017. The range of privately paid services will keep growing thanks to medical technology innovations. It can be assumed that patients will increasingly make use of these services, as health awareness is growing steadily.

A draft of the long-planned revision of the fee schedule for physicians (GOÄ) with potential for a consensus is now expected to be ready before the coalition negotiations after the German federal elections begin. At present, it is still unclear whether the new fee schedule will be adopted by the end of this year.

The situation for panel dentists is anticipated to be stable in 2017. The fee income for prosthesis and other dental services which are negotiated regionally will probably rise moderately. Beyond the scope of panel dental services, there will also be growth opportunities for entrepreneurial dentists as the already high share of privately billable services continues to increase. The trend towards dental medical care centres is likely to continue in 2017, with the number of centres growing significantly in the future.

The demand for veterinary services will expand only moderately due to factors such as the saturation effects among small animal practices and the increased concentration of livestock practices. In addition, there is a constantly deepening cost awareness among animal owners. Furthermore, the field of veterinary medicine has been attracting more and more financial investors who follow so-called buy-and-build strategies to gradually buy up veterinary practices and hospitals and integrate these into chain concepts.

### Inpatient medical care structures and health care companies

For medical innovations to continue in future despite the ever stronger effects of economic and competitive factors, the number of cooperations and partnerships between outpatient and inpatient service providers as well as health care companies will grow.

### Health care market offers new opportunities

Overall, the health care market is and remains a growth market that will provide entrepreneurial health care professionals and health care companies with ongoing earnings and growth prospects in the future, too. Medical and technological progress will bring with it new possibilities for prevention, diagnosis and treatment, which will meet with corresponding demand due to demographic trends. As a consequence, overall health care expenditure will continue to rise steadily. In the collectively financed part of the health care system in particular, the focus will shift more and more to medical and pharmaceutical innovations that attach equal importance to costs, benefits, and quality of treatment.



## Challenges for banks remain

The challenging business environment for German banks is not going to change significantly in 2017 and 2018. A noticeable turnaround in the interest rate level is not currently discernible. Banks must also prepare themselves for a prolonged period of uncertainty, with regard to both the banking business itself as well as the legal, political and economic environment. These developments will also continue to affect the profitability of banks. In addition, digitisation is forcing banks to review their entire business, their processes and their value chains.

Customer needs are also changing as a result of the technical possibilities. Overall, the competition for customers and conditions will persist.

Thanks to its specialised business model, apoBank is built on a stable foundation. With the targeted redirection of resources from administrative activities to sales and customer support, the Bank is pursuing a growth strategy in its business with retail and corporate clients. This is bolstered by apoBank's strong position and network in the health care sector.

## Operating environment remains challenging

For the year under review as well as for 2018, we expect a further boost in customer numbers and an improved customer penetration. This will have a positive effect on our lending, deposit and commission business. In addition, net interest income will continue to be dependent on the trend in the yield curve. Overall, we anticipate a modest gain in net interest income in 2017 and 2018.

We want to continue to expand net commission income. We expect increases predominantly in the securities business with our retail clients over the next two years; here we hope to benefit from our investments in sales. Additional contributions to profit will also be made through our commission-based business with institutional clients.

General administrative expenses will increase gradually in the course of the following two years: In 2017 and above all in 2018, operating expenses will lead to a significant rise; in particular, these include investments and expenses for the planned IT migration. In contrast, other operating expenses will only increase slightly.

While we further strengthen sales with targeted investments, we want to become even more efficient in the central units. Overall, we expect a slight decline in personnel expenses in 2017; these will rise again in 2018, partly due to salary adjustments resulting from collective agreements. On balance, we therefore expect that the operating income for 2017, or profit before risk provisioning, will fall below that of 2016. In 2018, we envisage a further decrease due to the postponement of the actual IT migration.

After a positive contribution to profit from risk provisioning for the operating business in the previous year, we again anticipate it to be better than expected this year. For the lending business in 2018, we calculate risk provisioning to be on a level with the standard risk costs. We expect no significant value adjustments for financial instruments.

Based on our planning, net profit in 2017 and 2018 should stabilise at the 2016 level overall. This would allow us to further strengthen our capital position, albeit to a minor extent, and to distribute a stable dividend to our members.

### Comfortable capital and liquidity situation

We expect slightly declining regulatory capital ratios in 2017 and 2018, after starting out at a high level. This decline is the result of the planned growth of our risk positions requiring equity in the retail clients and corporate clients businesses. Core capital will be strengthened through new members' capital contributions as well as reserves. apoBank's liquidity situation will remain comfortable in all probability, since it is supported by a broadly diversified customer and investor base. The liquidity gap analysis is solid both on a long-term and short-term basis.

### Opportunities and risks associated with business development

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

By providing our specialised advisory services and offering a wide range of events, we want to reduce reservations among health care professionals about opening their own practice or branch and counteract the downward trend in the numbers of economically independent medical service providers. We collaborate closely with the professional associations in this and are active in regional networks to strengthen the integration of our range of advisory services and customer support. At the same time, we are continuing to expand the range of products and advisory services for salaried health care professionals and students. Further opportunities should also open up through our business with corporate clients.

