Interim Report

2023

apoBank

The Health Care Bank

Overview of Business Development

Overview of business development

Bank data	30 June 2023	31 Dec 2022	Change[1] %
Members	112,185	113,543	– 1.2
Customers	500,756	498,474	0.5
Employees	2,318	2,269	2.2
Locations	79	80	– 1.3

Balance sheet	€m	€m	%
Balance sheet total	51,719	54,184	– 4.5
Customer loans	36,216	37,008	– 2.1
Customer deposits	31,607	33,934	– 6.9

Income statement	1 Jan – 30 June 2023 €m	1 Jan – 30 June 2022 €m	%
Net interest income[2]	484.0	362.8	33.4
Net commission income	95.9	102.4	– 6.4
Other operating income and expenses	2.3	6.9	– 66.7
General administrative expenses	– 370.2	– 365.3	1.4
Operating profit before risk provisioning	211.9	106.8	98.4
Risk provisioning from the operating business[3]	– 22.8	– 3.0	>100
Risk provisioning with reserve character[4]	– 82.9	– 29.7	>100
Operating result before tax	106.2	74.1	43.3
Net profit after tax	33.0	32.8	0.5

Key figures	30 June 2023 %	31 Dec 2022 %	ppts
Total capital ratio (according to CRR)	18.3	17.6	0.7
Common equity tier 1 capital ratio (according to CRR)	17.1	15.8	1.3
Cost-income ratio[5]	64.5	75.9	– 11.4
Liquidity coverage ratio	221.2	206.3	14.9

Ratings	Standard & Poor's	Fitch Ratings (group ratings)
Long-term rating	A+[6]	AA–[7]
Short-term rating	A–1	F 1+
Outlook	stable	stable
Covered bond rating	AAA	–

1) Deviations possible due to rounding differences.
2) Including current income from shares, fixed-interest securities, investments and shares in affiliated companies as well as income from profit transfer agreements.
3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and investments.
4) This includes risk provisioning measures which do not concern individual risks, as well as allocations to the fund for general banking risks and to provisioning reserves.
5) Ratio of operating expenses and operating income. Operating expenses include general administrative expenses as well as other operating expenses. Operating income includes net interest income, net commission income and other operating income.
6) Issuer credit rating as at December 2022.
7) Issuer default rating as at May 2023.

Content

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Interim Management Report

Fundamental Features of the Bank

Business model

Aligned with the health care market

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

apoBank's business model is designed to sustainably utilise the opportunities presented by the growing health care market.

We support academic health care professionals during their training, throughout their careers and in retirement, as well as other selected customers to implement their professional and private projects; we also service small companies and medical care structures. When it comes to professional associations and large customers, we advise associations of panel doctors/dentists, chambers and associations, institutional organisations in the health care sector, professional capital investors as well as larger companies and care structures in the health care market. These include operators of pharmaceutical, medical, veterinary, dental, inpatient and nursing care structures.

We offer our customers a wide range of financial and advisory services in payment transactions, in the lending, deposit and investment business, as well as in asset management. We round off our offering with additional services for our customers' various needs – in the health care environment in particular, but also in their private lives.

Strategy and goals

apoBank aims to be a financial partner of preference to its customers and to take on responsibility in the health care market. Our strength and our potential lie in our offerings for salaried and self-employed health care professionals as well as their organisations. We aim to further strengthen the core of our business model. To achieve this, we will hone our focus even more, thus gaining financial and creative room to manouevre. The Bank must be structured to be financially stable in the long run and to continuously enhance its competitiveness.

We consistently place our customers, their goals and needs at the centre of everything we do – following our conviction that trusting and stable customer relationships are the key prerequisite for successful collaboration.

We differentiate customer support according to individual needs, providing intensive and personal advice on complex topics. In addition, we offer our customers fast, direct and easy access to our banking services. In this context, we are continuing to expand our digital channels and our apoDirect customer centre.

We offer integrated advisory services providing solutions to the variety of challenges faced in health care professions and in the health care market, always with the lifelong needs of our customers in mind. By adopting this long-term perspective, we aim to deliver the right solution to our customers at any point in their lives.

We support people in academic health care professions with services and products around the topics of career and business start-ups as well as asset management and retirement provision. We aim to significantly expand the asset management business, primarily by considerably growing our advisory services in all areas of wealth creation for retail clients, and in particular our asset management services. For this purpose, we apply our own knowledge and the expertise of our associated company Apo Asset Management GmbH, which specialises in the administration and management of securities funds for private and institutional customers from the health care sector. In addition, our associated company aik Immobilien-Investmentgesellschaft mbH supports occupational pension funds and pension plans.

At the same time, we intend to consolidate and expand our lending business, including the financing and support of new businesses, construction financing as well as other investment financing and private loans. Here, we will continue to leverage our expertise in the financial and health care market and will develop a selection of services that complement our product portfolio and support health care professionals in their function as business owners.

In the corporate clients business, apoBank acts as a strategic partner to the operators of outpatient and inpatient care, to companies in the health care market, and to clearing centres.

We want our members to participate in our business success while at the same time aiming to strengthen our capital and reserves in order to finance the growth coming from the new members' capital contributions and using our own resources. To achieve this, we must ensure long-term, tangible cost reductions. A key lever here will be to continuously increase our efficiency, primarily by optimising processes from end to end and through digital transformation.

When it comes to generating value, in addition to economic sustainability, questions of environmental and social sustainability are also becoming increasingly important. We see ourselves as a company that is aware of the responsibility it bears towards society. Our sustainability strategy consists of a range of measures we intend to implement to create climate-neutral business operations. We aim to steadily reduce our carbon emissions and offset further emissions each year through compensation projects. Our goal is to be climate-neutral across all of our business activities by 2045.

Further details on the fundamental features of the Bank can be found in the Annual Financial Report 2022 (pages 23 to 27). The statements contained therein continue to apply.

Economic Report

Overall economic and industry-specific conditions

Solid growth in global economy

The global economy saw solid growth in the first half of 2023. In Germany, however, growth was negative in the winter half-year (Q4/2022 and Q1/2023); the economy was thus technically in recession, albeit a mild one. German growth stagnated in the second quarter. The global economy was burdened by high inflation, which had a negative impact on private consumption. Another contributing factor was the decline in government consumption expenditure, which had increased due to the pandemic. Price declines on the energy markets eventually helped the economy in the euro area to stabilise. Despite recession concerns, the US economy managed to grow moderately – driven by strong consumer spending. The end of the zero-Covid policy in China and the resulting recovery of the country's economy also had a positive effect on the global economy. Bank turmoil in the US and Europe, on the other hand, only temporarily weighed on the global economy.

Central banks continue to wrestle with inflation

The fact that energy prices began to fall again led to a decline in inflation worldwide in the first half of the year. In the euro area, however, the core inflation rate remained high. Especially in the service sector, prices continued to rise strongly due to higher wages. To counter inflation, many major central banks raised key interest rates, the ECB for example by a total of 1.5 percentage points in the first half of the year to a deposit rate of 3.5%. It is also continuing its balance sheet contraction. The ECB's goal is to reach the inflation target of 2% in the medium term.

Financial markets recover

Since the beginning of the year, significant increases in share prices on the stock markets have been observed. The MSCI World All Countries Index, which is the benchmark for the global stock market, rose by more than 10%. Price gains were above average in market segments that had suffered the greatest price losses last year. One example is the tech-heavy Nasdaq 100 index, which climbed by more than 30% by the middle of the year. Prices on the bond markets increased slightly in the course of the first half of the year. Current yields changed only marginally for both government and corporate bonds. Stubbornly high inflation rates and a greater appetite for risk drove yields higher, while the banking turmoil in March put similar pressure on government bond yields. The yield on ten-year German government bonds decreased from 2.56% at the beginning of the year to around 2.4% in June 2023. Risk premiums for investment grade corporate bonds remained almost unchanged compared to the beginning of the year.

Real estate sector impacted by cost trend and rises in interest rates

Residential and commercial property prices fell unusually sharply in the first quarter of 2023[1]. In the view of the Association of German Pfandbrief Banks, this was due to inflation, the changes in the interest rate environment and uncertainty about how the economy will perform. Rising construction prices and financing costs also had a negative impact on demand for real estate construction services and housing loans in the first half of the year. The German Federal Bank (Bundesbank) expects a continued decline in real estate construction.

1) The figures for the second quarter of 2023 were not yet available as at the editorial deadline of this report.

Health care market

Small steps towards reform

In the first half of 2023, the German Federal Ministry of Health continued to push ahead with several reform projects that had been set out in the coalition agreement. For example, a new care reform act was passed at the end of May to ease the burden on those in need of care and their families. The working conditions for carers are to be improved and digitisation in long-term care strengthened.

After the government commission had presented an initial proposal for a reform of hospital financing in December 2022, the Federal Government and the federal states were able to agree on a basic structure at the beginning of June 2023. Health Minister Karl Lauterbach is confident of presenting a draft bill over the summer so that the reform can come into force at the beginning of 2024.

Draft legislation is currently being discussed on combatting and improving the problem of significantly increasing supply bottlenecks of medicines. One focus of the draft is the availability of medicines for children.

The long-term financing of the statutory health insurance has not yet been secured. It was not until December 2022 with the passing of the draft legislation on the financial stabilisation of the statutory health insurance (GKV-Finanzstabilisierungsgesetz, GKV-FinStG) that €17 billion was made available to offset the impending financial deficit of the health insurance funds in 2023. For 2024, the Association of Statutory Health Insurance Funds expects another financing gap of €3.5 to €7 billion. However, there is to be no more money from the state. In this context, Lauterbach speaks of slight increases in insurance premiums, he has ruled out benefit cuts.

Economic situation of practices and pharmacies after Covid

Following the phasing out of numerous extraordinary revenues associated with the Covid pandemic, the operating result of pharmacies in 2022 fell significantly compared to the previous year. The increase for two years in the discounts pharmacies have to grant the statutory health insurance, which was decided on in the GKV-FinStG, causes additional uncertainty. In February 2023, the discount was raised from €1.77 to €2.00. The rise leads to a direct net burden on earnings of the just under 18,000 pharmacies nationwide.

Expenditure by the statutory health insurance on outpatient care increased by 3.4% in 2022. This corresponds to a rise of around €1.5 billion.

The elimination of the remuneration limit in 2022 freed up potential for dentists to leverage catch-up effects from the Covid pandemic. In addition, the associations of panel dentists were able to financially support health care professionals who had started up their businesses between 2019 and 2021. With the passing of the GKV-FinStG, fee growth has now been capped for 2023 and 2024.

The effects of the new fee schedule for veterinarians, which came into force in November 2022, already became noticeable in the first half of 2023. Most items on the fee schedule were increased significantly. However, much of the extra money veterinarians receive from the revaluation is eaten up by the current high inflation.

Inpatient providers and companies struggle with massive cost increases

Inflation and the aftermath of the Covid pandemic are putting economic strain on hospitals. Many clinics can no longer refinance their expenditure using current revenues. In addition, there are uncertainties due to the upcoming major hospital reform.

The economic situation is also tense in the care sector, where insolvencies have been on the rise since the beginning of 2023. This is due to inflation-related cost increases and significant pay increases for care workers as a result of legislation on tariff compliance. In addition, there are low occupancy rates due to the shortage of skilled care workers, high sick leave rates and cost-intensive temporary-contract work. Some market leaders have initiated insolvency protection proceedings in order to restructure themselves in self-administration while continuing business operations.

The pharmaceutical industry is feeling the cost pressure from more expensive primary products and increased energy prices. However, pharmaceutical manufacturers can only increase their prices to a limited extent because of the measures laid down in the GKV-FinStG (manufacturer discount, price moratorium, reform of pricing for new medicines). At the same time, shortages in the supply of medicines have become increasingly common in recent years. The German government has introduced legislation to combat supply shortages in an attempt to strengthen European production locations, among other things.

