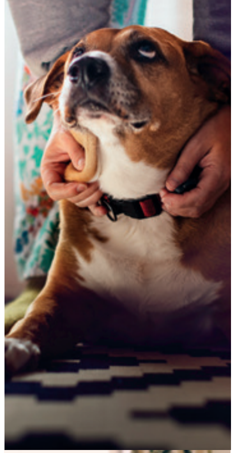



Inside real life. A 360° view.

UniCredit Bank AG 2015 Annual Report

Welcome to HypoVereinsbank

Member of UniCredit

Disclaimer
This edition of our annual report is prepared for the convenience of our English-speaking readers. It is based on the German original, which takes precedence in all legal respects.

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Legal structure

UniCredit Bank AG (HVB), formerly Bayerische Hypo- und Vereinsbank Aktiengesellschaft headquartered in Munich, was formed in 1998 through the merger of Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft. It is the parent company of HVB Group. HVB has been an affiliated company of UniCredit S.p.A., Rome, Italy (UniCredit), since November 2005 and hence a major part of the UniCredit corporate group as a subgroup.

Since the shares held by minority shareholders of HVB were transferred to UniCredit compliant with Section 327a of the German Stock Corporation Act (Aktiengesetz – AktG), as resolved at the Annual General Meeting of Shareholders in June 2007 and entered in the Commercial Register on 15 September 2008, UniCredit has held 100% of the capital stock of HVB. Thus, trading in HVB shares officially ceased. As a capital-market-oriented company, however, HVB does remain listed on securities exchanges as an issuer of Pfandbriefs, bonds and certificates, among other things.

Organisation of management and control

The Management Board is the management body of HVB and consists of seven members. The Management Board is directly responsible for managing the Bank. It is obliged to act in the interests of the company and to increase its sustainable value. Within the framework of its leadership function, it is responsible above all for corporate planning and strategic orientation, and for ensuring adequate risk management and risk control. The Management Board provides the Supervisory Board with regular, timely and comprehensive reports particularly on all issues relevant to corporate planning and strategic development, the course of business, the state of the Bank and its subsidiaries, including the risk situation, and significant compliance issues. The members of the Management Board are jointly responsible for managing the Bank and for the proper business organisation of HVB. The responsibilities of the Management Board of HVB are specified in a schedule of responsibility, which forms part of the Management Board's internal regulations. The Management Board's internal regulations also specify particularly the matters reserved for the Management Board and the requirements for adopting resolutions and the required majorities.

Peter Hofbauer left the Management Board of HVB at the end of 31 May 2015 and Dr Andreas Bohn at the end of 30 September 2015. Francesco Giordano was appointed to the Management Board with effect from 1 June 2015 to act as Chief Financial Officer (CFO) from that date. Dr Michael Diederich was appointed to the Management Board with effect from 1 September 2015 with responsibility for the Corporate & Investment Banking business segment from that date.

The Supervisory Board of the Bank has 12 members and has an equal number of employee and shareholder representatives. The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. The Supervisory Board has adopted by-laws specifically defining the details of the work within the Supervisory Board, the creation and tasks of committees and the tasks of the chairman of the Supervisory Board. In addition, the by-laws state that certain types of transactions require the approval of the Supervisory Board. The Supervisory Board was re-elected as scheduled during the Annual Shareholders' Meeting of HVB held in May 2015. Professor Dr Annette G. Köhler, Gianni Franco Papa and Florian Schwarz were elected to the Supervisory Board for the first time, while Aldo Bulgarelli, Peter König and Dr Lothar Meyer left the body.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given under Note 56, "Supervisory Board", and Note 57, "Management Board", in the present Annual Report.

The Supervisory Board of UniCredit Bank AG has adopted a target that one-third of the members of the Supervisory Board should be women. One-seventh of the members has been set by the Supervisory Board as the target for the proportion of women on the Management Board. Targets of 22 percent and 24 percent have been set for the proportion of women in the first and second management levels below the Management Board respectively. The targets are to be achieved by the end of the first compliance period (30 June 2017) specified in the German Act on Equal Participation of Women and Men in Executive

Positions in the Private and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern in Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst). The targets are not less than the present status.

HVB's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the principle of overall bank management based on earnings, risk, liquidity and capital aspects. This is explained in the Risk Report (please refer in particular to "Overall bank management" within the section entitled "Implementation of overall bank management").

Business model, main products, sales markets, competitive position and facilities in the 2015 financial year

HVB is part of UniCredit, which offers its financial services on the European market in particular. This enables us to combine our regional strength and local competence with the potential and know-how provided by an international banking group. Our integration into UniCredit is a strong basis for consistently exploiting its international network and economies of scale. UniCredit has a divisionally and regionally diversified business model with bases in 17 European countries. Apart from the domestic markets of Germany, Austria, Poland and Italy, it is one of the leading banks in most countries of central and eastern Europe. In particular, it is our corporate and institutional customers who benefit from this international diversification.

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, international companies and institutional customers. HVB has a well-developed network of branches in Germany, particularly in Bavaria and the greater Hamburg area, which was modified to accommodate changed patterns of customer behaviour (see also the section entitled "Successful completion of realignment of the retail banking business"). In total, HVB has 370 offices around the world, including 354 branches in Germany. A breakdown of the offices of HVB by region is shown in the section of the present Management Report entitled "Offices".

Successful completion of realignment of the retail banking business

The realignment of the retail banking business launched in August 2014 involving a streamlining of the branch network, the modernisation of 341 branches and the expansion of our multi-channel presence and digital offerings with over 35 innovations was completed as scheduled in 2015.

The positive effects of the realignment were increasingly felt in 2015. For instance, there was a rise in the investment volume, particularly the volume of securities accounts in the core segment of clients seeking advice. At the same time, the dialogue with our customers intensified considerably. With a demonstrable increase in customer satisfaction, the new HVB FinanzKonzept advisory offering at our modernised branches, which has received an award from the Institut für Vermögensaufbau, also contributed to this development.

When transforming the retail banking business, HVB acted at an early stage. In the meantime almost all competitors – including savings banks and cooperative banks – have followed our example and are repositioning their branch networks.

Strategic Plan links growth of the business segments to cost-cutting programme in the back office

Furthermore, HVB confirmed its growth strategy in 2015 after the annual review of the Strategic Plan. We wish to make a significant contribution to profits within UniCredit in the future too and earn a return on capital employed that is greater than the cost of capital.

To achieve this, the aim is to greatly increase the market share with corporate customers and in Private Banking & Wealth Management over the coming years. In its retail banking activity, HVB will continue down its path towards sustainable profitability. The goal in Corporate & Investment Banking is to make even better use of the strong international network and synergies with Commercial Banking, and selectively expand the network. At the same time, the digitalisation of processes and structures is to be systematically continued across all areas of the Bank.

Business Situation and Trends (Continued)

With a view to securing the envisaged earnings and return targets, HVB has added further measures to its Strategic Plan aimed at boosting both efficiency and earnings. These measures are scheduled for implementation during the period from 2016 to 2018. This is the Bank's response to the structurally low interest rates and the increase in costs caused by greater regulatory requirements.

This action plan centres on the administration units of HVB and its subsidiaries. The objectives are to reduce complexity, make greater use of synergies and boost efficiency. To achieve this, processes and structures are to be simplified, the administration functions further digitalised and staffing levels adjusted in the administration units. To implement the staffing reduction, the Bank reached an agreement with employee representatives in 2015 so that this can now be swiftly implemented.

Specifically, this involves shedding 1,200 jobs in the administration units of the Bank and its subsidiaries over a three-year period. In addition, the number of staff still has to be reduced under existing programmes, including in retail banking activities, whereby contractual agreements were already made in this context with all employees concerned. At the end of the third quarter of 2015, a reduction of 800 full-time equivalents had still to be implemented, 450 of which were shed in the fourth quarter. At year-end 2015, the reduction left under existing programmes thus amounted to 350 jobs.

HVB is divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking (CIB)
– Other

Commercial Banking business segment
The Commercial Banking business segment serves around 2.5 million customers in Germany with a need for standardised or personalised service and advice in diverse banking services. In this context, its Private Clients Bank and Unternehmer Bank business units offer a wide range of banking services, benefiting from the strong HypoVereinsbank brand. Commercial Banking is run by two Management Board members who bear joint responsibility. The business management and support functions are performed by staff units assigned to each of the business units. Reciprocal cross-servicing ensures that the products required are maintained only once. Very wealthy clients will be served under joint sales responsibility achieved by bundling the private banking and wealth management sales channels with corporate banking investment advisors.

In line with the universal bank model, the range of products and services of Commercial Banking enables comprehensive customer support to be provided. This extends from mortgage loans, consumer loans, savings-and-loan and insurance products and banking services for private customers through to business loans and foreign trade financing for corporate customers through to investment banking products for corporate customers. For customers in the private banking and wealth management customer segments, we offer comprehensive financial and asset planning with needs-based advisory services by generalists and specialists.

The market environment for Commercial Banking is characterised by persistently low interest rates, fragmented competition and rising regulatory costs. In parallel with persistently subdued demand from customers, increasing digitalisation is causing a lasting change in customer requirements. HVB is facing up to the challenges posed by this framework in Commercial Banking with a premium positioning, a clearly defined digitalisation strategy and a diverse set of measures of growth and efficiency activities.

In the Private Clients Bank business unit, in 2015 we were the first bank in Germany to complete a root-and-branch modernisation of our retail banking activities. We set ourselves up as a genuine multi-channel bank and invested heavily in mobile and internet-based offerings and in the attractiveness of our branches. We focus on growth and customer retention. In this business unit, retail customers are served in line with their needs in the "private clients" and "private banking" offerings. In the process, the partly diverse and individual needs of these customer groups are taken account of through specific sales channels and responsibilities, simultaneously moving wealthy investment customers towards our private banking offerings. Joint specialist, staff and support units are efficiently employed. The private banking offering is managed as a part of Private Banking & Wealth Management within Commercial Banking under joint sales responsibility with the Unternehmer Bank. The core benefit of the repositioning in the retail banking business is the top-quality advisory expertise from the customer's perspective. The HVB FinanzKonzept was successfully launched at the outset of 2015 and awarded the highest rating of 5 out of 5 stars by the Institut für Vermögensaufbau. The consulting and professional capabilities of our consultants are supported in a completely structured, electronic advisory process.

The Unternehmer Bank business unit serves the whole spectrum of German companies and companies operating in Germany as well as private individuals with a legal relation to the company. With the exception of multinational companies (multinationals) and their subsidiaries that are incorporated into the CIB business segment on account of their regular demand for capital market products and complex advisory services, customer support for the entire German Mittelstand and commercial real estate business is bundled in the Unternehmer Bank. In this context a growth strategy is pursued that aims at a positioning in customer contact as a strategic business partner and provider of premium solutions. This is also supported by a joint venture between the Unternehmer Bank and Corporate & Investment Banking to meet the demands of our customers and develop tailored investment banking approaches for their strategic issues. In this connection, Mittelstand customers in particular are to benefit from our expertise and specific investment banking products. Another key activity is the expansion of the digital offer for corporate customers in the market-leading Business Easy unit. Further growth initiatives of the Unternehmer Bank cover important strategic challenges of our customers such as corporate succession, foreign trade and internationalisation.

The Private Banking & Wealth Management customer segment within Commercial Banking will also be managed under the shared sales responsibility of the Private Clients Bank and Unternehmer Bank. Based on a 360-degree advisory approach, very wealthy customers in the private banking and wealth management sales channels and corporate investment advisors are served by very well trained advisors and highly qualified specialists.

Corporate & Investment Banking business segment

The CIB business segment is responsible for investment banking, institutional customers and select multinational corporations as well as large companies engaged in capital market activities (referred to as corporates). These customers are supported by an integrated value chain consisting of a service network and product specialists. The CIB business segment is divided into the Markets, Financing & Advisory (F&A) and Global Transaction Banking (GTB) product factories. The CIB business segment ensures high-quality advice with a tailored and solution-based approach and acts as an intermediary to the capital market. HVB is the centre of competence for the international markets and investment banking operations of the entire UniCredit corporate group. In addition, the CIB business segment acts as a product factory for customers in the Commercial Banking business segment.

By their very nature, the activities of the CIB business segment are premium in character on account of the demands placed on both products and services. We believe we enjoy a very good position in this area. Further improvements are being implemented constantly with a view to retaining the confidence of our customers.

The CIB business segment aims to position itself as the strategic business partner for large corporate customers as well as institutional customers in terms of advisory expertise, product and process quality, and value creation. In the process, it concentrates on creating a stable, strategic business partnership in the long term and positioning itself as the first port of call for customers in both commercial and investment banking. Its customer focus is based on professional, pro-active relationship management that works professionally, rapidly, transparently and with an advice-centred approach. In addition, it has an in-depth understanding of the business model and branch of business of the customer. CIB supports corporate customers – also those served by the Unternehmer Bank in the Commercial Banking business segment – as an intermediary to the capital market, in their positioning, growth and internationalisation.

Business Situation and Trends (Continued)

F&A supports customers worldwide through the following departments: Financial Sponsors Solutions, Infrastructure & Power Project Finance, Natural Resources, Commodity Trade Finance, Structured Trade and Export Finance. Further global business lines are Global Syndicate & Capital Markets and Corporate Finance Advisory. The Corporate Structured Finance and Real Estate Structured Finance business units work closely with the Commercial Banking business segment. The local Global Shipping unit tracks transactions worldwide. Portfolio & Pricing Management is responsible for the management of all leveraged, project, aircraft and commodity finance transactions. All other F&A asset classes are managed at the level of HVB in collaboration with representatives of the distribution channels. Furthermore, the Bard Offshore 1 offshore wind farm is overseen by F&A.

GTB offers a diverse and proven range of core expertise in the fields of international cash management and e-banking, international trade finance and supply chain management.

Markets' business focuses on customer-related operations that support the corporate and institutional business of HVB as an integral part of the CIB value chain. Its operations encompass the following product lines: Rates, Integrated Credit Trading, FX, CEE Trading, Commodities, Equity Derivatives, and Treasury. Products are sold through three main distribution channels: Institutional Distribution, Corporate Treasury Sales and Private Investor Product & Institutional Equity Derivatives. The sales units are supported by Research, the Structuring & Solutions Group, the Quants Team and the CVA (Credit Value Adjustment) Desk.

CIB's business success is also based on the close cooperation and interaction between product factories and global customer care across the business lines. The Multinational Corporates business line concentrates on customers with their principal place of business in Europe and on European subsidiaries of US or Asian corporate customers. The subsidiaries of our corporate customers located in the Americas and Asia receive optimum support from our CIB Americas and CIB Asia branches. In addition, we offer American and Asian companies with business relations with our domestic markets the network they need for successful business development. The Financial Institutions Group business line is a global support network that ensures comprehensive services for institutional customers, focusing on banks, insurance companies, leasing companies, asset managers and funds, countries and federal states as well as supranational institutions.

Other business segment

The Other business segment encompasses the Global Banking Services business unit and Group Corporate Centre activities.

The Global Banking Services business unit acts as a central internal service provider for customers and employees and particularly covers purchasing, organisation, corporate security, logistics and facility management, cost management and production functions for credit, accounts, foreign exchange, money market and derivatives as well as in-house consulting. Payments, securities settlement, IT application development and IT operation have been outsourced. Strategic real estate management at HVB is also the responsibility of Global Banking Services and is carried out by HVB Immobilien AG and its subsidiaries.

The Group Corporate Centre pools the competence lines of HVB. They contain the organisations of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operating Officer (COO) including Human Resources Management (HR).

Corporate acquisitions and sales

In May 2015, we sold our entire holding of 7.56% of the capital stock of Wüstenrot & Württembergische AG to institutional investors under the terms of a private placement.

In June 2015, we sold our PlanetHome AG subsidiary (complete with its subsidiaries) to the financial investors AP Capital Investments and Deutsche Invest Equity Partners. The shares were sold as part of the streamlining of our portfolio of investments. The time-tested cooperation model with PlanetHome AG is being retained unchanged as HVB intends to maintain real estate activities as a strategic field of competence going forward.

Economic report

Underlying economic conditions

The development of the global economy was mixed in the first half of 2015. The economic data released to date for 2015 (up to and including the third quarter) and the leading indicators already published point to the expected economic recovery in Europe. Although the US economy weakened slightly at the start of 2015, it rebounded strongly as the year wore on. The situation in some large emerging markets has increasingly deteriorated. Concerns about slowing growth in China grew in the second half of 2015 in particular, causing prices to fall sharply on global stockmarkets. The economy in Russia and oil-exporting emerging and developing countries suffered from the low price of oil, which fell again sharply in the third and fourth quarters following a slight rally in the second quarter. At the same time, the low oil price is seen as one of the key factors driving the economic recovery in many industrialised countries.

The data for the first three quarters of 2015 show that gross domestic product (GDP) in the eurozone grew by a seasonally adjusted 0.5%, 0.4% and 0.3% respectively against the equivalent quarter in the previous year. The first official estimates for the fourth quarter suggest that the eurozone economy continued to perform well. We expect to see a growth rate of 1.5% for the year as a whole. Both falling oil prices and beneficial exchange rates will have contributed to this trend last year. For one thing, consumer spending recovered on the strength of increased purchasing power; at the same time, exports benefited in 2015 from the depreciation of the euro, triggered mainly by the ECB's purchases of European sovereign bonds (QE programme). According to the ECB's latest bank lending survey, eurozone banks further eased their lending standards for non-financial companies in 2015. Moreover, the additional liquidity created by the ECB's purchase programme supported the extension of loans by banks, which increased further in the second half of the year. The inflation rate rose slightly during the course of the year, although the 0.2% recorded at year-end was still well below the ECB's inflation target. Once again, this can be largely attributed to the collapse in oil prices. Core inflation increased slightly compared with 2014 to end 2015 at 0.9%. The persistently low inflation rates drove the ECB to push its deposit rate further into negative territory and expand its QE programme at the end of 2015. At present, the ECB is planning to continue purchasing bonds at the same monthly rates until at least March 2017, which would yield an aggregate amount (including the bonds already purchased) of €1,440 billion.

Germany's strong economic performance essentially continued, with GDP expanding by 1.7% year-on-year in 2015 according to initial estimates by the Federal Statistical Office, although industrial production proved somewhat weaker than expected. At the same time, the leading indicators are still at high levels and support our positive assessment for growth. The Ifo Business Climate Index rose sharply during the course of the year to reach a good level by historical standards. Despite increasing concerns about the Chinese economy and the potential impact on German exports, the business expectations component rose again strongly in the second half of the year. As was already the case in previous years, the situation on the labour market has improved further, with the unemployment rate reaching a 20-year low of 6.3%.

The Greek debt crisis was one of the central issues covered by the media, above all in the first three quarters of 2015. After the change of government at the beginning of the year, the new Greek government and its European partners faced the task of agreeing on the future of Greece's bailout plan. Until well into July, protracted negotiations between the creditors and the Greek government still had not produced any visible results. This caused the situation in Greece to escalate and even led to the introduction of strict capital controls and a referendum being held on further reforms in the country, with the majority of Greeks voting against the plan. Furthermore, Greece temporarily defaulted on payments to the International Monetary Fund (IMF). After yet more marathon negotiations, the creditors and the Greek government managed to reach agreement on a further aid package worth up to €86 billion. This served to greatly ease the situation. Nothing changed in this regard as a result of the elections held in the third quarter, with Syriza retaining its position as the largest party in parliament.

Business Situation and Trends (Continued)

While the European refugee crisis regularly made all the headlines in the mainstream media in the second half of the year, increasing concerns about a hard landing in China served to depress the markets.

Sector-specific developments

The financial markets were characterised by high volatility throughout 2015. Phases with strong financial markets followed by periods of greater uncertainty followed each other in unusually rapid succession. The stock market performed particularly well at the start of the year. During this phase, the risk appetite of equity investors was fed by falling oil prices, a weakening euro and contracting yields at first, a development related to the ECB's bond-buying programme. At the start of the second quarter, the yield on 10-year German government bonds fell to less than 0.1% at times, while the DAX rose by 25% over the same period. This strong start to the year was followed at first by a short, sharp rise in yields on German government bonds. A mere two months passed from the lowest yield on 10-year bonds of just under 0.1% in mid-April to the high point of just below 1% during June. In the summer months, the mood on the equity markets also turned sour, triggered by a resurgence of the Greece crisis and a stock market crash in China. As the year wore on, the markets remained nervous and only started to stabilise gradually towards the end of the year. The second half of the year was also shaped by a further sharp drop on the commodity markets. The price of Brent crude oil fell by almost 40% in the second half of the year to less than $40 per barrel.

These developments also had a significant impact on the credit markets, where average risk premiums fell at first to levels not seen since the sub-prime crisis in 2007/08 before jumping again markedly in some cases. The credit markets were particularly nervous during the Greece crisis in the early summer and again in the late summer, triggered by the problems faced by Volkswagen over excessive emissions. During these phases, there were signs of panic sales on the credit markets on a few days that calmed down again afterwards on the following days. Attention focused notably on individual securities from the commodities, automotive and utilities sectors. Both their share prices and credit risk premiums experienced considerable fluctuations in some cases. The mood on the financial markets was depressed by the major widening of spreads on German utilities and carmakers resulting essentially from company-specific events. This trend was reinforced by the fact that bonds issued by German carmakers and utilities were viewed as safe havens by numerous investors. Some of these bonds were included in portfolios that did not have enough risk-taking capacity to be able to cope with such volatile prices. The resulting pressure to sell and illiquidity on the markets served to magnify the volatility of the spreads.

Over the year as a whole, the benchmark DAX 30 index rose by 9.6% while the EURO STOXX 50 gained only 3.9%. The high volatility on the stock markets is well illustrated by the fact that the DAX 30 closed almost 13% below its high for the year recorded in April. The yield on 10-year German government bonds rose by 9 basis points year-on-year to 0.63%. Seen in the light of the highs and lows, this rise in yield was extremely moderate. Yields on 10-year Italian government bonds fell by nearly 30 basis points in 2015 to 1.60%, meaning that the spread between Italy and Germany had contracted to 97 basis points by year-end 2015 compared with 135 basis points at year-end 2014.

The spreads on the credit markets for non-financials with good credit ratings widened from an average of 70 basis points at the end of 2014 to 110 basis points at year-end 2015. This was the first year-on-year widening of spreads since 2011, when the markets were roiled by the European sovereign debt crisis. The widening of spreads on financials (senior unsecured debt) proved more moderate, expanding from an average of 44 basis points to 66 basis points. The 3-month Euribor fell to minus 0.13% at the end of the year after trading at plus 0.08% at year-end 2014. The ECB left its benchmark rate unchanged at 0.05% for the whole of 2015, although the interest rate on the deposit facility was lowered from minus 0.2% to minus 0.3% in December. In December, the Federal Reserve raised its benchmark rate – the federal funds rate – for the first time in nine years, from 0.25% to 0.5%, thus initiating the lift-off that market observers had been anticipating for some time.

The euro weakened considerably against the US dollar during 2015, falling from $1.21 to $1.09. It also declined by around 10% against the Japanese yen and the Swiss franc, while losing only 5% of its value against the British pound.

The European Bank Recovery and Resolution Directive (BRRD) came into force on 1 January 2015. This directive provides the framework for the recovery and resolution of banks in the EU. Alongside resolution instruments, it also sets a minimum requirement for own funds and eligible liabilities (MREL) that must be applied from 1 January 2016 at the latest. The Financial Stability Board (FSB) published its Total Loss-Absorbing Capacity standard for global systemically important banks (G-SIBs) in November 2015. This standard specifies a total loss-absorbing capacity (TLAC) for G-SIBs. Under the new rules, G-SIBs are required to hold TLAC totalling at least 16% of risk-weighted assets from 1 January 2019, rising to 18% from 1 January 2022. In addition, a TLAC leverage ratio of 6% must be observed from 2019, rising to 6.75% from 2022. The TLAC consists of own funds together with other elements such as bonds that can be written down by the bank or converted into equity (known as contingent covertible bonds).

Germany implemented the BRRD in full in January 2015. In September 2015, German lawmakers passed the German Resolution Mechanism Act (Abwicklungsmechanismusgesetz – AbwMechG – which came into force in November 2015), which translates the Single Resolution Mechanism (SRM) into German law. This act introduces special arrangements for insolvency proceedings regarding German banks by way of an amendment to Section 46f (6) KWG. Senior unsecured debt is divided into two groups. The first group, which includes bearer bonds, warrant bonds, promissory notes and similar rights, must absorb losses ahead of the second group. This means that the second group, which includes unsecured deposits from banks and major customers, derivatives and structured products, is senior to the first group. 1 January 2017 has been set as the date when the new regulations come into force.

Implementation of the bail-in instrument already led to numerous reactions by the leading rating agencies from mid-2015, partly as a result of modified methodologies. In short, the assumptions regarding governmental support have been fundamentally changed, as a result of which they no longer play a significant role in the ratings. This has already led to some banks seeing their ratings downgraded sharply, although this has in many cases been offset by better capitalisation and other factors. Statements on HVB Group's external rating are given in the section of the present Management Report entitled "Ratings".

General comments on the business situation

As in previous years, 2015 was also marked by a number of challenges posed by the economic, financial and geopolitical environment. HVB nonetheless generated a satisfactory profit before tax of €543 million in the 2015 financial year (2014: €726 million). At €4,292 million, operating income was only slightly lower than last year (down 1.9%). Within operating income, net interest income fell a minor 3.0% to €2,793 million despite the historically low interest rates. We generated income of €1,138 million in net fees and commissions. Despite the difficult market conditions and the branch closures implemented in the course of modernising our retail banking activities over the last two years, our income from fee- and commission-earning operations remained stable. Net income from the held-for-trading portfolio improved by 75.3%, or €122 million, to €284 million, although the result was weighed down by expenses for funding valuation adjustments of €94 million recognised for the first time in 2015. By contrast, other operating income less other operating expenses fell by 62.8%, or €130 million, to €77 million. General administrative expenses (€3,665 million) were also weighed down by higher expenses for pension plans in addition to the provision created in 2015 for the measures defined in the 2016–2018 Strategic Plan to boost efficiency and earnings. Adjusted for restructuring costs, they increased only moderately, thanks in part to the strict cost management we have applied for years. There was another substantial year-on-year decline of 81.9% in the valuation result for lending operations to minus €49 million, which is thus at a very low level. The net gain from securities held for liquidity purposes amounts to €12 million (2014: €2 million). Other income less other expenses (net expense of €25 million after a net expense of €60 million in 2014) is significantly higher than last year primarily as a result of lower write-downs on bonds and notes held for investment purposes.

Business Situation and Trends (Continued)

Adjusted for the charges arising from restructuring costs, at €642 million the profit before tax in 2015 would be only slightly lower than the adjusted year-ago figure (down €64 million or 10.0%) and would thus be in line with the expectations we outlined in the Outlook in the Management Report for 2014. The reason for this is lower income from net fees and commissions and lower net income from the held-for-trading portfolio together with restructuring costs not planned at the time. We are pleased to have easily beaten our target for net interest income. The decline in operating income was offset in particular by the lower provisions for losses on loans and receivables than planned.