Gradually adapting our range of services as digitisation advances opens up additional access channels for our customers, which can have a positive impact on apoBank's earnings situation. The Bank now offers specialised digital applications, especially at the interface to the health care market. In the long term, we also hope to continue to improve our process efficiency thanks to digitisation. The entry of "fintech" companies could put the business potential of the established banks under further pressure. On the other hand, a large number of new business opportunities have opened up for the financial sector with the advance of new technology.

Challenges will arise due to further requirements of banking supervision. Risk-compliant opportunities for capital relief for banks applying internal rating procedures are expected to be significantly limited in future. In the long term, this will have tangible negative effects on apoBank's capital ratios. With strong growth in the lending business as planned and at the same time tighter regulations on capital requirements, we will take measures that strengthen capital as necessary. New legal regulations, in particular for consumer protection, are going to lead to higher expenses as well. The ongoing extremely low level of interest rates continues to be a burden on the banks' earnings situation. On the other hand, rising interest rates would have a positive effect on the earnings situation.

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

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# Interim Financial Statements

Condensed Balance Sheet	28
Condensed Income Statement	30
Condensed Notes	31

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# Condensed Balance Sheet

## Assets

	(Notes)	30 June 2017 €	31 Dec 2016 €
<b>1. Cash reserves</b>		<b>1,419,840,327.47</b>	<b>1,126,237,063.62</b>
a) Cash on hand		33,164,350.62	38,059,336.57
b) Cash in central banks		1,386,675,976.85	1,088,177,727.05
c) Cash in post office giro accounts		0.00	0.00
<b>2. Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks</b>		<b>0.00</b>	<b>0.00</b>
<b>3. Loans and advances to banks</b>	<b>(2, 13, 20)</b>	<b>1,641,306,357.60</b>	<b>1,254,311,439.21</b>
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		1,641,306,357.60	1,254,311,439.21
<b>4. Loans and advances to customers</b>	<b>(2, 13, 20)</b>	<b>30,891,988,780.19</b>	<b>29,492,492,758.89</b>
a) Mortgage loans		8,257,519,781.63	7,823,707,179.29
b) Local authority loans		152,185,297.71	147,767,707.68
c) Other receivables		22,482,283,700.85	21,521,017,871.92
<b>5. Debt securities and other fixed-interest securities</b>	<b>(3, 13, 15, 20)</b>	<b>4,774,985,653.66</b>	<b>5,026,467,186.07</b>
a) Money market papers		220,063,629.00	305,058,147.81
aa) of public issuers		0.00	0.00
ab) of other issuers		220,063,629.00	305,058,147.81
b) Bonds and debt securities		4,534,216,943.20	4,695,593,637.02
ba) of public issuers		1,575,763,270.98	1,645,430,198.98
bb) of other issuers		2,958,453,672.22	3,050,163,438.04
c) Own debt securities		20,705,081.46	25,815,401.24
<b>6. Shares and other non-fixed-interest securities</b>	<b>(3, 13, 14, 15)</b>	<b>1,030,663,937.06</b>	<b>1,031,563,947.06</b>
<b>6a. Trading assets</b>	<b>(4)</b>	<b>0.00</b>	<b>0.00</b>
<b>7. Participating interests and capital shares in cooperatives</b>	<b>(6, 16)</b>	<b>211,375,800.30</b>	<b>212,846,285.38</b>
a) Participations		211,203,752.91	212,674,837.99
b) Capital shares in cooperatives		172,047.39	171,447.39
<b>8. Shares in affiliated companies</b>	<b>(6, 16)</b>	<b>9,363,179.61</b>	<b>9,363,179.61</b>
<b>9. Trust assets</b>		<b>2,737,520.63</b>	<b>2,740,409.02</b>
<b>10. Compensation claims against the public sector including debt securities from their exchange</b>		<b>0.00</b>	<b>0.00</b>
<b>11. Intangible assets</b>	<b>(8)</b>	<b>7,544,134.00</b>	<b>7,861,680.00</b>
a) Internally-generated industrial and similar rights and assets		0.00	0.00
b) Concessions, industrial property rights and similar rights and assets acquired for a consideration, as well as licenses to such rights and assets		1,046,734.00	1,364,280.00
c) Goodwill		0.00	0.00
d) Payments in advance		6,497,400.00	6,497,400.00
<b>12. Tangible assets</b>	<b>(7, 17)</b>	<b>164,485,229.56</b>	<b>165,900,072.54</b>
<b>13. Other assets</b>	<b>(18)</b>	<b>242,108,261.35</b>	<b>264,936,519.49</b>
<b>14. Prepayments and accrued income</b>		<b>9,124,293.07</b>	<b>8,866,303.36</b>
a) from issuing and lending business		6,055,004.73	6,394,241.54
b) Others		3,069,288.34	2,472,061.82
<b>15. Deferred tax assets</b>	<b>(19)</b>	<b>0.00</b>	<b>0.00</b>
<b>Total assets</b>		<b>40,405,523,474.50</b>	<b>38,603,586,844.25</b>