In nominal terms, the medical technology industry remains on a growth path. The earnings situation as well as business performance were, however, negatively affected in the first half of the year by the economic impact of the Ukraine war and the sanctions on Russia in the form of rapidly rising material, energy and logistics costs. Due to the shortage of skilled workers in production and development, as well as the shortage of electronic components, many products still cannot be delivered on time or even have to be redesigned and then reapproved.

Business performance

Banking sector's business environment

The reporting period (1 January to 30 June 2023) continued to be characterised by a further rise in interest rates, fears of recession, persistent inflation and high energy prices. Because Russia has continued its war of aggression on Ukraine, there has still been no relief for global economies. However, ongoing digital transformation, changing customer requirements and regulatory innovations also continued to define the banking environment in the first six months of 2023. Banks are meeting these challenges by making structural adaptations to their balance sheets as well as investing more in process improvements and cost programmes.

Business performance good overall under challenging conditions

With regard to the earnings situation – in terms of operating profit before risk provisioning – and against the backdrop of challenging conditions, we rate our business performance in the reporting period as good overall. However, in terms of how the relevant items in the income statement performed, a more differentiated analysis is necessary. In accordance with our statutory purpose, we supported our members and customers in achieving their professional and private goals by offering our specialised banking services. The number of members as of 30 June 2023 was 113,638. By the end of the year, 1,453 members are likely to leave, with 112,185 members remaining (31 December 2022: 113,543). As at the reporting date, we had 500,756 customers (31 December 2022: 498,474). apoBank pushed ahead with its Agenda 2025 in the reporting period. This includes measures to strengthen sales, optimise products and processes and reinforce the resilience of the Bank. apoBank generated a net profit (after tax) of €33.0 million (30 June 2022: €32.8 million).

The balance sheet total sank to €51.7 billion as at the reporting date (31 December 2022: €54.2 billion). Loans and advances to customers were at €36.2 billion (31 December 2022: €37.0 billion). The securities portfolio declined to €7.0 billion (31 December 2022: €7.2 billion). Loans and advances to banks also decreased, falling to €7.7 billion (31 December 2022: €9.0 billion). We continue to finance our lending business primarily via liabilities to customers, which amounted to €31.6 billion in the reporting period (31 December 2022: €33.9 billion). Securitised liabilities decreased to €5.0 billion (31 December 2022: €5.5 billion). By contrast, our liabilities to banks climbed to €11.4 billion (31 December 2022: €11.1 billion).

Business with retail clients

In the Retail Clients business segment, we support the professional and private endeavours of pharmacists, physicians, dentists, veterinarians and psychotherapists.

Loan portfolio stable

The increased interest rates and our customers' high liquidity holdings also had an impact on apoBank's new lending business – and especially on real estate financing. The loan portfolio amounted to €30.1 billion in the reporting period (31 December 2022: €30.7 billion). The volume of business start-up financing increased by 30 June 2023 to €8.5 billion (31 December 2022: €8.2 billion). Real estate financing reached €17.7 billion (31 December 2022: €18.3 billion). Investment and private financing decreased to €4.0 billion (31 December 2022: €4.2 billion).

Drop in average deposit volume

The average deposit volume of our retail clients decreased to €24.7 billion (2022: €26.4 billion). Customers have probably adjusted their investment behaviour in response to rising interest rates.

Asset management continues to grow

The positive price trends on the stock markets in the first half of 2023 as well as inflowing funds led to an increase in our customers' deposit volume by 7.8% to €11.1 billion (31 December 2022: €10.3 billion).

Our asset management also benefited from this trend. As at 30 June 2023, the volume managed was €5.4 billion (31 December 2022: €4.8 billion), a rise of 12.5%.

Positive trend in insurance and building society business

We expanded the life insurance business in the first half of 2023. The brokerage volume increased to €322.5 million (30 June 2022: €307.7 million).

As interest rates have risen, building society contracts have become more attractive once again, with the total contract value also increasing – to €231.2 million (30 June 2022: €173.7 million).

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

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

In the reporting period, the average deposit volume amounted to €3.9 billion (2022: €4.7 billion). The main reason for the decrease was that the temporary flow of additional funds through clearing centres over the past two years in connection with the Covid pandemic stopped. The average deposit volume is thus almost at the same level as in 2019, before the pandemic.

Individually tailored advisory concept for institutional investors

Institutional investors include occupational pension funds for the health care and other liberal professions and other financial intermediaries as well as other professional investors such as pension funds, insurance companies and church or municipal pension institutions.

Besides banking services, we offer the long-term investors among these customers products and services such as asset liability management studies, which are tailored to help them manage and monitor their capital investments as well as comply with regulatory requirements. In addition, we support our customers in optimising strategic capital investments and investment plans.

When managing mandates as part of our direct portfolio management we continued to focus on the creditworthiness of bond debtors. Here, in addition to a large number of quantitative and qualitative aspects, we also take sustainability factors into consideration. Furthermore, our advisory approach of offering investment plans and solutions for implementing capital investment strategies will play a key role once again going forward. This is how apoBank plans to hone its profile in this area. It will therefore no longer offer the technical and strongly scale-dependent custodian service for investment funds itself.

Corporate lending business slightly down, as planned

In its business with corporate clients, apoBank pools strategic advisory services to companies in the health care market, primarily those from the areas of pharmaceutical wholesalers and the pharmaceutical and medical technology industry as well as private clearing centres. In addition, we support providers of outpatient and inpatient care such as clinics, rehabilitation facilities and nursing homes, with a focus on offering them our financing solutions.

Demand for financing continued in the half year under review. Despite continued intense competition and a challenging market situation due to the war in Ukraine and high energy prices, the volume of loans to corporate customers reached €5.0 billion (31 December 2022: €5.3 billion). The decrease compared to the previous year is mainly due to the planned reduction in new business with real estate funds and the sharpening of focus in the corporate finance business.

Net assets, financial position and results

Net interest income benefits from interest rate increase

Our interest-bearing business exceeded the level of the previous year by one-third. Net interest income rose to €484.0 million (30 June 2022: €362.8 million). Here, we benefited extensively from the fact that interest rates increased year on year, while refinancing costs in the customer business were moderate. Strategic banking book measures burdened net interest income to an amount in the mid double-digit millions. We generated comparatively stable revenues from the lending business.

New lending decreased to €1.6 billion (30 June 2022: €3.1 billion). The main reason for this trend was that demand for construction financing had become weak as a result of the interest rate turnaround.

The deposit business was the primary reason we very significantly exceeded our targeted net interest income. In the reporting period, apoBank's income statement no longer includes bonuses from the ECB's TLTRO measures, which had still amounted to a mid-double-digit million amount in the previous year.

Net commission income as planned

At €95.9 million, net commission income was below the previous year's level, as planned (30 June 2022: €102.4 million). While we saw increases in revenues from payment transactions, we recorded lower revenues from brokerage commissions and from the securities business with customers. The bottom line is that we achieved roughly the target performance in the commission-based business.

General administrative expenses at previous year's level

General administrative expenses amounted to €370.2 million in the period under review (30 June 2022: €365.3 million), and were thus significantly lower than planned.

Income statement

	1 Jan – 30 June 2023	1 Jan – 30 June 2022	Change[1]
	€m	€m	%
Net interest income[2]	484.0	362.8	33.4
Net commission income	95.9	102.4	– 6.4
General administrative expenses	– 370.2	– 365.3	1.4
Balance of other operating income/expenses	2.3	6.9	– 66.7
Operating profit before risk provisioning	211.9	106.8	98.4
Risk provisioning from the operating business[3]	– 22.8	– 3.0	>100
Risk provisioning with reserve character[4]	– 82.9	– 29.7	>100
Operating result before tax	106.2	74.1	43.3
Tax	– 73.2	– 41.3	77.3
Net profit after tax	33.0	32.8	0,5

1) Deviations possible due to rounding differences.
2) Including current income from shares, fixed-interest securities, shareholdings and shares in affiliated companies as well as income from profit transfer agreements.
3) This includes individual risk provisioning measures for the customer lending business as well as for financial instruments and shareholdings.
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.

Personnel expenses rose to €135.5 million (30 June 2022: €127.1 million). This trend is due, among other things, to increased wages and salaries, personnel measures as well as higher expenses for company pension schemes. As a consequence, personnel expenses rose markedly more than expected.

Operating expenditure including depreciation was stable at €234.7 million (30 June 2022: €238.2 million). Counteracting effects were at play here, with higher expenditure on projects and bank operations compensated for by lower costs for services as well as a lower bank levy. Operating expenditure including depreciation was considerably below the budgeted amount overall.

The cost-income ratio was 64.5% (first half-year 2022: 77.8%). We had expected it to be significantly higher year on year.

Operating profit almost doubled

The operating result, i.e. profit before risk provisioning, reached €211.9 million (30 June 2022: €106.8 million), which was considerably higher than planned. The main reason for this was the dynamic development of net interest income as a result of the interest rate turnaround. In addition, administrative expenses rose significantly less than expected.

Risk provisioning for the operating business lower than expected

Risk provisioning for the operating business was at - €22.8 million (30 June 2022: - €3.0 million). This rise was primarily due to higher net allocations to loan loss provisions. Despite the increase, this item remained far below our expectations. In addition, we carried out value adjustments to fixed asset securities in a mid-single-digit million-euro amount. The hidden burdens of our financial instruments classified as fixed assets sank considerably compared to the end of 2022. They reached an amount in the mid-triple-digit million range. As before, we do not expect long-term decreases in value.

Risk provisioning with reserve character amounted to -€82.9 million (30 June 2022: -€29.7 million); due to the positive earnings trend, we formed significantly more risk provisioning than planned.

Stable net profit (after tax)

The bottom-line operating result amounted to €106.2 million (30 June 2022: €74.1 million); we had expected a slight decrease.

Net profit after tax was on target at €33.0 million (30 June 2022: €32.8 million).

Decline in balance sheet total continues, liquidity situation remains comfortable

The balance sheet total decreased as at 30 June 2023 by 4.5% to €51.7 billion (31 December 2022: €54.2 billion). At €36.2 billion, loans and advances to customers were negligibly lower than at the end of 2022 (31 December 2022: €37.0 billion). The securities portfolio amounted to €7.0 billion (31 December 2022: €7.2 billion).

apoBank’s liquidity situation remained comfortable in the first half of 2023; all internal and external minimum requirements for our liquidity position were fulfilled in the last fiscal year. As a well-established market participant with good credit ratings, apoBank secures funds for refinancing through various sources based on a broadly diversified customer and investor base. Liabilities to customers represent the largest part of refinancing. In the period under review, they decreased to €31.6 billion (31 December 2022: €33.9 billion). This figure also includes the promissory note funds and registered bonds placed with our customers totalling €1.9 billion (31 December 2022: €2.0 billion).

To secure its liquidity, apoBank draws on a broad refinancing mix by issuing covered bonds (Pfandbriefe), unsecured bonds (preferred and non-preferred), as well as subordinated issuances which we place with our institutional clients and on the capital market, among others. Our liabilities to banks amounted to €11.4 billion as at the reporting date (31 December 2022: €11.1 billion). The volume of our ECB-eligible securities decreased to €5.9 billion (31 December 2022: €6.2 billion).

The total volume of the Pfandbrief portfolio outstanding as at the reporting date of 30 June 2023 amounted to €4.4 billion (31 December 2022: €4.9 billion).

In addition, we utilise refinancing options offered by the Kreditanstalt für Wiederaufbau (KfW) and state development banks.

The equity capital item is described in the section "Overall capital situation" in the risk management report Information on member numbers can be found on the inside cover of the report and above in the text.

Assessment by external rating agencies

apoBank's creditworthiness, in other words its ability and willingness to fulfil all of its financial obligations fully and in a timely manner, is rated by Standard & Poor's. In December 2022, the agency confirmed apoBank's Issuer Credit Rating as A+ as well as a stable outlook. apoBank's senior unsecured bonds have an A+ rating, senior subordinated bonds have an A- rating.

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

Summary

The conditions for the banking business were dominated by the war on Ukraine, the jumps in interest rates as well as high inflation. In this environment, apoBank continued to implement its Agenda 2025 as planned.