HVB has had an excellent capital base for years. The Common Equity Tier 1 ratio in accordance with Basel III or CRR (ratio of core capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) increased to 25.0% at 31 December 2015 (year-end 2014: 23.3%), which is still an excellent level by both national and international standards.

Total assets increased slightly by 6.1%, or €14.2 billion, to €246.1 billion at 31 December 2015 compared with year-end 2014. On the assets side, there was a notable rise in cash and cash balances and in receivables from securities repurchase transactions on the trading and banking books. On the liabilities side, there was an increase in liabilities from securities repurchase transactions in the trading book in line with the assets side and in current deposits from customers. The shareholders' equity shown in the balance sheet fell a slight €0.2 billion, or 1.2%, to €18.8 billion reflecting the dividend payout totalling €627 million as resolved by the Shareholders' Meeting in the second quarter of 2015, which was only partially offset by the net income of €398 million generated in the 2015 financial year.

According to the regulatory report at 31 December 2015, the leverage ratio of UCB AG was 5.6%, down only a minor amount compared with year-end 2014 (31 December 2014: 5.8%). The leverage ratio under Basel III is defined as the ratio of core capital to the total exposure values of all assets and off-balance sheet items.

The leverage ratio of UCB AG in accordance with the Commission Delegated Regulation (EU) 2015/62, which came into force on 18 January 2015, amounted to 5.7% at 31 December 2015. The differences in percentages stem from the methods specified in the Commission Delegated Regulation to calculate the exposure in derivative positions, the treatment of collateral received in securities financing transactions and the application to off-balance sheet items of credit conversion factors as defined in the credit risk Standard Approach.

HVB enjoyed a very comfortable liquidity base and a solid financing structure at all times in the reporting period. The funding risk remained low on account of the diversification in our products, markets and investor groups. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity. To ensure that adequate liquidity is available at all times, target ratios are used, among other things, that act as triggers. The section entitled "Liquidity risk" in the Risk Report of the present Management Report contains further information on the liquidity base of HVB.

With our customer-centric business model, high capital base, solid funding foundation and good market position in our core business areas, we are a reliable partner for our customers and investors. As an integral part of UniCredit, HVB is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers. HVB is building on these advantages through the realignment of its retail banking activities as completed this year together with the implementation of the measures agreed to boost efficiency and earnings from the 2016–2018 Strategic Plan to reflect the rapidly changing social, economic and regulatory environment and push further growth through a stronger entrepreneurial focus.

We would expressly like to thank our employees at this point. Their willingness to embrace change and at the same time to help secure our commercial success forms the basis for our good performance. We also wish to thank the employee representatives for their constructive cooperation in spite of the very difficult issues. This gives all of us the confidence we need to master the challenges of the future.

Operating performance

The 2015 income statement and important events in the 2015 financial year

Income statement	2015 € millions	2014 € millions	CHANGE € millions	in %
Net interest income	2,793	2,879	(86)	(3.0)
Net fees and commissions	1,138	1,127	+ 11	+ 1.0
Net income from the held-for-trading portfolio	284	162	+ 122	+ 75.3
Other operating income less other operating expenses	77	207	(130)	(62.8)
Operating income	**4,292**	**4,375**	**(83)**	**(1.9)**
General administrative expenses	(3,665)	(3,299)	(366)	+ 11.1
Payroll costs	(1,886)	(1,564)	(322)	+ 20.6
Other administrative expenses[1]	(1,779)	(1,735)	(44)	+ 2.5
Operating result before provisions for losses on loans and receivables	**627**	**1,076**	**(449)**	**(41.7)**
Provisions	(37)	(268)	+ 231	(86.2)
Operating result	**590**	**808**	**(218)**	**(27.0)**
Other income less other expenses	(25)	(60)	+ 35	(58.3)
Extraordinary expenses	(22)	(22)	—	—
Profit before tax	**543**	**726**	**(183)**	**(25.2)**
Tax	(145)	(99)	(46)	+ 46.5
Net income	**398**	**627**	**(229)**	**(36.5)**
Transfer to the reserve for shares in a controlling				
or majority interest-holding company	(38)	(29)	(9)	+ 31.0
Withdrawal from the reserve for shares in a controlling				
or majority interest-holding company	—	—	—	—
Transfer to other retained earnings	—	—	—	—
Withdrawal from other retained earnings	38	29	+ 9	+ 31.0
Profit available for distribution	**398**	**627**	**(229)**	**(36.5)**

1 including standard amortisation and depreciation on intangible assets and property, plant and equipment

Net interest income

At €2,793 million, the net interest income generated in the reporting period – net interest income/expenses including current income from equity securities and other variable-yield securities, participating interest and shares in affiliated companies, and income from profit-pooling and profit-and-loss transfer agreements – was slightly below the year-ago total of €2,879 million. The persistently ultra-low interest rates continue to depress the margins that can be achieved. Despite higher volumes of loans and receivable with banks and customers, it was not possible to repeat the level of income recorded in the previous year. The dividends from participating interests, affiliated companies and profit pools included in current income are also well below the year-ago total that benefited from the sale of parts of our private equity portfolio including co-investments (down €121 million).

Net fees and commissions

Net fees and commissions increased by a slight €11 million year-on-year to €1,138 million. Compared with 2014, fees and commissions receivable from credit and lending operations rose by a strong €28 million mainly on account of a non-recurring effect in the margin-sharing business involving our Luxembourg-based subsidiary UniCredit Luxembourg S.A. Higher fees and commissions receivable was also recorded from our wealth management business and fee-earning securities activities. It was not possible to match the year-ago figures in the rest of the fee- and commissioning-earning business, notably including income from payments and other service activities.

Business Situation and Trends (Continued)

Net income from the held-for-trading portfolio
The net income from the held-for-trading portfolio increased by €122 million year-on-year to €284 million.

Although securities activities yielded tangible contributions to profits, the total was less than in the previous year. Taken as a whole, activities involving derivatives, including currency-related transactions, improved significantly compared with 2014. In addition, increased holdings arising from trading in emission certificates and the associated results effects had a positive impact.

The year-ago total was depressed by a negative contribution to earnings of €89 million arising from valuation adjustments. At 31 December 2015, HVB recognised funding value adjustments (FVA) in the income statement for the first time to reflect the measurement at fair value of not fully hedged derivatives. Apart from non-hedged derivatives, this also relates to derivatives for which hedging in favour of the counterparty only has been agreed. The negative effect of €94 million resulting from this change was recognised in net income from the held-for-trading portfolio.

General administrative expenses
General administrative expenses increased by €366 million in 2015 to €3,665 million.

Restructuring costs of €99 million associated with further investments in the future of HVB accrued during the reporting period. This total includes expenses of €129 million for the addition of restructuring provisions in connection with the measures to boost efficiency and earnings arising from the 2016–2018 Strategic Plan. These expenses were offset by income of €33 million from the reversal of restructuring provisions that had been set up in 2013 to cover the modernisation of the retail banking activity and the expansion of the multichannel capability. The year-ago total included net income of €19 million from the reversal of restructuring provisions.

Thanks to our very successful cost management over many years, current payroll costs and other administrative expenses were kept at low level. However, the persistently low interest rates and the associated decline in discount rates applied to provisions led to higher expenses for pension plans for our current and former employees (+€146 million).

Depreciation on property, plant and equipment fell by €4 million to €36 million.

Other operating income less other operating expenses
The balance of other operating income and other operating expenses fell by a sharp €130 million year-on-year to €77 million. Both lower provisions and income from the purchase of receivables had a positive effect during the reporting period.

Operating result before provisions for losses on loans and receivables
The operating result before provisions for losses on loans and receivables fell by €449 million year-on-year to €627 million.

Provisions for losses on loans and receivables
The provisions for losses on loans and receivables amounted to €37 million during the reporting period (2014: €268 million). The net valuation expense on lending operations of €49 million contained in provisions for losses on loans and receivables is well below the already very low year-ago total of €270 million. Expenses of €1,025 million for additions (2014: €1,288 million) were largely offset by releases and recoveries of €976 million from write-offs of loans and receivables during the reporting period (2014: €1,018 million). The net gain from securities held for liquidity purposes increased to €12 million (2014: €2 million).

Other income less other expenses
The net other expense of €25 million (2014: net expense of €60 million) contains further write-downs on the bonds and notes of HETA ASSET RESOLUTION AG, Klagenfurt, (formerly known as Hypo Alpe Adria Bank International AG, Klagenfurt) as well as the gains on the disposal of our participating interests in Wüstenrot & Württembergische AG, Stuttgart, and our Unterföhring-based subsidiary PlanetHome AG.

Extraordinary expenses
When the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) was introduced in 2010, HVB made use of the option to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The allocation of €22 million (2014: €22 million) accruing for the 2015 financial year is disclosed under extraordinary expenses.

Profit before tax
Profit before tax fell by €183 million year-on-year to €543 million.

Taxes
The tax payable increased by €46 million during the reporting period to €145 million. For the most part, this can be attributed to the assessment and enforcement of an Austrian capital duty resulting from restructuring activities prior to the acquisition of UniCredit CAIB AG, Vienna, by HVB.

Net income for the year and appropriation of net income
The profit available for distribution amounts to €398 million. We will propose to the Shareholders' Meeting that a total dividend of €398 million be paid to UniCredit. This represents a dividend of around €0.50 per share. The profit of €627 million available for distribution in the previous year (which is equivalent to around €0.78 per share) was paid to UniCredit in accordance with a resolution adopted by the Shareholders' Meeting on 20 May 2015.

Financial position

Total assets
HVB's total assets amounted to €246.1 billion at 31 December 2015. This represents a year-on-year increase of €14.1 billion.

Our very comfortable liquidity reserves are reflected in a doubling of our cash and cash balances from €5.1 billion to €10.8 billion during the reporting period. Loans and receivables with banks rose by a slight €1.5 billion to €34.2 billion due mainly to much larger volumes of securities repurchase agreements (up €7.3 billion), which more than offset the fall in volumes of term deposits (down €4.9 billion). There was a slight increase in the volume of loans and receivables with customers (up €2.8 billion). For the first time in several years, HVB recorded a slight increase in mortgage loans in the reporting period. There was also an increase of €1.0 billion in current account balances owed to customers to €9.8 billion.

The holdings disclosed under securities (without held-for-trading portfolios) amounted to €52.5 billion (up €1.9 billion). The decline in money market instruments (down €2.8 billion) is offset by higher volumes of bonds and notes issued by third parties (up €3.0 billion) and buy-backs of own bonds issued (up €1.7 billion).

Assets held-for-trading increased by €2.8 billion year-on-year to €55.0 billion. While the holdings of fixed-income securities including changes in value were reduced slightly, there was an increase of €2.1 billion in equity securities and other variable-yield securities including changes in value. In addition, the receivables from securities repurchase transactions increased by €2.1 billion. The €2.0 billion decline in derivative financial instruments is mainly attributable to lower fair values.

There was again a slight decline of €0.2 billion in shareholdings disclosed under participating interests and shares in affiliated companies. Among other things, HVB sold its shareholdings in Wüstenrot & Württembergische AG, Stuttgart, and PlanetHome AG, Unterföhring.

There was an increase in volumes on the liabilities side in line with the development on the assets side. The main increase within deposits from banks (up €1.1 billion to €51.5 billion) concerns liabilities from collateral provided, which were up by €2.8 billion year-on-year. These are set against declining volumes of sight and term deposits.

Business Situation and Trends (Continued)

Deposits from customers rose by €5.0 billion to €114.4 billion. The main reason for this is an increase in current accounts (up €11.5 billion), although this is set against a fall of €4.4 billion in liabilities under securities repurchase agreements and sight and term deposits.

At €15.4 billion, debt securities in issue remained at the same level as in the previous year, while liabilities held-for-trading increased by €5.3 billion to €34.2 billion due mainly to liabilities under securities repurchase agreements. Subordinated liabilities remained unchanged at €0.6 billion.

The shareholders' equity fell by €0.2 billion to €18.8 billion compared with year-end 2014. Within this total, the dividend payout of €627 million in the second quarter of 2015 based on a resolution adopted by the Shareholders' Meeting was only partially offset by the net income for the year of €398 million generated in the reporting period. The subscribed capital, additional paid-in capital and retained earnings remained unchanged compared with 2014.

The return on assets is defined in Section 26a KWG as the ratio of net profit to total assets. This amounted to 0.16% at 31 December 2015 (31 December 2014: 0.27%).

The contingent liabilities and other commitments not included in the balance sheet again increased by €9.9 billion year-on-year to stand at €71.4 billion at 31 December 2015. This figure includes contingent liabilities (€32.8 billion) from general loan guarantees (€14.3 billion), transaction-related guarantees (€16.5 billion) and trading-related guarantees (€2.0 billion). Other commitments of €38.6 billion (2014: €26.9 billion) consist solely of irrevocable lending commitments, which increased by €11.7 billion year-on-year primarily on account of lending commitments for loans to customers.

Risk-weighted assets, key capital ratios and liquidity of HVB

The risk-weighted assets of HVB for credit and counterparty risk determined on the basis of Basel III (CRR) amounted to €55.5 billion at 31 December 2015 (2014: €56.5 billion), which represents a further decrease of €1.0 billion. The risk equivalent amounted to €9.7 billion for market risk and €8.3 billion for operational risk (2014: €12.8 billion and €9.1 billion, respectively). The total risk-weighted assets amounted to €73.4 billion at 31 December 2015 after €78.4 billion in the previous year.

At 31 December 2015, our core capital (CRR) according to the approved financial statements totalled €18.4 billion (2014: €18.2 billion). The equity funds, which consist of core capital and supplementary capital, amounted to €19.0 billion (2014: €18.9 billion). This gives rise to a core capital ratio (including market risk and operational risk) of 25.0% (2014: 23.2%) compliant with Basel III and CRR and an equity funds ratio of 25.9% (2014: 24.0%) compliant with Basel III and CRR.

To ensure sufficient liquidity at all times, key figures are used, among other things, which act as triggers. A detailed description of the management of liquidity and the liquidity position is given in the Risk Report. A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 KWG. This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure at the end of December 2015 was 1.21 after 1.20 at year-end 2014.

In the context of the introduction of new European liquidity requirements under Basel III, the German Liquidity Regulation (Liquiditätsverordnung – LiqV) will also be supplemented by the new Liquidity Coverage Ratio (LCR). The LCR is the ratio of the liquidity cushion (high-quality liquid assets – HQLA) of a bank to its net cash outflows over a stress period of 30 calendar days, expressed as a percentage. The LCR must be observed as of a transitional period commencing 1 October 2015. The minimum requirement will be gradually increased up to 100% by 1 January 2018. The requirement of 60% valid at 31 December 2015 is significantly surpassed at HVB with a figure of 100%.

To manage and ensure adequate risk-taking capacity, the Bank conducts analyses of its risk-taking capacity on a regular basis. In this context, the risk-taking capacity is defined by the comparison between the maximum losses possible (internal capital) and the ability to absorb losses with existing equity (available financial resources).

The ratio of available financial resources to internal capital is referred to as risk-taking capacity and amounted to 181,9% at year-end 2015 (year-end 2014: 163,0%). We consider this figure to be very comfortable and it is also considerably higher than the minimum figure defined by the Bank as a threshold. Further details on the calculation and definition of the risk-taking capacity are given in the Risk Report.

Ratings

The ratings of countries and banks are subject to constant monitoring by rating agencies. During the first half of 2015, the rating agencies S&P, Moody's and Fitch reviewed the state aid provided for banks against the backdrop of the introduction of the Bank Resolution and Recovery Directive (BRRD) in Germany.

In this connection, Fitch Ratings downgraded its A+ rating for HVB to A– in May 2015, as potential state aid for German private banks is no longer included in the rating. The outlook remains negative, as Fitch believes the fungibility of capital and liquidity could increase within banking groups under the direct supervision of the ECB.

S&P removed potential state aid from its ratings for the major banks in Germany in June 2015, adjusting its rating for HVB from A– to BBB as a result. The negative outlook reflects the assumption made by S&P that the European resolution authority for banking groups could move towards a single point of entry approach under the resolution plans it is to draw up.

To coincide with the introduction of the BRRD, Moody's published its revised criteria for banks in March 2015. Alongside the uncovered issuer rating, these allow for a further division into deposits and counterparty risk, taken from the potential liability cascade in accordance with the BRRD. In this context, Moody's raised the issuer and senior unsecured rating for HVB from Baa1 to A3 with a negative outlook and the deposit rating for HVB to A2 with a positive outlook. The negative outlook for the issuer rating and the positive outlook for the deposit rating is caused by the amendment to the German Resolution Mechanism Act adopted by the German Bundestag, under which deposits will be treated as senior to certain unsecured bonds as of 1 January 2017. The newly introduced counterparty risk rating was set at A1 without an outlook; among other things, this relates to the creditworthiness of HVB as a counterparty in derivative contracts.

In January 2016, Moody's reviewed its ratings for German banks in light of the amendment to German insolvency law taking effect in January 2017. In doing so, it downgraded the senior unsecured rating for HVB to Baa1 from A3 with a stable outlook. The deposit rating was left at A2, similarly with a stable outlook. The counterparty risk rating was confirmed at A1.

Significant investments

Work started in 2013 on turning the HVB Tower in Munich into a green building that meets the requirements of a facility strategy that is geared to sustainability and environmental compatibility. The work in the tower itself and the Flachbau Süd building will be completed in the first quarter of 2016, and the Flachbau Nord building will be modernised by 2019. The aims of the renovation are to improve energy efficiency and reduce carbon emissions. At the same time, the office spaces are being revamped to meet the requirements of modern communications systems and the existing areas rearranged to allow more efficient use of office space at the same time as enhancing the working environment by applying innovative office concepts. This model will also be applied to the various floors in the HVB Tower, taking into account feedback received from the Smart Working pilot project. After completion, the HVB Tower will be the Bank's future head office and seat of its Management Board.

In addition, we invested some €250 million in the modernisation of 341 branches, the expansion of digital sales channels with over 35 innovations and staff training during the reporting period.

Business Situation and Trends (Continued)

Offices

HVB mainatained 354 offices in Germany, 12 abroad and 4 representative offices at 31 December 2015.

Offices broken down by region

		ADDITIONS	REDUCTIONS		
	1/1/2015	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	31/12/2015
Germany					
Baden-Wuerttemberg	17	—	1	1	15
Bavaria	263	2	27	33	205
Berlin	9	—	—	1	8
Brandenburg	8	—	1	—	7
Hamburg	15	—	—	2	13
Hesse	9	—	1	—	8
Lower Saxony	20	—	9	1	10
Mecklenburg-Western Pomerania	5	—	1	—	4
North Rhine-Westphalia	10	—	1	—	9
Rhineland-Palatinate	19	—	4	1	14
Saarland	5	—	1	—	4
Saxony	9	1	2	—	8
Saxony-Anhalt	13	—	3	1	9
Schleswig-Holstein	55	—	18	2	35
Thuringia	8	—	3	—	5
Subtotal	**465**	**3**	**72**	**42**	**354**
Other regions					
Africa	**1**	**—**	**—**	**—**	**1**
South Africa[1]	1	—	—	—	1
Americas	**3**	**—**	**1**	**—**	**2**
USA	2	—	—	—	2
Cayman Islands	1	—	1	—	—
Asia	**6**	**—**	**—**	**—**	**6**
Hong Kong	1	—	—	—	1
Singapore	1	—	—	—	1
Japan	1	—	—	—	1
United Arab Emirates[1]	1	—	—	—	1
South Korea[1]	1	—	—	—	1
Vietnam[1]	1	—	—	—	1
Europe	**6**	**1**	**—**	**—**	**7**
France	1	—	—	—	1
Greece	1	—	—	—	1
UK	1	—	—	—	1
Italy	1	—	—	—	1
Austria	1	—	—	—	1
Switzerland	1	1	—	—	2
Subtotal	**16**	**1**	**1**	**—**	**16**
Total	**481**	**4**	**73**	**42**	**370**

1 Representative offices

Relations with affiliated companies

We have prepared a separate report on our relations with affiliated companies in the 2015 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG):

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted, or any disadvantages arising were compensated."

Report on subsequent events

There were no significant events at HVB after 31 December 2015 to report.

Forecast report/Outlook

The Management Report and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by the information available to us at the present time. We assume no obligation to update these statements in the light of new information or future events. Known or unknown risks and uncertainties may be entailed in forward-looking statements, and the actual results and developments may thus differ significantly from those expected at present. Such discrepancies may result particularly from changes to the general economic situation and the competitive situation, developments on international capital markets, the possible default of borrowers or contracting parties in commercial transactions, the implementation of restructuring measures, amendments to national and international laws relating to supervisory and tax regulations, the reliability of our risk-management procedures and methods as well as other risks, some of which are described in detail in the Risk Report.

General economic outlook

According to projections by the IMF, the global economy is likely to grow by around 3.4% in 2016, although the prospects for the individual economies vary. Whereas growth is likely to remain moderate overall in Europe and the United States, the environment and growth prospects for many emerging and developing countries look mixed. Slowing Chinese expansion and low commodity prices are projected to depress the outlook for growth. At the same time, though, the situation in countries like Brazil and Russia should slowly improve. The forecasts are based on the assumptions that the countries involved are not affected by any major political or economic shocks. Nonetheless, the IMF sees clear downside risks to the outlook for global growth, should the slowdown in Chinese growth accelerate, for instance.

The refugee crisis in Europe is again likely to play a major role in social and economic policy terms in 2016. Globally, public debate and the markets will focus on commodity prices and the development of the Chinese economy, at least at the start of the year.

GDP growth in the eurozone should again outpace the previous year with an annual average of 1.7%. This process should be supported by the weakness of the euro and the sharp fall in the price of oil above all in the first half of the year. In all probability, the rebound in demand will once more be driven by domestic demand in 2016, with consumer spending again likely to expand around 2% as it did in the previous year. Moreover, public spending should also deliver a somewhat greater stimulus again. Investment is projected to expand from

Business Situation and Trends (Continued)

2% today to 3.0–3.5% in 2016. Furthermore, the ECB may well implement further expansionary measures as inflation rates are still well below its target of 2%. We expect consumer price inflation to total 0.4% over the year as a whole.

At country level, we are forecasting that growth will accelerate from 1.7% in 2015 to 1.8% in 2016 in Germany (not adjusted for calendar reasons), from 1.1% to 1.4% in France and from 0.6% to 1.2% in Italy. Following on from a very strong year in 2015, the recovery will probably peter out in Spain, with growth likely to slow from 3.2% to 2.9% in 2016.

Domestic consumption is expected to be the key driver of growth in the German economy over the coming year. The main reasons for this are the fillip to growth from the influx of refugees, further increases in pay and pensions, and the construction industry. The fiscal stimulus will amount to 0.6% of GDP in 2016. Around half of this is attributable to the influx of refugees, which will lead to higher private and state spending and greater construction activity. The other half is attributable to tax cuts and rising government investment. Private consumption will be reinforced by the ongoing recovery on the labour market and rising take-home pay. Moreover, the biggest rise in pensions since German reunification (+4-5% year-on-year) will take effect as of summer 2016.

The US economy is set to remain one of the main drivers of global expansion in 2016. We expect real GDP growth to total 2.2%, roughly the same as in the last two years (2.4% in each case). Consumer spending will again make the biggest contribution to growth. The ongoing recovery on the labour market coupled with faster pay rises and a fall in the savings rate, which will partially offset the dwindling tailwind from the low energy prices, are likely to cause private consumption to expand at around 3% once more. Government spending is also likely to rise faster than in 2015, when it went up for the first time in six years. Moreover, we assume that capital spending by companies on plant and equipment will also pick up again after hardly expanding at all in 2015. In particular, we believe that the oil-related decline in structural investment, which was one of the main reasons behind the general softness in capital spending, is largely over. Finally, residential construction is likely to increase at a similar pace to 2015. Then again, a combination of strong domestic demand coupled with the less than stellar global growth and the strong dollar suggest that foreign trade will be a further drag on growth.

We expect the core inflation rate in the United States to go on rising in 2016 and anticipate three interest rate rises of 25 basis points each. This would put the upper end of the target rate at 1.25% by the end of 2016.

Sector development in 2016

The EBA published its final "Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP)" on 19 December 2014. The SREP guidelines take effect from 1 January 2016. Under the new rules, all institutions within the EU are assigned to one of four categories. The classification depends on the size, structure, business model and complexity of the commercial activities of the institutions. The classification reflects the assessment of the systemic risk of a given institution and determines the frequency and intensity of the supervisory review procedures (proportionality principle). The national supervisory authorities are expected to monitor financial and non-financial key performance indicators in order to identify changes in the financial position and risk profile of a given institution. To this end, monitoring systems are to be set up that identify significant deviations and deteriorations in the indicators, thresholds defined where appropriate and escalation processes drawn up for all the relevant indicators. The indicators, monitoring patterns and thresholds are to be adapted to reflect the size, complexity, business model and risk profile of the institution concerned.

We expect the backdrop of extremely low interest rates to again be one of the main challenges for the financial sector in 2016. The geopolitical risks which are still acute, the threats from international terrorism, the debate surrounding a possible British exit from the EU and the future of the EU in general might cause volatility to remain high. The TLAC debate will probably force banks to not only optimise the structure of their equity and debt but also to evaluate what would be an optimum corporate structure for them in the future.

Development of HVB

On account of the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are very unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that, in a consistently challenging environment for the financial industry, we will again be able to generate a satisfactory profit before tax in the 2016 financial year.

All in all, the positive impact of the wide-ranging measures that we launched as part of the realignment of the Bank in 2014 and completed in 2015 will be reflected in the results for 2016.

On this basis, we anticipate a slight increase in operating income in the 2016 financial year. The persistently ultra-low interest rates and the non-recurrence of the one-time effects contained in the reporting period will contribute significantly to a noticeable decrease in net interest. The significant increase in volumes in the lending business targeted for 2016 will only partially offset this effect. We expect dividends and similar income from capital investments to yield less income in the 2016 financial year, as one-off income recorded in the 2015 financial year will not recur. In contrast, it should be possible to generate a considerable rise in net fees and commissions. We are planning higher fee income in both the Commercial Banking business segment and the CIB business segment. A sharp increase is expected in net income from the held-for-trading portfolio compared with 2015, particularly in Equity Derivatives Trading and Integrated Credit Trading (securitisation of loans and receivables, and securities repurchase agreements). Operating costs are likely to remain at the year-ago level based on the consistent application of strict cost management. At the same time, we expect payroll costs to be somewhat higher due notably to expenses arising from our company pension plans that will exceed the impact of the declining workforce. Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets should, however, largely offset this increase. Thanks to the increase in operating income coupled with constant operating costs, the cost-income ratio is projected to improve slightly over last year. In terms of net write-downs of loans and provisions for guarantees and commitments and the cost of risk, which also remained at a very low level in 2015, we expect the need for additions to normalise in 2016 and thus to increase sharply compared with the figures of the 2015 financial year; however, net write-downs of loans and provisions for guarantees and commitments are set to remain at a moderate level.