## Liabilities

	(Notes)	30 June 2017 €	31 Dec 2016 €
<b>1. Liabilities to banks</b>	<b>(9)</b>	<b>7,851,870,316.18</b>	<b>6,930,120,019.45</b>
a) Registered mortgage Pfandbriefe issued		77,478,965.13	107,462,325.35
b) Registered public Pfandbriefe issued		0.00	0.00
c) Other liabilities		7,774,391,351.05	6,822,657,694.10
<b>2. Liabilities to customers</b>	<b>(9)</b>	<b>26,546,510,971.39</b>	<b>25,796,539,864.48</b>
a) Registered mortgage Pfandbriefe issued		1,473,357,243.24	1,435,875,033.55
b) Registered public Pfandbriefe issued		0.00	0.00
c) Savings deposits		91,065,538.68	93,314,807.87
ca) with an agreed notice period of three months		83,994,982.00	83,966,853.77
cb) with an agreed notice period of more than three months		7,070,556.68	9,347,954.10
d) Other liabilities		24,982,088,189.47	24,267,350,023.06
<b>3. Securitised liabilities</b>	<b>(9)</b>	<b>3,026,064,957.53</b>	<b>2,934,249,367.08</b>
a) Debt securities issued		3,026,064,957.53	2,934,249,367.08
aa) Mortgage Pfandbriefe		1,636,115,203.41	1,671,879,547.31
ab) Public Pfandbriefe		0.00	0.00
ac) Other debt securities		1,389,949,754.12	1,262,369,819.77
b) Other securitised liabilities		0.00	0.00
<b>3a. Trading liabilities</b>	<b>(4)</b>	<b>0.00</b>	<b>0.00</b>
<b>4. Trust liabilities</b>		<b>2,737,520.63</b>	<b>2,740,409.02</b>
<b>5. Other liabilities</b>	<b>(21)</b>	<b>115,225,835.18</b>	<b>68,299,858.00</b>
<b>6. Prepayments and accrued income</b>		<b>12,732,492.60</b>	<b>14,515,510.33</b>
a) from issuing and lending business		8,603,284.32	9,218,291.53
b) Others		4,129,208.28	5,297,218.80
<b>6a. Deferred tax liabilities</b>		<b>0.00</b>	<b>0.00</b>
<b>7. Provisions</b>	<b>(10)</b>	<b>385,099,568.60</b>	<b>414,730,485.38</b>
a) Provisions for pensions and similar obligations		192,206,561.49	180,265,941.49
b) Tax provisions		22,389,253.68	40,810,599.52
c) Other provisions		170,503,753.43	193,653,944.37
<b>8. ---</b>		<b>0.00</b>	<b>0.00</b>
<b>9. Subordinated liabilities</b>		<b>140,666,791.85</b>	<b>136,221,234.13</b>
<b>10. Participating certificate capital</b>		<b>0.00</b>	<b>0.00</b>
<b>11. Fund for general banking risks</b>		<b>606,017,615.87</b>	<b>576,969,901.00</b>
<b>11a. Special items from currency translation</b>		<b>0.00</b>	<b>0.00</b>
<b>12. Capital and reserves</b>	<b>(22)</b>	<b>1,718,597,404.67</b>	<b>1,729,200,195.38</b>
a) Subscribed capital		1,147,242,522.60	1,143,725,022.60
b) Capital reserves		0.00	0.00
c) Revenue reserves		540,491,249.19	524,491,249.19
ca) Legal reserves		410,750,000.00	402,750,000.00
cb) Other revenue reserves		129,741,249.19	121,741,249.19
d) Balance sheet profit		30,863,632.88	60,983,923.59
<b>Total liabilities</b>		<b>40,405,523,474.50</b>	<b>38,603,586,844.25</b>
<b>1. Contingent liabilities</b>		<b>518,721,991.37</b>	<b>498,317,841.48</b>
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		518,721,991.37	498,317,841.48
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
<b>2. Other obligations</b>		<b>2,408,497,730.28</b>	<b>2,263,934,083.88</b>
a) Obligations under optional repurchasing agreements		0.00	0.00
b) Placement and underwriting obligations		0.00	0.00
c) Irrevocable loan commitments		2,408,497,730.28	2,263,934,083.88