Net interest income benefited from the interest rate turnaround; net commission income was below the previous year's level, as expected. Administrative expenses were largely stable. Although risk provisioning from the operating business increased, it remained below expectations. While allocations to reserves were higher, net profit after tax was stable as taxes also increased compared to the previous year.

We view the liquidity situation as comfortable in the period under review.

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

Sustainability report

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

Risk Management Report

Principles of risk management and risk control

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

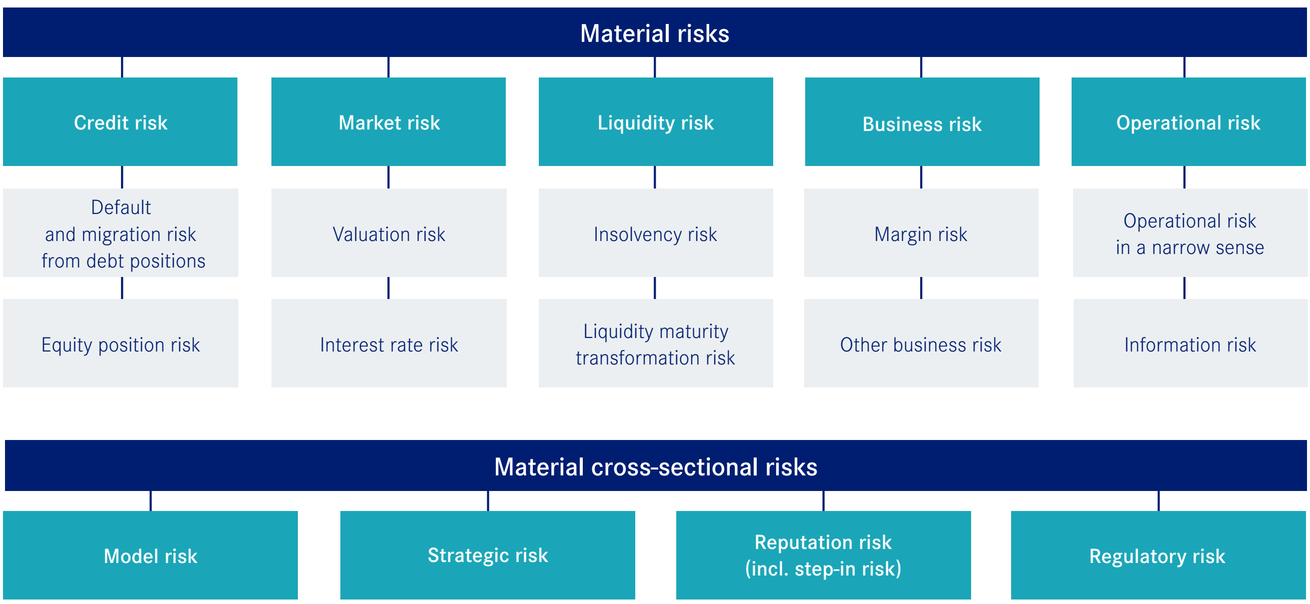
Risk management at apoBank includes the following essential elements that contribute to achieving the objectives outlined above:
- the risk inventory,
- the business and risk strategy,
- the capital adequacy monitoring process including the stress test framework,
- the liquidity adequacy monitoring process including the stress test framework,
- the risk-type-specific sub-strategies and
- the organisation of risk management, including (recovery) governance.

Compliance with the risk guidelines and the specified risk appetite is monitored operationally by the back office units and Risk Controlling. The responsible decision-makers receive regular reports on the results of this monitoring.

For a detailed description of risk management including the essential elements listed above, please refer to the risk management report published in our Annual Financial Report 2022 (pages 38 to 61).

The following diagram provides an overview of the material risks at apoBank.

Classification of apoBank's types of risk



Development of the risk position in the first half of 2023

Overall capital situation

apoBank aligns its Internal Capital Adequacy Assessment Process (ICAAP) with the binding ICAAP guideline of the ECB. In the ICAAP, a sophisticated approach comprising a normative and an economic perspective is taken towards controlling capital adequacy. When monitoring capital adequacy, the correlations between the two perspectives are taken into account.

Capital situation – normative perspective

apoBank's capital ratios as at 30 June 2023 were above the respective capital requirements and recommendations as well as above the internal target ratios both on each reporting date during the first half of 2023 and in the rolling three-year capital forecast carried out on the same date. Compared to 31 December 2022, the capital ratios rose slightly as at 30 June 2023. Therefore, the Bank continues to rate its capital situation as good overall.

As at the reporting date, the total capital ratio of apoBank pursuant to the Capital Requirements Regulation (CRR) amounted to 18.3% (31 December 2022: 17.6%) and the common equity tier 1 capital ratio was at 17.1% (31 December 2022: 15.8%). The tier 1 capital ratio is identical to the common equity tier 1 capital ratio, as apoBank did not issue any additional tier 1 capital.

As at 30 June 2023, regulatory capital totalled €2,808 million (31 December 2022: €2,595 million). Common equity tier 1 capital rose from €2,331 million as at the end of 2022 to €2,612 million. The main drivers of this increase were allocations to reserves from the annual result generated in 2022, the interim profit generated and carried forward in the first half of 2023 as well as regulatory capital deduction items that were lower by almost one third. The backdrop to this is essentially the consolidated consideration of the IRB shortfall of credit risk adjustments to expected losses and the IRB excess of provisions over expected losses eligible (tier 2 capital) since the end of the first half of the year.

Tier 2 capital fell in the first half of 2023 to €196 million (31 December 2022: €264 million). The main reason for this trend is the aforementioned consolidation of the IRB shortfall and IRB excess, as a result of which there was no longer an offsettable IRB excess as at the reporting date.

As at 30 June 2023, risk-weighted assets (RWA) amounted to €15,308 million, and were thus higher than at the end of 2022 (31 December 2022: €14,752 million). The utilisation rate of the normative Bank-wide limit of €17,200 million was 89.0% as at 30 June 2023.

The leverage ratio amounted to 5.0%; it was thus above the regulatory minimum requirement of 3.0%, and above the previous year's level (31 December 2022: 4.3%). The significant increase in core capital along with a simultaneous slight decline in the leverage ratio exposure contributed significantly to this.

Capital situation – economic perspective

Since the beginning of 2023, apoBank has been using an internally refined methodology to monitor and calculate economic capital adequacy. For this reason, the reporting data are only comparable with the previous year's figures to a limited extent.

The economic capital ratio, which represents the relation between the risk cover potential and the measured economic risks, is at 271.0% (31 December 2022: 152.9%), above the internal target ratio of 135.0%.

ICAAP – normative perspective

as at 30 June 2023	€m	Total capital ratio %
Regulatory capital	2,808.2	
Risk-weighted assets (RWA)	15,308.5	18.3

Risk-weighted assets as at 30 June 2023	Actual risk €m	Utilisation of threshold value criteria[1] %
Retail business	8,731.1	93.9
Companies	3,420.5	81.4
Institutes	529.1	66.1
Investments	864.3	101.7
Other RWA[2]	1,763.5	86.0

1) In the normative perspective, the threshold value criteria are used as an internal tool to monitor the development in the risk-weighted assets. Exceeding the threshold value criterion "investments" at the reporting date will result in a reallocation of the RWA threshold value criteria in the context of the normative Bank-wide limits at the beginning of the second half of the year.
2) RWA for credit risk positions "sovereign states" and "other assets", operational risks, market risk positions, credit value adjustments (CVA) and settlement risk.

ICAAP – economic perspective

as at 30 June 2023	€m	Economic capital ratio %
Risk cover potential	4,008.7	
Bank-wide risk position	1,479.0	271.0

Material risks as at 30 June 2023	Actual risk €m	Utilisation of threshold value criteria[1] %
Credit risk	597.7	60.7
Market risk	124.7	26.5
Liquidity risk	0.0	0.0
Business risk	614.7	90.4
Operational risk	141.8	88.6

1) In the economic perspective, the threshold value criteria are used as an internal tool to monitor the development in the material risks.

As at the reporting date, the risk cover potential amounted to €4,009 million; it was thus higher than at the end of 2022 (31 December 2022: €2,586 million). This increase is due in particular to the recognition of hidden reserves from the Bank's banking book items combined with the fact that we refined our deposit model. This resulted in more accurate recognition of fixed interest periods in the deposit business.

The economic risks, which are measured based on a confidence level of 99.9% and a holding period of 250 days, amounted to €1,479 million as at the reporting date and were thus lower than at the end of 2022 (31 December 2022: €1,691 million). The increase in measured business risk was more than compensated for by decreases in credit, market and liquidity risk.
The utilisation rate of the economic Bank-wide limit of €2,310 million was 64.0% as at 30 June 2023.

Credit risk

The unexpected loss (UEL) from credit risks faced by apoBank was €598 million as at 30 June 2023 (31 December 2022: €791 million).

In the customer lending business, apoBank switched from measuring periodic risk to quantifying present-value UEL. In addition, migration risks, which were previously determined separately, are now already included in the lending portfolio model. The decrease in UEL in the financial instruments portfolio is due to lower holdings.

The rating system of apoBank

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

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

The threshold value criterion for credit risk derived from the Bank-wide limit of the economic capital adequacy calculation of €985 million was complied with as at 30 June 2023.

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

Retail Clients business segment
In the retail clients portfolio, drawdowns dropped to €31.4 billion as at 30 June 2023 (31 December 2022: €32.0 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 100%. The portfolio is highly diversified: With around 240,000 borrowers, the largest individual risk accounts for only around 0.1% of the total drawdowns in this portfolio.

After offsetting new and no longer necessary provisioning measures, value adjustments to the amount of €16.1 million were made in the first half of 2023. The expected pro-rata amount had been between €17 and €18 million.

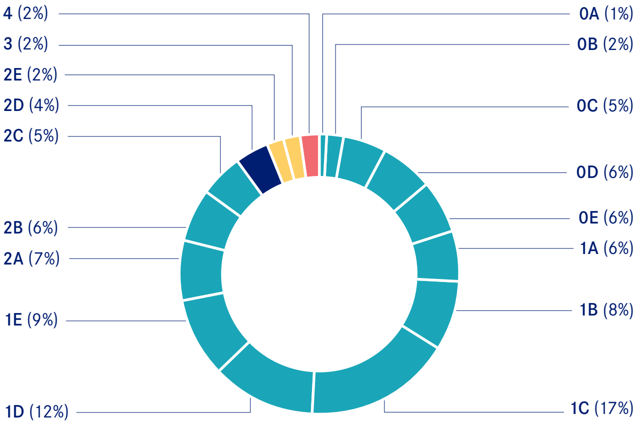
Professional Associations and Large Customers business segment
Drawdowns in the professional associations and large customers portfolio decreased by €0.3 billion to €5.5 billion as at 30 June 2023 (31 December 2022: €5.8 billion). The rating distribution of the portfolio is balanced. The rating coverage is 100%.

After offsetting, value adjustments were made for the professional associations and large customers portfolio to the amount of €2.6 million as at the reporting date of 30 June 2023. We had planned pro-rata risk provisioning for the first half of 2023 of between €5 and €6 million.

Rating class distribution in the retail clients portfolio

Volume distribution based on drawdowns

Total of €31.364 million[1]

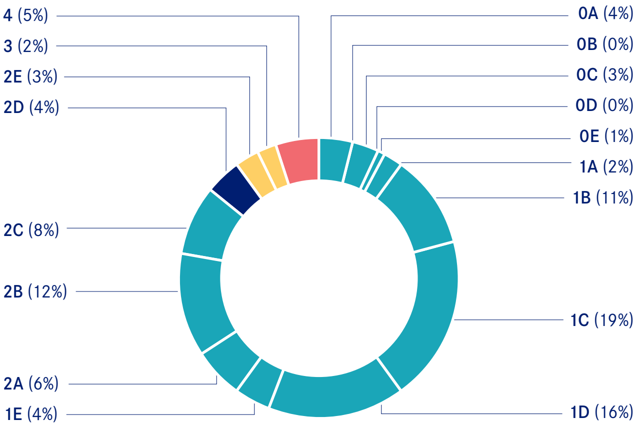


1) Percentages rounded.