We will continue to enjoy an excellent capital base in 2016. The capital ratio for the core capital (Common Equity Tier 1 capital ratio) will be slightly lower than the high level of year-end 2014. In terms of risk-weighted assets (including market risk and operational risk), a substantial increase is expected particularly on the back of the planned increase in lending and transaction volume and the rise in market risk.

Business Situation and Trends (Continued)

We expect all the business segments to contribute a profit before tax to the results of HVB in the 2016 financial year as a whole.

The performance of HVB will again depend on the future development on the financial markets and in the real economy in 2016 as well as other remaining imponderables. In this environment, HVB will continually adapt its business strategy to reflect changes in market conditions and carefully review the management signals derived from this on a regular basis. With its strategic orientation and excellent capital resources, HVB sees itself as being in a good overall position to effectively exploit the opportunities that may arise from the changing operating environment, the further volatility that can be expected on the financial markets and in the real economy.

Opportunities in terms of future business policy and corporate strategy, performance and other opportunities
The opportunities described below are offset by risks that are set against the exploitation of those opportunities and plans. The risks arising from the business policy and corporate strategy are described in the Risk Report in the present Management Report.

HVB is an important part of one of the largest, best-positioned banking groups in Europe, UniCredit. It is one of the largest financial institutions in Germany and has core competence for all UniCredit customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers.

Moreover, Germany is one of the few countries in the world that continues to enjoy a financial rating of AAA. Hence, HVB, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers.

HVB is the bank for customers who expect more from their bank. This means that it wants to be the bank for retail customers, entrepreneurs and enterprises who demand, and are willing to reward, top quality and build strong ties with their bank. With this business policy geared to sustainability, strong capital base, the measures it initiated in 2014 and completed in 2015 to modernise its retail banking business coupled with the measures planned to boost efficiency and earnings in the 2016–2018 Strategic Plan, HVB stands for innovation, reliability, stability and security. This results in the opportunities described below:

The Commercial Banking business segment is pursuing a growth strategy based on universal bank offerings, a competitive differentiation through excellent service and advisory standards and by focusing on customers prepared to pay an adequate price for premium services. Specifically, we see the following growth opportunities for each business unit.

Within the Commercial Banking business segment, the main purpose of the Unternehmer Bank business unit in its customer contact is to position itself as a principal or core bank and strategic business partner that is heavily involved in the strategic considerations and priorities of the customer and develops tailored solutions. The most important strategic challenges of our customers include, among other things, corporate succession, foreign trade, internationalisation and digitalisation. For this reason, the growth initiatives of the Unternehmer Bank cover precisely these needs. Our customers increasingly have activities in countries outside of Germany and are entering new markets. Our aspiration is to be one of the top banks when it comes to accompanying the international activities of our customers. We can leverage the excellent country network of UniCredit in western, central and eastern Europe and our expertise in foreign trade to add considerable value for the export-oriented German Mittelstand in their international business activities. In 2012, we also became the first bank in Germany to provide a digital service, with more than 125,000 customers now taking advantage of Business Easy. In 2016, we will continue to invest in this offering in order to further expand our range of digital services and to include corporate customers. In addition, we expect additional growth potential in the area of corporate succession. We will exploit this potential by providing comprehensive support along the entire value chain such as purchase price finance, investment management of sales proceeds, M&A advisory services and equity solutions. Our aim is to support customers with the best possible services so that they become even more successful.

In the Private Clients Bank business unit, we were the first bank in Germany to have initiated a root-and-branch modernisation of our retail banking business, completing this as scheduled in 2015. In this context, we have set ourselves up as a genuine multi-channel bank, creating a unique customer experience which fulfils the desire for flexible access options. The main strategic objectives are a clear customer strategy focusing on customers holding their main bank account with HVB, our positioning as a premium provider, excellent advisory expertise and a transparent and customer-oriented product range. To achieve a standard, modern and upscale appearance of our branches, all target branches were fully modernised in the relevant customer areas in 2014 and 2015. In the process, the branch gained considerable importance as a point of contact for top-drawer advice. At the same time, service, information and advisory offerings are being expanded in the multi-channel environment and made even more customer-friendly. The continued development of innovative customer interaction focuses on greater user-friendliness, an increase in mobile banking offerings and an ongoing optimisation of multi-channel processes. This strategic reorientation is a great opportunity for HVB as a premium provider to offer customers better service going forward and to grow throughout Germany in the retail banking customer group in the future.

In the Private Banking & Wealth Management customer segment, which is managed as a joint venture under the shared responsibility of the Private Clients Bank and the Unternehmer Bank, we intend to further expand our good position in activities involving wealthy customers. We benefit from our comparatively strong local presence with over 40 locations in Germany and from the quality and strength of the advice we offer. Our advisers are supported by a dense network of highly qualified specialists for financial/wealth planning, succession planning, foundation management, shareholdings, financing, trading in derivatives and other special issues. In addition, we offer our award-winning mandated solution, a commission-based model and tailored portfolio advice in the area of securities depending on our customers' requirements. Our aim is to accompany customers in a spirit of trust over the long term and satisfy customer requirements from our 360-degree product range as well as possible in order to sustainably increase our customers' prosperity. The joint venture organisation of Private Clients Bank and Unternehmer Bank strengthens collaboration and exploits synergies within the Bank with the aim of creating additional stimuli for growth. The business model is constantly refined to take account of customer demands now and in the future, such as in the areas of product and service range, digitalisation and the quality of customer advice.

The main emphasis in the CIB business segment is on strengthening activities by expanding products that place less of a burden on capital and liquidity resources. The strategic focus in this context is on consistent risk-adequate pricing and enhancements in strategic customer transactions and investment banking solutions for a sustainable and long-term business relationship. An integrated value chain comprising network and product specialists enables us to provide top-drawer advice to our customers complete with creative, solution-oriented approaches and wide-ranging financing and capital-procurement opportunities through an integrated platform across the whole range of capital from debt to equity. We see further business potential in the expansion and improved use of our strong international network that can be unlocked by extensively accompanying the international activities of customers in our core countries as well as those of

Business Situation and Trends (Continued)

customers in selected, strategically relevant countries. To increase the efficiency of our customer-bank relations and thus enhance our cross-selling potential, we are expanding our processing and access platforms particularly in view of the launch of SEPA. We also wish to better exploit the opportunities afforded by digitalisation by setting up a digital client service model to facilitate customer access to Markets products and services, for instance, or by expanding and strengthening the supply chain while optimising our approach to selling flow products.

Moreover, as a universal bank, HVB has a high level of cross-selling potential in all customer groups. The Bank has already taken an important step to tap this potential to a greater extent by consolidating the Private Clients Bank and the Unternehmer Bank, serving to pool activities in fast-growing fields and ensure needs-based customer service. Furthermore, to enable Mittelstand customers in the Unternehmer Bank to benefit more from UniCredit AG's investment banking services, a joint venture was set up between the CIB business segment and the Unternehmer Bank business unit at the end of 2015. Special CIB products of the Corporate Treasury Sales (CTS), Debt Capital Markets (DCM), Equity Capital Markets (ECM) and Corporate Finance Advisory (M&A) units are pooled in the joint venture. The aim of this focused sales approach is to boost cross-selling. Furthermore, HVB offers its customers support in markets where it is represented by the whole UniCredit branch network rather than having its own operations. Further earnings potential is generated by offering financial services in these markets and by creating and using new products for all customer segments through tailored solutions.

HVB can respond quickly and flexibly to expansion opportunities arising on the market. On account of its excellent capital base, it is already well equipped for any tightening of regulatory requirements and will be able to actively operate on the market even in that kind of scenario.

The recipe for success at HVB entails setting strict limits for risk and managing the Bank with an awareness of risk. This approach is set to continue going forward. The HVB portfolio is in very good shape in terms of risk content and can be considered less risky than most.

For years, HVB has been evolving into a bank with strong and consistent cost management. The ability to manage costs is well developed throughout the Bank. HVB is seeking to constantly enhance its operating costs over the coming years as well, partly by exploiting synergies released by the rationalisation of overlapping functions. In this regard, we are making use of the opportunities to cooperate with UniCredit across country and company lines and applying best practices wherever they can be found. We aim to reinforce the end-to-end process view and improve the interaction between our internal processes by optimising our handling processes.

Digitalisation has greatly altered the finance industry and the expectations of customers with regard to their bank and will continue to do so going forward. Already today, HVB is progressing digital change in individual business areas (such as its online branch) and has applied diverse models in several areas of the Bank in terms of digitalisation/fintech.

As an attractive employer, HVB has opportunities to recruit highly qualified employees and managers. Both the size of UniCredit and the strategic positioning of HVB have a beneficial impact on the recruitment of employees and managers. Supporting female managers at junior level is an explicit part of the business strategy.

We see further potential for opportunities in our long-term orientation to customers and other stakeholders, which is manifested in our Mission Statement.

Our Mission Statement (Integrity Charter):

– We UniCredit people are committed to generating value for our customers.
– As a leading European bank, we are dedicated to the development of the communities in which we live, and to being a great place to work.
– We aim for excellence and we constantly strive to be easy to deal with.
– These commitments allow us to create sustainable value for our shareholders.

Non-financial performance indicators

Human resources

Eye on the future

Our employees are our most important capital. We can achieve the goals of customer focus and long-term value creation only with highly competent and motivated colleagues. To this end, we create a work environment in which cooperation and respect are prized above all other things, encouraging our employees to participate actively and realise their full potential. Fairness, transparency, respect, reciprocity, freedom and trust form the basic values of UniCredit and the framework for our actions. These values are codified in our Integrity Charter, which all employees throughout the corporate group are required to observe.

As part of its strategic focus, HVB has clearly positioned itself as a multi-channel bank. Accordingly, supporting HVB's transition to the digital age is one of the core tasks of our human resources work. Among other things, this means building up the qualifications of our employees to meet the challenges of digitalisation. Dedicated and highly motivated employees represent a critical competitive advantage, particularly in the advice-intensive banking industry. UniCredit's periodic employee opinion survey known as the People Survey serves as a barometer, indicating the state of our corporate culture and the satisfaction of our employees with the working conditions and leadership within the Bank.

For the fifth time in a row, HVB received "Top Employer" certification in 2015. This is granted by the international Top Employers Institute each year to companies whose HR work meets the highest standards. The factors assessed include corporate culture, training and development offerings, and career prospects within the Bank.

Supporting change and creating job prospects

HVB added further measures aimed at boosting its efficiency and profitability to its Strategic Plan in late 2015. These measures will be implemented in the years 2016 to 2018. Specifically, the plan calls for the elimination of 1,200 positions in the administrative departments of the Bank and its subsidiaries over a period of three years. Other positions will be eliminated under ongoing programmes, including in the retail banking business; contractual agreements have already been reached with all affected employees. At the end of the third quarter of 2015, 800 full-time positions remained to be eliminated. Of this number, 450 positions were eliminated in the fourth quarter. At year-end 2015, 350 positions remained to be eliminated under ongoing programmes. We firmly intend to avoid compulsory redundancies and will instead rely on yearly turnover and internal retraining measures. As always, we strive to reach amicable solutions with the affected employees.

The percentage of part-time workers rose further in 2015 to reach 25.3%. Sixty-five employees utilised the early partial retirement option known in Germany as Altersteilzeit. HVB's workforce (measured in FTEs) decreased from 14,227 in 2014 to 13,301 in 2015. The total fluctuation rate at HVB (defined as the number of employees leaving as a proportion of the average number of employees) amounted to 11.1% during the reporting period.

Business Situation and Trends (Continued)

Fair pay
Competitive remuneration is a central element of strategic human resources management at HVB, one that is embedded in UniCredit's remuneration policy (Group Compensation Policy). It is designed to support the long-term strategic goals, the principles of group-wide risk management, and the interests of our stakeholders. The remuneration strategy strikes a balance between fixed and variable remuneration components and defines mechanisms for the disbursement of variable remuneration. It fosters sustainable actions because every disbursement is preceded by a review of compliance-conformant behaviour. Thus, the bonus earned by an employee on the basis of his or her individual target attainment can be confirmed, reduced, or even eliminated in this review process. The variable remuneration of employees who exert significant influence on the Bank's overall risk profile (known as "risk takers") is subject to special claim, retention and disbursement conditions. Under the regulatory requirements, moreover, our Management Board appointed a Remuneration Officer for the first time in 2014. The position has a supervisory and advisory function and supports the Remuneration Control Committee as it expands its practical oversight of remuneration questions.

Promoting talents
HVB constantly invests in the training and development of talented junior staff. The apprentice rate (defined as total number of apprentices at year-end as a proportion of the total number of employees at year-end) totalled 4% in 2015 (2014: 5.1%). The number of graduate trainees (32.8% of them women) rose again from last year. The task of developing and retaining talents, and permanently securing future leaders for all management levels, is set to become far more important over the coming years in light of demographic developments. Added to this is that the increasing regulatory requirements are demanding new training concepts and development approaches for senior management. In response, we maintain a comprehensive talent management programme to support gifted specialists and managers across the various stages of their careers, thus securing future leaders for all management levels. All the development and training measures are based on the UniCredit Performance Management tool, the portfolio meetings, and talent-management and executive-development processes. This makes it possible for us to assess performance transparently and plan binding career steps, including international transfers.

Equal opportunities for all
HVB aims to demonstrate a culture of inclusion and diversity. One of the priorities in this context is to make evident and integrate in management the specific potential of talented women. Our corporate Gender Equality Policy ensures that due consideration is given to equal opportunity for women and men and other aspects of diversity in the hiring, career development, remuneration, and work-life balance of our employees. At least one woman must be nominated for every vacant management position. As the only body of its kind in the banking industry, HVB Women's Council promotes the cause of diversity through its own initiatives and the support it provides to the Management Board. We have set ourselves an ambitious target in this regard: women are to hold 30% of our senior positions by 2017. At present, the rate is 26.9% (2014: 24.9%). In order to increase the share of women in management positions, nine senior managers acting as Shared Future Officers assist the business units in defining and implementing suitable measures. Mentoring initiatives, regular roundtable meetings with the Management, and networks like the UniCredit Women's International Network (UWIN) promote the development, visibility, and potential of women. According to the Women's Career Index organised under the auspices of the German Federal Family Affairs Ministry, HVB is one of the top five companies in Germany when it comes to successfully promoting the career development of women.

Balancing work and family
Supporting a healthy work-life balance is critical to preserving the motivation, joy, and commitment of our employees in the long term. We view starting a family as a natural part of any curriculum vitae and offer our employees considerable support with childcare under our parental leave concept. Under our Office@home programme, we make it possible for employees to work from home, thus helping to dismantle a culture that demands a constant physical presence. We maintain contact with colleagues on parental leave and provide tips

on returning to work through the online portal "hvb-familie.de" and regional parental information boards. The nursery at our main headquarters in Munich has space for 36 children. We offer our employees a family service for questions about childcare and caring for the elderly, while holiday clubs are also run in cooperation with the HVB Sportclub. HVB offers day care on work days that are not school days.

Staying healthy at work

At HVB, strategic health management is a core responsibility of HR management. The HVB Health Forum brings together all health management players, working to achieve an appropriate balance of health and safety at work for the respective target group together with precautionary and preventive measures for physical and emotional well-being. Around 14,000 employees make use of the diverse offerings of the Health Forum each year. We also ran Health Weeks in Munich and Hamburg for the first time in 2014 and 2015. Roughly 3,200 employees attended the many events on a wide range of topics. In 2015, the leading German quality initiative Corporate Health Award confirmed the excellence of the Bank's health management programme for the fourth year in a row. The jury awarded HVB 92 out of 100 points, thereby recognising HVB as a standard-setter.

Outlook

Banks continue to undergo a transformation process within a fast-changing economic and regulatory environment. As before, HVB's human resources work is heavily influenced by regulatory requirements, particularly including the stringent rules for remuneration systems, the rising demands on employee skills and the need for specialist expertise in compliance units. As before, HVB's continuing education activities are focused on preparing our employees for the trend of digitalisation, which is changing the behaviour of bank customers. The work of Human Resources supports the Bank's overriding strategic goals. We seek to counter the pressure on profitability resulting from the environment of low interest rates and high compliance costs by adjusting our capacities on the way to a sustainably viable cost basis. The overriding goal is to assure the long-term competitiveness of HVB. The initiatives of HVB's Human Resources department are designed to help the Bank become a premium provider.

Sustainability

Our sustainability strategy

HVB's ambition is to bring economic success in line with ecological and social standards and to generate our profits with integrity. Indeed, we are convinced that giving our business a sustainable orientation serves to foster our long-term business success and makes it possible for us to optimally support our customers with future-looking products and services. By promoting this goal in the four action areas of our core business, the environment, society and employees, our sustainability strategy meets the expectations and demands of our stakeholders.

The implementation of our sustainability strategy is managed using targets and indicators that are reviewed at regular intervals. Sustainability is a key performance indicator alongside factors like profitability and growth in the Bank's overall strategy. In view of the interdisciplinary nature of sustainability, we have organised cross-segment work groups to address specific topics such as sustainable investing and environmental protection management. Our business activity is supported by the company-wide management of reputational risk, which also incorporates ecological and social risks, and the systematic monitoring of compliance topics.

Good marks for responsibility and transparency

Since 2002, we have documented our ecological and social performance in a Sustainability Report. Since 2008, we have published an annual report conforming to the standards of the Global Reporting Initiative (GRI); in the current year, our report also complies with the new G4 Guidelines for the first time, and the online report meets the standards of the extended capital concept of the International Integrated Reporting Council (IIRC). Through UniCredit, we are also committed to the ten principles of sustainable business of the United Nations Global Compact.

Business Situation and Trends (Continued)

In 2011, we signed the Code of Responsible Conduct for Business, thereby committing our Bank to uphold the principles of fair competition and sustainability, among others. In 2012, we became the first major German bank to commit to the German Sustainability Code (GSC) of the German Council for Sustainable Development. HVB has been regarded as Germany's most sustainable commercial bank for the last 13 years. According to the ratings published by the sustainability rating agency oekom research AG in March 2014, we are among the top ten commercial banks in a total field of 280 commercial banks worldwide. The new rating for 2015 will be published in the spring of 2016.

Dealing with risks responsibly

Businesses that conduct themselves irresponsibly and unethically lose respect and trust. HVB applies strict criteria and observes ecological and social standards. We have systematically expanded our reputation risk management programme over the last few years. Raising the awareness of every employee in the affected departments is a vitally important part of the audit process, one that makes an important contribution to an actively practiced risk culture. In cooperation with the sustainability ratings agency oekom, we are continuing to develop a comprehensive knowledge database for environmental protection and social responsibility audits, which we expect to complete in 2016. The database contains background information on 26 key topics such as conflict minerals, green gene technology and coal-fired power plants. Environmentally relevant and especially risk-prone industry sectors are treated just like the six interdisciplinary topics of biodiversity, climate change, human rights, compliance, regional conflict and protection of environmental media, which are relevant across all industry sectors.

Sector-specific guidelines known as Sector Policies make it possible for us to operate responsibly even in sensitive industry sectors. We develop these policies in consultation with non-governmental organisations like the World Wide Fund for Nature (WWF) on the basis of international standards such as the Performance Standards of the International Finance Corporation, including the related Environment, Health and Safety Guidelines of the World Bank Group. Besides the Sector Policies for the arms and defence industry, atomic energy, mining and water infrastructure projects that have been in effect since 2014, HVB added a new policy on the responsible financing of coal-fired power generation in 2015.

Sustainable business dealings

As a financial institution, we exert considerable influence on the economic system and particularly on which projects and technologies are financed and promoted. For years, we have actively supported Germany's transition to a renewable energy system by directly financing the power plant construction projects of our customers. We are one of Europe's most important financiers of climate-friendly energy. Having extended more than €200 million of new financing to German onshore wind farms in 2015, HVB is still positioned as one of the leading lenders in this sector. We also operate BARD Offshore 1, the biggest commercial wind farm in the German sector of the North Sea, which consists of 80 five-megawatt wind power turbines generating a rated output of 400 megawatts – enough electricity to supply more than 400,000 households.

Our portfolio of sustainable investments can accommodate nearly all investment needs, whether mutual funds, asset management or retirement savings products. HVB's mandate solutions also allow for a combination with a sustainable selection of securities. The investment strategy is implemented primarily with equities and bonds that have been proved to be best in class in terms of sustainability in a selection process conducted by oekom research. Furthermore, companies and countries with controversial practices are excluded ("exclusionary criteria"). The growing proportion of mandate solutions featuring a selection of sustainable securities over the last few years reflects the generally strong interest and enthusiastic response of our customers.

As one of the market leaders in this segment, HVB has placed eight green bonds comprising a total volume of €7.35 billion to date, thereby supporting the attainment of European climate protection goals. In 2015, we advised on the issuance of the first green covered bond of Berlin Hyp AG. This new financial product combines the asset-backed principle of covered bonds with the green bond principle to create a safe and sustainable investment. To promote greater standardisation and transparency for investors and issuers in the still young market of green bonds, we signed the Green Bond Principles of the International Capital Market Association (ICMA) in 2014.

Corporate citizenship

Through its corporate citizenship activities, HVB seeks to give people opportunities to be involved in business and social life locally. We have geared our social activities to this objective and pooled them in our corporate citizenship strategy. In terms of content, the corporate citizenship of HVB focuses on three areas:

– **Financial education:** financial knowledge, promotion of bank-related scientific research
– **Society:** social hardship, integration of handicapped people and immigrants, social business
– **Culture:** music, fine arts, promotion of talented youngsters

We cooperate with established institutions in our long-standing commitments. We maintain long-term partnerships, initiate beacon projects and support non-profit organisations with donations and sponsorships. Our employees participate actively in initiatives, investing their time and personal involvement for the people around us. When selecting the projects, we ensure that they are related to our business activities and are consistent with our values and our Mission Statement. Flexible mechanisms ensure that we can also respond to problems as they arise, such as the refugee crisis, for example. In numerical terms, our corporate citizenship activities amounted to nearly €6.4 million in 2015. And our employees volunteered 55,000 hours of their time in support of social causes.

Climate protection begins at home

UniCredit has committed itself to reducing its gross carbon footprint by 30% from the base year 2008 to the year 2020. HVB achieved 24% of its gross emissions-reduction target by the end of last year. Based on net values, which include the Bank's purchases of electricity from renewable energy sources and purchases of carbon certificates to offset unavoidable emissions, HVB's banking and building operations have been 100% CO_2-neutral since the summer of 2013. Since 2006, we have controlled and improved our environmental protection performance systematically on the basis of the certified environmental management system ISO 14001. All of HVB's own locations have been audited on the basis of a matrix certification process since 2014. This way, we can integrate all of the Bank's own branch locations, besides the headquarters locations, into the environmental management system. The complete ecological balance sheet of our banking operations is published on our website at www.hvb.de/nachhaltigkeit.

Outlook

As one of the initiators of green bonds, it is our goal to advance the development of this young financial product. We also continue to regard the onshore wind power market as an attractive asset class for investment. Although this industry will have to contend with changes to the regulatory parameters starting in 2017, we still see a lucrative business potential here. The interest in sustainable mandate solutions is growing steadily. For this reason, we are very confident that we can increase the volume of this business further in the future. In our corporate citizenship activities, we are currently placing a strong emphasis on the personal support, language instruction and training of refugees as part of HVB's employee programmes.

Risk Report

HVB as a risk-taking entity

By their very nature, the business activities of HVB are subject to risk. HVB defines risk as the danger of suffering losses on account of internal or external factors. Deliberately taking on risk, actively managing it, and monitoring it on an ongoing basis: these are core elements of the profit-oriented management of business and risk by HVB. In the course of our business activities, risks are identified, quantified, assessed, monitored and actively managed. We therefore regard it as one of our core objectives to apply these considerations in order to integrate risk-management, risk-controlling and risk-monitoring processes in all business segments and functions in HVB. These activities are the precondition for providing adequate capital backing and maintaining an adequate liquidity base.

The present Risk Report deals exclusively with the risks at HVB. The opportunities are discussed separately in the section entitled "Opportunities in terms of future business policy and corporate strategy, performance and other opportunities".

Risk types

Credit risk is defined as the risk that a change in the credit rating of a contracting party (borrower, counterparty, issuer or country) induces a change in the value of the corresponding receivables. This change in value may be caused by the default of the contracting party, meaning it is no longer in a position to meet its contractual obligations.

We define **market risk** as the potential loss of on- and off-balance-sheet positions in the trading and banking books that can arise in response to adverse changes in market prices (interest rates, equities, credit spreads, foreign exchange and commodities), other price-influencing parameters (volatilities, correlations) or trading-related events in the form of default or change in credit ratings of securities (specific price risk for interest net positions).

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations on time or in full. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount. Liquidity risk comprises the following risk categories: short-term liquidity risk, operational liquidity risk (as part of short-term liquidity risk), funding risk and market liquidity risk.

In line with the Capital Requirements Regulation (CRR), HVB defines **operational risk** as the risk of losses resulting from flawed internal processes, systems, human error or external events. This definition includes legal risk but not strategic risk or reputational risk. Legal risk includes, but is not limited to, fines, penalties and damages resulting from supervisory actions, and settlements paid to private individuals.

All other risk types mostly accounting for a small share of the internal capital and non-quantitative risk types are grouped together under **other risks**. We define **business risk** as losses from unexpected negative changes in the business volume and/or margins that are not attributed to other risk types. It can lead to serious losses in earnings, thereby diminishing the fair value of the company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour and changes in the underlying legal conditions. **Real estate risk** covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB. No land or properties are included that are held as security in lending transactions. **Financial investment risk** arises from equity interests held in companies that are not included in the trading book. Financial investment risk is measured as an individual risk type in order to determine the risk associated with the corresponding equity interests and also as a factor contributing to the internal capital. **Reputational risk** is defined as the risk of a negative effect on the income statement caused by adverse reactions by stakeholders due to a changed perception of the Bank. This altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk, strategic risk or other primary risks. **Strategic risk** results from management being slow to recognise important developments and trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that, in retrospect, may prove to be disadvantageous in terms of the Bank's long-term goals; in addition, some of them may be difficult or impossible to directly reverse. In the worst case, this may have a negative impact on the profitability and risk profile of HVB. **Pension risk** can impact both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as an increase on the obligations on the liabilities side, due for instance to a reduction in the discount rate. Furthermore, actuarial risks such as longevity risk (changes to the mortality tables) may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.

Integrated overall bank management

Risk management

HVB's risk management programme is built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk strategy. Implementation of the risk strategy is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation.