# Condensed Income Statement

## Income statement

	(Notes)	1 Jan – 30 June 2017 €	1 Jan – 30 June 2016 €
<b>1. Interest income from</b>	<b>(24)</b>	<b>419,201,893.08</b>	<b>442,142,482.51</b>
a) lending and money market transactions		421,446,723.59	441,055,178.52
b) fixed-interest securities and debt register claims		- 2,244,830.51	1,087,303.99
<b>2. Interest expenses</b>	<b>(25)</b>	<b>-106,239,795.61</b>	<b>-123,230,314.83</b>
<b>3. Current income from</b>		<b>12,348,832.77</b>	<b>13,458,337.39</b>
a) shares and other non-fixed-interest securities		1,500,021.26	1,350,019.84
b) participating interests and capital shares in cooperatives		9,588,811.51	9,100,318.28
c) shares in affiliated companies		1,260,000.00	3,007,999.27
<b>4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements</b>		<b>0.00</b>	<b>0.00</b>
<b>5. Commission income</b>		<b>130,652,570.65</b>	<b>104,419,868.41</b>
<b>6. Commission expenses</b>		<b>-42,626,597.89</b>	<b>-35,908,159.12</b>
<b>7. Net trading result</b>		<b>0.00</b>	<b>-490,068.47</b>
<b>8. Other operating income</b>	<b>(26)</b>	<b>21,191,892.81</b>	<b>13,581,462.81</b>
<b>9. ---</b>		<b>0.00</b>	<b>0.00</b>
<b>10. General administrative expenses</b>		<b>-252,225,040.29</b>	<b>-237,075,698.13</b>
a) Personnel expenses		-131,296,717.97	-120,851,817.39
aa) Wages and salaries		-100,988,117.25	-101,287,049.09
ab) Social security contributions and expenses for pensions and benefits		-30,308,600.72	-19,564,768.30
b) Other administrative expenses		-120,928,322.32	-116,223,880.74
<b>11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets</b>		<b>-6,204,474.23</b>	<b>-6,515,802.23</b>
<b>12. Other operating expenses</b>	<b>(26)</b>	<b>-17,646,495.50</b>	<b>-20,161,009.08</b>
<b>13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks</b>		<b>-58,179,134.73</b>	<b>-62,625,029.18</b>
<b>14. Income from write-ups in respect of receivables and specific securities and release of provisions for credit risks</b>		<b>0.00</b>	<b>0.00</b>
<b>15. Write-downs and value adjustments in respect of participating interests, shares in affiliates and securities treated as fixed assets</b>		<b>0.00</b>	<b>0.00</b>
<b>16. Income from write-ups in respect of participations, shares in affiliates and securities treated as fixed assets</b>		<b>6,484,132.67</b>	<b>27,553,009.27</b>
<b>17. Expenses from the assumption of losses</b>		<b>0.00</b>	<b>0.00</b>
<b>18. ---</b>		<b>0.00</b>	<b>0.00</b>
<b>19. Operating surplus</b>		<b>106,757,783.73</b>	<b>115,149,079.35</b>
<b>20. Extraordinary income</b>		<b>0.00</b>	<b>0.00</b>
<b>21. Extraordinary expenses</b>		<b>0.00</b>	<b>0.00</b>
<b>22. Extraordinary result</b>		<b>0.00</b>	<b>0.00</b>
<b>23. Taxes on income</b>	<b>(27)</b>	<b>-46,600,947.94</b>	<b>-47,636,209.19</b>
<b>24. Other taxes not reported in item 12</b>		<b>-254,467.14</b>	<b>212,362.61</b>
<b>24a. Allocations to the fund for general banking risks</b>		<b>-29,047,714.87</b>	<b>-37,322,000.00</b>
<b>25. Net profit</b>		<b>30,854,653.78</b>	<b>30,403,232.77</b>
<b>26. Profit carried forward from the previous year</b>		<b>8,979.10</b>	<b>9,454.49</b>
<b>27. Withdrawals from revenue reserves</b>		<b>0.00</b>	<b>0.00</b>
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
<b>28. Allocations to revenue reserves</b>		<b>0.00</b>	<b>0.00</b>
a) To legal reserves		0.00	0.00
b) To other revenue reserves		0.00	0.00
<b>29. Balance sheet profit</b>		<b>30,863,632.88</b>	<b>30,412,687.26</b>

# 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), Düsseldorf (Local Court of Düsseldorf, GnR 410), as at 30 June 2017 were prepared according to the regulations of the German Commercial Code (HGB), the Accounting Ordinance for Banks and Financial Services Institutions (RechKredV) as well as the Securities Trading Act (WpHG). At the same time, the 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 takes advantage of the option to provide information through the notes rather than 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 and advances and risk provisioning

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

### 3. Securities

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

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

Structured financial instruments that show significantly higher or additional (distinct) opportunities or risks compared to the underlying instruments on account of the embedded derivatives are broken down into their individual components and reported and valued individually pursuant to relevant provisions. As a result, these instruments are recognised separately if unconditional or conditional purchase obligations are intended for additional financial instruments.

The costs of acquisition of the separately reported capital and reserves components result from the breakdown of the costs of acquisition of the structured financial instruments in relation to the fair value of the individual components. In the event that the fair value of the embedded derivatives cannot be determined, the value is calculated as the difference between the fair value of the structured financial instrument and the fair value of the underlying instrument.

#### **4. Trading assets and liabilities**

The criteria defined internally for including financial instruments in the trading portfolio are unchanged year on year.

#### **5. Valuation units (hedge accounting)**

At apoBank, micro-hedge units and portfolio valuation units are formed to hedge risks. In this respect, micro-hedge units are used as part of asset swap packages and to hedge a part of own issuances. This hedges interest rate risks. apoBank uses portfolio valuation units to hedge currency risks in various independently controlled portfolios.