Rating class distribution in the professional associations and large customers portfolio

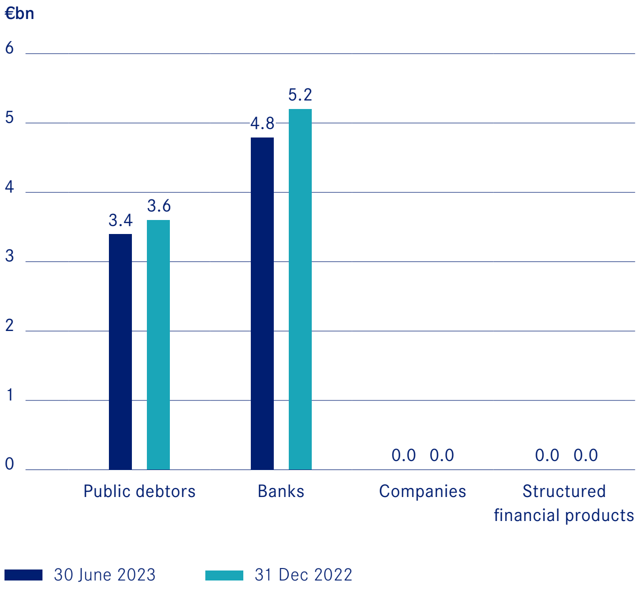
Volume distribution based on drawdowns

Total of €5.528 million[1]



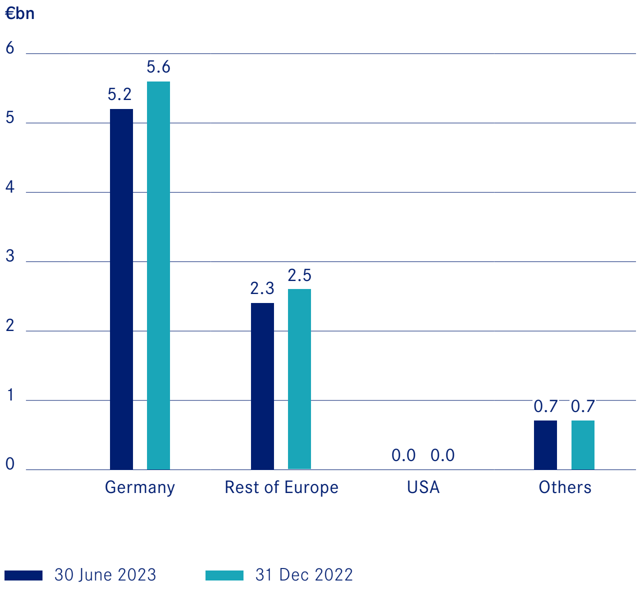
1) Percentages rounded.

Total exposure of financial instruments portfolio by sector[1]



1) Deviations possible due to rounding differences.

Total exposure of financial instruments portfolio by country[1]



1) Deviations possible due to rounding differences.

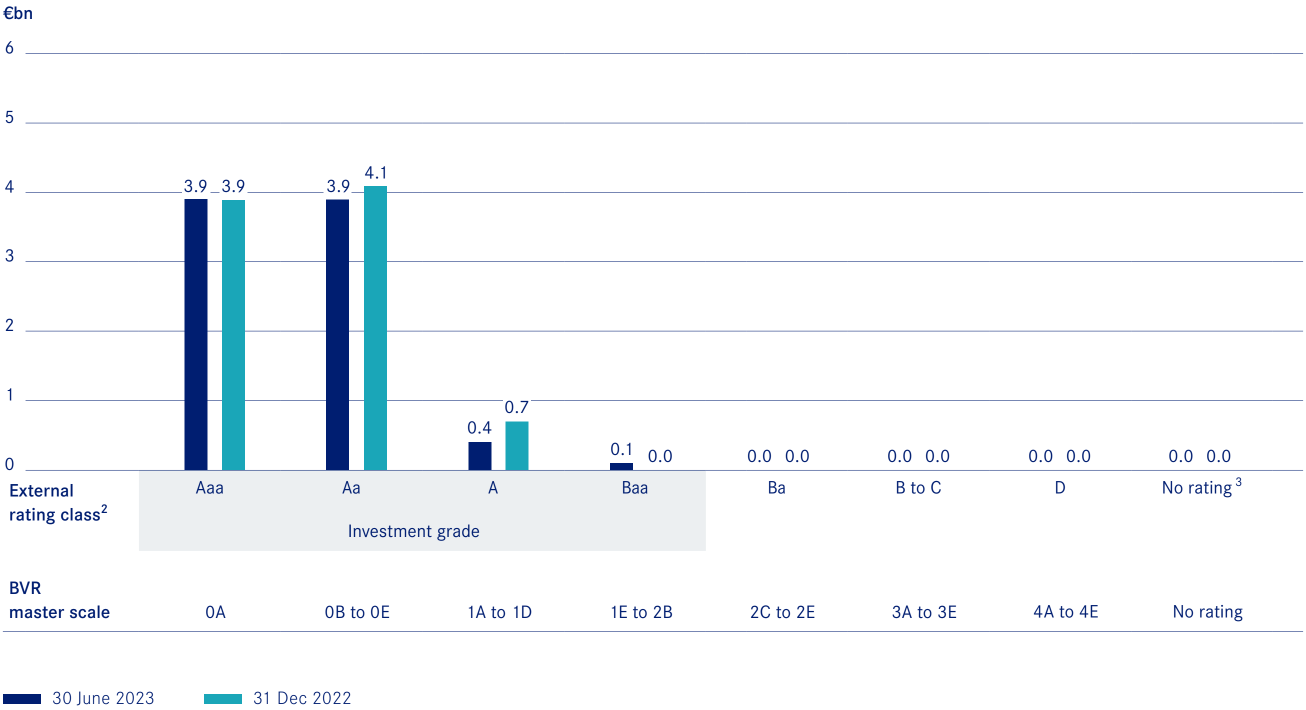
Treasury business segment
The risk volume of the financial instruments portfolio managed by the Treasury business segment amounted to €8.3 billion on the current reporting date and was thus below the figure at the end of 2022 (31 December 2022: €8.8 billion). This was due in particular to lower holdings of money market products, securities and commercial papers. The risk volume of the derivatives in the financial instruments portfolio amounted to €0.1 billion (31 December 2022: €0.1 billion). apoBank uses derivatives primarily to hedge against interest rate risks stemming from the customer business. As at the end of June, the nominal volume amounted to €25.4 billion (31 December 2022: €24.5 billion).

As at 30 June 2023, over 99% of the financial instruments portfolio was rated in the investment grade range. After offsetting, risk provisioning amounting to €3.9 million was made in the first half of 2023; the expected range had been between €1.5 and €2 million.

Shareholdings business segment
The book values of the shareholdings were stable as at 30 June 2023 at €0.2 billion (31 December 2022: €0.2 billion).

In the first half of 2023, write-downs of €0.2 million were made on this portfolio following impairment tests. No write-down had been expected for this portfolio.

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



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

Market risk

The UEL from market risks amounted to €125 million as at 30 June 2023 (31 December 2022: €392 million). This drop is essentially due to the fact that we refined our deposit model, which has resulted in more accurate recognition of fixed interest periods in the deposit business.

The threshold value criterion derived from the Bank-wide limit of the economic capital adequacy calculation for market risk of €470 million was complied with as at 30 June 2023.

The results of the present-value regulatory stress calculations, which are carried out monthly, confirm a moderate interest rate risk at Bank-wide level. As at 30 June 2023, apoBank remained below the regulatory reporting limit of 20% of regulatory equity (Basel II interest risk coefficient) at 2.7% (31 December 2022: 9.2%).

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

Changes in present value in the banking book

	Ad hoc interest scenario		Basel II interest rate risk coefficient
	Interest decrease (+ 200 BP) €m	Interest decrease (– 200 BP) €m	%
31 Dec 2021	– 331	+ 116	12.4
31 Dec 2022	– 239	+ 235	9.2
30 June 2023	– 75	+ 78	2.7

Liquidity risk

Due to the structural excess liquidity, there was no risk resulting from the refinancing structure of apoBank as at 30 June 2023. The UEL from refinancing risk was thus €0 (31 December 2022: €47 million).

The threshold value criterion derived from the Bank-wide limit of the economic capital adequacy calculation for liquidity risk of €15 million was complied with as at 30 June 2023.

Business risk

The UEL from apoBank's business risks amounted to €615 million as at 30 June 2023 (31 December 2022: €322 million). In the model we use to measure business risk, we have replaced periodic risk components with present-value risk components; this results in higher measured risks.

The threshold value criterion for business risk derived from the Bank-wide limit of the economic capital adequacy calculation of €680 million was complied with as at 30 June 2023.

Operational risk

The UEL from apoBank's operational risks rose to €142 million as at 30 June 2023 (31 December 2022: €139 million). The threshold value criterion for operational risk derived from the Bank-wide limit of the economic capital adequacy calculation was complied with as at 30 June 2023 as well as on all other reporting dates.

Gross losses from operational risks increased compared to the previous year, but at the same time net expenses decreased due to the higher volume of provision releases. As in the previous years, the main drivers here were legal risks.

Overall liquidity situation

apoBank uses the Internal Liquidity Adequacy Assessment Process (ILAAP) to analyse and monitor its liquidity position from both a normative and an economic perspective. The main aim of the ILAAP is to ensure that apoBank is solvent at all times. In order to provide a stable supply of liquidity, both perspectives and their correlations are analysed in detail. Liquidity supply in the first half of 2023 was guaranteed at all times.

Liquidity situation – normative perspective
As at 30 June 2023, the liquidity coverage ratio (LCR) was 221.2% (31 December 2022: 206.3%). The minimum requirement of 100% was met in full throughout the reporting period.

The net stable funding ratio (NSFR), which is a structural liquidity ratio, was also maintained at all times during the first half of the year and amounted to 127.1% as at 30 June 2023 (31 December 2022: 126.8%).

Liquidity situation – economic perspective
The economic analyses centre around the liquidity forecasts of the liquidity gap analysis. Here, the expected liquidity development in the planned scenario as well as the expected liquidity development in the combined stress scenario are analysed and limited. In the reporting period, the limits of the liquidity gap analysis were complied with each day. This also applies to the limits for the Pfandbrief (German covered bonds) cover pool.

Forecast Report

Overall economic outlook

Uncertainty dominates global economic outlook

The global economy will face several challenges at once in the second half of 2023. While we expect inflation rates to drop further, the ongoing loss of purchasing power is likely to continue to weigh on consumer demand and thus on economic growth. In particular, we believe that the exceptionally sharp increases in key interest rates will have a gradual and delayed dampening effect on consumption and investment, as can already be observed in the construction sector. The economic slowdown is likely to affect Europe and the US in particular. There is also a risk here of renewed difficulties in the banking sector. By contrast, China's economy is expected to grow comparatively strongly.

Economic prospects for health care professionals

For pharmacists, the economic situation remains tense in the second half of 2023. Remuneration, which has not been adjusted for years, and supply bottlenecks are coming up against high inflation and staff shortages. In addition, there are extra burdens due to the increase in the discount that pharmacies must grant to statutory health insurance, and higher collective wages. Small pharmacies in particular will struggle to meet the additional costs.

The medical profession also expects practice costs to rise in 2023. The legislation on the financial stabilisation of statutory health insurance (GKV-Finanzstabilisierungsgesetz, GKV-FinStG) in particular has caused resentment, because the abolition of the new patient regulation initially means lower revenues. On the other hand, the extra-budgetary remuneration for treatments stemming from medical appointments made via a central health insurance company phone number remains, and the remuneration for particularly fast appointments has even been increased. Furthermore, medical practices with particularly high energy consumption can claim additional electricity costs for 2023 to compensate for excessive expenses due to increased prices.