The Bank's risk-taking capacity upon achievement of the set targets is assessed in advance on the basis of the risk strategy and the business and risk plans, using the available financial resources. At the same time, limits are defined in the planning process to ensure that the risk-taking capacity is guaranteed.

A multi-year scenario has also been calculated for internal capital in accordance with the Minimum Requirements for Risk Management (MaRisk). This involves analysing the relevant risk types over an additional time horizon of five years and taking into account a deteriorating macroeconomic environment. The deteriorating macroeconomic environment entails two adverse scenarios. Whereas the first scenario starts from a delayed economic recovery in some EU countries, the second scenario assumes a conventional recession in Germany on account of falling demand for exports. Since the available financial resources are considered with the same assumptions, it is possible to make a statement about how the risk-taking capacity will evolve overall over five years, taking into account the macroeconomic scenarios.

The business segments are responsible for performing risk management, working closely with the CRO within the framework of competencies defined by the Management Board of HVB.

New releases and updates to instructions, policies and the risk strategy are communicated over the Bank's intranet.

Functional separation

In addition to Bank-wide risk management, integrated overall bank management is accompanied by comprehensive risk controlling and monitoring in accordance with the MaRisk rules, which is functionally and organisationally independent.

Risk Report (Continued)

Risk controlling
Risk controlling is defined as the operational implementation of the risk strategy. The Senior Risk Management unit and the Credit RR Germany (KRI) unit are responsible for managing credit risk for the Commercial Banking and Corporate & Investment Banking (CIB) business segments. The senior risk managers and the credit specialists take lending decisions in the defined "risk-relevant business". Thus they make it possible for the front office units to take on risk positions in a deliberate and controlled manner within the framework of the risk strategies and evaluate whether it is profitable to do so from the overall perspective of the customer relationship and on the basis of risk-return considerations. In the "non-risk-relevant business", the front office units are authorised to take their own lending decisions under conditions set by the CRO. The Trading Risk Management unit is responsible for controlling market risk and the Finance unit within the Chief Financial Officer (CFO) organisation for controlling liquidity risk. The senior management is responsible for controlling reputational risk and operational risk with the support of the relevant operational risk managers.

Business risk is defined as a negative, unexpected change in the volume of business and/or margins that cannot be attributed to credit, market or operational risk. Hence it results mainly from the planning of earnings and costs of the individual business segments, which the CFO organisation is responsible for coordinating. The relevant business segments are responsible for controlling the financial investments. The real estate risk arising from property is controlled centrally by Global Banking Services (GBS). Within HVB, this is performed by the Real Estate (GRE) unit, HVB Immobilien AG and UniCredit Global Business Services GmbH (UGBS), which was engaged by HVB Immobilien AG by way of an operating contract. HVB has undertaken to provide a range of different pension plans which are largely financed by various investment vehicles, some of which are external. Under the capital investment process, there are separate rules covering the specific risk controlling of the different pension plans in each case. Some of these are subject to supervision by the German Federal Financial Supervisory Authority (BaFin) (insurers and pension funds supervision) and therefore need to comply with external rules and regulations. Controlling of strategic risk is the shared responsibility of HVB's Management Board.

Risk monitoring
The central risk monitoring function within the CRO organisation is responsible for identifying, measuring and evaluating the risks at HVB. It is subdivided in accordance with risk types. The Market and Operational Risk unit performs the risk monitoring functions for the following risk types: market risk, liquidity risk (stress tests, calculation and monitoring of early warning indicators, calculation of the short-term concentration risk, evaluation of the funding plan), operational risk and reputational risk. In addition, the Market and Operational Risk unit also monitors the market risk component of pension risk at regular intervals using a separately developed model (aggregated view of the plan assets and liabilities). As part of the asset management of the plan assets, the options for risk positioning are limited by both external and internal regulations. Ongoing monitoring of the respective rules is performed in accordance with the specific policies of the various pension plans. With regard to the monitoring of liquidity risk, some tasks are performed by the Market Risk unit while further risk controlling functions for this risk type are the responsibility of the Finance unit within the CFO organisation (constant monitoring of the liquidity risk situation and compliance with limits). The Credit Risk Control & Economic Capital (CEC) unit monitors credit risk, business risk, real estate risk and financial investment risk and consolidates these risk types with market risk and operational risk for the determination of the economic capital requirement. Monitoring of strategic risk is the shared responsibility of HVB's Management Board.

The following are quantifiable risk types: credit risk, market risk, liquidity risk, operational risk, business risk, financial investment risk, real estate risk and pension risk. A qualitative approach is used to monitor strategic risk and reputational risk.

Parallel to these activities, the available financial resources are defined, quantified and compared with the risk capital for the analysis of the risk-taking capacity.

Divisions and committees

Chief Risk Officer (CRO)

The control and cross-business segment management of risk at HVB fall within the competence of the CRO. This is where all the key functions involved in the identification, analysis, assessment and reporting of risk are performed together with the ongoing tracking, handling, monitoring and controlling of risk. These activities are supported and complemented by various CFO units, notably with regard to liquidity risk.

The CRO organisation is divided into units that deal with lending business in the back office. The main functions of these units include:
– operational functions in the credit-decision and credit-monitoring processes for the risk-relevant lending business, complete with monitoring of the issuer and counterparty limits
– data management for the restructuring and workout portfolio
– restructuring activities with a view to minimising potential losses for the Bank

At the same time, there are units that cover operational and strategic aspects of risk monitoring. Their main functions include:
– the development, enhancement, validation, parameterisation and calibration of the rating models used to determine the probability of our customer defaulting
– the development of concepts used to identify and control credit risk and concentrations, including country risk
– responsibility for the measurement methods and the refinement of the measurement methods and systems, and for the management and measurement of market risk and operational risk
– responsibility for reputational risk and its management
– the determination of the internal capital and the economic capital base, and the performance of stress tests
– ensuring ICAAP compliance and compliance with the MaRisk rules as part of the responsibility for credit risk and economic capital
– ensuring compliance with regulatory rules regarding internal and external reports
– risk reporting

Chief Financial Officer (CFO)

The Finance and Regional Planning & Controlling (CCP) units from the CFO organisation play a major role in risk monitoring. The Finance unit notably covers the management of short- and long-term liquidity at HVB (Asset Liability Management) acting in concert with the front office units and Asset Liability Management. CCP has also been tasked with central business management, cost controlling and equity capital management. This unit is also responsible for the creation and validation of the segment report in accordance with IFRS; it similarly has responsibility for the processes involved in preparing the income budgets and for the income projections. Furthermore, the segment-related controlling departments for all the business segments apart from CIB come under this unit. Controlling in the CIB business segment is the responsibility of CIB Planning and Control (CPA). This department cooperates with Accounting to reconcile the net trading income.

Asset Liability Management

The Finance department controls Asset Liability Management by managing short-term and long-term liquidity within HVB. Its main objectives are to ensure that HVB has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and refinancing requirements. As part of liquidity risk management, for instance, it defines underlying conditions, limits and processes, specifies responsibilities and oversees funding activities together with the front office units. Within the framework of a liquidity cost allocation mechanism for all significant business activities, the internal transfer prices for the lending and deposit-taking activities are continually reviewed for appropriateness and regularly adjusted to reflect the market situation, for instance. The measures implemented in connection with these functions serve to support HVB's return targets.

Internal Audit

A number of important tasks regarding the implementation of an efficient risk management system have been entrusted to the Internal Audit department as described in the section entitled "Monitoring the effectiveness of the ICS".

Risk Report (Continued)

Risk Committee
The Management Board has entrusted the following tasks to the Risk Committee (RC), subject to its management competence and its ultimate decision-making authority at any time:
– development and implementation of suitable policies and methods, especially for credit risk and credit portfolio management together with other risk topics
– discussion and decision of strategic risk policy issues. A submission is always made to the Management Board when required for legal reasons (such as to comply with the MaRisk rules).

The RC generally meets once a month. Each meeting of the RC has a different main topic – either risk management or risk governance.

RC meetings focusing on risk management concentrate on the analysis of the business performance and risk development, and the ensuing measures. Method and process issues are also discussed during risk-governance meetings alongside the risk strategy and the internal rules and instructions.

Asset Liability Committee
The Asset Liability Committee (ALCO) makes decisions at its monthly meetings on the asset/liability management of HVB. The committee pursues the following key goals:
– establishment of uniform asset/liability management methods for HVB
– optimum utilisation of liquidity and capital resources
– coordination between the requirements of the business segments for financial resources and the business strategy

Stress Test Council
The Management Board, as the body responsible for bank management, delegated stress testing to the RC and the Stress Test Council (STC) as a specialist committee. The tasks of the STC include:
– coordination of all stress-testing activities within HVB, including the development of the stress-testing methodology
– definition and coordination of cross-risk-type stress scenarios, including the validation of the underlying parameters
– analysis and presentation of stress-testing results and their use to prepare recommendations for management

Reputational Risk Council
The Reputational Risk Council (RRC) takes decisions regarding potential reputational risk resulting essentially from business transactions. Since the Reputational Risk Council was set up, further potentially risk-bearing activities and transactions undertaken by the Bank have been submitted to the RRC for decisions, notably arising from:
– projects and outsourcing activities
– the development of new products and the exploitation of new markets
– special purpose entities

The full Management Board may be called in for particularly critical cases involving high reputational risk. The reputational crisis process is employed to deal with reputational events that have already occurred.

Loan Loss Provision Committee
The Loan Loss Provision Committee (LLPC) is kept informed about developments in HVB's watchlist- and restructuring/workout portfolio and takes decisions within HVB regarding:
– the submitted risk provision requests, where these lead to allowances in excess of €5 million resulting from the initial assessment or follow-up assessments entailing a material change in the risk assessment
– debt forgiveness in excess of a risk provision/forgiveness competence of €5 million
– internal impairments at HVB in excess of a competence value I of €250 million or greater than 5% of HVB's regulatory equity capital

Implementation of overall bank management

Strategy
The business strategy and the risk strategy define the key pillars of business and risk policy for HVB Group. The subsidiaries, outsourcing and information and communications technology (ICT) are incorporated in both the risk strategy and the business strategy. The strategy of HVB Group includes the strategy of HVB.

The HVB Group business strategy describes the strategic and organisational starting point, the key pillars of the business strategy at overall bank level and the sub-strategies of the individual business segments.

The HVB Group risk strategy is derived consistently from the business strategy, supplementing it with the relevant aspects of risk management. In this context, the HVB Group risk strategy encompasses the risk types credit risk and market risk together with their controlling using the economic capital and risk-type-specific limits, as well as operational risk, investment, real estate and business risk, which are only controlled using the economic capital. In addition, the strategic objectives for reputational risk, strategic risk, liquidity risk, pension risk and outsourcing are also defined largely in quality terms. The risk strategy is supplemented by the Industry Credit Risk Strategy (ICRS), which defines the key elements of the risk policy for the various different industries.

The strategies approved by the Management Board are reviewed on both an ad hoc and a regular basis and, where necessary, modified.

Overall bank management

The management of HVB takes place within the framework of the overall bank management of HVB Group. The metrics defined for the overall bank management of HVB Group are reviewed in the annual budgeting process; they are used to assess the success of the business strategy and the risk strategy. Earnings, risk, liquidity and capital targets are defined in the budgeting process together with the targeted risk-taking capacity at overall Bank level. The limits for the internal capital are defined and monitored in order to ensure the risk-taking capacity. For the purposes of business segment management, the economic capital limits are distributed for each risk type to ensure that the planned economic risk remains within the framework defined by the Management Board.

Key performance indicators (KPIs) generally applicable across all business segments have been defined for the management of HVB Group. These KPIs serve to entrench the issues of returns/profitability, growth, restrictions/limits and sustainability.

The value-based management of HVB Group focuses on the measurement of the business activities in accordance with return and risk considerations, with a risk-return target set for each of the business units of HVB Group. The economic yield expectations are calculated using the allocated capital principle that is applied by UniCredit group-wide. Within the scope of the principle of dual control, both regulatory capital, in the sense of used core capital, and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, the amount of which is derived from the expectations of the capital market.

In line with the parameters defined in the business and risk strategies, the defined targets are broken down to business segment level and then translated into operational metrics for sales management. The defined targets are monitored using a standardised monthly report to the Management Board of HVB. The Management Board of HVB initiates counter-measures in response to deviations from the targets defined in the budgeting process.

Regulatory capital adequacy

Used core capital

For the purposes of planning and monitoring risk-weighted assets, the business segments are required to have core capital backing for credit, market and operational risks equal to an average of 10.0% of equivalent risk-weighted assets. The expected return on investment is derived from the average used core capital.

Management of regulatory capital adequacy requirements

To plan our regulatory core capital taking account of regulatory requirements, we apply the two capital ratios listed below, which are managed within the framework of HVB Group's risk appetite rules using internal targets, triggers and limit levels:

- Common Equity Tier 1 capital ratio (ratio of Common Equity Tier 1 capital to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets from market and operational risk positions)
- equity funds ratio (ratio of equity funds to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets arising from market and operational risk positions)

Risk Report (Continued)

We carry out a rolling eight-quarter projection to provide an ongoing forecast of our capital ratios on the basis of our (multi-year) annual plan.

More detailed information on these ratios is provided in the section “Risk-weighted assets, key capital ratios and liquidity of HVB”.

HVB satisfies both the regulatory requirements arising from the statutory provisions and the minimum capital ratio specified by the European Central Bank (ECB) under the Supervisory Review and Evaluation Process (SREP).

HVB and UniCredit S.p.A. agreed with the relevant regulators that HVB and HVB Group would not fall below an equity funds ratio of 13.0%. This agreement will remain in force until further notice. The equity funds ratio of HVB was 25.9% at the end of December 2015 (31 December 2014: 24.1%).

Economic capital adequacy

HVB determines its internal capital on a monthly basis. The internal capital is the sum total of the aggregated economic capital for all quantified risk types (with the exception of liquidity risk), and an undifferentiated premium for pension risk. The economic capital measures the potential loss over a time horizon of one year with a confidence level of 99.93%. Looking ahead, it is planned to reduce the confidence level to 99.90% in harmony with UniCredit for the coming 2016 financial year.

When the aggregated economic capital is determined, risk-reducing diversification effects between the individual risk types are taken into account, with the parameters applied in the aggregation method encompassing economic downturns.

An all-round overview of the risk situation of HVB is obtained by regularly assessing the Bank’s risk-taking capacity, as shown in the following table.

Internal capital after portfolio effects (confidence level 99.93%)

	2015		2014	
Broken down by risk type	€ millions	in %	€ millions	in %
Credit risk	4,236	40.1	5,153	44.2
Market risk	2,158	20.4	2,015	17.3
Operational risk	1,158	11.0	1,633	14.0
Business risk	244	2.3	226	1.9
Real estate risk	35	0.3	54	0.4
Financial investment risk	1,910	18.0	1,938	16.6
Aggregated economic capital	**9,741**	**92.1**	**11,019**	**94.4**
Pension risk	834	7.9	649	5.6
Internal capital of HVB	**10,575**	**100.0**	**11,668**	**100.0**
Available financial resources of HVB	**19,237**		**19,019**	
Risk-taking capacity of HVB, in %	**181.9**		**163.0**	

The internal capital falls by €1.1 billion overall. This can be attributed to declines in credit risk and operational risk while market risk and pension risk increased.

This notably includes a decline in credit risk attributable primarily to a decrease in single-name concentrations and the changeover to the uniform UniCredit Group model. The decline in internal capital for operational risk is explained by lower selling risk.

The increase in pension risk represents a countervailing development caused by the ongoing adjustment of the model applied. The individual changes are described in greater detail in the sections on the respective risk types.

Risk appetite

HVB's risk appetite is defined as part of the annual strategy and planning process. The risk appetite ratios comprise ratios for risk responsibility and positioning, regulatory requirements, profitability and risk, and controlling of specific risks. Thresholds and limits are defined for these ratios that allow risk to be identified and counter-measures initiated at an early stage. The matter is escalated to the appropriate committees and the Management Board, should the defined limits be exceeded.

Gone concern/going concern

HVB normally controls its risk-taking capacity under a gone-concern approach. In other words, the risk-taking capacity spotlights HVB's ability to settle its senior liabilities. At the same time, appropriate figures are also defined for the regulatory core capital backing alongside targets, triggers and limits for the risk-taking capacity.

The going-concern concept is additionally allowed for by critically evaluating and incorporating as appropriate the results of the regular Bank-wide stress tests when defining targets, triggers and limits for both the risk-taking capacity and the regulatory core capital backing.

Recovery and resolution plan

The preparation of a recovery and resolution plan (RRP) is intended to facilitate the restructuring and, if necessary, the orderly resolution of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important on a global level and a national level, respectively. Working closely with UniCredit S.p.A., HVB drew up a comprehensive local recovery plan for HVB Group and submitted it to BaFin in December 2013. An updated recovery plan was submitted to BaFin at the end of 2014. Supervision of HVB passed to the ECB when the Single Supervisory Mechanism (SSM) came into force in November 2014. According to a decision by the Joint Supervisory Team (JST), HVB, as part of UniCredit, is not required to prepare a separate recovery plan as of 2015, being adequately included in the UniCredit Recovery Plan in future instead.

Risk-taking capacity

In a monthly analysis of our risk-taking capacity, we measure our internal capital against the available financial resources. Furthermore, the risk-taking capacity is analysed across the defined multi-year period as part of our planning process.

In line with the methodology used by HVB Group, HVB uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach (gone concern). Under this approach, the risk-taking capacity is defined by comparing unexpected losses at the confidence level (internal capital) with the ability to absorb losses using the available equity (available financial resources). When determining the available financial resources, the available capital is viewed from an economic standpoint. In other words, the calculation is made in accordance with a value-oriented derivation, under which shareholders' equity is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects arising from the own credit spread are deducted and minority interests are only taken into account to the extent of the risk-bearing portion. At the same time, subordinated liabilities recognised as shareholders' equity for banking supervisory purposes are included. The available financial resources at HVB totalled €19.2 billion at 31 December 2015 (31 December 2014: €19.0 billion).

Risk Report (Continued)

With internal capital of €10.6 billion, the risk-taking capacity for HVB is 181.9% (31 December 2014: 163.0%). This figure is much higher than the target we have set ourselves. The increase of 19 percentage points for HVB compared with 31 December 2014 can be attributed to a decline of €1.1 billion, or 9.4%, in internal capital. This effect is reinforced by the increase of €0.2 billion, or 1.1%, in the available financial resources in 2015. The increase in the available financial resources results from different and, in some cases, contrary developments in individual components, mainly including a positive development in the reserves shown in the balance sheet on account of the appropriation of profit in 2015.

Limit concept

The risk limit system is a key component of the ICAAP at HVB Group. Its purpose is to ensure the Bank's risk-taking capacity at all times by means of an integrated controlling process. A wide-ranging, consistent limit system that includes the specification of limits for internal capital (IC) and economic capital (EC), risk-type-specific limits and limits for risk concentrations has been implemented to ensure this. It covers all risks that need to be backed with capital. Consequently, unexpected losses for credit, market, operational, financial investment, business and real estate risk are currently recorded. In addition, pension risk is included in the IC by means of a premium and the economic capital for small legal entities is also included in the IC.

The limits are set from the HVB Group viewpoint. In addition, limits reflecting and restricting the IC for HVB are set up from the viewpoint of a standalone institution. This view considers the Bank as a standalone institution without taking consolidation effects into account. Hence, no premium for small legal entities is included here. The IC limits are allocated at the level of HVB Group broken down by risk type, as an aggregate amount for the small legal entities and for the IC as a whole. Based on the aggregate limit set for IC, the risk-taking capacity of HVB Group is ensured at all times. The correlation effects included in the IC cannot be influenced by the business segments and relevant subsidiaries. Consequently, EC limits adjusted for these effects and the risk-type-specific limits are used for controlling purposes in the business segments and relevant subsidiaries.

In order to identify possible limit overshoots at an early stage, HVB has specified thresholds in the form of early warning indicators as well as the defined limits. The utilisation of, and hence compliance with, the limits is monitored regularly and presented in the Bank's reports on a monthly basis. After six months of the year, the limits are additionally checked to ensure their adequacy and, if necessary, adjusted.

Stress tests

The MaRisk rules call for stress tests to be carried out regularly using various scenarios.

Various macroeconomic downturn scenarios and an historical scenario were calculated for the cross-risk-type stress tests in 2015:
- Contagion scenario – Sovereign debt crisis (triggered in Italy and Spain) becomes systemic and other countries are infected. This scenario was revised in the fourth quarter of 2015 to focus on the political tensions in the EU.
- CEE Crisis scenario – Central and Eastern Europe Crisis scenario reflecting the conflict with Russia. This scenario was replaced by the China Hard Landing scenario as of the fourth quarter of 2015.
- Recession scenario – recession in Germany due to a massive decline in global demand
- Historical scenario – based on the 2009 financial crisis. A second, stricter variant of the scenario additionally reflects the default of the financial intermediary with the highest stressed counterparty risk exposures.
- China Hard Landing scenario – impact of a slowing of the Chinese economic growth to 3.0% through the end of 2017. This scenario has been run from the fourth quarter of 2015.
- Interest Rate Shock scenario – rising interest rates in the eurozone. This scenario has been run from the fourth quarter of 2015.

The cross-risk-type stress tests are presented and analysed in the STC on a quarterly basis and, where necessary, appropriate management measures are presented to the management and the RC. The risk-taking capacity of HVB would currently be ensured, even if the stress scenarios listed above were to materialize. The risk-taking capacity is computed in the stress test with a confidence level of 99.90%.

Furthermore, inverse stress tests are carried out. The inverse stress tests involve analysing what events could endanger the continued existence of the Bank as a going concern. The continued existence as a going concern is considered at risk when the original business model proves to be no longer feasible or viable. Inverse stress tests are based on the Bank's risk structure and the interviews that are conducted regularly as part of the risk inventory. The hypothetical events analysed included fraud by a trader, rating downgrades, a bank run and default by the biggest customers. After being discussed by the STC, it was decided that further measures were not necessary.

Concentrations of risk and earnings
Concentrations are accumulations of risk positions that react similarly to specific developments or events. Concentrations may have an impact within a risk type or equally across risk types. They indicate increased potential losses resulting from an imbalance of risk positions held in customers and products or specific industries and countries.

Concentrations are analysed, managed, controlled and reported on a regular basis with regard to the relevant risk drivers for credit, market, liquidity and operational risk. In particular, appropriate instruments and processes ensure the prompt identification of concentrations. A simple monitoring system, the suitability of which is reviewed at regular intervals, is used as the management approach for the risk types financial investment risk and real estate risk.

The risk management processes for concentrations have been optimised with regard to the connection of risk drivers across the risk types, such that concentration risk is integrated into the assessment and controlling.

The concentration of earnings in individual customers, business segments, products, industries or regions represents a business-strategy risk for the Bank. Risks arising from concentrations of earnings are monitored regularly, as their avoidance is an important indicator of sustainable diversification and hence the viability of the business model in crisis situations.

Risk inventory
The scheduled comprehensive risk inventory at HVB was started in February 2015. The existing and potential new risks were analysed and scrutinized by means of structured interviews with numerous decision-makers in the Bank, among other things. The results of the 2015 risk inventory were presented to the RC at HVB in September 2015 and included in the calculation and planning of the risk-taking capacity following approval. The risk inventory serves to review the overall risk profile of HVB and identify various topics, some of which are included in the stress test, the validation of the significant risk types and other ICAAP components.

Internal reporting system
The internal reporting system supports risk monitoring at portfolio level in particular. This involves providing information about the overall risk to the Management Board and to the Risk Committee of the Supervisory Board on a monthly basis, to the full Supervisory Board at least on a quarterly basis and also ad hoc. In addition, further monthly risk reports are created focusing on specific business segments, countries or industries, to be communicated to the RC and the units involved with risk management, among others.

Risk types in detail

Where minor developments affecting individual risk types have taken place, these are described under the risk type concerned.

1 Credit risk

Definition
Credit risk is defined as the risk that a change in the credit rating of a contracting party (borrower, counterparty, issuer or country) induces a change in the value of the corresponding receivables. This change in value may be brought about by the default of the contracting party, which is thus no longer in a position to meet its contractual obligations. Credit risk comprises the following components:
– Credit default risk (including counterparty risk and issuer risk)
– Country risk

Risk Report (Continued)

Categories

Credit default risk
Credit default risk comes into play regarding a specific counterparty when one or both of the following criteria are satisfied:
- The Bank assumes the counterparty is probably not in a position to meet its contractual obligation towards HVB as whole, without having to take recourse to measures like the sale of collateral (where present).
- The counterparty is more than 90 days in arrears in terms of a material receivable.

This category also encompasses counterparty risk and issuer risk.

Counterparty risk
Counterparty risk arises from the possible loss of value due to the default or downgraded credit rating of the counterparty in trading activities (such as derivatives involving interest rates, foreign exchange, equities/indices, or other futures or derivative contracts). It is divided into in the following components:
- Settlement risk: Settlement risk is defined as the risk that the counterparty fails to meet its delivery or performance obligation on the due date while the Bank has already paid the consideration.
- Pre-settlement risk: Pre-settlement risk arises from the risk that the Bank has to replace a transaction on the market under less favourable conditions following a default by the counterparty.
- Money market risk: Money market risk consists of the risk that the counterparty does not repay loans (taken out in cash). In the case of trading products, this is relevant for money trading.

Issuer risk
Issuer risk is defined as credit default risk in the securities holding resulting from the downgraded credit rating or default of an issuer that can lead to a loss of value through to total loss. Issuer risk arises from the purchase of securities in proprietary trading, securities issuance activities, credit derivatives and the placement of securities.

Country risk
Country risk is the risk of losses caused by events attributable to actions by government. This includes the repayment of capital in a specific country being prevented by government interference (such as transfer risk, expropriation risk, legal risk, tax risk, security risk) or by a deterioration in the economic and/or political environment (such as recession, currency and/or bank crisis, natural disaster, conflict, civil war and social unrest). Country risk encompasses:
- Sovereign risk (sovereign as counterparty): Risk of the central government or central bank (or state agencies) defaulting, irrespective of the currency in which the debt is issued.
- Transfer and conversion risk: Risk of the government taking measures to limit the transfer of capital or conversion of the currency due to an unwillingness/inability to pay. Furthermore, conflict and civil war are other reasons for an inability to pay. Transactions contain transfer risk when they represent cross-border business (from the standpoint of the office disbursing the loan) and are denominated in a foreign currency (from the borrower's standpoint). The borrower's credit risk is not classified as transfer risk; the transfer risk is measured separately.
- Delivery risk is included in transfer risk. Delivery risk is caused by state interference in the delivery contract or delivery restrictions (in the case of project loans or commodity financing, for instance), where the repayment of the loan depends on the delivery obligation being satisfied.