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

In micro-hedge units, apoBank concludes the prospective effectiveness test 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 instrument correspond with each other.

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

For micro-hedge units with underlying transactions on the liability side, apoBank applies the fixed valuation as long as it is considered a perfect hedge. The own issuance is posted at the redemption value and is not valued. Accordingly, the hedging derivative is also not valued.



In portfolio hedges, the risks of multiple underlying transactions of the same type are covered by one or more hedging instruments. The underlying transactions are alike in terms of their appropriation (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 the sums of the underlying transaction and the hedging transaction in terms of volume and all payment flows or changes in value are balanced as a rule. This way, a 100% effectiveness is, in principle, guaranteed. Any negative effects that occur over time are recognised in profit or loss as a provision for valuation units.

As at the reporting date, the total volume of the risks hedged amounted to €807.7 million (31 December 2016: €1,000.0 million). These risks result from an omitted depreciation of assets, an omitted appreciation of debt or omitted provisions for contingent losses and are quantified based on the gross net present values of the derivative transactions.

As at the reporting date, apoBank had designated 748 micro hedges with a nominal value of €10,240.1 million:

- 488 hedges on own issues against the interest rate risk with a nominal value of €6,063.5 million, including
  - 8 caps with a nominal value of €105.7 million,
  - 10 floors with a nominal value of €115.7 million,
  - 88 swaptions with a nominal value of €1,266.8 million,
  - 382 swaps with a nominal value of €4,575.3 million,
- 260 asset swaps to hedge against the interest rate risk of 160 acquired securities with a nominal value of €4,176.6 million.

As at 30 June 2017, a volume of foreign currency swaps from FX trading was used in the amount of €181.2 million as valuation units, of which €167.5 million to hedge offsetting FX swaps and €13.7 million to hedge a loan in a foreign currency.

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

- €89.4 million in US dollars,
- €80.5 million in British pounds,
- €10.2 million in Japanese yen,
- €1.1 million in other currencies.

At the reporting date, apoBank had a volume of FX forward transactions of €387.0 million as valuation units to hedge offsetting FX forward transactions, of which €385.8 million to hedge offsetting FX forward transactions and €1.2 million to hedge the interest of a loan in a foreign currency. The FX forward transactions can be broken down based on their currency as follows:

- €211.2 million in US dollars,
- €70.3 million in British pounds,
- €5.0 million in Swiss francs,
- €59.0 million in Danish krone,
- €41.5 million in other currencies.

## 6. Participating interests and shares in affiliated companies

Participating interests and capital shares in cooperatives and shares in affiliated companies were reported at cost of acquisition or the lower fair value. In the case of a purchase, the cost of acquisition is calculated as purchase price including directly attributable costs, in the case of an exchange transaction it is calculated according to common exchange principles.

## 7. Fixed assets/tangible assets

Tangible assets are carried at cost of acquisition less scheduled depreciation.

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

## 8. Fixed assets/intangible assets

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

## 9. Liabilities

All liabilities were generally carried at their repayment amounts. Differences between the lower issue price and the repayment amount of liabilities were reported under 'Prepayments and accrued income' and reversed 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 2017 were calculated based on the actuarial tables 'Richttafeln 2005 G' (Heubeck) using the projected unit credit method. The calculation was based on an updated forecast on the expert opinion dated 31 December 2016, taking into account an interest rate of 3.67% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 1.75%. At 30 June 2017, the difference pursuant to Section 253 (6) of the HGB amounted to €23,600 thousand.

apoBank recorded the releases and allocations in the balance sheet items 'Provisions for pensions and similar obligations' in relation to the interest effect in other operating income and as a net item under 'Personnel expenses'. Pension provisions and the provision for deferred compensation have been netted with the corresponding plan assets at their fair value, which is equivalent to the acquisition costs, pursuant to Section 246 (2) sentence 2 of the HGB.

The provisions for part-time retirement and anniversary payments were made on the basis of an interest rate of 2.79% and a wage increase trend of 3.00%. The provisions as at 31 December 2016 were projected accordingly for the interim report on the basis of these figures.

Provisions with a remaining 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 for provisions for pensions and similar obligations are taken into account in the 'Personnel expenses' item.

apoBank also made adequate provisions for other uncertain liabilities.

## 11. Derivative financial instruments

Derivative financial instruments are generally valued individually in accordance with the general valuation provisions of German commercial law (Sections 252 et seqq. of the HGB) and taking account of the realisation and imparity principle, unless valuation units are formed to an acceptable 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.

Within overall bank control, apoBank generally uses all tradable interest rate derivatives. They are used to hedge the interest rate risks in the banking book and manage net interest income.