"De-budgeting", i. e. offering full reimbursement for medical services rendered, is supposed to bring more income security in particularly sought-after specialities. This is meant to motivate more doctors to set up practices. Since 1 April 2023, almost all services in paediatrics and adolescent medicine are reimbursed in full. Selected services in child and adolescent psychiatry were also de-budgeted. In a next step, Minister Lauterbach plans to fully reimburse GP services.

The limit on fee growth for dentists set down in the GKV-FinStG essentially means a reintroduction of budgeting of the overall remuneration for dentist services in 2023 and 2024. This will be particularly problematic for practices that have generated a lot of revenue since July 2021 from the new prevention-oriented periodontal therapy, for which more funding had been made available. Treatments that started in 2022 but have not yet been completed and therefore have continued in 2023 are now subject to a financial cap.

The demand for veterinary services has risen continuously in recent years due to the strong increase in the number of pets. The reason for this is primarily the Covid pandemic and the growing demands of animal keepers. This is already leading to a shortage of veterinarians in many places, also because there is a lack of young veterinarians.

Opportunities and risks for medical care and health care companies

In 2023, stronger dovetailing of outpatient and inpatient care has taken centre stage for hospitals. Ambiguities remain on long-term reform measures. The position paper published in July does not yet provide hospitals with a reliable basis for further planning. However, the economic pressure will remain for the time being because the reform will not take effect until 2025 at the earliest. The sector is calling for a preliminary law that allows for full inflation compensation. Since health and finance policymakers currently see no financial leeway here, the Health Minister does not rule out further insolvencies in the inpatient sector.

A new staffing calculation method will apply to care homes as of July 2023, which must be implemented at the facilities by 2025 at the latest. The aim is to create a standard nationwide method that will create more transparency and certainty with regard to the quality of care.

Health care companies will continue to face supply chain disruptions, high wage growth, persistent inflation effects and the resulting price risks for energy and raw materials. As the pandemic has tailed off, the pharmaceutical industry expects 5% lower sales for 2023 as a whole. The medical technology sector, on the other hand, expects nominal turnover to rise, as the order books are still well filled due to delivery delays from previous years. At the same time, the shortage of skilled labour and impediments to production due to supply bottlenecks are expected to worsen.

Large number of health policy reforms planned

The Federal Ministry of Health still has a full agenda for 2023: expansion of outpatient care, reform of emergency care legislation, "health care kiosks", community health nurses, more digital transformation in health and nursing care, and reducing red tape. In recent months, however, the ministry has been forced to reprioritise the scheduling of the planned legislation. This is due to pressing issues such as the stabilisation of long-term care insurance and the containment of medicine bottlenecks. Despite commission proposals, position papers and time targets, it is therefore still unclear when concrete draft legislation will be available for the emergency reform and expansion of outpatient care (e.g. hybrid DRGs). The coalition has, however, stipulated that the emergency reform is to be passed before the end of this year.

In the second half of 2023, two medical care acts are also scheduled to come into force. With the Health Care Strengthening Act (Gesundheitsversorgungsstärkungsgesetz, GVSG), the Minister of Health aims to promote regionally networked, cooperative health care. Among other things, the draft bill contains regulations around "health care kiosks", municipal medical care centres and primary medical care centres. The second medical care act may cover stipulations around improving psychotherapeutic care as well as health regions, investor-driven medical care centres and direct access to the professional group of physiotherapists, podiatrists, nutrition therapists, speech therapists and ergotherapists.

Digital transformation – back to the basics

The draft bills for a digital services act and a health data use act were presented in June 2023. Their main goals are to introduce the electronic patient record (ePA) for all, to make the electronic prescription (E-Rezept) suitable for everyday use and to facilitate research based on health data.

At the core of the digital services act is the opt-out version of the electronic patient record, which means that health insurance companies automatically set up a patient record for their clients unless they actively object. By the end of 2024, Minister Lauterbach aims to increase use of the patient record from currently less than 1% to around 80% of insured persons. But there are still some stumbling blocks. For example, it is not yet clear how already existing patient data should be transferred to the ePA. Following the most recent delays, the mandatory introduction of the electronic prescription is scheduled for 2024.

In order to enable low-threshold access to care, telemedicine is also to be further expanded. The goal: By 2026, there will be a contact point for assisted telemedicine in at least 60% of regions underserved by general practitioners.

Business performance

The banking sector is likely to continue to face a wide variety of challenges in 2023. Although the unforeseen jump in interest rates last year has led to an increase in margins on the liabilities side in particular, and is boosting the earnings of many banks, at the same time the value of many securities portfolios is under pressure. The current economic challenges are placing burdens of varying degrees on the banks, depending on their refinancing profile, geographical target markets, business model and scaling opportunities. In particular, banks whose customers are highly exposed to macroeconomic shocks will have to intensify their measures to minimise risk. Many therefore rely on achieving higher commission income via their asset management and pension planning business, on scaling in areas such as payment transactions and on offering more and more digital and non-banking products. Wherever there are limitations to tapping into new sources of earnings, cost reduction programmes will play a larger role. Therefore, banks will have to continue to focus on making optimum use of their resources, tidying up their balance sheets, fine-tuning their business models and driving forward their digital transformation strategies. This is all the more important since global economic uncertainty is likely to remain high in 2023. Securing long-term profitability and adequate capitalisation will continue to be the decisive factors in banks' success going forward.

We will work on further refining our business model this year, and will continue to pursue our strategy to selectively grow the business with members of the health care professions, their organisations as well as enterprises in the health care market. Our focus is on our core business, i.e. the financing needs of our customers in the health care professions, as well as on building their assets and their retirement provision.

At the same time, we intend to continue to further optimise the Bank's structures and processes and improve our operating performance. We have summarised the measures developed in this regard in our Agenda 2025. The aim is to increase our earnings and reduce our expenditure in order to become more profitable overall and to enhance our capital efficiency for the long term.

In the second half of 2023, we will continue to work on improving the technical functionalities of our IT systems and the applications for our customers. It is our top priority here to rebuild customer satisfaction, which does not currently fulfil the standard we set ourselves.

Due to the special nature of our business model, the impact of increased energy prices as well as inflation on the creditworthiness of our customers in the health care professions is likely to remain moderate. We also expect the financial burden on apoBank itself as a result of inflation to be moderate.

Positive performance in a challenging environment

For fiscal 2023, we expect the overall earnings situation to develop very positively, as measured against operating profit before risk provisioning. New lending business with retail clients is likely to remain under pressure. Our focus remains on business start-up financing, our core area of expertise. In real estate financing, we expect more restrained demand from our clients, in line with the current framework conditions. We aim to further expand the assets and pension planning business with our retail customers. Our focus here is on private asset management.

In the Professional Associations and Large Customers business, we aim for selective growth. Here, we focus more on enterprises in the health care market, hospitals, care facilities and medical care structures. Our goal is to expand our status as the business bank of choice with more and more companies. Financing solutions will remain at the heart of the corporate clients business. In particular, we aim to leverage cross-selling potential.

A further area of focus is to offer additional specialised products for institutional investors that are also grounded in our expertise in the health care market. The emphasis here will be on independent advice based on a comprehensive range of solutions.

Earnings situation in 2023 to benefit from interest rate development

We forecast that the key income statement items will develop as follows:

We expect net interest income to increase very significantly, primarily due to the deposit business.

In the commission-based business, while we expect new net funds in our customers' depots to increase in 2023, the ongoing market volatility may lead to financial burdens. Overall, net commission income should therefore remain stable.

In other operating expenses and income, we expect a balance in the low single-digit million-euro range; in fiscal 2022, we had generated €27.7 million.

Administrative expenses are dominated by project and investment costs, in particular for Agenda 2025, as well as the impact of rising inflation; they will, however, remain stable overall. Personnel expenses will drop significantly compared to 2022, in particular due to a special effect in expenditure on company pension plans at the end of the previous year, while operating expenses including depreciation will see a marked increase.

Taking the development of all income and expenditure into consideration, the cost-income ratio will improve considerably compared to the previous year.

On balance, the operating result, i.e. profit before risk provisioning, is likely to increase significantly in 2023 as a whole.

According to model-based figures, risk provisioning for the operating business will rise slightly compared with the previous year.

For the 2023 financial year, the Bank plans to significantly increase its risk provisioning with reserve character due to the positive earnings performance.

As a result, the net profit for 2023 will remain at the previous year's level.

Capital and liquidity situation

According to our internal forecasting, the common equity tier 1 capital ratio will be very significantly higher at the end of 2023 than our internal target ratio of 12.6%; the total capital ratio will be slightly higher at the end of 2023 than our internal target ratio of 16.5%. We will therefore comply overall with the external capital requirements and recommendations.

We also expect a comfortable liquidity situation in the further course of the year. Although the high deposit surplus built up during the low-interest phase will probably decline further, the LCR forecast shows that apoBank will consistently comply with the internal and external minimum limits for the defined forecast periods. In addition to the aforementioned high deposit surplus, the broadly diversified customer and investor base is a major contributor to this.

Opportunities and risk report

Successfully providing advice to our customers and their satisfaction with their bank are the main prerequisites for continuing to consolidate and expand our market position. Agenda 2025 measures are intended to make an essential contribution to increasing the satisfaction of our customers – which is a key objective of apoBank. The consistent implementation of Agenda 2025, which stipulates a return to focusing on the needs of health care professionals and their organisations, is also expected to bolster our market position. Securing apoBank's reputation, which had suffered as a consequence of the IT migration in 2020, remains one of the Bank's central tasks in 2023.

Economic uncertainty continues due to Russia's war on Ukraine, the increased energy prices as well as high inflation rates. As apoBank's business model focuses on the German health care market, we are currently seeing only moderate consequences for our net assets, financial position and results and our risk situation. However, no clear forecast can be made at this point in time as to how this will look in the future, in particular with regard to possible second and third-round effects. There is also much uncertainty around how the construction financing and deposit businesses will develop going forward, especially with regard to the general interest rate situation and the future behaviour of customers and competitors. The resulting difficult market environment may lead to both retail clients and institutional customers of apoBank requiring more advisory services with regard to investing their assets and to their financing wishes.

With Agenda 2025, the Bank will optimise its processes and structures, thus reducing its costs in the long run. To complement its core expertise, i.e. offering financing to health care professionals, it will align its sales approach more with the assets business, and here in particular the mandated business. This could create opportunities for higher profitability in the future as well as improved capital and cost efficiency going forward. These strategic measures come with investment costs that will temporarily burden our income statement. Delays in implementing the cost reduction measures could lead to negative effects on the cost-income ratio in subsequent years.

After the finalisation of Basel III and with the expected coming into force of the output floor rule, calculation of capital requirements is likely to become to a great extent standardised for apoBank and thus less risk-based. The new regulations put restrictions on capital relief from the application of our internal regulatory risk measuring models in particular. The future specifications of the European Banking Package (CRR III/CRD VI), which have been to a great extent finalised, provide for a multi-year transition period beginning in 2025. Countermeasures to buffer the increase in capital requirements driven by regulation are analysed on an ongoing basis, with some of them already implemented. apoBank will make comprehensive preparations to comply with the CRR III/CRD VI requirements as of 2025.

In the area of sustainability, too, regulatory requirements will continue to increase for the financial sector. This will necessitate further adaptations to internal bank processes and additional considerable investments are likely to be required. These also result from more comprehensive disclosure requirements. apoBank has launched a Bank-wide implementation project in this regard. Furthermore, we expect that increasing statutory sustainability requirements will lead to our large customers also requiring more advisory services and financing. In addition, more and more customers are demanding an attractive range of products and services that complies with sustainability criteria.