Strategy
An umbrella risk strategy has been approved for HVB at HVB Group level that operationalises the strategic controlling of credit risk. This is done by setting targets and limits for different metrics as needed. Controlling using economic capital together with volume and risk metrics is particularly important in this regard. The planning of the targets and limits is embedded in HVB Group's annual plan, similarly taking into account ceilings arising from the requirements regarding the capital base. The limits are intended to leave some leeway for implementing the business plan while they also set ceilings, notably with regard to the economic capital.

Systematic controlling and setting of limits for credit risk are essential for sustaining HVB Group's strategic orientation. The risk strategy is intended to make it possible for both the sales controlling and risk management functions to back transactions with concrete, measurable and hence applicable criteria in order to optimise the risk profile of the credit portfolio. To achieve this, the expected and unexpected losses of a given borrower are determined. These form the basis for drawing up limits and in some cases target portfolios for the different risk types, exposures and risk metrics.

HVB Group's successful strategy in recent years of strictly limiting risk and managing the Bank in a risk-conscious manner was continued again in 2015. By selectively writing new business, employing active portfolio management and making effective use of professional restructuring and workout capacity, HVB has evolved into a bank that has a lower than average risk profile for the industry. The goal for 2015 was to continue applying this strategy and maintaining the overall portfolio at a sustainable level.

Industry-specific controlling of credit risk had a positive effect. The details of industry-specific controlling are specified in the Industry Credit Risk Strategy. This strategy includes an assessment of the opportunities and risks for every industry, from which controlling signals and quantitative ceilings for new business are derived.

Active management of the exposure in the countries badly affected by the financial crisis also contributed to the positive development described. The strategy of HVB in its role as a universal bank was to concentrate on strong regional core markets like Switzerland, the UK, Belgium and France alongside the domestic market of Germany. The markets in Spain, the Netherlands and Scandinavia are served mainly by a different UniCredit bank, except for multinational customers who continue to be served by HVB. At the same time, the Markets unit in the CIB business segment will enter into credit risk and market risk subject to clearly defined standards in UniCredit's core countries as a result of the corporate function as UniCredit's investment bank.

Limit system

The credit risk strategy defines limits for risk metrics and risk types for individual portfolios. These are allocated at the following level:

- HVB Group
- HVB
- business segments of HVB Group and HVB
- products and special portfolios (such as Leverage- and Project Finance)

The following criteria are analysed with regard to the performing portfolio: exposure, expected loss and risk density (expected loss as a proportion of the performing exposure). An overshoot of the limits is not generally permitted.

In order to avoid concentrations of risk in credit default risk, the following concentration limits and, where appropriate, target portfolios are used for controlling purposes:

- single-name concentrations
  The references unit for setting limits on single-name concentrations are economic or legal borrower groups with an unsecured exposure of more than €50 million.
- industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB.
- concentration limits for countries and regions
  Exposures outside Germany are exposed to the risk of a sovereign default and hence possibly related problems in the financial system. The concentration limit restricts the credit risk of all borrowers in a given country. Every country and region has been assigned a limit that reflects the risk appetite and the strategic orientation (expand, reduce or neutral) of HVB.
  In addition, a limit is set for cross-border country risk exposure.

The utilisation of the individual limits is classified using a traffic light system:

- Green: limit utilisation is not above a defined threshold
- Yellow: limit utilisation is not above the limit but above the defined threshold
- Red: limit utilisation is above the limit

Risk Report (Continued)

If a limit or a threshold is exceeded, an escalation process is initiated to eliminate the overshoot or prevent an overshoot of the limit in the event that a threshold is exceeded. The corresponding responsibilities are defined in the escalation process to ensure the permanent controlling effect of the limits.

Credit risk reduction

In new lending, HVB pursues the strategy of applying all types of loan collateral that would present an economic benefit to the Bank in the event of default.

For the reduction of credit risk, only such collateral is used as meets the requirements of the Basel III Advanced Internal Ratings Based (A-IRB) approach. An essential point in the formulation of collateral agreements and internal processes is ensuring that the collateral is legally enforceable.

Methods have been implemented to value collateral that meet the requirements of Basel III. Empirically determined rates for realisation proceeds and costs are employed in the valuation together with realisation periods. The land charges are calculated using a statistical model to update the current and forecast fair values at the time of realisation. The fair values are adjusted on an annual basis to reflect the market developments actually observed, and the forecast is reviewed and, where necessary, adjusted. Special simulation methods for valuing collateral have been devised for collateral type with a low default history. In the case of securities, HVB resorts to its own haircut calculations based on historical data. In addition, collateral is taken into account using a substitution approach if permissible under the CRR.

The most significant collateral types in terms of value are land charges, guarantees and pledges of financial collateral, which together account for approximately 90.0% of all valued collateral.

In trading activities, over-the-counter (OTC) derivatives, security financing transactions (SFTs) and exchange-traded derivatives (ETDs) are hedged on the basis of the respective contractual provisions with the counterparties. In the case of OTCs, these are the International Swaps and Derivatives Association (ISDA), the German Master Agreement for Derivatives (Deutscher Rahmenvertrag für Finanztermingeschäfte – DRV) and the Credit Support Annex (CSA, appended to an ISDA master agreement) or BRV (appended to a DRV master agreement). In the case of SFTs, these are the Global Master Repurchase Agreement (GMRA) or the Global Master Securities Lending Agreement (GMSLA). For credit risk mitigation, only collateral recognised as eligible under the CRR is permitted for regulatory purposes. Internally, the collateral policy defines conditions for accepting collateral in trading activities. The back office has a consultation and veto right in this regard.

Measurement

We use the following risk measurement methods and metrics to assess our credit risk.

Probability of default (PD)

The internal customer-segment-specific rating and scoring methods of HVB that are available for all significant credit portfolios form the basis for the measurement of credit risk. The reliable determination of our customers' PDs is critical for credit decisions, pricing and core capital backing under Basel III as well as for our internal credit risk model. Consequently, we place particular emphasis on the further development and refinement of our internal rating analysis instruments.

The PDs determined on the basis of the rating and scoring methods lead to allocation to a rating class on a ten-point scale. The rating classes 1 to 7 are set aside for performing loans and the rating classes 8 to 10 for non-performing loans, with the rating classes 8–, 9 and 10 representing default classes.

HVB master scale with PD bandwidths

HVB RATING CLASS	AVERAGE PD	LOWER PD BANDWIDTH	UPPER PD BANDWIDTH
1	0.03%	0.001%	0.048%
2	0.08%	0.048%	0.121%
3	0.19%	0.121%	0.306%
4	0.49%	0.306%	0.775%
5	1.23%	0.775%	1.961%
6	3.12%	1.961%	4.965%
7	7.90%	4.965%	12.570%
8	20.00%	12.570%	99.999%
8–/9/10	100.00%	100.000%	

In contrast to ratings at partner level for which the partner represents the risk for the Bank, in the case of a transaction rating the risk relates to the transaction. In this instance, the partner is not considered the risk-bearing entity; the individual transaction is rated with its clearly specified risk instead. Structured loans and securitisations are typical examples of transaction ratings.

Loss given default (LGD)

The LGD indicates what proportion of the underlying portfolio of receivables would almost certainly be lost in the event of a default. The expected proceeds from the collateral used to reduce credit default risk have a major influence on the amount of the LGD. At the same time, the amount of the LGD is determined by borrower-related criteria. The reliable determination of our customers' LGD is critical for credit decisions, pricing, core capital backing under Basel III (A-IRB model) and our internal counterparty risk model. Consequently, the refinement and annual validation of our LGD estimation methodology is a high priority for us.

Exposure at default (EaD)

The EaD is the expected amount of the claim at the time of default. It covers current arrears together with the probable future utilisation by the borrower. These probable future utilisations are determined on the basis of historical data and validated on an annual basis. Off-balance-sheet exposures such as unused, externally committed credit lines are employed as the reference point for the EaD parameters. The EaD parameters are also incorporated in the credit decision, pricing, core capital backing under Basel III (A-IRB model) and the internal credit risk model.

The credit-risk-oriented calculation of exposures and limits is also carried out for issuer risk. This involves calculating a fair-value-oriented exposure for the individual positions in the trading book, which shows and limits the maximum potential fair value loss without taking account of residual values. A credit-risk-oriented, nominal-value-based exposure is used to limit the banking book and ABS positions. Netting effects are taken into account when the limits are set.

In terms of counterparty risk, a simulation method is used to determine future exposure figures for the pre-settlement risk within the scope of the internal model. The default conditional metric used in the internal model to determine the future exposures makes it possible among other things to incorporate the correlation effects between market and credit risk, and notably the specific wrong-way risk. The simulation is carried out for up to 50 future dates on the basis of 3,000 market data scenarios for each calculation date.

Risk Report (Continued)

Expected loss (EL) (standard risk costs)
The expected loss shows the credit default losses to be expected from the credit portfolio over the next 12 months, taking into account the current ratings and collateral on hand. Among other things, it is used for risk identification, as both an absolute and a relative value, in pricing, for profitability calculations and for limitation purposes.

Risk density
The risk density is another risk metric alongside the EaD and EL that is used to manage the individual HVB sub-portfolios. HVB calculates the risk density as the ratio of EL to performing exposure in basis points. It indicates the development of risk in a given portfolio.

Unexpected loss (credit value-at-risk, credit VaR)
The economic capital measures the amount of capital required to cover the unexpected loss beyond the EL which, with a probability of 99.93%, will not be exceeded over the next 12 months. This risk metric makes the risk content of the various sub-portfolios transparent, taking into account the concentration risks in the portfolio. It is also used in pricing and the Bank's profitability calculations.

Internal credit risk model
A new credit portfolio model devised specially for UniCredit was introduced at HVB as of December 2015 to measure credit risk. The new Group model also follows the structural Merton approach under which correlations between the borrowers are mapped using a multi-factor model, taking into account fluctuations in value arising from rating changes (migration risk) as well as the pure default risk. The parameterisation of the correlations has been revised and updated compared with the credit portfolio model used to date. Migration risk is now only included for certain parts of the portfolio.

The credit portfolio model covers all banking book position and counterparty risks arising from derivatives portfolios. Credit risk from the trading book is still recorded using the Incremental Risk Charge (IRC) model, which forms part of the market risk in the presentation of the ICAAP.

Country risk is integrated using appropriate PD add-ons. Risk-reducing factors are included by applying reductions to the LGDs and PDs.

Risk-based and market-oriented pricing
Pricing methods and tools are used to manage risk and profitability in the lending business that take into account all cost components – in particular the expected standard risk costs and the cost of capital – and that are each adjusted to reflect the current parameters and bank management. Lending decisions are made under risk/return considerations that are determined in the obligatory pre-calculation prior to a transaction being concluded.

Monitoring and controlling
Risk monitoring takes place at the level of individual exposures. In addition, various instruments are used at the portfolio level.

Individual exposures are monitored in both lending and trading operations with the aid of classical monitoring systems, such as rating analysis and early warning systems. Individual exposure limits serve to limit the risks assumed.

In order to avoid cluster risk, HVB/HVB Group defines limits for concentrations of credit risk on the basis of exposure groups in line with the probability of default. Monitoring and reporting of any limit overshoots takes place on a monthly basis.

Special features of counterparty risk and issuer risk
We employ limit systems as a key element of our risk management and control of counterparty risk and issuer risk to prevent an increase of our risk position that does not comply with the strategy. These systems are available online at all key HVB facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate timeframe. For counterparty risk, this applies to pre-settlement risk, cash risk and

settlement risk. For the latter, the risk for the future value date is monitored right from the time the Bank enters into the transaction so that a concentration of payments on a single value date is identified beforehand. Good system availability ensures that each trader has a tool on hand to check limit utilisation and lets the risk controller perform prompt limit monitoring for each counterparty or issuer. To reduce counterparty risk relating to financial institutions, HVB is making greater use of derivative exchanges in its function as a central counterparty.

Quantification and specification

The economic capital for credit risk at HVB, without taking account of diversification effects between the risk types, amounts to €4.3 billion, which is €0.9 billion lower than the total at 31 December 2014 (€5.2 billion). If the new credit portfolio introduced in 2015 were applied retroactively, the comparative figure at 31 December 2014 would be €4.7 billion. If the effect arising from the changeover to the new model is disregarded, the economic capital declined by €0.4 billion year-on-year due solely to changes in the risk profile of the loan portfolio. Apart from the changeover to the new model, the decline can be largely attributed to the reduction in single-name concentrations together with a lower expected loss in the portfolio.

Credit default risk

The following tables and charts for credit default risk show the aggregate exposure values of HVB excluding the remaining exposures assigned to the former Real Estate Restructuring business segment. These are excluded from the analysis because the portfolio, which has already been reduced considerably in recent years to €397 million (31 December 2014: €526 million), is earmarked for elimination without any new business being written. The aggregate exposure to credit default risk is called credit default risk exposure, or simply exposure, below. Issuer risk arising from the trading book is, moreover, included in the market risk analysis by way of the incremental risk charge. The comments in this regard can be found in the section covering market risk.

The expected loss of HVB fell by €70 million in 2015. This development can be attributed mainly to an improvement in the portfolio structure in several industries.

Breakdown of credit risk exposure[1] by business segment and risk category (€ billions)

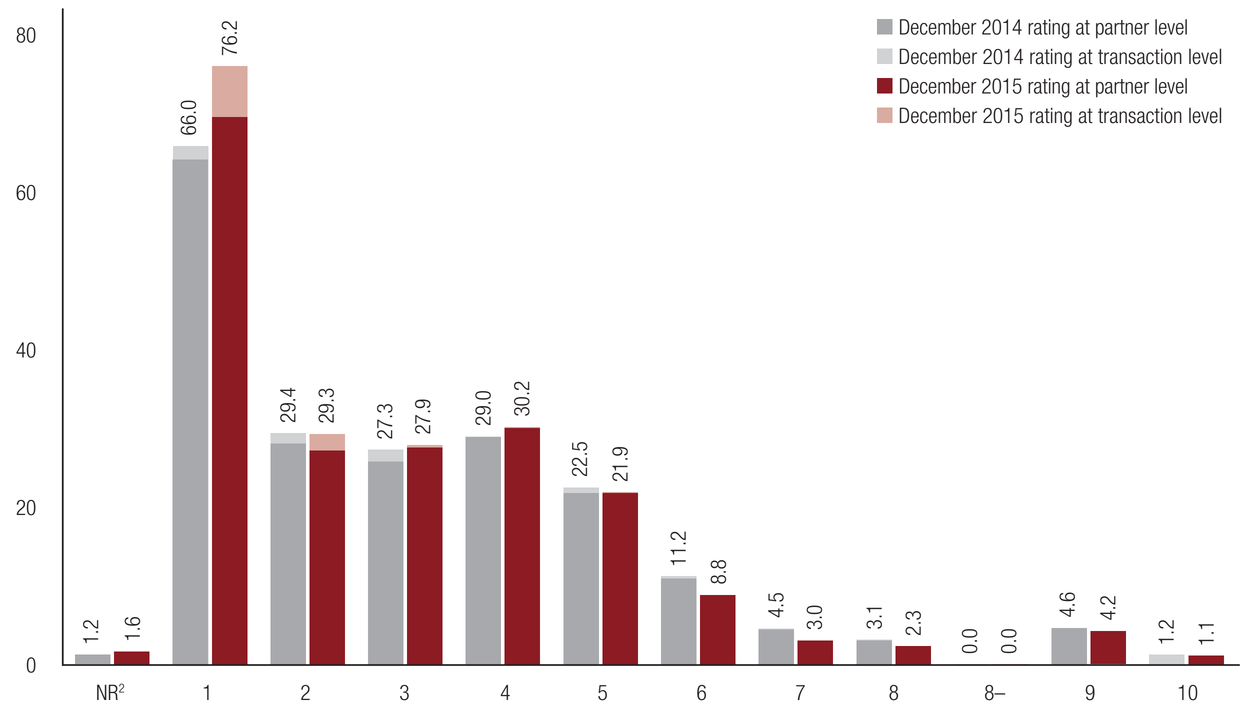
Breakdown of exposure by business segment	CREDIT DEFAULT RISK[2]		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Commercial Banking	86.7	84.7	3.8	4.7	—	—	0	0	86.7	84.7
Corporate & Investment Banking	119.2	110.9	18.9	19.9	43.0	42.1	7.2	9.1	126.4	120.0
Other/consolidation	0.6	4.5	0.1	0	0.1	4.0	0	0	0.6	4.5
HVB	**206.5**	**200.1**	**22.8**	**24.6**	**43.1**	**46.1**	**7.2**	**9.1**	**213.8**	**209.2**

1 total of non-performing and performing exposure
2 excluding issuer risk in the trading book

The total exposure of HVB increased by €4.6 billion. In particular, the exposure in the CIB business segment increased by €6.4 billion. This is set against a reduction of €3.9 billion in the issuer risk (in the banking book) in the Other/consolidation business segment. Both of these changes result notably from developments in the banks, insurance companies (including sovereigns) industry group.

Risk Report (Continued)

Breakdown of credit default risk exposure[1] by rating class (€ billions)



1 total of non-performing and performing exposure excluding issuer risk in the trading book
2 not rated

The HVB rating structure changed during the course of 2015 mainly on account of an increase in exposure in rating class 1, primarily in the banks, insurance companies (including sovereigns) industry group, coupled with a rise in transactions in the special products industry group.

Development of metrics by industry group

Industry group	CREDIT DEFAULT RISK EXPOSURE[1] € billions 2015	2014	EXPECTED LOSS[2] € millions 2015	2014	RISK DENSITY in BPS[3] 2015	2014
Banks, insurance companies (including sovereigns)	48.6	46.1	34	40	7	9
Public sector	32.1	36.5	2	2	1	0
Real estate	24.1	22.5	23	24	10	11
Special products	10.6	7.9	14	50	12	65
Energy	9.9	9.8	17	18	17	19
Chemicals, pharmaceuticals, health	8.8	9.0	16	16	19	18
Machinery, metals	7.9	7.5	20	23	27	32
Automotive industry	6.4	5.5	8	6	13	12
Food, beverages	5.1	4.3	6	6	12	14
Shipping	5.1	5.3	76	86	200	226
Services	4.9	4.4	15	17	32	41
Transport, travel	4.4	4.2	6	10	15	29
Construction, wood	4.3	4.2	8	9	20	23
Telecoms, IT	4.1	3.1	5	6	12	19
Consumer goods	3.9	3.6	9	7	24	22
Electronics	2.3	2.2	2	2	10	10
Agriculture, forestry	2.1	2.0	5	4	23	18
Media, paper	1.6	1.9	5	4	30	22
Tourism	1.4	1.5	3	9	22	63
Textile industry	1.2	1.3	3	3	28	26
Retail	17.7	17.3	29	27	16	16
HVB	**206.5**	**200.1**	**306**	**369**	**15**	**19**

1 total of non-performing and performing exposure excluding issuer risk in the trading book
2 expected loss of the performing exposure
3 risk density as expected loss as a proportion of performing exposure in basis points; 100 BPS = 1%

The portfolio has a balanced structure and is diversified across the various industries.

The exposure in the banks, insurance companies (including sovereigns) industry group rose by €2.5 billion in 2015. An increase in the exposure to central banks and sovereigns in particular was responsible for this. The decline of €6 million in the expected loss can be attributed among other things to declining exposures and improving ratings for individual customers as well as individual transfers to the non-performing portfolio. The risk density improved slightly, from 9 BPS to 7 BPS, as a result.

The exposure in the special products industry group increased by €2.7 billion in 2015 over year-end 2014, even though the reduction of the non-strategic portion of the portfolio was systematically continued. This resulted in a further optimisation of the portfolio, as reflected in a reduced expected loss and a lower risk density. In addition, a change in the parameters for ABS investor positions affected this trend.

Risk Report (Continued)

The exposure in the shipping industry group denominated in euros fell slightly in 2015 despite the contrary development of the dollar/euro exchange rate. Adjusted for exchange rate effects, the dollar-denominated exposure declined much more sharply on account of regular instalments and repaid loans, despite new business being written selectively. The expected loss fell at a faster rate as a result of the complete repayment of loans together with individual transfers to the non-performing portfolio. The risk density progressed positively in line with this development.

Banks, insurance companies (including sovereigns)

The rising cost of regulatory requirements in connection with compliance (fines and investments) and falling earnings due to modified business models and less demand for credit are leading to strong downward pressure on margins throughout the industry.

HVB has deployed a monitoring tool known as the "Radar screen for financial institutions/banks" in order to be in a position to promptly identify and counter negative developments in the banking sector. A change in the exposure strategy will be adopted should bank downgrades be noted.

The provision of liquidity to banks is largely unproblematic. As a result of ECB policies, negative interest rates for deposits may be imposed in individual cases in the industry.

Part of the exposure in the banks, insurance companies (including sovereigns) industry group resulted from credit default risk exposure to UniCredit S.p.A. and other UniCredit companies (upstream and downstream exposure) on account of the strategic positioning of HVB Group as the group-wide centre of competence for the markets and investment banking business of UniCredit and other business activities (such as export finance and guarantees).

Public sector

The public sector industry group contains private enterprises with public-sector owners as well as state entities. As the German states in particular and the development banks enjoying their full liability represent important counterparties for internal liquidity management, the vast majority of the exposure is caused by our own liquidity investments. An initiative aimed at further diversifying HVB's liquidity placements led to a significant reduction of €4.4 billion in the German investment portfolio during the course of 2015. The exposure remains comfortably within the industry limits defined for this segment.

Real estate

The real estate market in Germany again proved very stable in 2015 thanks to historically ultra-low long-term interest rates coupled with a stable labour market and persistently strong demand for residential property, especially in major conurbations. The change in investment patterns seen during the last financial crisis in 2008 led to large shifts of assets into real estate.

Unresolved international conflicts could lead to worsening economic prospects in coming periods, which would have an impact on the commercial side in particular. At the same time, the residential property market is showing indications of cooling and a normalisation of sales patterns following signs of overheating in the core markets (including Berlin, Hamburg and Munich), especially in the case of high-price properties.

Partly as a result of the conservative, forward-looking credit risk strategy for the real estate sector that has been applied for years, the portfolio of existing properties remained robust and relatively low risk in 2015 (measured by risk density).

All in all, the real estate portfolio is expected to grow in line with expected economic growth, taking into account the proven financing parameters. The financing business is restricted to Germany.

Special products

A strategy of growth in clearly defined asset classes with conservative credit standards was defined for sub-segments of the special products portfolio under the 2015 risk strategy. This growth has been achieved in the planned portfolio sub-segments despite the difficult market environment (including the competitive situation and downward pressure on margins). We are retaining the existing growth strategy for 2016 as a whole.

Energy
The energy portfolio only increased slightly in 2015, despite growth in the oil and gas segment. This was due to another decline in the sub-portfolio of utilities caused particularly by the reluctance of many companies to invest as a result of the uncertain regulatory environment and the extensive divestment programmes. Many energy producers have been forced to take massive write-downs on the value of their conventional power generation plants in response to lower spot electricity prices and low capacity utilisation rates. In activities involving oil and gas traders, we concentrate on transaction-related business. In accordance with the defined risk strategy, we aim to secure the continued good quality of the portfolio over the medium run as well.

In line with the defined risk strategy, we are focusing on large multinationals in the energy sector. The exposure to companies that do not meet our financing conditions is being actively reduced or the risk mitigated by means of structural financing elements. In the case of project loans on the renewable energy side, we are concentrating on projects in countries with a stable regulatory environment and ensuring compliance with our lending standards.

Shipping
The industry faced heavy pressure in most sub-markets in 2015. The freight and time charter rates for bulk carriers recently reached historic lows in response to overcapacity.

In container shipping, the freight and time charter rates returned to inadequate levels in the second half of the year after proving stable in the first six months. This development was caused by a persistently high number of deliveries of large container ships coupled with weaker demand.

The demand in the offshore industry suffered from a fall in oil prices to lows not seen for a number of years. Accordingly, the demand for equipment for offshore oil exploration and extraction declined sharply. The supply side was shaped by further deliveries of new vessels, causing freight rates and capacity utilisation to similarly fall sharply in the active fleet.

By contrast, oil products and especially oil tankers benefited from the low oil prices coupled with strong demand for transport capacity, leading to a commensurate uptick in freight rates. It remains to be seen over the coming years whether the market will be able to absorb the new-builds that have been commissioned in higher numbers.

After the prices on the market for new ships and the secondary market that had fallen sharply during the course of the ongoing crisis finally started to stabilise at a low level, prices demonstrated differing trends – similar to the development of freight rates. While the tanker segment saw prices beginning to rise tangibly, the prices for all other types of ship fell sharply in 2015.

HVB continues to apply a conservative strategy in its ship financing activities. The focus remains on managing the risk in the existing portfolio. After the significant reduction in the portfolio in the shipping industry over recent years, the reduction in the existing portfolio was continued as planned in 2015. At the same time, however, new business was written selectively where this helped to enhance the quality of the portfolio. Opportunities arising on the secondary market with selected counterparties were similarly seized after being examined on a case-by-case basis.

HVB focuses on market segments and participants that proved to be robust during the past shipping crisis and which can be expected to perform sustainably well going forward.

Global acquisition finance in the core markets of HVB
Acquisition finance is included in the credit default risk exposure of the individual industry groups. The specific financing structures are controlled separately in line with the HVB risk strategy.

Risk Report (Continued)

HVB's acquisition finance portfolio again experienced a sharp decline in 2015 compared with year-end 2014. Concentration risk management has been successfully implemented over recent years. New transactions failed to offset the decline. As exposures with good recent ratings were also affected by concentration risk management, the quality of the portfolio (measured by risk density) has deteriorated slightly in a persistently difficult market environment, although it remains at an acceptable level and comfortably within the defined limits.

In new acquisition finance business, HVB continues to concentrate on consortium-leader mandates. The goal here is to consolidate the leading market position in Germany and increase market shares in the UK, France, Benelux and Scandinavia.

Exposure development of countries/regions by risk category
The following comprehensive tables show the concentration risk at country level. Starting in 2014, the exposure figures have been shown with regard to the risk country of the partner.