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

## 12. Currency translation

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

apoBank considers the special coverage pursuant to Section 340h of the HGB as given when the total item is economically balanced in respect of every foreign currency as at the reporting date. If special coverage existed, income and expenditure from currency translation are shown in the income statement in 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/receivables are divided by purpose into the following categories:

##### Securities portfolio/receivables by purpose

	30 June 2017 €thous	31 Dec 2016 €thous
<b>Loans and advances to banks</b>		
Fixed assets	2,648	2,584

	30 June 2017 €thous	31 Dec 2016 €thous
<b>Loans and advances to customers</b>		
Fixed assets	4,246	15,049

	30 June 2017 €thous	31 Dec 2016 €thous
<b>Debt securities and other fixed-interest securities</b>		
Fixed assets	3,963,951	4,006,882
Liquidity reserve	811,035	1,019,585
<b>Total</b>	<b>4,774,986</b>	<b>5,026,467</b>

	30 June 2017 €thous	31 Dec 2016 €thous
<b>Shares and other non-fixed-interest securities</b>		
Fixed assets	53,345	54,245
Liquidity reserve	977,319	977,319
<b>Total</b>	<b>1,030,664</b>	<b>1,031,564</b>

## 14. Shares in special investment funds

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

### Shares in special investment funds

Name of fund	Investment objective	Value in accordance	Difference to	Distributions	Restriction of
		with Section 278 of the KAGB in conjunction with Section 168 of the KAGB or comparable international regulations		book value	
		€thous	€thous	€thous	
APO 1 INKA	Domestic and international bonds	619,238	75,234	0	no
APO 2 INKA	Domestic and international bonds	245,581	28,924	0	no
APO 3 INKA	Domestic and international bonds	245,581	28,924	0	no
Master fund coinvestments	Domestic and international equities, domestic and international bonds, FX forward transactions, futures	47,890	3,805	0	no

## 15. Financial instruments classified as fixed assets

### Financial instruments classified as fixed assets<sup>1</sup>

	Book value as at 30 June 2017	Fair value as at 30 June 2017	Omitted depreciation
	€thous	€thous	€thous
Banks	327,963	327,273	690
Public debtors	-	-	-
Companies	25,911	25,846	65
<b>Total</b>	<b>353,874</b>	<b>353,119</b>	<b>755</b>

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

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

## 16. List of holdings

The following list includes the significant participations pursuant to Section 285 No. 11 of the HGB. Pursuant to Section 286 (3) of the HGB, the list does not include participations of minor importance for apoBank's earnings, asset and financial position.

### List of holdings

Company	Share in company capital on 30 June 2017 %	Year	Capital and reserves of the company €thous	Result of the past financial year €thous
Apo Asset Management GmbH, Dusseldorf	70	2016	7,744	2,511
APO Beteiligungs-Holding GmbH, Dusseldorf	100	2016	4,163	0 (- 6) <sup>1</sup>
APO Data-Service GmbH, Dusseldorf <sup>2</sup>	100	2016	4,643	360
Kock & Voeste Existenzsicherung für die Heilberufe GmbH, Berlin <sup>2</sup>	26	2016	200	- 4
medisign GmbH, Dusseldorf <sup>2</sup>	50	2016	18	- 5
Konnektum GmbH, Dusseldorf <sup>2</sup>	49	2016	147	- 50
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	67	2016	10,067	2,655
aik Management GmbH, Dusseldorf <sup>2</sup>	100	2016	87	64
ARZ Haan AG, Haan/Rhineland	23	2016	42,346	4,869
CP Capital Partners AG, Zurich	24	2016	462	31
Creda Rate Solutions GmbH, Cologne	13	2016	2,750	504
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2016	13,078	6,929
Deutscher Genossenschafts-Verlag eG, Wiesbaden	0 <sup>3</sup>	2016	66,631	1,080
DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main	1	2016	10,256,000	323,000
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	16	2016	27,692	22,942
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2016	574	143
GAD Beteiligungs GmbH & Co. KG, Münster	5	2016	117,992	3,010
IWP Institut für Wirtschaft und Praxis Bicanski GmbH, Münster	26	2016	36	- 23
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich	24	2016	4,805	2,581
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2016	31,842	2,747
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2016	6,810	1,512

1) Before profit transfer or loss assumption

2) Indirect participations

3) Share in company capital is less than 0.1%

Participations in corporations with limited liability pursuant to Section 340a (4) of the HGB with more than 5% of voting rights existed with respect to Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover, ARZ Haan AG, Haan/Rhineland, Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne, and DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart.

## 17. Tangible assets

The item 'Tangible assets' includes:

### Tangible assets

	30 June 2017	31 Dec 2016
	€thous	€thous
Owner-occupied land and buildings	125,198	128,037
Office furniture and equipment	38,423	36,807

## 18. Other assets

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

### Other assets

	30 June 2017	31 Dec 2016
	€thous	€thous
Capitalised premiums from options and caps	190,925	210,178
Tax receivables	25,703	20,830
Including: corporation tax credit pursuant to Section 37 (5) of the German Corporation Tax Law (KStG)	(16,787)	(16,787)
Receivables from asset management	11,476	24,180



## 19. Deferred tax assets

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

As at 30 June 2017, a net deferred tax asset existed. This deferred tax asset 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 net deferred tax assets amounted to €193.0 million, thereof deferred tax assets of €193.0 million and deferred tax liabilities of €0.0 million.