Climate change also presents potential risks. These would be both physical risks to assets in the bank balance sheets as a direct result of climate change, as well as transitory risks, i.e. potential financial consequences due to national economies having to adapt to climate change. In addition, new and more extensive regulatory requirements can also increase transitory risks. apoBank assesses the significance of the various risk drivers in the sustainability dimensions of environmental, social and governance (ESG) for the Bank's main risk types on the basis of quantitative and/or qualitative analyses. Overall, ESG risk drivers were classified as material for the risk types of credit risk, business risk, operational risk, and reputational risk. In addition, the financial supervisory authority expects banks to provide more information and advice to customers about the impact of their activities and products with respect to sustainability and to integrate this into their advisory services as well as take account of any negative consequences when granting loans. These requirements can influence banks' reputation as well as generating considerable implementation costs.

Opportunities and risks also arise from ongoing digital transformation of the banking business, both in connection with banking processes and the resulting opportunities for future-proof business models. New technical advances may lead to increasing disintermediation in the financial industry, i.e. certain steps in its value chains could disappear. On the one hand, this leads to new access channels for customers that are promising in terms of earnings, but on the other hand, providers from outside the industry ("fintechs" or "BigTechs") are pushing into the market and staking claims on banks' traditional branches of business. At the same time, customers are demanding more availability, speed, quality and transparency from financial services as digital transformation advances.

Banks can reduce the degree of vertical integration in their value chain by outsourcing areas that are not relevant to their competitive position and focus on customer-adjacent activities and processes or on specific parts of their value chain, e.g. on the production process, and thus create economies of scale. However, with the rising number of new IT fintechs, competition is growing. To avoid any competitive disadvantages as a result of these trends, banks are often forced to invest considerable amounts in digital transformation. apoBank's Agenda 2025 includes initiatives aimed, among other things, at making apoBank's applications more efficient and productive while meeting customers' expectations of a modern bank.

Another effect of digitalisation is the increasing risk of cybercrime, which both fintechs and banks must protect themselves against. Growing operating, legal and regulatory costs are likely to result for banks. In addition, rising cybercrime also goes hand in hand with increasing reputational risk for banks.

The growing use of customer data opens up the opportunity to identify customer needs more accurately and to use new business models to satisfy them, but at the same time data protection risks increase. By implementing regulatory requirements, banks fulfil customers' high expectations regarding security and protection. For banks, this is a potential competitive advantage over less regulated providers. apoBank, too, is working on using the data available to it for the benefit of its customers.

Changes in the health care market as an opportunity

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

While the number of self-employed health care professionals is continuously declining, new opportunities are emerging around setting up a practice or pharmacy as well as branch and cooperation models. Outpatient and inpatient care are merging more and more, with the rigid sector boundaries slowly softening and synergies likely to be leveraged as a result.

Our specialised advisory services counteract the downward trend in the number of self-employed health care professionals by helping to reduce reservations about opening their own practice. We work closely with the professional associations here. We also carry out studies, for example to find out what doctors and therapists consider are the pros and cons of opening their own practice. From the results of these studies we derive strategies around how to best convince customers of the attractiveness of having their own practice and support them on their way to implementing this.

Health care corporations and financial investors are increasingly discovering outpatient medical care. However, there are also a large number of doctors who initiate interdisciplinary or cross-sectoral cooperation arrangements and whom we advise and accompany in founding and growing their health care companies.

By expanding our advisory services for practices, we can support and advise their owners intensively on all aspects of their professional practice – from starting up their businesses to optimising their practices right through to transferring them to others. In addition, we cover the specific advisory and financing requirements of outpatient and inpatient medical care companies. The stronger focus on aspects of sustainability will provide impetus for further transformation in the health care market. Practice or company governance that considers not only economic but also environmental and social aspects will be a challenge to health market players, but will also offer opportunities to realign individual practice and business models accordingly. apoBank has recognised this potential and taken corresponding measures. By training advisors to become sustainability officers, we have laid the foundation to support our customers in the challenges they face around sustainability against the backdrop of changing conditions. Here, we aim to create tangible added value to offer support and guidance in this still very nascent area.

From the point of view of apoBank, the health care market offers more opportunities than risks. Our business model and the fact that we specialise in this market give us the opportunity to develop in a changing environment and thus position ourselves successfully and competitively.

2

Interim Financial Statements

Condensed Balance Sheet

Assets

	(Notes)	30 June 2023 €	31 Dec 2022 €
1. Cash reserves	**(2)**	**331,489,468.74**	**352,506,171.15**
a) Cash on hand		20,577,880.50	26,665,506.25
b) Cash in central banks		310,911,588.24	325,840,664.90
c) Cash in post office giro accounts		0.00	0.00
2. Debt instruments of public agencies and bills of exchange, eligible for refinancing with central banks		**0.00**	**0.00**
3. Loans and advances to banks	**(3, 16)**	**7,609,102,286.16**	**9,003,802,243.56**
a) Mortgage loans		0.00	0.00
b) Local authority loans		0.00	0.00
c) Other receivables		7,609,102,286.16	9,003,802,243.56
4. Loans and advances to customers	**(3, 16, 23)**	**36,216,481,993.94**	**37,008,337,606.63**
a) Mortgage loans		9,535,958,158.04	9,858,834,800.45
b) Local authority loans		129,789,357.85	143,579,732.06
c) Other receivables		26,550,734,478.05	27,005,923,074.12
5. Debt securities and other fixed-interest securities	**(4, 6, 16, 18, 23)**	**5.997.959.419,01**	**6.212.599.031,81**
a) Money market instruments		341,900,311.53	416,952,200.70
aa) of public issuers		0.00	0.00
ab) of other issuers		341,900,311.53	416,952,200.70
b) Bonds and debt securities		5,635,949,165.69	5,795,616,237.53
ba) of public issuers		2,754,876,596.53	2,797,096,593.35
bb) of other issuers		2,881,072,569.16	2,998,519,644.18
c) Own debt securities		20,109,941.79	30,593.58
6. Shares and other non-fixed-interest securities	**(4, 16, 17, 18)**	**954,033,065.63**	**953,107,678.63**
6a. Trading assets	**(5)**	**0.00**	**0.00**
7. Shareholdings and capital shares in cooperatives	**(7, 19)**	**227,947,004.15**	**227,947,006.15**
a) Shareholdings		227,775,606.76	227,775,608.76
b) Capital shares in cooperatives		171,397.39	171,397.39
8. Shares in affiliated companies	**(7, 19)**	**9,274,608.82**	**9,501,475.77**
9. Trust assets		**51,130.18**	**51,130.18**
10. Compensation claims against the public sector including debt securities from their exchange		**0.00**	**0.00**
11. Intangible assets	**(8)**	**136,760,690.69**	**132,327,460.89**
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		136,760,690.69	132,327,460.89
c) Goodwill		0.00	0.00
d) Payments in advance		0.00	0.00
12. Tangible assets	**(9, 20)**	**108,339,182.00**	**110,989,854.44**
13. Other assets	**(21)**	**110,055,079.22**	**152,832,323.26**
14. Prepayments and accrued income	**(10)**	**17,957,553.84**	**20,307,696.29**
a) from issuing and loan transactions		8,677,936.82	9,768,944.30
b) Others		9,279,617.02	10,538,751.99
15. Deferred tax assets	**(22)**	**0.00**	**0.00**
Total assets		**51,719,451,482.38**	**54,184,309,678.76**

Liabilities

	(Notes)	30 June 2023 €	31 Dec 2022 €
1. Liabilities to banks	**(11)**	**11,398,619,466.24**	**11,065,957,774.49**
a) Registered mortgage bonds issued		155,315,505.68	155,891,396.86
b) Registered public covered bonds issued		0.00	0.00
c) Other liabilities		11,243,303,960.56	10,910,066,377.63
2. Liabilities to customers	**(11)**	**31,607,338,298.16**	**33,933,739,088.53**
a) Registered mortgage bonds issued		1,003,561,811.09	1,039,693,316.76
b) Registered public covered bonds issued		0.00	0.00
c) Savings deposits		99,311,822.17	103,436,178.80
ca) with an agreed notice period of three months		99,119,219.93	103,267,925.35
cb) with an agreed notice period of more than three months		192,602.24	168,253.45
d) Other liabilities		30,504,464,664.90	32,790,609,592.97
3. Securitised liabilities	**(11)**	**4,966,953,750.00**	**5,500,406,515.60**
a) Debt securities issued		4,966,953,750.00	5,500,406,515.60
aa) Mortgage bonds		3,261,276,370.09	3,770,370,215.74
ab) Public covered bonds		0.00	0.00
ac) Other debt securities		1,705,677,379.91	1,730,036,299.86
b) Other securitised liabilities		0.00	0.00
3a. Trading liabilities	**(5)**	**0.00**	**0.00**
4. Trust liabilities		**51,130.18**	**51,130.18**
5. Other liabilities	**(11, 24)**	**80,667,193.17**	**83,142,419.89**
6. Prepayments and accrued income	**(13)**	**15,743,978.83**	**18,335,876.57**
a) from issuing and loan transactions		7,392,937.13	8,783,041.98
b) Others		8,351,041.70	9,552,834.59
6a. Deferred tax liabilities		**0.00**	**0.00**
7. Provisions	**(12)**	**463,941,461.34**	**449,342,071.14**
a) Provisions for pensions and similar obligations		267,173,052.74	261,380,552.74
b) Tax provisions		77,260,966.97	35,096,609.24
c) Other provisions		119,507,441.63	152,864,909.16
8. - - -		**0.00**	**0.00**
9. Subordinated liabilities	**(11)**	**189,255,317.14**	**190,233,098.95**
10. Participating certificate capital		**0.00**	**0.00**
11. Fund for general banking risks		**1,035,905,460.27**	**959,159,460.27**
11a. Special items from currency translation		**0.00**	**0.00**
12. Capital and reserves	**(25)**	**1,960,975,427.05**	**1,983,942,243.14**
a) Subscribed capital		1,254,832,247.62	1,261,028,183.58
b) Capital reserves		0.00	0.00
c) Revenue reserves		673,151,787.67	657,151,787.67
ca) Legal reserves		462,230,000.00	454,230,000.00
cb) Other revenue reserves		210,921,787.67	202,921,787.67
d) Balance sheet profit		32,991,391.76	65,762,271.89
Total liabilities		**51,719,451,482.38**	**54,184,309,678.76**

1. Contingent liabilities	**(26)**	**338,860,927.30**	**387,338,316.98**
a) Contingent liabilities from rediscounted, settled bills		0.00	0.00
b) Liabilities from guarantees and indemnity agreements		338,860,927.30	387,338,316.98
c) Liabilities arising from the provision of collateral for third-party liabilities		0.00	0.00
2. Other obligations		**2,347,312,197.59**	**3,002,975,455.31**
a) Obligations under optional repurchasing agreements		0.00	0.00
b) Placement and underwriting obligations		0.00	0.00
c) Irrevocable loan commitments		2,347,312,197.59	3,002,975,455.31