Development of credit default risk exposure[1] of eurozone countries, broken down by risk category (€ millions)

	CREDIT DEFAULT RISK[2]		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL		OF WHICH SOVEREIGN
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Germany[3]	127,488	127,958	8,551	11,031	22,617	27,305	1,576	1,908	129,064	129,866	834
Luxembourg	8,013	7,421	1,517	1,596	4,020	3,771	589	1,170	8,602	8,591	12
Italy	6,870	10,746	3,722	3,650	1,393	4,842	1,310	1,630	8,180	12,376	2,417
Spain	6,739	3,734	64	63	5,791	2,904	137	239	6,876	3,973	3,786
France	5,569	5,988	797	961	2,212	1,902	703	830	6,272	6,818	576
Netherlands	5,386	4,329	436	329	1,983	1,359	220	341	5,606	4,670	22
Ireland	2,808	2,299	127	261	491	325	90	183	2,898	2,482	—
Austria	1,722	2,323	256	207	775	837	410	459	2,132	2,782	583
Belgium	672	480	101	299	117	51	294	183	966	663	185
Greece	357	401	70	85	—	—	4	0	361	401	2
Finland	104	101	22	31	24	—	217	154	321	255	34
Cyprus	141	114	2	2	—	—	7	—	148	114	7
Slovenia	129	116	84	68	—	—	11	9	140	125	4
Portugal	57	108	17	32	3	32	13	14	70	122	0
Malta	43	155	5	1	—	—	0	10	43	165	—
Slovakia	3	9	2	8	—	—	17	8	20	17	14
Latvia	18	17	—	—	—	—	0	0	18	17	0
Lithuania[4]	0	—	—	—	—	—	4	—	4	0	4
Estonia	0	2	—	—	—	—	1	4	1	6	0
HVB	**166,119**	**166,301**	**15,773**	**18,624**	**39,426**	**43,328**	**5,603**	**7,142**	**171,722**	**173,443**	**8,480**

1 total of non-performing and performing exposure
2 excluding issuer risk in the trading book
3 shown for the first time in order to provide a complete picture of the total exposure in the eurozone
4 Lithuania adopted the euro on 1 January 2015. Consequently, the country exposure is now shown separately and is no longer included in the Eastern Europe region as it was at 31 December 2014.

The exposure developed within the framework set by the risk strategy for 2015. One of the main reasons for this was the increasing economic stability in the eurozone, driven by sustained economic strength in Germany coupled with strong growth in formerly ailing Spain and a stabilisation of the economy in Italy as well. The chances of Greece leaving the eurozone have fallen. All in all, the ECB is tending to help to stabilise economic development with its policy of monetary loosening.

Italy

The relatively large portfolio results from HVB's role as group-wide centre of competence for the markets and investment banking business of UniCredit. This portfolio is being actively managed in accordance with market standards (such as secured derivatives activities). The exposure to Italy includes the exposure with UniCredit S.p.A., for which a separate strategy was defined (see also the comments above regarding the banks, insurance companies (including sovereigns) industry group). The economy in Italy stabilised in 2015 on the back of the reforms initiated by the Renzi administration in 2014. Real GDP growth turned positive again. Short-term economic indicators point towards a further slight acceleration of economic growth in 2016.

Luxembourg

The exposure in Luxembourg rose by a slight €11 million. The absolute amount of the exposure is attributable mainly to the subsidiary in Luxembourg, where some German corporate banking transactions are also booked.

Development of the weaker eurozone countries

The strict austerity measures and reforms imposed by some eurozone countries have been successful, leading to a generally better assessment by the capital markets. Worthy of special note here is Spain, which enjoyed tangible growth in 2015. The portfolio in the weaker eurozone countries was again actively managed in 2015, albeit with different strategies.

Even though Spain is not one of the Bank's core markets for corporate business, selective new business in individual product areas under the global responsibility of HVB was approved in the 2015 risk strategy. The management signal of the country concentration limit has been set to neutral. Going forward, selective new business in accordance with our sustainability-focused business and risk strategy will be possible in clearly defined sectors or product areas. Spanish government bonds have been added to the portfolio in some number in response to the country's strong economic recovery.

The strategy to reduce portfolios that do not meet the Bank's definition of core market is being retained unchanged and exit opportunities arising on the market are being exploited where it makes sense to do so, although HVB is under no compulsion to act.

The strategy of reduction continued to be applied for Greece in 2015.

Development of credit default risk exposure[1] by region/country outside the eurozone[2] (€ millions)

	TOTAL		OF WHICH ISSUER RISK IN TRADING BOOK	
Region/country	**2015**	**2014**	**2015**	**2014**
UK	10,498	10,246	377	633
USA	9,678	7,064	275	214
Asia/Oceania	7,546	4,617	42	22
Switzerland	4,729	3,151	214	298
Turkey	2,056	2,483	6	57
Western Europe (without Switzerland, UK)	1,891	1,779	375	346
Russia	1,322	2,014	69	36
Middle East/North Africa	1,097	915	4	8
Eastern Europe[2]	1,078	1,041	173	281
North America (including offshore jurisdictions, without USA)	919	1,326	52	69
Southern Africa	595	684	5	13
Central and South America	514	356	24	12
Central Asia (without Russia, Turkey)	106	91	0	0
HVB	**42,029**	**35,767**	**1,616**	**1,989**

1 total of non-performing and performing exposure
2 Lithuania adopted the euro on 1 January 2015. Consequently, the country exposure is now shown separately and is no longer included in the Eastern Europe region as it was at 31 December 2014.

Risk Report (Continued)

The total exposure of the regions/countries outside the eurozone rose by €6.3 billion in 2015. In particular, the Asia/Oceania region contributed to this development, which is mainly attributable to Japan, in addition to the United States and Switzerland.

Geopolitical flashpoints

In response to the conflict in eastern Ukraine and its economic impact on the country as a whole, unsecured business with Ukrainian banks remains discontinued. An escalation of the situation with Russian involvement led to stronger EU and US sanctions with an impact on cross-border business involving Russia. This is reflected in the sharp decline in exposure, as new business is not written unless all the sanctions are observed and customer interests have been taken into account on a case-by-case basis.

In the Middle East, the political and economic stability of the region is endangered by the growing strength of the IS terror organisation. There is no end in sight to the armed conflicts in either Syria or Iraq. Furthermore, the sustained escalation and internationalisation of the conflict is leading to foreign-policy risks for Turkey. Besides the terrorist threat and the civil war in Syria, the region is also suffering from the increasing tensions between Saudi Arabia and Iran together with a lasting decline in the price of oil to a much lower level.

Derivative transactions

Alongside the goal of generating profits as part of HVB's proprietary trading activities, derivatives are used to manage market price risk (in particular, risk arising from interest-rate fluctuations and currency fluctuations) arising from trading activities, and also serve to provide cover for on- and off-balance-sheet items within asset/liability management. Besides market risk, derivatives bear counterparty risk or, in the case of credit derivatives which serve to manage credit risk, also issuer risk.

The positive fair values are relevant for purposes of credit default risk as replacement values for the OTC derivatives, which represent the potential costs that HVB would incur to replace all of the original contracts with equivalent transactions in case of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB at 31 December 2015 totalled €78.6 billion (31 December 2014: €103.2 billion).

The regulatory provisions under Basel III and the Capital Requirements Directive IV (CRD IV)/CRR are employed to determine counterparty risk taking into account the internal model method (IMM) approved by the regulatory authorities for use by HVB. Based on individual risk weightings and applying existing, legally enforceable, bilateral netting agreements as well as the collateral provided by borrowers for HVB, risk-weighted assets arising from counterparty risk amounted to €6.0 billion at 31 December 2015 (31 December 2014: €6.2 billion) for the derivatives business.

The following tables provide detailed information on the nominal amount and fair values of all derivative transactions of HVB.

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2015	2014	2015	2014	2015	2014
Interest rate derivatives	**1,004,886**	**737,453**	**813,172**	**2,555,511**	**2,566,066**	**64,455**	**88,581**	**62,177**	**85,193**
OTC products									
Forward rate agreements	181,844	2,278	—	184,122	124,167	26	13	21	8
Interest rate swaps	624,464	676,868	673,711	1,975,043	2,059,250	60,965	82,922	56,350	77,402
Interest rate options									
– purchased	64,174	26,094	74,007	164,275	150,047	3,325	4,951	203	495
– written	64,724	20,954	63,477	149,155	136,684	125	691	5,259	7,285
Other interest rate derivatives	16,570	—	—	16,570	2,916	11	3	341	2
Exchange-traded products									
Interest rate futures	26,730	11,259	1,213	39,202	37,893	—	—	—	1
Interest rate options	26,380	—	764	27,144	55,109	3	1	3	—
Foreign exchange derivatives	**281,065**	**31,263**	**985**	**313,313**	**233,971**	**4,059**	**4,837**	**4,476**	**5,069**
OTC products									
Foreign exchange forwards	244,146	26,029	943	271,118	205,646	3,695	4,406	4,021	4,618
Foreign exchange options									
– purchased	18,033	2,735	24	20,792	14,467	237	347	153	101
– written	18,880	2,499	18	21,397	13,848	127	84	302	350
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	6	—	—	6	10	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**54,791**	**101,774**	**62,306**	**218,871**	**251,534**	**6,503**	**5,901**	**7,910**	**6,859**
Equity/index derivatives	**36,349**	**33,629**	**6,160**	**76,138**	**157,944**	**2,157**	**2,268**	**2,956**	**2,888**
OTC products									
Equity/index swaps	4,295	4,751	155	9,201	9,825	165	219	139	217
Equity/index options									
– purchased	4,160	2,327	252	6,739	20,240	483	514	66	168
– written	7,411	10,353	4,512	22,276	91,463	25	30	690	896
Other equity/index derivatives	320	—	—	320	2,332	3	136	3	2
Exchange-traded products									
Equity/index futures	6,232	15	—	6,247	5,825	15	12	6	11
Equity/index options	13,931	16,183	1,241	31,355	28,259	1,466	1,357	2,052	1,594
Credit derivatives[1]	**14,213**	**52,184**	**3,124**	**69,521**	**92,503**	**1,446**	**1,823**	**1,124**	**1,533**
Other transactions	**5,522**	**3,722**	**725**	**9,969**	**8,167**	**671**	**365**	**384**	**319**
HVB	**1,396,826**	**960,025**	**886,472**	**3,243,323**	**3,310,185**	**79,291**	**103,775**	**79,027**	**101,861**

1 For details of credit derivatives, please see the tables "Credit derivatives" and "Credit derivatives by reference asset" below.

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €802,351 million at 31 December 2015 (thereof credit derivatives: €3,288 million).

Risk Report (Continued)

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2015	2014	2015	2014
Central governments and central banks	5,540	5,829	1,755	2,024
Banks	45,379	64,783	49,863	66,063
Financial institutions	24,923	30,090	24,880	31,737
Other companies and private individuals	3,449	3,073	2,529	2,037
HVB	**79,291**	**103,775**	**79,027**	**101,861**

Credit derivatives

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2015	2014	2015	2014	2015	2014
Banking book	**204**	**171**	**—**	**375**	**490**	**1**	**—**	**5**	**10**
Protection buyer									
Credit default swaps	104	171	—	275	390	1	—	5	9
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	100	—	—	100	100	—	—	—	1
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Trading book	**14,009**	**52,013**	**3,124**	**69,146**	**92,013**	**1,445**	**1,823**	**1,119**	**1,523**
Protection buyer									
Credit default swaps	6,162	24,480	834	31,476	40,998	348	522	397	648
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	597	1,984	828	3,409	5,305	110	126	293	278
Protection seller									
Credit default swaps	6,662	24,583	919	32,164	42,111	417	696	378	526
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	588	966	543	2,097	3,599	570	479	51	71
HVB	**14,213**	**52,184**	**3,124**	**69,521**	**92,503**	**1,446**	**1,823**	**1,124**	**1,533**

Credit derivatives by reference asset

(€ millions)

	NOMINAL VOLUME				
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	TOTAL 2015	TOTAL 2014
Public sector bonds	33,071	—	464	33,535	42,843
Corporate bonds	27,396	—	3,394	30,790	42,828
Equities	—	—	—	—	—
Other assets	3,548	—	1,648	5,196	6,832
HVB	**64,015**	**—**	**5,506**	**69,521**	**92,503**

Single-name credit derivatives make up 58.0% of the total; multi-name credit derivatives, relating notably to baskets or indices, account for a share of 42.0%.

Stress tests

By carrying out stress tests in the credit portfolio, the credit risk managers obtain information on a quarterly basis about the possible consequences of a deterioration in the underlying economic conditions in addition to the monthly analysis of the real portfolio development. The focus here is on the risk metrics of risk-weighted assets (RWA), expected loss and economic capital, and the changes in the portfolio quality. Concentration stress tests and inverse stress tests are carried out alongside the stress tests based on macroeconomic scenarios (results of which are included in the cross-risk-type stress analysis).

Summary and outlook

The Bank has put a strong focus on growth with simultaneous risk control in its business strategy. It is still the goal to retain a low-risk credit portfolio within the relevant peer group.

In light of the ever worsening market situation and tough competition, it will be even more challenging to achieve the growth targeted for 2016 than in 2015.

The numerous economic and geopolitical uncertainties continue to weigh down on the overall economic environment.

For 2016, greater attention will need to be paid to country risk in particular as a result of the increasing number of international flash-points and in light of a potential decline in global economic growth, driven mainly by slowing growth in China.

2 Market risk

Definition

We define market risk as the potential loss arising from on- and off-balance-sheet positions in the trading and banking books that can arise in response to adverse changes in market prices (interest rates, equities, credit spreads, foreign exchange and commodities), other price-influencing parameters (volatilities, correlations) or trading-related events in the form of default or change in credit ratings of securities (specific price risk for interest net positions).

Categories

We define interest rate risk as the risk of values changing on account of fluctuations in interest rates.

Foreign currency risk arises from fluctuations in exchange rates.

Stock and commodity risk is defined as the risk arising from changing rates on the stock and/or commodity markets.

We define the credit spread as the premium on the interest rate compared with a risk-free investment. Fluctuations in the credit spread give rise to credit spread risk.

The risk that results from changes in volatilities is subsumed in option risk.

Strategy

Our market risk is essentially managed by the CIB business segment. As was already the case in previous years, the focus in 2015 was again on customer transactions. This made it possible to avoid losses arising from sudden, large market movements, including for example after the Swiss National Bank ceased managing the Swiss franc exchange rate, the economic slowdown in China and the collapse in the Volkswagen share price.

Risk Report (Continued)

Electronic trading platforms have been expanded in several business lines and their functionality has been extended. The income generated as a result grew considerably in some areas and counterparty risk management was enhanced. The liquidity reserve portfolio was diversified further with a view to addressing falling earnings in the difficult market environment. Currency activities in Asian markets were expanded. The migration to global books for currency products enhances market risk management by increasing transparency. In commodities trading, a new emphasis was placed on customer finance. In loan trading, strategic investments in collateralised loan obligations (CLOs) and other interest-bearing securities were expanded.

Around one-fifth of our market risk continues to be located in the trading book and is widely spread across various trading units. Market risk outside of the trading book is concentrated in strategic investments in bonds and in the Treasury business. These activities are included in the limit system as part of market risk management.

Limit system

All transactions exposed to market risk in the trading and banking books of HVB are aggregated every day to form value-at-risk (VaR) metrics and set against the risk limits. The Management Board of HVB approves and, if necessary, adjusts the risk limits every year. Limits are defined for trading books by using VaR limits, whereas limits are set for the combination of trading and banking books by total VaR limits. Both groups of limits are equally binding and compliance is equally enforceable.

A new limit was introduced at the beginning of 2015 when the risk strategy was adopted, incorporating the strategic positions allocated directly to the full Management Board. Despite the addition of these strategic positions, the total VaR limit was reduced from €120 million to €90 million and the trading book limit from €40 million to €37 million when the new HVB Group risk strategy was adopted. The total VaR limit for the CIB business segment was reduced from €90 million to €77 million.

Monitoring of the regulatory metrics stressed value-at-risk and incremental risk charge to be used additionally for the internal model is ensured by setting limits for the risk values that are reported on a weekly basis.

Alongside management using the VaR approach, the risk positions of key units are restricted by an additional bundle of granular limits. These limits relate to sensitivities, stress test results and nominal volumes in various risk classes.

Measurement

The VaR shows the maximum expected loss caused by market price fluctuations that with a certain probability (confidence level) will not be exceeded over a given period. We use a confidence level of 99.00% and a holding period of one day for internal risk reports, risk management and risk limits.

We use a historical simulation to calculate the VaR. This simple method makes it possible to calculate the VaR without having to make any fundamental assumptions regarding the statistical distributions of the movements in the portfolio value. It encompasses the generation of the hypothetical distribution of earnings (gains and losses) from a portfolio of financial instruments directly using the historical market price fluctuations over the last two years (observation period).

In November 2015, HVB introduced a number of method extensions for business risk measurement made necessary by the heavily negative interest rates implemented in the current market environment. The request for regulatory approval of the method extensions has been submitted to Joint Supervisory Team, which is responsible for UniCredit under the Single Supervisory Mechanism (SSM). Once approved, the expansions will also be implemented in risk measurement for regulatory purposes.

HVB has defined several further market risk metrics under the current CRR rules for risk management as well as the VaR:
– The stressed VaR is calculated in the same way as the VaR, although the 12-month observation period has been selected covering the most significant negative market changes for HVB's trading portfolio. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99.00%.

- The incremental risk charge (IRC) for credit-risk-sensitive positions is the internal approach used to determine the specific risks (specific price risk for net interest positions). This includes credit default risk and migration risk, meaning that both the change in ratings (migration) and the potential default on a credit product are taken into account. The calculated amount for both regulatory and internal reporting relates to a holding period of one year and a confidence level of 99.90%
- The specific risks for securitisation and nth-to-default credit derivatives are covered by the regulatory Standard Approach.
- Based on the CRR regulations, we calculate risks with regard to the credit valuation adjustment (CVA). The CVA risk shows the risk of fair value losses based on changes in the expected counterparty risk for all relevant OTC derivatives under CRR. We use our own internal model that has been approved by BaFin to calculate the vast majority of the CVA. For the regulatory report, the internal model calculates both the CVA VaR and the stressed CVA VaR on the basis of a 10-day holding period and a confidence level of 99.00%.

Monitoring and controlling

The market risk positions in the trading and banking books are monitored using a hierarchical limit system that restricts the potential loss from market risk. This involves restricting the VaR totals from trading positions by setting trading book limits. At the same time, all positions, irrespective of the regulatory or IFRS classification, are limited by what are known as VaR warning levels.

The VaR figures are reported daily along with the limit utilisation and the earnings figures (P/L figures) to the Management Board and the responsible persons in the CIB business segment. Whenever trading-book and/or total VaR limits are exceeded, an escalation process is triggered immediately and the reduction of the positions in question monitored. In 2015, such reduction was, with a few exceptions, carried out within one day. If the specified limit was exceeded on the following day as well, the escalation process was again initiated immediately.

Market Risk Controlling has direct access to the front-office systems used in trading operations. The supervision of trading activities comprises prompt allocation to credit risk limits and detailed checks of the P/L on the following day. In this context, both the daily turnover and the P/L generated on intraday transactions are determined.

In addition to the daily reports, the management is informed on a weekly and monthly basis about the results of the risk analysis, including the results of back-testing and stress tests as well as sensitivity ratios.

To calculate and allocate the economic capital requirements for market risk, the hypothetical distribution used to determine the VaR has been expanded to an observation period of (at least) six years and combined with the results arising from the CVA risk. Unlike in internal risk controlling, any hedge effect of the model book for equity is not included in the economic capital. Furthermore, market risks are also included that arise from the IRC, the market risk Standard Approach, add-on for ABS risks and, from September 2015, for gap option risks. All risks, with the exception of the add-ons, are scaled accordingly to obtain a confidence level of 99.93% and a holding period of one year.

The regulatory capital requirement for market risk encompasses the VaR and stressed VaR for a 10-day holding period together with the IRC and the market risk Standard Approach. The CVA risk is also taken into account. When calculating the capital requirement, the individual risk metrics are aggregated by regulatory averages, maximum calculation and scaling.

Simulation of interest income

In addition, a simulation of interest income in the banking book is carried out for HVB on a quarterly basis. The future development of the net interest income is simulated under various scenarios regarding the development of interest rates. Model assumptions are incorporated in the analysis. This relates notably to products with unknown and/or undefined capital used and included options. The interest rate risk inherent in these product types in the banking book is measured on the basis of assumptions and analyses of customer behaviour in lending and deposit-taking together with forecasts of the development of future market rates.

One scenario calls for a parallel interest shock of minus 100 basis points. Assuming that the expiring contracts were reinvested within the next twelve months with the same product features, this would serve to reduce net interest by €32 million (31 December 2014, minus 100 basis points: minus €33 million), whereas a parallel interest shock of plus 100 basis points would increase net interest for the same period by €133 million (31 December 2014, plus 100 basis

Risk Report (Continued)

points: plus €156 million). A floor is employed at 0.0%, meaning that the interest shock of minus 100 basis points is not fully applied.

The resulting sensitivity analysis is carried out on the basis of the planned net interest income for the coming financial year.

The different results from year-end can essentially be explained by the refinement of the determination methodology as well as the changed market conditions and the persistently low interest rates.

Quantification and specification

The economic capital for the market risk of HVB, without taking account of diversification effects between the risk types, amounts to €2.6 billion, the same figure as at 31 December 2014 (€2.6 billion).

The following table shows the aggregated market risk for our trading positions at HVB over the course of the year.

Market risk from trading-book activities of HVB (VaR, 99.00% confidence level, one-day holding period) (€ millions)

	YEAR-END TOTALS		AVERAGES				
	31/12/2015	31/12/2014	2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Credit spread risks	4	7	4	3	4	4	6
Interest rate positions	3	5	5	3	4	6	6
Foreign exchange positions	2	1	1	2	1	1	1
Equity/index positions[1]	4	2	3	3	2	2	2
HVB[2]	**7**	**8**	**6**	**5**	**5**	**7**	**8**

1 including commodity risk
2 Because of the diversification effects between the risk categories, the total risk is less than the sum of the individual risks.

The regulatory capital requirements for the last year are described below, broken down by the relevant risk metrics.

Regulatory metrics of HVB (€ millions)

	31/12/2015	30/9/2015	30/6/2015	31/3/2015	31/12/2014
Value-at-risk	75	102	81	87	74
Stressed value-at-risk	165	245	321	314	344
Incremental risk charge	227	237	243	283	288
Market risk Standard Approach	2	3	3	3	4
CVA value-at-risk	41	32	36	55	63
Stressed CVA value-at-risk	214	183	191	187	189
CVA Standard Approach	48	82	103	99	65

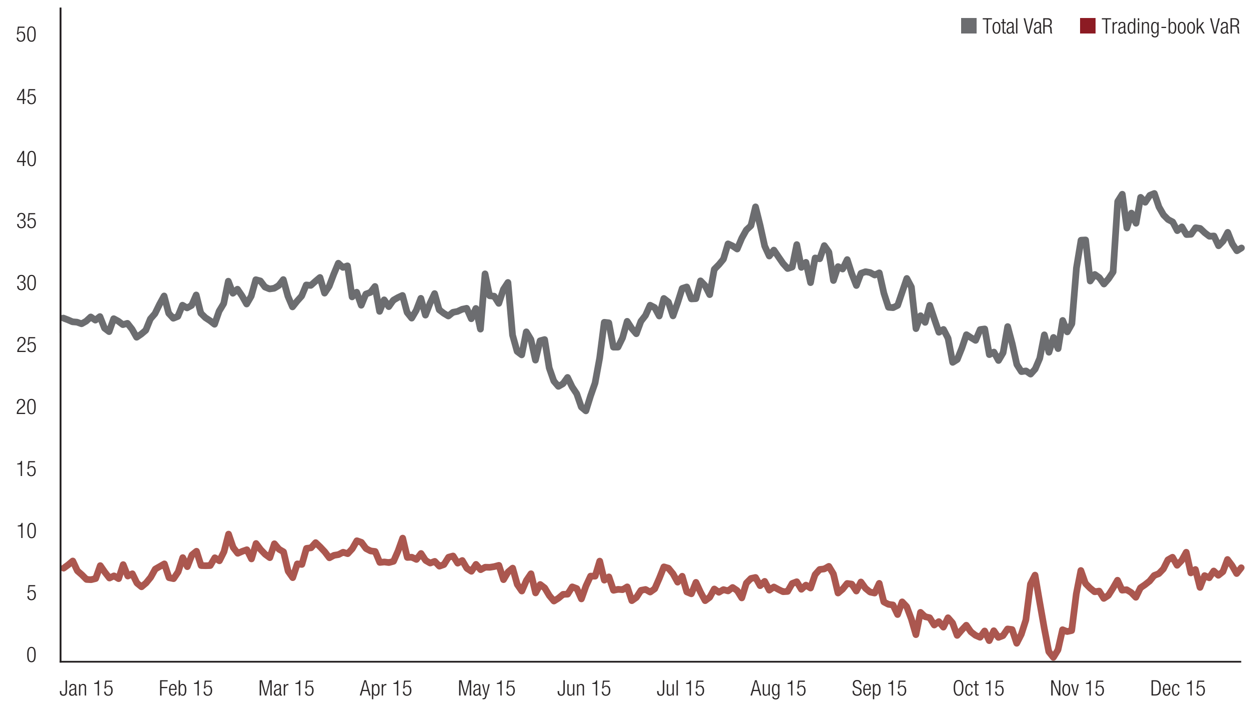
Alongside the market risk arising that is relevant for regulatory reporting, further market risk arises from positions in the banking book. All transactions exposed to market risk in the trading and banking books of HVB are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB business segment at HVB.

Market risk from trading- and banking-book activities of HVB (VaR, 99.00% confidence level, one-day holding period) (€ millions)

	YEAR-END TOTALS		AVERAGES				
	31/12/2015	31/12/2014	2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Credit spread risks	23	27	24	24	24	23	27
Interest rate positions	7	6	7	7	7	8	7
Foreign exchange positions	8	1	5	8	6	1	2
Equity/index positions[1]	4	2	3	3	3	3	2
HVB[2]	**31**	**26**	**27**	**28**	**29**	**25**	**27**

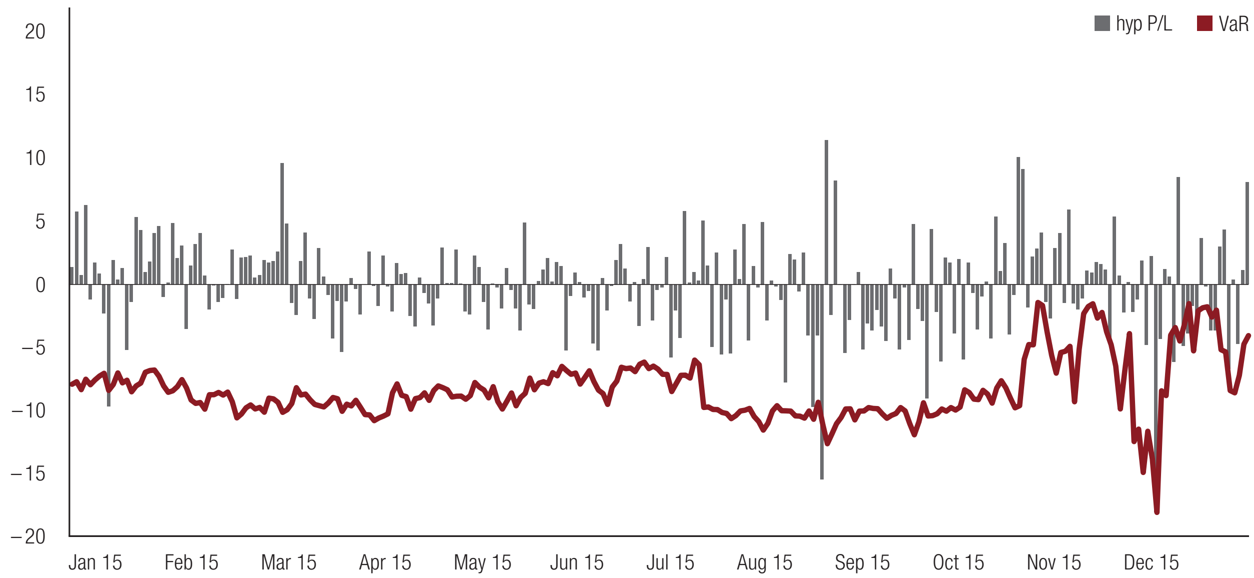
1 including commodity risk
2 Because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks.