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 2017	31 Dec 2016
	€thous	€thous
Loans and advances to banks	2,648	2,584
Loans and advances to customers	9,202	27,521
Debt securities and other fixed-interest securities	13,888	13,654
<b>Total</b>	<b>25,738</b>	<b>43,759</b>

## Notes to liabilities

### 21. Other liabilities

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

#### Other liabilities

	30 June 2017	31 Dec 2016
	€thous	€thous
Premiums from options and caps carried as liabilities	26,218	29,497
Tax liabilities	8,296	8,316
Trade payables	0	7,101
Margin payments received	0	6,592
Dividends to be paid	44,975	0

### 22. Capital and reserves

The amounts shown under 'Subscribed capital' are structured as follows:

#### Subscribed capital

	30 June 2017	31 Dec 2016
	€thous	€thous
<b>Members' capital contributions</b>	<b>1,147,243</b>	<b>1,143,726</b>
Of remaining members	1,142,499	1,133,800
Of departing members	3,844	8,100
Of terminated cooperative shares	900	1,826
Compulsory contributions due on shares in arrears	2	2

The 'revenue reserves' developed as follows:

#### Revenue reserves

	<b>Legal reserves</b>	<b>Other revenue reserves</b>
	€thous	€thous
As at 1 Jan 2017	402,750	121,741
Transfers		
from balance sheet profit of the previous year	8,000	8,000
from net profit of the financial year	0	0
Withdrawals	0	0
<b>As at 30 June 2017</b>	<b>410,750</b>	<b>129,741</b>

### 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 €30,830 million as at 30 June 2017 (31 December 2016: €31,811 million). As at 30 June 2017, the following types of transactions were included therein:

#### Distribution of traded derivatives/types of transactions

##### Interest rate-related transactions

- Interest rate swaps
- Swaptions
- Caps/floors

##### Currency-related transactions

- FX forward transactions
- FX swaps

##### Stock-related transactions

- Stock options

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

apoBank calculated the fair values shown using the following valuation models: Interest rate swaps were measured at their net present value on the reporting date. The various interest payment flows were calculated with forward rates derived from the current interest structure curve and then discounted with the swap curve in the same way as fixed payment flows. Swaptions are measured on the basis of the modified Black-Derman-Toy model and interest limit agreements on the basis of the Bachelier model.

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

apoBank measures stock options from structured financial instruments by comparing them with unstructured bonds from the same issuers 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 2017	31 Dec 2016	30 June 2017	31 Dec 2016
<b>Interest rate-related transactions<sup>1</sup></b>				
Time to maturity up to 1 year	3,000	3,352	35	57
more than 1 year to 5 years	12,380	12,994	-40	-18
more than 5 years	14,326	14,041	-162	-246
<b>Subtotal</b>	<b>29,706</b>	<b>30,387</b>	<b>-167</b>	<b>-207</b>
<b>Currency-related transactions</b>				
Time to maturity up to 1 year	1,030	1,330	0	1
more than 1 year to 5 years	91	91	1	0
more than 5 years	0	0	0	0
<b>Subtotal</b>	<b>1,121</b>	<b>1,421</b>	<b>1</b>	<b>1</b>
<b>Stock-related transactions<sup>1</sup></b>				
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
<b>Subtotal</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>30,830</b>	<b>31,811</b>	<b>-166</b>	<b>-206</b>

1) Interest rate- and stock-related transactions are reported under the items 'Other assets' (€191 million), 'Prepayments and accrued income (assets)' (€1 million) as well as under the items 'Other liabilities' (€3 million) and 'Prepayments and accrued income (liabilities)' (€3 million).

The vast majority of the derivative financial instruments are used to hedge interest rate or currency fluctuations as part of a valuation unit (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 €1,479 thousand (30 June 2016: €17,710 thousand) in negative interest income from deposits with the ECB and other banks, from collateral management, as well as from fixed-interest securities.

This item also includes material income related to other periods of €8,308 thousand for prepayment penalties (30 June 2016: €8,410 thousand).

### 25. Interest expenses

The 'Interest expenses' item includes €4,448 thousand (30 June 2016: €6,327 thousand) in positive interest expenses from borrowings from other banks and specific customer groups, from collateral management, as well as from securitised liabilities.

### 26. Other operating income and expenses or income and expenses related to other periods

Other operating income of €21,192 thousand (30 June 2016: €13,581 thousand) includes, among other things:

#### Other operating income

	30 June 2017	30 June 2016
	€thous	€thous
Rental income	2,166	1,974
Release of reserves (related to other periods)	13,868	6,827
Accounting gains from the disposal of fixed assets and intangible assets (related to other periods)	183	585
Interest income from tax refunds (related to other periods)	131	0
Income from discounting	0	0
Income from currency translation	1,146	1,298

Other operating expenses of €17,646 thousand (30 June 2016: €20,161 thousand) result primarily from the following items:

#### Other operating expenses

	30 June 2017	30 June 2016
	€thous	€thous
Provisions for litigation costs	9,953	12,478
Accounting losses from the disposal of fixed assets and intangible assets (related to other periods)	5	1
Interest expenses from tax arrears (related to other periods)	119	12
Expenses from compounding	4,409	4,535
Expenses from currency translation	207	1

#### 27. Taxes on income

Income taxes are related exclusively to the profit from ordinary business activities of the current period. Taxes on income were calculated largely on the basis of actual figures and the current tax rate.