Condensed Income Statement

Income statement

	(Notes)	1 Jan – 30 June 2023 €	1 Jan – 30 June 2022 €
1. Interest income from	(28)	**667,064,855.35**	**366,021,846.95**
a) lending and money market transactions		634,271,954.27	367,370,527.74
b) fixed-interest securities and debt register claims		32,792,901.08	– 1,348,680.79
Including: from negative interest rates		(– 33,528.83)	(– 41,527,876.68)
2. Interest expenses	(29)	**– 193,038,126.13**	**– 16,463,998.46**
Including: from positive interest rates		(1,798,451.66)	(63,090,951.60)
3. Current income from		**9,924,108.15**	**13,249,519.70**
a) shares and other non-fixed-interest securities		0.00	253,996.72
b) shareholdings and capital shares in cooperatives		8,040,880.55	8,425,639.52
c) shares in affiliated companies		1,883,227.60	4,569,883.46
4. Income from profit pooling, profit transfer agreements and partial profit transfer agreements		**0.00**	**0.00**
5. Commission income	(30)	**120,581,249.08**	**136,508,406.93**
6. Commission expenses	(30)	**– 24,713,252.38**	**– 34,104,654.06**
7. Net trading revenues		**0.00**	**0.00**
8. Other operating income	(31)	**15,103,650.23**	**16,014,799.08**
9. - - -		**0.00**	**0.00**
10. General administrative expenses		**– 356,656,343.00**	**– 351,524,861.21**
a) Personnel expenses		– 135,467,335.97	– 127,071,825.29
aa) Wages and salaries		– 106,314,084.54	– 101,423,201.74
ab) Social security contributions and expenses for pensions and benefits		– 29,153,251.43	– 25,648,623.55
b) Other administrative expenses		– 221,189,007.03	– 224,453,035.92
11. Depreciation, amortisation and write-downs in respect of intangible and tangible assets		**– 13,538,638.50**	**– 13,728,701.03**
12. Other operating expenses	(31)	**– 12,817,642.29**	**– 9,152,068.50**
13. Write-downs and value adjustments in respect of receivables and specific securities and allocations to provisions for credit risks		**– 23,807,276.52**	**0.00**
14. Income from write-ups in respect of receivables and specific securities and from the release of provisions for credit risks		**0.00**	**3,554,802.37**
15. Write-downs and value adjustments in respect of participating interests, shares in affiliates and securities treated as fixed assets		**– 5,205,204.53**	**0.00**
16. Income from write-ups in respect of investments, shares in affiliates and securities treated as fixed assets		**0.00**	**368,623.80**
17. Expenses from the assumption of losses		**0.00**	**0.00**
18. - - -		**0.00**	**0.00**
19. Operating surplus	(35)	**182,897,379.46**	**110,743,715.57**
20. Extraordinary income		**0.00**	**0.00**
21. Extraordinary expenses		**0.00**	**0.00**
22. Extraordinary result		**0.00**	**0.00**
23. Taxes on income	(32)	**– 73,095,404.13**	**– 41,061,607.55**
24. Other taxes not reported in item 12		**– 72,448.11**	**– 198,841.00**
24a. Allocations to the fund for general banking risks		**76,746,000.00**	**36,665,051.53**
25. Net profit		**32,983,527.22**	**32,818,215.49**
26. Profit carried forward from the previous year		**7,864.54**	**5,020.81**
27. Withdrawals from revenue reserves		**0.00**	**0.00**
a) From legal reserves		0.00	0.00
b) From other revenue reserves		0.00	0.00
28. Allocations to revenue reserves		**0.00**	**0.00**
a) To legal reserves		0.00	0.00
b) To other revenue reserves		0.00	0.00
29. Balance sheet profit		**32,991,391.76**	**32,823,236.30**

Condensed Notes

A. General information

1. Framework for the preparation of the interim financial statements

The interim financial statements of Deutsche Apotheker- und Ärztebank eG (apoBank), Dusseldorf (Dusseldorf Local Court, GnR 410), as at 30 June 2023 were prepared according to the rules and regulations of Section 115 of the Securities Trading Act (WpHG), the German Commercial Code (HGB), as well as the Accounting Ordinance for Banks, Financial Services Institutions and Investment Firms (RechKredV). At the same time, the interim financial statements meet the requirements of the Cooperative Societies Act (GenG), the German Pfandbrief Act (PfandBG) and the Articles of Association of apoBank.

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

Due to rounding, small deviations can occur in the totals stated in the tables and in the calculation of percentages.

B. Accounting, valuation and translation methods

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

2. Cash reserve

The cash reserve denominated in euros was carried at nominal value. Foreign currencies were valued at the spot exchange rate at the balance sheet date.

3. Loans, advances and risk provisioning

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

The general value adjustment is calculated by employing a procedure based on expected losses. Here, apoBank uses a simplified procedure at portfolio level, whereby the expected loss is determined over an observation period of 12 months, as long as there is no major deterioration in loan quality at portfolio level. This approach is based on the assumption that, when granting loans, credit risk and the credit-worthiness premiums considered when defining the terms and conditions are in alignment with each other. This assumption is reviewed at regular intervals. If alignment at portfolio level was no longer given, a lifetime expected loss would be applied for the portfolio.

4. 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. Generally, the exchange or market prices provided by Bloomberg or Reuters were taken as a basis for this.

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

The amortized cost valuation has been applied to all interest-bearing securities in compliance with the effective interest method. Existing premiums and discounts that are similar in nature to interest are amortized and recognized in interest income in the same way as effective interest.

5. Trading assets and liabilities

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

6. Valuation units

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

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

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

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

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

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

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

As at the reporting date, the total volume of the hedged risks amounted to €809.0 million (31 December 2022: €880.0 million). These risks arise from an omitted depreciation of assets, an omitted appreciation of debt or omitted provisions for contingent losses, and are quantified based on the gross net present values of the derivative transactions. The majority of changes in value and payment flows are expected to balance out over a period of up to ten years.

As at the reporting date, apoBank had designated a total of 316 micro hedges with a nominal value of €7,249.3 million:

- 253 hedges on the Bank's own issuances against the interest rate risk with a nominal value of €5,977.3 million, including
  - 12 caps with a nominal value of €170.7 million,
  - 14 floors with a nominal value of €180.7 million,
  - 87 swaptions with a nominal value of €1,163.2 million,
  - 140 swaps with a nominal value of €4,462.7 million,
- 63 asset swaps to hedge against the interest rate risk of 37 acquired securities with a nominal value of €1,272.0 million.

As at 30 June 2023, a volume of foreign-currency swaps from FX trading in the amount of €250.0 million had been used within the scope of valuation units, of which €250.0 million with the purpose of hedging offsetting FX swaps. The FX swaps can be broken down based on their currency as follows:

- €131.2 million in British pounds,
- €81.9 million in US dollars,
- €32.0 million in Danish kroner,
- €4.9 million in Swedish kroner.

As at the reporting date, apoBank had used a volume of foreign-currency FX forward transactions of €0.1 million as valuation units, including €0.1 million to hedge offsetting FX forward transactions. The FX forward transactions can be broken down based on their currency as follows:

- €0.1 million in Swedish kroner.

7. Investments and shares in affiliated companies

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

8. Fixed assets/intangible assets

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

9. Fixed assets/tangible assets

Tangible assets were carried at acquisition cost less scheduled depreciation.

Buildings were amortized over their useful life on a straight-line basis or using declining-balance rates; movable assets were depreciated over their useful life on a straight-line basis. Low-value assets within the meaning of Section 6 para. 2 of the German Income Tax Act (EStG) were fully depreciated. Art objects were classified as non-depreciating assets and reported at amortized costs.

10. Prepayments and accrued income (assets)

The difference between the repayment amount und the lower issue price of the liabilities was reported under “Prepayments and accrued income (assets)”. The differences were spread across the terms of the liabilities as planned.

11. Liabilities

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

12. Provisions

The provisions for pension liabilities as at 30 June 2023 were calculated in line with the actuarial tables “Richttafeln 2018 G” (Heubeck) using the projected unit credit method. The calculation is based on an updated forecast derived from the report as at 31 December 2022 using an interest rate of 1.81% (average over the past ten financial years), a wage increase trend of 3.00% and a pension increase trend of 3.00%. As at 30 June 2023, the difference pursuant to Section 253 para. 6 of the HGB not available for distribution amounted to €7.7 million on an accounting basis.

apoBank recorded the releases and allocations to the balance sheet item “Provisions for pensions and similar obligations” in relation to the interest effects under “Other operating income” and otherwise as a net item under “Personnel expenses”. Pension provisions and the provision for deferred compensation were netted with the corresponding plan assets (initially under “Other assets”) pursuant to Section 246 para. 2 sentence 2 of the HGB. The fair value amounting to €16.7 million is equivalent to the acquisition costs of the plan assets. In connection with IDW RH FAB 1.021, the reinsurance asset figures are adjusted to match the corresponding provisions for the pension obligations (liabilities side takes primacy). The remaining figure of €13.2 million was offset against the corresponding pension provisions.

There were no provisions for part-time retirement at the reporting date. Provisions for anniversary payments are calculated using the projected unit credit method. They were made on the basis of an interest rate of 1.72% and a wage increase trend of 3.00% in line with the actuarial tables “Richttafeln 2018 G” (Heubeck). On this basis, the provisions as at 31 December 2022 were extrapolated accordingly for the interim financial statements. Provisions for early retirement are calculated based on the legal regulations and considering agreements made in individual contracts.

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

apoBank also made adequate provisions for the remaining uncertain liabilities.

13. Prepayments and accrued income (liabilities)

"Prepayments and accrued income (liabilities)" mainly includes discounts that are deducted when receivables are extended, as well as premiums from liabilities. The differences are spread across the terms of the receivables as planned.

14. Derivative financial instruments

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

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

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

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

15. Currency translation

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

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

C. Notes to the balance sheet

Notes to assets

16. Securities portfolio by purpose

The securities portfolio is divided into the following categories according to its purpose (figures including accrued interest):

Securities portfolio by purpose

	30 June 2023 €thous	31 Dec 2022 €thous
Debt securities and other fixed-interest securities		
Fixed assets	5,635,949	5,795,616
Liquidity reserve	362,010	416,983
Total	**5,997,959**	**6,212,599**

	30 June 2023 €thous	31 Dec 2022 €thous
Shares and other non-fixed-interest securities		
Fixed assets	954,033	953,108
Liquidity reserve	0	0
Total	**954,033**	**953,108**

17. Shares in special investment funds

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

Shares in special investment funds

Name of fund	Investment objective	Value in accordance with Sections 168, 278 or 286 (1) KAGB or comparable international regulations (fair value) €thous	Difference to book value €thous	Distributions made for the total financial year €thous	Restriction of daily redemption
APO 1 INKA	Domestic and international bonds	1,018,431	74,816	0	no
BlackRock apo Global Healthcare Private Equity Fund, S.C.A., SICAV-RAIF	Shareholdings in unquoted companies, domestic and international funds	8,232	– 200	0	no

18. Financial instruments classified as fixed assets

Financial instruments classified as fixed assets[1]

Issuer	Book value as at 30 June 2023 €thous	Fair value as at 30 June 2023 €thous	Omitted depreciation €thous
Banks	2,234,775	2,079,017	155,758
Public debtors	2,032,339	1,775,447	256,892
Companies	46,923	42,643	4,280
Total	**4,314,037**	**3,897,107**	**416,930**

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

In the first half of the year, hidden burdens in securities classified as fixed assets decreased by €33,820 thousand to €416,930 thousand (31 December 2022: €450,750 thousand). As at the reporting date, a creditworthiness audit was carried out on all securities with hidden burdens. The audit did not identify any creditworthiness-induced decreases in value. There are no lasting decreases in value.

19. List of holdings

The following list includes significant investments pursuant to Section 285 no. 11 of the HGB. Investments that are of minor importance for apoBank's net assets, financial position and earnings situation are not listed, pursuant to Section 286 para. 3 of the HGB:

List of holdings

Company	Share in company capital on 30 June 2023	Year	Capital and reserves of the company	Result of the past financial year
	%		€thous	€thous
aik Immobilien-Investmentgesellschaft mbH, Dusseldorf	64	2022	11,354	3,097
aik Management GmbH, Dusseldorf[1]	100	2022	55	30
Apo Asset Management GmbH, Dusseldorf	70	2022	27,617	6,170
APO Data-Service GmbH, Dusseldorf[2]	100	2022	4,031	253
apoDirect GmbH, Dusseldorf[2]	100	2022	1,525	405
ARZ Haan AG, Haan	38	2022	65,636	5,891
Deutsche Ärzte Finanz Beratungs- und Vermittlungs-Aktiengesellschaft, Cologne	25	2022	23,847	8,938
DZR Deutsches Zahnärztliches Rechenzentrum GmbH, Stuttgart	25	2022	32,015	20,247
Finanz-Service GmbH der APO-Bank, Dusseldorf	50	2022	5,785	1,845
HCL Technologies gbs GmbH, Ratingen	49	2021	1,641	– 3,430
medisign GmbH, Dusseldorf	50	2022	2,665	1,576
PROFI Erste Projektfinanzierungs- und Beteiligungsgesellschaft AG, Zurich[3]	50	2022	7,467	4,513
RiOsMa GmbH, Dusseldorf	90	2022	387	307
Treuhand Hannover GmbH Steuerberatungsgesellschaft, Hanover	26	2022	39,527	586
WGZ Beteiligungs GmbH & Co. KG, Dusseldorf	5	2022	3,190,220	94,158
ZA Zahnärztliche Abrechnungsgesellschaft Düsseldorf AG, Dusseldorf	25	2022	7,839	2,056
ZPdZ – Zahnpraxis der Zukunft GmbH, Dusseldorf	50	2022	530	– 14

1) Indirect investment.
2) Result before profit transfer or loss absorption.
3) Fiscal year ending as at 30 June.