Development of trading-book and total value-at-risk at HVB (€ millions)



The total VaR at HVB shows the VaR curve for market price risk arising from trading- and banking-book positions. The trading-book VaR represents the development of the VaR in the trading book. The effects of the negative euro interest rates led to major VaR fluctuations between September and the introduction of the model extension in November 2015.

Regulatory back-testing of the internal model at HVB, 2015 (€ millions)



The forecasting quality of the VaR measurement method is checked by means of a regular back-testing that compares the calculated regulatory VaR values with the hypothetical fair value changes derived from the positions. Ten reportable back-testing outliers were observed in 2015. The hypothetical loss was greater than the forecast VaR figure on these days (see the chart "Regulatory back-testing of the internal model at HVB, 2015"). On 15 January 2015 the hypothetical loss was caused by the fall of the euro against the Swiss franc (and US dollar), which arose on account of the decision by the Swiss National Bank to abandon the minimum exchange rate of 1.20 for the Swiss franc against the euro. Two outliers in August were also the result of exchange rate fluctuations. The other outliers (one in November, six in December) were caused by the heavily negative euro interest rates. These outliers can no longer be observed in the business-related risk measurement model featuring additional methods that is used for internal management purposes. HVB Group is waiting for approval of the model change from the ECB before aligning the regulatory and business risk calculations again.

Alongside back-testing using the hypothetical change in value ("hyp P/L"), HVB uses a back-testing method based on the economic P/L to validate the model. There were eight overshoots in 2015, caused for the most part by weekly or monthly CVA P/L adjustments. The statement about the quality of the model is not affected by these special cases.

Besides back-testing, further methods are used at regular intervals to check the quality of the model. These involve analysing the suitability of both the modelling and the risk factors used and adjusting them as required. Risks that cannot be satisfactorily modelled are monitored at regular intervals and limits defined for them if they are correspondingly material.

Market liquidity risk

Market liquidity risk relates to the risk that the Bank will suffer losses due to the disposal of assets that can only be liquidated on the market at a discount. In the extreme case, HVB may not be able to sell such a position, as the market does not offer enough liquidity or HVB holds a position that is too large set against the market turnover.

Greater volatility on the financial markets could also make it more difficult for HVB to value some of its assets and exposures. Significant changes to the fair values of such assets and exposures that might prove to be much lower than the present or estimated fair values could be a further consequence. All of these factors could force HVB to recognise amortisation charges or impairment losses, which would have a negative effect on its financial position and operating result.

Stress tests

In addition to calculating the VaR and the new risk metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered for HVB, such as a widening of credit spreads. We also analyse macroeconomic stress scenarios based on real market upheavals (historical stress tests) or current threats (hypothetical stress tests).

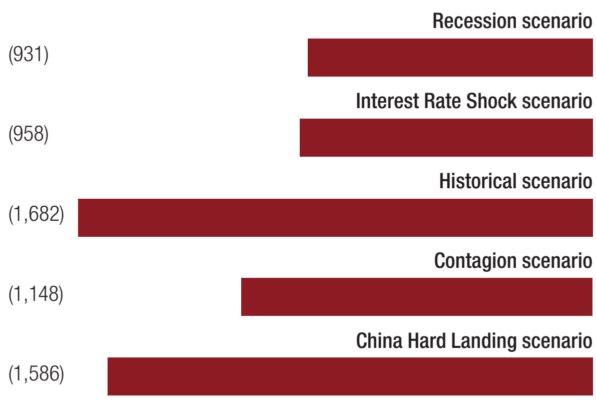
One example for a historical scenario used is based on experience gained from the financial crisis. To evaluate the effects of a financial crisis on a regular basis, we introduced the Historical scenario. This scenario reflects the trend in the financial crisis in 2009. To take account of the low market liquidity, the time horizon for this scenario was extended to cover a period of three months.

Further hypothetical scenarios are based on the potential market movements in the event of a worsening of the debt crisis in Europe (Contagion scenario) or a negative demand shock in Germany (Recession scenario). The Central and Eastern Europe Crisis scenario (CEE Crisis scenario) considers the escalation of the Russia conflict and the associated negative impact on other CEE countries.

This scenario was replaced by the China Hard Landing scenario as of the fourth quarter of 2015. The China Hard Landing scenario simulates the effects of a slowdown in Chinese economic growth through the end of 2017. The Interest Rate Shock scenario is used to analyse the impact of a rapid rise in interest rates in the eurozone.

The most significant stress test result from this package of stress test scenarios at 31 December 2015, with a potential loss of €1.7 billion (31 December 2014: loss of €2.6 billion from the CEE Crisis scenario), results from the Historical scenario (31 December 2014: loss of €1.6 billion). This scenario is also used in the cross-risk-type stress tests, where it is analysed for risk-taking capacity.

HVB stress test at 31 December 2015 (€ millions)



As described under the sub-header "Stress tests" in the section entitled "Implementation of overall bank management", inverse stress tests were again performed in 2015. Risks resulting from market risk in the banking portfolio were also included in this analysis.

In compliance with the regulatory rules published by BaFin on 9 November 2011, the change in the fair value of the banking book in case of a sudden and unexpected interest shock of +/–200 basis points is compared with the Bank's eligible equity funds on a monthly basis. This analysis is carried out both with and without the hedging effect from the equity capital model book. At 31 December 2015, the calculation of the present value taking into account the interest rate shocks, including the model book, gives rise to a capital requirement of 0.6% (31 December 2014: 0.0%). When calculated from the regulatory viewpoint (without the model book), a capital charge of 7.0% becomes apparent given an increase of 200 BPS in interest rates (31 December 2014: 4.9%). HVB is well below the 20% mark specified above which the banking supervisory authorities consider a bank to have increased interest rate risk.

Risk Report (Continued)

Summary and outlook
As was already the case in 2015, efforts will again be made in 2016 to concentrate on low-risk customer business in our financial market activities. HVB will continue to invest in the development and implementation of electronic sales platforms.

3 Liquidity risk

Definition
We define liquidity risk as the risk that the Bank will not be able to meet its payment obligations in full or on time. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount. Liquidity risk comprises the following risk categories: short-term liquidity risk, operational liquidity risk (part of short-term liquidity risk), funding risk and market liquidity risk.

Categories
Short-term liquidity risk
Short-term liquidity risk relates to the risk of a discrepancy in the amount and/or maturity of incoming and outgoing payments in the short run (less than one year).

Operational liquidity risk, which is part of the short-term liquidity risk
Operational liquidity risk arises when a financial institution cannot meet its intraday payment obligations from its current incoming and outgoing payments, hence becoming technically insolvent. This can be considered a special type of short-term liquidity risk. An intraday cushion is set up as part of the short-term liquidity cushion with a view to balancing the intraday liquidity requirement and covering unforeseen payment obligations.

Funding risk
Funding risk/structural liquidity risk refers to the risk of not being able to fund the Bank's balance sheet in a stable, sustainable manner over the long term (more than one year) or that, if necessary, it is only possible to procure sufficient liquidity for funding at increased market interest rates and the future earnings of the company are impaired accordingly. Funding risk is a risk that requires observation, albeit not a significant one, and is assessed at regular intervals as part of the risk inventory.

Market liquidity risk
Market liquidity risk relates to the risk that the Bank would suffer losses when selling assets that can only be liquidated on the market at a discount or, in the extreme case, is not able to sell such a position as the market does not offer sufficient liquidity, or it holds a position that is too large set against the market turnover. Market liquidity risk is managed by the CRO organisation, which carries out expanded market liquidity analyses.

Strategy
Liquidity management at HVB is divided into short-term liquidity management and long-term liquidity management. Risk drivers that may be the cause of potential liquidity outflows have been identified for the various business units.

Furthermore, various dimensions of liquidity risk management have been defined to which appropriate instruments and controlling mechanisms have been assigned depending on the type of risk involved.

The risk appetite is defined with regard to liquidity risk on the basis of the business activities and taking into account risk sources and risk drivers. This forms the foundation for the management and limit mechanisms, such as liquidity reports, projections and plans, and the definition of liquidity buffers to be maintained for unexpected outflows of liquidity during the day. Furthermore, a limit system has been set and triggers defined. The result is the specification of a minimum survival period that matches the risk appetite.

The risk appetite for long-term liquidity management is indicated in the form of a metric for the ratio of liabilities to assets, helping to avoid pressure on short-term liquidity management.

Limit system

For the management of short-term liquidity risk, we have put in place a cash-flow-oriented limit system that tracks the relevant balances within HVB per working day and limits the positions appropriately.

The difference between the calculated potential liquidity requirement and the existing liquidity reserves is limited.

A limit was set for operational liquidity risk as part of short-term liquidity risk by implementing a minimum balance to be observed during the day, by means of which additional liquidity is maintained to cover unforeseeable outflows (intraday liquidity buffer).

Funding risk and structural liquidity risk are restricted by defining a limit for the ratio of liabilities to assets.

We are able to cope with the effects arising from the change in funding spreads to a very large extent by limiting funding risk. In addition, the internal transfer prices for the lending and deposit-taking activities are continually reviewed for appropriateness and regularly adjusted to reflect the market situation.

Reduction

Among other ways of reducing liquidity risk, we specify processes, implement an early warning system complete with early warning indicators and a limit system, and manage the highly liquid assets made available as collateral.

Measurement

Short-term liquidity risk

To measure short-term liquidity risk, cash flow profiles are produced on a daily basis. The resulting balances are compared with the available liquidity reserves, which consist primarily of the available highly liquid securities eligible at all times as collateral for central bank borrowings. The cumulative balance of the above-named components is backed with limits for all maturity buckets of up to three months for the relevant units of HVB.

The aggregate amount for the three-month maturity bucket has been published in the Risk Report for short-term liquidity risk since March 2015, as this metric is more meaningful and relevant for the management of HVB's liquidity risk than the total balance for the next banking day, which was disclosed up until now. The year-ago figure is determined in the same way.

Furthermore, stress scenarios based on the liquidity profiles of the HVB units are simulated at regular intervals and the impact on liquidity is calculated. The corresponding stress scenarios take account of both company-specific influences (e.g. possible HVB-specific incidents) and external factors (e.g. disruptions in global financial markets), as well as a combination of company-specific and external factors (e.g. the scenario demanded under the MaRisk rules). A time horizon of up to two months is defined for the individual stress scenarios, during which the available liquidity reserves are expected to exceed the simulated outflows of liquidity. This ensures that counter-measures can be initiated promptly, if required. In addition, the defined early warning indicators and relevant concentration risks are determined and monitored at regular intervals.

Alongside this internal measurement methodology, HVB is subject to the regulatory standards for short-term liquidity risk defined in the German Liquidity Regulation (Liquiditätsverordnung – LiqV). The CRR has introduced new, additional liquidity requirements through the liquidity coverage ratio (LCR) as of 1 January 2014. The LCR is intended to ensure that an institution is able to meet its short-term payment obligations under the assumption of an acute stress scenario over a period of 30 calendar days. The Bank is required to observe an LCR of 60.0% as of October 2015.

Funding risk
To measure funding risk, the long-term funding needs based on the expected business development are reported and updated in a coordinated process. The long-term funding need, which is used to set the funding targets and is presented to the ALCO, takes into account the assets and liabilities falling due in the planning period. Limiting maturity mismatches between the long-term assets and liabilities ensures a balanced funding structure in defined maturity buckets with a view to maintaining an adequate structural liquidity ratio (SLR). The key assumptions underlying the risk measurement methods are reviewed on a regular basis to assess their appropriateness.

Monitoring and controlling

Short-term liquidity risk
The task of monitoring the short-term liquidity situation at HVB has been entrusted to the Finance unit in the CFO organisation. This essentially involves analysing and managing the short-term liquidity profiles within the scope of the predefined limits. Compliance with the allocated limits in short-term liquidity risk is monitored on a daily basis. The monitoring and controlling of operational liquidity risk are essentially performed on the basis of the intraday minimum balance that must be observed. This is set against the current volumes in the relevant accounts and monitored. Responsibility for monitoring and controlling developments on the respective local markets rests with the local Treasury units, which report to the Finance unit as and when necessary.

For short-term liquidity risk, moreover, weekly stress analyses based on various scenarios enable us to make projections on the impact on the liquidity position of sudden disruptions, enabling us to take the necessary management measures as early as possible. Units in the CRO organisation are responsible for monitoring and analysing the stress scenarios, the early warning indicators and concentration risk, while the CFO organisation has been tasked with monitoring and analysing the holding of freely disposable securities eligible as collateral for central bank borrowings that can be used at short notice to cover unexpected liquidity outflows. Additional market liquidity analyses are carried out by the CRO organisation during the stress tests.

Funding risk
The task of monitoring the structural liquidity situation at HVB has similarly been entrusted to the Finance unit in the CFO organisation. This essentially involves analysing and managing the long-term mismatches in the maturities of assets and liabilities within the scope of the defined limits and also specified funding targets. Compliance with the long-term funding ratios is monitored on a monthly basis. The funding risk of HVB is well balanced thanks to the diversification of our funding across products, markets and investor groups. The front-office units implement the volume and product parameters derived from the funding targets cost-efficiently upon consultation with the Finance unit. This activity is similarly supported by a liquidity cost allocation mechanism – known as Funds Transfer Pricing (FTP) – for all significant business activities, the principles of which are defined in the FTP policy.

The ALCO and the management are regularly informed about the current liquidity and funding situation. A contingency plan is in place to allow the impact of potential liquidity crises to be managed. This plan describes and regulates the distribution of responsibilities, internal reporting requirements, decision-making powers and potential countermeasures.

The rules and regulations governing liquidity management are defined in a liquidity policy adopted by the Management Board of HVB. The key points contained in the policy relate to the ability to satisfy financial obligations at all times in line with the defined risk appetite. Its objectives include the following: optimising the projected cash flows, restricting the cumulative short-term and operational liquidity differences, performing stress tests at regular intervals and restricting the long-term maturity mismatches between the liabilities side and the assets side of the balance sheet.

The liquidity policy and contingency plan together with supplementary remarks are updated at regular intervals by the CFO organisation with support from the CRO organisation. The liquidity policy is implemented by the operational business units and coordinated and monitored for the relevant units of HVB by the Finance unit in the CFO organisation.

Quantification and specification

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €36.2 billion in HVB for the three-month maturity bucket at the end of December 2015 (31 December 2014: €23.8 billion). The holding of available securities eligible as collateral for central bank borrowings that can be employed on the next banking day to compensate for unexpected outflows of liquidity amounted to €28.7 billion at the end of December of 2015 (31 December 2014: €21.5 billion).

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB during the reporting period. The funds available exceeded its payment obligations for the following month by an average of €21.1 billion for HVB in the fourth quarter of 2015 (€17.3 billion for the fourth quarter of 2014) and €21.4 billion at 31 December 2015. This means that we are significantly above the internally defined threshold.

Funding risk

The funding risk of HVB was again quite low in the fourth quarter of 2015 due to our broad funding base with regard to products, markets and investor groups. This ensured that we were able to obtain adequate funding for our lending operations in terms of volume and maturity within the framework of our limit system at all times. HVB obtained longer-term funding with a volume of €6.2 billion on the capital market until the end of December 2015 (31 December 2014: €5.5 billion). At the end of December 2015, 98.7% (31 December 2014: 97.9%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Stress tests

Stress analyses are carried out at regular intervals, enabling us to make projections on the impact of sudden disruptions on our liquidity position on the basis of various scenarios so that we can initiate appropriate management measures as early as possible.

We include Bank-specific, market-wide and combined scenarios when conducting our stress tests. The calculations at the end of December 2015 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded in each case.

Summary and outlook

The European sovereign debt crisis continues to cast a long shadow over the banking industry. The monetary and economic measures taken notably within the European Union to date temporarily calmed the markets. In particular, uncertainty about developments in Greece and China, coupled with the possible economic and political effects of the influx of refugees from countries like Syria and the terrorist activities of IS, has led to greater uncertainty in the markets. It is not yet possible to predict for how long and to what extent the financial markets will be adversely affected by the consequences of the European debt crisis, current geopolitical uncertainties and the risks arising from changes in interest and exchange rates.

HVB put in a good performance in the fourth quarter of 2015 in this challenging market environment, thanks to a good liquidity situation, a solid financing structure and the liquidity management measures it undertook. Based on our forward-looking risk quantification and scenario analysis, we expect our liquidity situation to remain very comfortable in light of a slight increase in economic output in Europe. Counterbalancing the difficulties emerging from the consequences of the sovereign debt crisis continues to be a major challenge.

4 Operational risk

Definition

In accordance with the CRR, HVB defines operational risk as the risk of losses resulting from flawed internal processes or systems, human error or external events. This definition also includes legal risk but not strategic risk or reputational risk. Legal risk includes, but is not limited to, fines, penalties and damages resulting from supervisory actions, and settlements paid to private individuals.

Risk Report (Continued)

Strategy
The risk strategy for operational risk forms part of the HVB and HVB Group risk strategy which is updated and adopted by the Management Board of HVB on an annual basis.

The risk strategy aims to reduce operational risk to a reasonable level from an economic standpoint (under cost/benefit considerations), taking into account the defined risk appetite. This approach is intended above all to reduce or prevent significant losses by applying suitable measures, which additionally helps to boost sustainable profitability.

In this context, operational risk that is potentially grave or could seriously damage the Bank must be subject to planning measures that go beyond mere profitability concerns.

To make the risk strategy more specific, Bank-wide and business segment-specific action areas are defined on the basis of external and internal factors.

Limit system
Operational risk forms part of the internal capital, with limits set for HVB Group accordingly.

Reduction
HVB Group has a group-wide operational risk organisational structure. The individual business segments and each subsidiary of HVB Group are responsible for identifying, analysing and managing operational risk.

Loss events that have occurred and significant risks are reported to the Management Board and the RC at regular intervals. On a local level, operational risk managers report losses and relevant risks to their senior management on a quarterly basis.

Risks identified by HVB are concentrated mainly in selling risks and risks arising from settlement and process management.

Employees in the Business Continuity Management, Outsourcing, Compliance and Legal departments perform a risk-management function in a special way in that they carry out risk-controlling and -monitoring tasks.

Information technology (IT)
HVB's IT services are mostly provided by the Group company UniCredit Business Integrated Services S.C.p.A. (UBIS). HVB's end-to-end IT operating processes continue to require adjustments to be made to the internal control system for IT to allow for all significant risks to be monitored and managed appropriately alongside performance and quality considerations. This also includes the processes in the field of IT infrastructure outsourced by UBIS to Value Transformation Services (V-TS, a joint venture of IBM and UBIS) as defined from the separate controls in HVB's internal control system. Within the internal control system, the enhancement of relevant metrics and control processes forms a key element of the activities planned for 2016. In addition, the control system will continue to be adjusted in line with the potential improvements identified at regular intervals and findings from audits.

Business continuity management, IT service continuity management and crisis management
The business continuity, IT service continuity and crisis management function demonstrated its effectiveness and appropriateness by successfully mastering critical situations so as to minimise their impact on HVB. Several successfully completed contingency tests showed that the handling of the business processes also works well in emergency situations. In addition, the emergency precautions are being adapted to accommodate new threats.

Legal risk and compliance risk
Legal risk is a subcategory of operational risk that represents a risk to the earnings position due to infringements of the law or violations of rights, regulations, agreements, obligatory practices or ethical standards.

The Legal, Corporate Affairs & Documentation department is responsible for managing legal risk and provides advice on legal matters to all units of HVB. Excluded from this are tax law (notably regarding the Bank's tax position), labour law (except for legal disputes), data protection and the legal areas covered by compliance, which are overseen by the respective functional departments.

Compliance risk is defined as the risk of statutory and regulatory sanctions, financial losses or reputational damage that HVB could suffer as a result of non-compliance with the law, regulations or other provisions.

The management of compliance risk is normally a task of the Bank's Management Board. Compliant with Section 25a of the German Banking Act (Kreditwesengesetz – KWG), it is required to ensure that a proper business organisation is in place, encompassing in particular appropriate and effective risk management, including an internal control system. The Compliance function forms part of the internal control system that helps the Management Board to manage compliance risk.

The structure of the Compliance function is defined by the Minimum Requirements for Compliance (MaComp) and the MaRisk. At HVB, both functions are combined in the Compliance unit in order to ensure a uniform approach. Money-laundering and fraud prevention are also assigned to the Compliance unit. Comprehensive risk assessment is ensured by this approach.

Compliance function under MaComp

The Compliance unit is responsible for carrying out monitoring and advisory tasks. The Compliance function tracks and assesses the policies drawn up and procedures set up in the Bank as well as the measures taken to remedy deficiencies.

It carries out risk-based second-level controls at regular intervals with a view to ensuring that the devised policies and the defined organisation and operating guidelines of the Bank are observed.

The scope and focus of the Compliance function's activities are defined on the basis of a risk analysis. This risk analysis is carried out by Compliance at regular intervals in order to track the currentness and appropriateness of, and – where necessary – adjust the definition. Alongside the regular review of the identified risks, ad hoc audits are carried out as and when required in order to incorporate newly arising risks in the assessment. The opening of new lines of business and structural changes in the Bank are examples of activities that may give rise to new risks.

Among other things, Compliance's advisory obligations include providing support for staff training, giving day-to-day advice to employees and contributing to the creation of new policies and procedures within the Bank. Compliance helps the operating units (meaning all employees directly or indirectly involved in the provision of investment services) to carry out training courses or carries out such courses itself.

The management is informed about the results of the activities of the Compliance function in writing on an ongoing basis. The reports contain a description of the implementation and effectiveness of the entire controlling function with regard to investment services together with a summary of the identified risks and the measures taken or to be taken to remedy or eliminate deficiencies and defects and to reduce risk. The reports are drawn up at least once a year.

Compliance function under MaRisk

The Compliance function counters the risks arising from non-compliance with statutory obligations and other requirements. It is required to work towards the implementation of effective procedures and appropriate controls to ensure compliance with the material statutory provisions and other requirements for the institution.

The Compliance function supports and advises the Management Board regarding compliance with the statutory provisions and other requirements. The Management Board and the business segments remain fully responsible for compliance with statutory provisions and other requirements.

Compliance is required to identify on an ongoing basis the material statutory provisions and other requirements, non-compliance with which could endanger the institution's assets, taking into account risk considerations. Based on the CORIMAS system developed in-house, a risk map is drawn up for the Bank taking into account amended/new laws, any control gaps are identified and counter-measures proposed.

Reporting to the Management Board takes place within the framework of the existing reports on the activities of the Compliance function. The Management Board is notified directly of any serious findings that require ad hoc counter-measures.

Risk Report (Continued)

Money-laundering and fraud prevention
HVB is obliged by law to set up suitable internal precautions to ensure that it cannot be misused for the purposes of money laundering, terrorist financing or other criminal acts.

The Anti-money-laundering/Financial Sanctions and Fraud Prevention units define, identify and analyse risk factors and units in the Bank, taking into account the statutory and regulatory requirements. Appropriate measures to prevent money laundering and fraud and to reduce risk are devised, performed and coordinated.

Once a year, a threat analysis is drawn up describing the effectiveness of the risk management measures for the specific risks, among other things.

Regular second-level controls serve to document compliance with the Bank's policies and processes. The operating units are supported with advice on money-laundering and fraud-specific questions and subject-specific training courses.

Legal risks/arbitration proceedings
HVB is involved in various legal proceedings. The following is a summary of pending cases against HVB, which have a value in dispute exceeding €50 million or are of significance for HVB for other reasons.

HVB is required to deal appropriately with various legal and regulatory requirements. Failure to do so may lead to litigation and administrative proceedings or investigations and subject HVB to damage claims, regulatory fines or other penalties. In many cases, there is a substantial uncertainty regarding the outcome of the proceedings and the amount of possible damages. These cases include criminal or administrative proceedings by the relevant authority and claims in which the petitioner has not specifically quantified the amounts in dispute. In all proceedings where it is possible to reliably estimate the amount of possible losses, and the loss is considered likely, appropriate provisions have been set up based on the circumstances and consistent with the German Commercial Code (Handelsgesetzbuch – HGB) and other relevant regulations applied by HVB.

Medienfonds and other closed-ended funds lawsuits
Various investors in VIP Medienfonds 4 GmbH & Co. KG brought legal proceedings against HVB. HVB did not sell shares of the VIP 4 Medienfonds fund, but granted loans to all private investors for a part of the amount invested in the fund; furthermore, HVB assumed specific payment obligations of certain film distributors with respect to the fund. The granted loans as well as the assumed payments obligations were due on 30 November 2014. The loans were paid back to HVB and the assumed payment obligations were paid to the fund by HVB.

The investors in the Medienfonds fund initially enjoyed certain tax benefits which were later revoked by the tax authorities. An outstanding final decision with respect to the question of HVB's liability for the prospectus in the proceeding pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz), which was recently referred back to Munich Higher Regional Court by the German Federal Court of Justice (Bundesgerichtshof), will affect only a few pending cases since a general settlement has already been reached with the vast majority of the investors. However, the German Federal Court of Justice overruled significant findings of the first instance court and set the barriers for a liability on the part of HVB because of an allegedly incorrect prospectus at a very high level. In the fiscal proceedings initiated by the fund, which are pending alongside the civil proceedings and concern the tax declaration of the fund for the 2004 financial year, no final decision has been issued regarding whether the tax benefits were revoked rightfully.

Furthermore, there are a number of separate lawsuits from investors pending regarding other closed-ended funds (media funds, but also other asset classes). With regard to media funds, the changed view of the fiscal authorities regarding tax benefits granted earlier often represents the economic background to the respective litigation. Among other things, the plaintiffs base their claims on alleged inadequate advice and/or on supposed errors in the prospectus. With their claims, the investors demand restitution of their equity contribution and offer in return the transfer of the related fund share to the Bank.

Relating to one retail fund with investment target in heating plants, a number of investors brought legal proceedings against HVB pursuant to the Capital Markets Test Case Act. Munich Higher Regional Court has ordered several court expert opinions to be obtained in order to assess the question of alleged prospectus liability.