## E. Other notes

### 28. Events after the reporting date

No events took place that were subject to reporting requirements between 30 June 2017 and 22 August 2017 when the Interim Financial Statements were prepared by the Board of Directors.

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

Please refer to the quarterly report as at 30 June 2017 of apoBank 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'.

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

Deutsche Apotheker- und Ärztebank eG, 40547 Dusseldorf, Germany

The purpose of the cooperative is the economic promotion and support of its members and especially members of the health care professions, their organisations and associations. Its business includes carrying out transactions customary in banking 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.

Revenue of €416.9 million resulted from the profit from ordinary business activities, excluding risk provisioning and general administrative expenses. Deutsche Apotheker- und Ärztebank's profit from ordinary business activities amounted to €106.8 million based on HGB accounting.

The average number of employees (excluding members of the Board of Directors) in 2017 (January to June) was 2,574.5.

The profit before tax of €106.8 million as at 30 June 2017 was largely generated in Germany. Taxes on income relating to this amount came to €46.6 million.

apoBank does not receive any public aid.

### 31. Board of Directors

Members of the Board of Directors

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

### 32. Supervisory Board

Members of the Supervisory Board

- Hermann Stefan Keller (until 30 June 2017), Chairman (until 30 June 2017), pharmacist
- Prof. Dr. med. Frank Ulrich Montgomery, Chairman (since 30 June 2017), physician
- Wolfgang Häck<sup>1</sup>, Deputy Chairman, bank employee
- Ralf Baumann<sup>1</sup>, bank employee
- Fritz Becker, pharmacist
- Marcus Bodden<sup>1</sup>, bank employee
- Martina Burkard<sup>1</sup>, bank employee
- Mechthild Coordt<sup>1</sup>, bank employee
- Dr. med. dent. Peter Engel, dentist
- Sven Franke<sup>1</sup>, bank employee
- Dr. med. Andreas Gassen, physician
- Dr. med. Torsten Hemker, physician
- Steffen Kalkbrenner<sup>2</sup> (since 30 March 2017), bank employee
- Walter Kollbach, tax consultant/auditor
- Dr. med. dent. Helmut Pfeffer, dentist
- Robert Piasta<sup>1</sup>, bank employee
- Dr. med. dent. Karl-Georg Pochhammer, dentist
- Christian Scherer<sup>1</sup>, bank employee
- Friedemann Schmidt, pharmacist
- Ute Szameitat<sup>2</sup> (until 28 February 2017), bank employee
- Susanne Wegner (since 30 June 2017), managing director
- Björn Wißuwa<sup>1</sup>, trade union secretary

1) Employee representative

2) Representative of the executive staff

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### 33. Name and address of the responsible auditing association

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

Dusseldorf, 22 August 2017  
Deutsche Apotheker- und Ärztebank eG  
The Board of Directors



Herbert Pfennig



Ulrich Sommer



Olaf Klose



Eckhard Lüdering



Dr. Thomas Siekmann



Holger Wessling

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# Certifications

Review Report	51
Responsibility Statement by the Legal Representatives	52

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# Review Report

To Deutsche Apotheker- und Ärztebank eG, Dusseldorf

We have reviewed the interim condensed financial statements, comprising the condensed balance sheet, the condensed income statement and the condensed notes, and the interim management report of Deutsche Apotheker- und Ärztebank eG, Dusseldorf, for the period from 1 January 2017 to 30 June 2017, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG ('Wertpapierhandelsgesetz': German Securities Trading Act). The preparation of the interim condensed financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the WpHG ('Wertpapierhandelsgesetz': 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 interim condensed financial statements and the interim management report based on our review.

We conducted our review of the interim condensed financial statements and the interim management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer ('IDW': Institute of Public Auditors in Germany). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed financial statements are not prepared, in all material respects, in accordance with German commercial law and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim management reports. A review is limited primarily to making inquiries of personnel of the cooperative and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed 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 WpHG applicable to interim management reports.

Dusseldorf, 23 August 2017

Genossenschaftsverband – Verband der Regionen e. V.

Dieter Schulz  
Certified Auditor

Arndt Schumacher  
Certified Auditor

## Responsibility Statement by the Legal Representatives

To the best of our knowledge, we assure that the interim financial statements give a true and fair view of the earnings, asset and financial position in accordance with the applicable accounting principles for interim financial reporting and that the interim management report gives a true and fair account of the development of the business including the company's performance and position, as well as the material opportunities and risks associated with the company's expected development for the remaining months of the financial year.

Dusseldorf, 22 August 2017  
Deutsche Apotheker- und Ärztebank eG  
The Board of Directors



Herbert Pfennig



Ulrich Sommer



Olaf Klose



Eckhard Lüdering



Dr. Thomas Siekmann



Holger Wessling

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The German version is legally binding.



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