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

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

20. Tangible assets

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

Tangible assets

	30 June 2023	31 Dec 2022
	€thous	€thous
Land and buildings used within the scope of apoBank's own operations	86,002	87,293
Office furniture and equipment	21,179	22,525

21. Other assets

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

Other assets

	30 June 2023	31 Dec 2022
	€thous	€thous
Capitalised premiums from options and caps	19,838	31,458
Receivables from asset management	30,634	56,940
Tax receivables	14,553	14,089
Receivables from the custody business	11,422	19,007

22. Deferred tax assets

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

As at 30 June 2023, a net deferred tax asset was identified. This was essentially due to differences between the valuations in the trading and the tax accounts for shares and other non-fixed-interest securities, loans and advances to customers, provisions for pensions and other provisions as well as other assets.

The total net surplus of deferred tax assets amounted to €210,584 thousand on balance, including deferred tax assets of €214,811 thousand and deferred tax liabilities of €4,227 thousand.

A tax rate of 31.8% was applied for calculating deferred taxes.

23. Subordinated assets

Subordinated assets are included in the following items:

Subordinated assets

	30 June 2023 €thous	31 Dec 2022 €thous
Loans and advances to customers	176,803	178,164
Debt securities and other fixed-interest securities	66,487	16,013
Total	**243,290**	**194,177**

Notes to liabilities

24. Other liabilities

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

Other liabilities

	30 June 2023 €thous	31 Dec 2022 €thous
Tax liabilities	16,414	6,058
Premiums from options and caps carried as liabilities	4,528	5,006
Liabilities from variation margins	2,825	17,468
Trade payables	1,176	3,933

25. Capital and reserves

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

Subscribed capital

	30 June 2023 €thous	31 Dec 2022 €thous
Members’ capital	**1,254,833**	**1,261,028**
Of remaining members	1,231,017	1,230,726
Of departing members	19,715	25,682
Of terminated cooperative shares	4,101	4,620
Compulsory contributions due on shares in arrears	405	1,994

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

Revenue reserves

	Legal reserves €thous	Other revenue reserves €thous
As at 1 Jan 2023	454,230	202,922
Transfers		
from balance sheet profit of the previous year	8,000	8,000
from net profit of the financial year	0	0
Withdrawals	0	0
As at 30 June 2023	**462,230**	**210,922**

26. Contingent liabilities

In fiscal 2022, apoBank (49% shareholding) and HCL Technologies Germany GmbH (51% shareholding) together declared a binding letter of comfort to HCL Technologies gbs GmbH (gbs in the following). Originally, the agreement had been made for the period 1 January 2022 to 31 December 2023. In July 2023, this period was extended until 31 December 2024. In this agreement, the two shareholders declared to gbs that they would guarantee to financially equip gbs in such a way that it can fulfil its obligations towards third parties on time and in full. This letter may also be used to secure deliveries and services from third parties. The risk to apoBank resulting from this letter cannot be quantified, in particular due to the inclusion of future obligations as well as due to the strategic and operational realignment of gbs. Currently, apoBank does not anticipate a claim under the letter of comfort.

Derivative financial instruments

27. 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 €25,441 million as at 30 June 2023 (31 December 2022: €24,498 million). As at 30 June 2023, they included the following types of transactions:

Distribution of traded derivatives/types of transactions

Interest rate-related transactions

- Interest rate swaps
- Swaptions
- Caps/floors

Currency-related transactions

- FX forward transactions
- FX swaps

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

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

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

Risk structure

	Nominal value €m		Fair value[1] €m	
	30 June 2023	31 Dec 2022	30 June 2023	31 Dec 2022
Interest rate-related transactions[2]				
Time to maturity up to 1 year	2,042	1,777	38	5
more than 1 year to 5 years	12,914	11,888	273	281
more than 5 years	10,231	10,560	50	68
Subtotal	**25,187**	**24,225**	**361**	**354**
Currency-related transactions				
Time to maturity up to 1 year	254	273	0	0
more than 1 year to 5 years	0	0	0	0
more than 5 years	0	0	0	0
Subtotal	**254**	**273**	**0**	**0**
Total	**25,441**	**24,498**	**361**	**354**

1) Netted, taking into account pro rata interest, where applicable.
2) Interest-related transactions are reported under the items “Other assets” (€19,8 million), “Prepayments and accrued income (assets)” (€6,7 million) and “Prepayments and accrued income (liabilities)” (€8,3 million).

The vast majority of derivative financial instruments is used to hedge interest rate and/or currency fluctuations as part of valuation units (see note 6) as well as within the scope of asset liability management.

D. Notes to the income statement

28. Interest income

The “Interest income” item includes €34 thousand (1 January to 30 June 2022: €41,528 thousand) in negative interest income from deposits with other banks.

29. Interest expenses

The item “Interest expenses” includes €1,798 thousand (1 January to 30 June 2022: €63,091 thousand) in positive interest expenses from borrowings from other banks and specific customer groups.

30. Commission income and commission expenses

Commission income includes insurance brokerage services rendered for third parties amounting to €12,011 thousand (1 January to 30 June 2022: €13,434 thousand).

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

Other operating income of €15,104 thousand (1 January to 30 June 2022: €16,015 thousand) includes, among other things:

Other operating income

	1 Jan – 30 June 2023 €thous	1 Jan – 30 June 2022 €thous
Rental income	2,253	2,105
Release of reserves (related to other periods)	7,961	3,323
Income from currency translation	2,437	1,771

Other operating expenses of €12,818 thousand (1 January to 30 June 2022: €9,152 thousand) result primarily from the following items:

Other operating expenses

	1 Jan – 30 June 2023 €thous	1 Jan – 30 June 2022 €thous
Provisions for litigation costs	3,588	1,249
Expenses from compounding	2,491	2,353
Expenses from currency translation	2,054	1,217

32. Taxes on income

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

E. Other notes

33. Events after the reporting date

No events took place that were subject to reporting requirements between 30 June 2023 and when the interim financial statements were prepared by the Board of Directors on 4 August 2023.

34. Disclosures according to Section 28 of the PfandBG

Please refer to apoBank's quarterly report as at 30 June 2023, prepared pursuant to the German Pfandbrief Act (PfandBG), for information with respect to the mortgage covered bonds included in the items "Liabilities to banks", "Liabilities to customers" and "Securitised liabilities".

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

Deutsche Apotheker- und Ärztebank eG, 40547 Dusseldorf, Germany

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

The turnover of €582.1 million results from the operating result, excluding risk provisioning, write-downs in respect of intangible and tangible assets and general administrative expenses. Deutsche Apotheker- und Ärztebank's operating result amounted to €182.9 million based on HGB accounting.

The average number of employees (excluding members of the Board of Directors) in the first half of the year was 2,125 (full-time equivalents).

The profit before tax of €182.9 million as at 30 June 2023 was largely generated in Germany. Income tax on this amount was €73.1 million.

apoBank does not receive any public aid.

36. Board of Directors

Members of the Board of Directors

- Matthias Schellenberg, Chair; responsible for Health Care Market and Investments, Communications and Brand, Legal and Committee Service, Internal Auditing, Professional Associations, Corporate Development; since 1 May 2023 also responsible for HR as well as Transformation Management Retail Clients; since 1 July 2023 also responsible for Treasury, Institutional Clients & Asset Management, apoAsset and aik Immobilienmangementgesellschaft from the former board department Large Customers and Markets
- Heiko Drews (since 1 May 2023), responsible for Retail Clients from 1 May 2023 to 30 June 2023; since 1 July 2023 responsible for Sales (previously Retail Clients as well as Corporate Clients from the former board department Large Customers and Markets)
- Alexander Müller (until 30 June 2023), responsible for Large Customers and Markets (until 30 June 2023)
- Thomas Runge, responsible for Products, Processes & IT (formerly IT and Products); since 1 July 2023 responsible for Finance, Controlling and Bank Operations (temporary)
- Sylvia Wilhelm, responsible for Risk
- Holger Wessling (until 31 March 2023), responsible for Controlling and Bank Operations (until 31 March 2023)

37. Supervisory Board

Members of the Supervisory Board

- Dr. med. dent. Karl-Georg Pochhammer, Chair, Deputy Chair of the National Association of Statutory Health Insurance Dentists KdöR
- Sven Franke[1], Deputy Chair, bank employee
- Fritz Becker, owner of the Nordstadt-Apotheke Pforzheim
- Marcus Bodden[1], bank employee
- Martina Burkard[1], bank employee
- Mechthild Coordt[1], bank employee
- Stephanie Drachsler[1], bank employee
- Dr. med. dent. Peter Engel (until 28 April 2023), dentist (retired)
- Dr. med. Andreas Gassen, Chair of the Board of the National Association of Statutory Health Insurance Physicians KdöR
- Günther Haardt[1], General Manager of the Vermögensverwaltung der Vereinte Dienstleistungsgewerkschaft (ver.di) GmbH
- Dr. med. Torsten Hemker, Chair of the Administrative Committee of the Versorgungswerk der Ärztekammer Hamburg KdöR
- Gerhard Hofmann, Member of the Board of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR) (retired) and Director of Bundesbank (retired)
- Steffen Kalkbrenner[2] (until 28 April 2023), bank employee
- Lukas Kaster[1] (since 28 April 2023), bank employee
- Walter Kollbach, tax consultant/auditor (retired)
- Bettina Krings[1] (until 28 April 2023), bank employee
- Christian Scherer[1], bank employee
- Friedemann Schmidt, President of the Sächsische Landesapothekerkammer KdöR
- Dietke Schneider[1], bank employee

- Dr. Thomas Siekmann, Member of the Supervisory Board of ZA Zahnärztliche Abrechnungsgenossenschaft eG and former bank director
- Dr. med. dent. Reinhard Urbach (since 28 April 2023), dentist and Chair of the Leitender Ausschuss des Altersversorgungswerk der Zahnärztekammer Niedersachen KdöR
- Daniel Valo[2] (since 28 April 2023), bank employee
- Susanne Wegner, General Manager of the Verwaltungsgesellschaft Deutscher Apotheker mbH

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

38. Name and address of the responsible auditing association

Genossenschaftsverband – Verband der Regionen e. V.
Ludwig-Erhard-Allee 20
40227 Dusseldorf, Germany

Dusseldorf, 4 August 2023
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Matthias Schellenberg | Heiko Drews | Thomas Runge | Sylvia Wilhelm

3

Certifications

Review Report

to Deutsche Apotheker- und Ärztebank eG, Dusseldorf

We have reviewed the condensed interim financial statements (comprising the condensed balance sheet, the condensed income statement as well as the condensed notes) and the interim management report of Deutsche Apotheker- und Ärztebank eG for the period from 1 January 2023 to 30 June 2023, which are components of the interim report pursuant to Section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). The preparation of the condensed interim financial statements in accordance with German commercial law and of the interim management report in accordance with the provisions of the German Securities Trading Act applicable to interim management reports is the responsibility of the Board of Directors of the cooperative. Our responsibility is to issue a report on the condensed interim financial statements and the interim management report based on our review.

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

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

Dusseldorf, 4 August 2023
Genossenschaftsverband – Verband der Regionen e.V.

Dirk Berkau Auditor	Karsten Ernstberger Auditor

Responsibility Statement by the Legal Representatives

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

Dusseldorf, 4 August 2023
Deutsche Apotheker- und Ärztebank eG
The Board of Directors

Matthias Schellenberg	Heiko Drews	Thomas Runge	Sylvia Wilhelm

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