Real estate finance/financing of purchases of shares in real estate funds

In various cases, customers dispute their obligation to repay their property loan agreements. According to the law and the opinion on this subject expressed in the German Federal Court of Justice's established practice, the customer has to prove the conditions for the lapse of his repayment obligation or alleged violations of obligations to give information and advice on the part of HVB. Based on the experience gained to date, HVB can assume that noteworthy legal risks will not arise from these cases.

If a bank finances the purchase of shares in real estate funds for the borrower with a loan not secured by a real property lien, the borrower can – if the transaction is a so-called related transaction – contest the claim of the financing bank to repayment on the basis of objections which the borrower is entitled to assert against the seller or agent in the fund transaction on account of having received incorrect advice. From today's standpoint, HVB expects these circumstances to apply, if at all, only in exceptional cases.

Lawsuits related to financial instruments

On account of the unstable conditions on the financial markets, customers who invested in securities that have been negatively affected by the financial crisis have filed complaints; even though the number is declining, such complaints continue to be filed. Some customers have taken legal action with respect to losses from securities transactions based on information that was allegedly not suitable for the relevant investor or on investment advice that was allegedly inappropriate with respect to the relevant investment.

Proceedings related to derivative transactions

The number of complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative fair value has decreased slightly. Among other things, the arguments produced are that the Bank allegedly did not sufficiently inform the customer with respect to the relevant investment and potential risks related to such transactions. Generally, there has been a trend for consumer-friendly judgements with respect to derivative-related lawsuits. Latest rulings confirm that the characteristics of the relevant product and the individual circumstances of each case are decisive. In particular, the statute of limitations under Section 37a of the earlier version of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) the client's economic experience and risk tolerance, and the actual investment advice given may be relevant questions.

Proceedings related to German tax credits

The General Public Prosecutor (Generalstaatsanwaltschaft) Frankfurt am Main started a Preliminary Investigation (Ermittlungsverfahren) against a customer of HVB and others (including former and current employees of HVB) in 2012 regarding securities transactions performed in 2006 to 2008 and around the dividend record date in the expectation of receiving withholding tax credits on dividends from German shares. In this context, the General Public Prosecutor has also initiated proceedings against HVB for an administrative fine according to the German Administrative Offences Act (Ordnungswidrigkeitengesetz – OWiG). A decision regarding penalties, fines and profit claw backs is expected in the first half of 2016. At this time, it is not yet possible to determine the amount involved in such a decision.

In addition, HVB has notified the competent domestic and foreign (tax) authorities of the possibility of certain proprietary trading of HVB undertaken in domestic and foreign equities and equity derivatives close to dividend dates (so-called cum/ex trades) and related withholding tax credits claimed or applications for refund of related taxes by HVB in Germany and elsewhere.

HVB has completed its investigations into these transactions. The results of the investigations performed by renowned international law firms show that, in some instances and to different extents, the cum/ex trades that HVB was involved in from 2005 to 2008 demonstrated similarities to the transactions carried out in the case of the customer. From 2009 onwards, such transactions were no longer conducted. The results of the inquiry indicate misconduct by individuals in the past. The Supervisory Board has demanded compensation of damages from individual former Management Board members. The Supervisory Board sees no reason to take action against current members of the Management Board.

Risk Report (Continued)

In the course of the open regular tax audits for 2005 to 2008, the Munich tax authorities and the German Central Federal Tax Authority (Bundeszentralamt für Steuern) examined above-mentioned proprietary transactions close to dividend dates in which withholding tax credits were claimed or applications for refund of related taxes have been made. HVB with the support of external advisors also reviewed the trades and rendered information to the relevant tax authorities. In addition, HVB has notified foreign (tax) authorities insofar as potential consequences of transactions in domestic and foreign equities and equity derivatives are concerned. The above-mentioned proprietary transactions are subject to a regular tax audit covering 2005 to 2008, which is not yet formally finalised. However, further financial exposures for HVB vis-à-vis (foreign or domestic) tax authorities in this respect are not to be expected since HVB has insofar already repaid respective taxes (including interest thereon), withdrawn refund requests and received amended tax assessments.

The Cologne Public Prosecutor (Staatsanwaltschaft Köln) has opened a Preliminary Investigation against former employees of the Bank with regard to applications for refunds vis-à-vis the Central Federal Tax Authority. These proceedings were concluded by decision of Cologne District Court on 17 November 2015. Following the payment of an administrative fine and profit claw back, this proceeding has become final. The Munich Public Prosecutor (Staatsanwaltschaft München) has also opened a Preliminary Investigation against former and current employees of the Bank with regard to withholding tax credits claimed in the corporate tax returns and has furthermore initiated a proceeding against HVB for an administrative fine according to the German Administrative Offences Act. HVB is fully cooperating with the prosecutors and competent authorities in all of these cases.

It remains largely unclear whether and under what circumstances taxes can be applied or reimbursed for certain types of trades undertaken near dividend dates. The related questions on the tax treatment of such transactions have only partly been adjudicated in higher German tax courts so far. On 16 April 2014, the German Federal Fiscal Court (Bundesfinanzhof) decided in a case dealing with specifically structured equity transactions around the dividend record date. In this specific case, the German Federal Fiscal Court denied economic ownership of the purchaser and hence application for capital gains tax purposes upon certain conditions, thereby leaving open numerous further questions.

The impact of the ongoing investigations is currently open. In this connection, HVB could be subject to penalties, fines and profit claw backs, and/or other consequences. At this time, it is not possible to assess the timing, extent, scope or impact of any decisions. In addition, HVB could be exposed to damage claims from third parties.

HVB is in communication with its relevant authorities regarding these matters.

Lawsuits in connection with Primeo-linked notes
HVB issued several tranches of notes whose potential return was to be calculated by reference to the performance of a synthetic hypothetical investment in the Primeo fund. The nominal value of the notes issued by HVB is around €27 million. Three legal proceedings have been commenced in Germany in connection with the issuance of said Primeo-linked notes, which named HVB as a defendant. In the first case, the court of appeal has dismissed the lawsuit and the German Federal Court of Justice has not allowed a further appeal. The second case has been abandoned by the plaintiff. The last case has been decided in favour of HVB at first instance and has been decided predominantly in favour of HVB but partially in favour of the plaintiffs by the court of appeal. This decision is not final and HVB has lodged an appeal against denial of leave to appeal before the German Federal Court of Justice.

Lawsuit for consequential damages
A customer filed an action against HVB with Frankfurt Regional Court (Landgericht) for consequential damages of €51.7 million for the following reasons: In 2010, HVB was ordered by Frankfurt Higher Regional Court (Oberlandesgericht) to pay damages in the amount of €4.8 million to the plaintiff due to the faulty handling of a bill of exchange and in addition to compensate further damages suffered by the plaintiff as a result of such earlier deficiencies. In 2011, the plaintiff filed an action suit against HVB with Frankfurt Regional Court for alleged consequential damages in the amount of €33.7 million stating that he suffered such losses as a consequence of not being

able to profitably invest the amount of the bill of exchange. He also extended his claim to the amount of €51.7 million. HVB believes the claim is unfounded and the allegations raised by the plaintiff are unreasonable and fallacious. It can, however, not be ruled out that the court will take a different view on some of the points in dispute.

Legal proceedings relating to the restructuring of HVB

Numerous former minority shareholders filed suits challenging the resolutions of the Extraordinary Shareholders' Meeting of HVB on 25 October 2006 (resolutions of approval) approving the sale and transfer of the shares held by the Bank in Bank Austria Creditanstalt AG (BA-CA) and in HVB Bank Ukraine to UniCredit S.p.A. and the shares held in Closed Joint Stock Company International Moscow Bank (IMB) (renamed as ZAO UniCredit Bank, Moscow in December 2007) and in HVB Bank Latvia AS (later renamed as AS UniCredit Bank, Riga) to BA-CA, and the branches of the Bank in Vilnius and Tallinn to AS UniCredit Bank, Riga, asking the court to declare these resolutions null and void.

In a ruling dated 31 January 2008, Munich Regional Court I declared the resolutions of approval passed at the Extraordinary Shareholders' Meeting on 25 October 2006 null and void solely for formal reasons. The court did not decide on the issue of the allegedly inadequate purchase price paid for the purchased units. In a decision dated 1 April 2015, Munich Higher Regional Court set aside the ruling of Munich Regional Court I and dismissed the respective actions; the decision of Munich Higher Regional Court is not legally binding yet. As an appeal was not granted, some plaintiffs applied for leave to appeal.

Proceedings in connection with financial sanctions

Recently, violations of US sanctions have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the US Treasury Department's Office of Foreign Assets Control (OFAC), the US Department of Justice (DOJ), the New York State District Attorney (NYDA), the US Federal Reserve (Fed) and the New York Department of Financial Services (DFS) depending on the individual circumstances of each case. In March 2011, HVB received a subpoena from the NYDA relating to historic transactions involving certain Iranian entities, designated by OFAC, and their affiliates. In June 2012, the DOJ opened an investigation of OFAC-related compliance by HVB and its subsidiaries more generally. HVB Group is cooperating with various US authorities and is updating other relevant non-US authorities as appropriate. Although we cannot at this time determine the form, extent or timing of any resolution with any relevant authorities, the investigation costs, remediation required and/or payment or other legal liability incurred could lead to liquidity outflows and could potentially have a material adverse effect on the net assets and operating results of HVB.

Investigations into tax evasion

In mid-March 2015, the Cologne Public Prosecutor (Staatsanwaltschaft Köln) opened a Preliminary Investigation alleging reasonable suspicion that employees of HVB and/or its subsidiary in Luxembourg assisted tax evasion committed from 2004 to 2010 by several of their customers. The Cologne Public Prosecutor furthermore initiated a proceeding against HVB and the relevant subsidiary for an administrative fine according to the German Administrative Offences Act. When similar allegations against other banks became public at the end of February 2015, the Management Boards of both companies voluntarily took a proactive approach, started discussions and declared their full cooperation with the prosecutor and competent authorities in all aspects of the case. The banks may well be subject to penalties, fines and profit claw backs. So far, the proceedings have not been concluded with legal effect.

Measurement

The operational risk of HVB Group is calculated for HVB and its major subsidiaries – Bankhaus Neelmeyer AG, HVB Immobilien AG, UniCredit Luxembourg S.A. and UniCredit Leasing GmbH (together with subsidiaries) – using an internal model in accordance with the Advanced Measurement Approach (AMA model). The standard approach is applied for all other minor subsidiaries.

Risk Report (Continued)

In the first quarter of 2015, HVB introduced the new UniCredit-wide AMA model for calculating the economic capital for operational risk. The AMA model is based mainly on internal and external loss data. The process involves computing loss distributions for each model risk category. A model risk category is determined by combining the Basel loss event category and the product category of the loss event. Scenario data are used to complete the data for rare yet extreme events.

The VaR is determined using a Monte Carlo simulation, taking account of correlations between the model risk categories as well as risk-reducing measures such as insurances. Finally, the VaR is modified to reflect internal control and business environment factors.

The model was developed by UniCredit. HVB Group checks the plausibility of the calculation results on a regular basis and validates the model to ensure that it is appropriate.

The economic capital for operational risk is determined as a whole for HVB Group using the internal AMA model and then allocated to HVB and its AMA subsidiaries using a risk-sensitive allocation mechanism.

Quantification and specification

The economic capital for operational risk at HVB, without taking account of the diversification effects between the risk types, amounted to €1.7 billion at 31 December 2015 (31 December 2014: €1.9 billion). The change can essentially be attributed to a modified risk profile for selling risks. In this context, the introduction of the new model only had a minor impact on the economic capital of HVB.

In addition, the share of risk attributable to HVB from the full economic capital for HVB Group is disclosed as the economic capital for HVB in December 2015, whereas the figure for HVB Group as a whole was stated in the previous year representatively as a conservative approximation. Compared with this, the present value for the entire economic capital for operational risk of HVB Group totals €1.9 billion, meaning that the risk would be practically unchanged if the same approach were applied as last year.

Stress tests

The impact of macroeconomic scenarios on operational risk is analysed within the scope of the cross-risk-type stress tests.

Summary and outlook

The risk strategy specifies the specific action areas that have been identified for strengthening risk awareness with regard to operational risk in the Bank and expanding the management of operational risk.

5 Other risks

HVB groups together business risk, real estate risk, financial investment risk, reputational risk, strategic risk and pension risk under other risks. These risk types are only discussed briefly on account of their mostly low share of internal capital or because they cannot be quantified. The risk arising from outsourcing activities does not constitute a separate risk type at HVB; instead, it is treated as a cross-risk-type risk and consequently listed under other risks.

Business risk

HVB Group defines business risk as potential losses arising from unexpected negative changes in the business volume and/or margins that are not attributed to other risk types. It can lead to serious losses in earnings, thereby diminishing the fair value of a company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour, or changes to the legal framework.

The strategy for business risk is based on the direction of business over the medium term and is reflected in planning. As part of its cost and income responsibility, each business unit is responsible for the operational management of business risk.

The strategic focus of the CIB business segment in 2015 was on growth across all product lines. Strategic initiatives intended to counter earnings risk centre on much deeper customer penetration for investment banking products in order to boost the share of earnings, active interest rate management and the central control of major transactions by higher level bodies. At the same time, the risk of declining demand for credit from enterprises due to the business model as a universal bank is being countered by stepping up debt capital markets activity, involving the issuance of bonds and other debt securities for companies.

The goal of the Commercial Banking business segment in 2015 was to expand its market position, despite the challenging market environment. Among other things, strategic initiatives intended to counter earnings risks focused on risk-adjusted pricing, the central control of major transactions by higher level bodies, reinforced value creation with the customer in order to generate earnings, greater customer orientation by enhancing quality in the core business and sustainable cost management achieved through high cost awareness and continuous cost controlling.

HVB's business risk is managed overall on the basis of an IC limit for HVB Group. Based on this limit, early warning indicators have been additionally defined in the form of targets and thresholds in order to identify an overshoot of the limit in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

The economic capital arising from business risk is measured using a value-at-risk approach. For this purpose, income and cost volatilities are determined and, with due consideration given to correlations, a VaR is calculated that represents the possible fluctuations associated with business risk.

The economic capital for business risk is determined by CEC and reported to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board.

The VaR, without taking account of diversification effects between the risk types, increased by €42 million to €673 million in 2015. The increased capital requirements are driven primarily by the lower equity costs. The fully diversified economic capital for the business risk of HVB amounted to €244 million at 31 December 2015 (31 December 2014: €226 million).

The impact of macroeconomic scenarios on business risk is analysed within the scope of the cross-risk-type stress tests. This quarterly analysis provides information on the estimated, scenario-related lower earnings that would result should the scenario occur compared with the base scenario. This is used as the basis for determining the change in the VaR.

Real estate risk

Real estate risk covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB. No land or properties are included that serve as security in lending transactions.

A fundamental distinction is made in real estate risk between (strategic) real estate required for operations and non-strategic real estate. The general focus for the existing real estate portfolio in 2015 was on measures targeting current fair value and cost optimisation together with a realignment for the branch properties used by the Bank. No additional purchases are planned for 2016, except where they would serve the interests of HVB (in other words, in exceptional circumstances only). The longer term orientation for strategic real estate corresponds with the Bank's strategy of preferring Bank-owned properties over rented properties for own use and making such properties available for the banking operations of HVB at market terms on a cost-optimised basis.

Facility concepts are drawn up for both the Bank-owned portfolio and the rented properties, under which the requirements of the business segments and also profitability are the key factors for decisions, taking into account the assumptions listed.

In terms of the central locations, in 2015 this relates primarily to the major renovation project aimed at turning the HVB Tower (Z2) in Munich into a green building. Implementation is running as planned and will continue until around 2019. Following completion of the HVB Tower as planned in the first quarter of 2016, the plans call for the Flachbau Nord building to be completely vacated so that it can be renovated between 2017 and 2019 while empty. The departments affected will be moving temporarily to alternative accommodation accordingly, causing a number of further relocations.

The main risks for the Bank-owned portfolio stem mainly from the development of the current fair value, which is always compared with the carrying amount, and the Bank's own usage requirements. The risk drivers are the future usage by the Bank, property rents/Bank rents, market rents, rental contract periods and required investment. The medium- to long-term goal for the non-strategic real estate portfolio, on the other hand, is to realise the best possible value upon disposal of the overall portfolio; in this regard, the impact on both the income statement and the Bank's other management instruments is crucial for the individual decisions. This tallies with the general strategy for dealing with real estate risk.

Risk Report (Continued)

Again for 2016, it is planned to further reduce the holding of non-strategic real estate by selling properties. The situation on the real estate markets will again depend on economic developments in 2016. The demand from investors for core real estate continues to increase. The extent to which the demand for other locations evolves remains to be seen.

HVB's real estate risk is managed overall on the basis of an IC limit for HVB Group. Based on these limits, early warning indicators have also been defined in the form of targets and thresholds in order to identify an overshoot of the limit in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

The Bank uses a variance-covariance model to quantify real estate risk. The Bank's proprietary real estate indices are employed as explanatory risk factors for the parameterisation of the model. These indices are broken down by property type (rents for office areas, flats, residential rents, owner-occupied homes, land for housing construction, retailer with small floor areas, retailer with large floor areas, land for commercial construction, warehouse/logistics properties) and geographical location. In the case of foreign real estate, there is currently only one index that is derived from the present portfolio in terms of its composition due to the current strategic orientation of the portfolio.

For German properties, time series are currently available for the most important municipalities (around 80).

The factor model used to measure real estate risk was completely revised in 2015. This involved reassessing the volatility and correlation parameters relevant for the risk model on the basis of the current time series data.

The CEC department determines the economic capital for real estate risk and reports this to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual values with the limits.

The VaR, without taking account of diversification effects between the risk types, amounts to €45 million at 31 December 2015, which is €25 million lower than the reported figure of €70 million at 31 December 2014. If the new factor model introduced in 2015 were applied retroactively at the previous year-end date, the comparative figure at 31 December 2014 would be €40 million. If the effect arising from the changeover to the new model is disregarded, the economic capital increased by €5 million year-on-year. The figure is based on almost unchanged portfolio worth €243 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2015	2014	2015	2014
Strategic real estate	144	147	59.1	59.7
Non-strategic real estate	99	99	40.9	40.3
HVB	**243**	**246**	**100.0**	**100.0**

The fully diversified economic capital for real estate risk at HVB amounted to €35 million (31 December 2014: €54 million). Apart from a few transactions involving additions and disposals, the real estate portfolio of HVB Group remained largely unchanged in 2015. The main geographical focus is on the Munich area, which accounts for 30.0%.

The impact of macroeconomic scenarios on real estate risk is analysed within the scope of the cross-risk-type stress tests. These quarterly analyses deliver information on the estimated, scenario-related lower fair values for real estate that would ensue compared with the base scenario, should the scenario materialise.

Financial investment risk

Financial investment risk arises from equity interests held in companies that are not included in the trading book. Financial investment risk is measured as a separate risk type to determine the risk inherent in the relevant equity interests and also as a factor contributing to the internal capital. The investment portfolio of HVB contains mainly listed and unlisted interests and holdings in private equity funds.

All the investments to be included in the financial investment risk are either considered strategic and allocated to a business segment or competence line, or deemed non-strategic and connected with the fundamental goal of reduction.

Financial investment risk of HVB is managed overall on the basis of an IC limit for HVB Group. Based on these limits, early warning indicators in the form of targets and thresholds have been additionally defined in order to identify an overshoot of the limits in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

In terms of risk measurement, fluctuations in the value of individual investments are simulated as part of a Monte Carlo simulation for all financial investments, irrespective of whether they are listed or not, and the ensuing losses aggregated to form the portfolio VaR. The same economic correlations between the value drivers are assumed in the simulation as in the credit portfolio model. Existing residual payment obligations to private equity funds are included in the calculation of financial investment risk.

CEC calculates the economic capital for financial investment risk, and reports it to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual values with the limits.

The VaR, without taking account of diversification effects between the risk types, fell by €67 million to total €2,232 million at 31 December 2015. The fully diversified economic capital of HVB amounts to €1,910 million (31 December 2014: €1,938 million). The lower risk figures in 2015 are partially attributed to the sale of larger financial investments and disposals from the private equity portfolio.

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	2015	2014	2015	2014
Private equity funds	107	136	4.0	4.9
Other holdings[1]	2,561	2,645	96.0	95.1
HVB	**2,668**	**2,781**	**100.0**	**100.0**

1 listed and unlisted investments

The impact on financial investment risk is analysed as part of the cross-risk-type stress tests. Irrespective of the macroeconomic scenarios, a 100% capital charge is assumed for the stressed economic capital.

As was the case in 2015, HVB will continue to selectively dispose of non-strategic shareholdings in 2016. It will also look into setting up new companies and making fresh investments in line with its business strategy and the current market environment, provided these complement our structure and our business priorities, and generate added value for HVB.

Reputational risk

Reputational risk is defined as the risk of a negative effect on the income statement caused by adverse reactions by stakeholders due to a changed perception of the Bank. This altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk, strategic risk or other primary risks.

Risk Report (Continued)

HVB applies a holistic approach to reputational risk management. This means that all significant new activities and transactions at the Bank are normally analysed with regard to potential reputational risk ("change-the-bank" approach) and individual units at the Bank are examined at regular intervals regarding existing reputational risk at the same time ("run-the-bank" approach).

Commercial transactions and new activities like new product processes, outsourcing, projects and particular investments (such as SPVs) are included in the "change-the-bank" approach, as well as any other new activity as is appropriate. The employees responsible in each case are required to analyse the transactions/activities to identify any potential reputational risk, taking into account the existing guidelines. Once a potential reputational risk has been identified, the appropriate specialist departments must be called in, the reputational risk assessed in terms of quality and the decision proposal prepared for the RRC.

Under the "run-the-bank" approach, the individual units of the Bank are examined at regular intervals with regard to existing and/or latent reputational risk. The process starts with risk self-assessments by important function owners (risk managers) together with the operational risk managers. A list of questions is used to carry out the risk self-assessments. Building on this, senior management is interviewed about reputational risk. The senior manager has the opportunity to review the reputational risk identified in his unit during the interview and add further material reputational risks. Where it is possible and makes sense to do so, counter-measures are defined for the individual risks.

The Bank has decided not to directly quantify reputational risk under the "run-the-bank" process on account of the fundamental difficulty of accurately assessing the possible effects of reactions from stakeholders. Instead, the risk is classified in accordance with a three-tier system (traffic light logic) as part of the "run-the-bank" approach. This involves determining the aggregate risk across two dimensions: influence on the income statement and probability of occurrence. Any reputational risk identified is documented in the Bank's own IT system (possibly during the year).

The individual business segments and central units are responsible for reputational risk management. Overall responsibility for controlling rests with the OpRisk Control unit (CRO unit). OpRisk Control consolidates the results of the risk self-assessments and interviews and prepares a RepRisk Report covering the largest reputational risks at HVB.

Strategic risk

Strategic risk results from management being slow to recognise important trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that may prove to be disadvantageous after the event in terms of the Bank's long-term goals; in addition, some of them may be difficult to reverse. In the worst case, this may have a negative impact on the Bank's profitability and risk profile of HVB.

Strategic risk is measured using qualitative methods and not included in the calculation of the risk-taking capacity. For this purpose, we continually monitor the domestic and international environment in which HVB operates (e.g. political, economic, regulatory or bank-specific market conditions) and review our own strategic positioning.

Strategic risk is monitored by the Management Board and its staff offices on an ongoing basis and, if necessary, analysed at length on an ad hoc basis. Changes to the strategic parameters are discussed by the Management Board, and options are drawn up and implemented as appropriate. This is done during the Management Board meetings as well as the Management Board conclaves that are held at least once a year. An ongoing dialogue with external experts (such as management consultants and independent auditors) regarding strategic issues and options at Management Board level and below ensures that the expertise of external experts is incorporated.

Risk arising from the overall economic environment

Based on the orientation of HVB offering customer-oriented products and concentrating on the core market of Germany, general economic developments in Germany in particular together with developments on the international financial and capital markets are of great importance for the assets, liabilities, financial position, and profit or loss of HVB.

The regular economic analysis carried out by HVB covers macroeconomic developments in the European Union and at a global level, the monetary policy of central banks and the discussions surrounding the deleveraging of highly indebted countries. As a well-positioned universal bank with excellent customer relationships, HVB considers itself fundamentally in good shape to continue operating successfully in this challenging environment. Should, however, the measures taken to stabilise the eurozone fail to have the desired effect, for instance, or economic growth slow in Europe or globally, or further turmoil roil the financial markets, this could also have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

Risks arising from the strategic orientation of HVB's business model
HVB is a universal bank that focuses on the regional management of the German market and also acts as the centre of competence for the investment banking activities of UniCredit as a whole. This gives rise to a business model built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise. Thus, the low interest rates that have persisted for some time now are depressing earnings in the business segments to a differing extent.

HVB aims to make its retail banking activity sustainably profitable through the modernisation of its retail banking and the related transition to a multi-channel bank with comprehensive service, information and advisory offerings. The main strategic objectives are to implement a clearly differentiated service model aimed at upgrading the quality of the advice and service we give customers and to focus clearly on customers holding their main bank account with HVB.

The branch will continue to represent the core element of our multichannel offer going forward, featuring a standard, modernised and upscale appearance. It will, however, act more as a point of contact for top-drawer advice. It is possible that this strategic adjustment will result in the loss of a few customers, which may have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

The strategic orientation of the CIB business segment is to be a leading, integrated European corporate and investment bank, offering customers added value through specific relationship models geared to individual customers' needs. Despite the customer-oriented approach of our investment banking activities, income naturally remains relatively volatile as customer demand for CIB products is influenced by the market environment. Although investment banking is very profitable in a normal market environment, it is subject to increased income risks in difficult market situations.

Risks arising from the consolidation of the banking market
Consolidation on the German and international banking and financial markets has continued for many years. Further shifts in market share may arise, which could potentially have a negative impact on the assets, liabilities, financial position, and profit or loss of HVB. HVB does, however, enjoy a high level of flexibility that would allow it to exploit attractive opportunities arising from the tougher competition at the right time thanks to its excellent capital base, its permanent access to stable sources of funding at attractive costs and a conservative risk profile. The associated acquisition risk is adequately addressed on the basis of the available internal expertise and potentially by calling in external specialists.

Risks arising from changing competitive conditions in the German financial sector
The German financial services market, which is HVB's core market, is subject to tough competition due in part to its three-pillar structure (public-sector savings banks and Landesbanks, cooperative banks and private banks). Overcapacity and market players with different profitability requirements still exist on the retail side of the German market in particular, despite some mergers and acquisitions. In addition, more and more European and international players in retail and corporate banking are seeking to enter the German market. The result is intensive competition for customers and market share, in which HVB is facing a lasting trade rivalry.

The possibility cannot be excluded that a further intensification of competitive conditions in the financial sector could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

Risk Report (Continued)

Risks arising from changes to the regulatory and statutory environment
The activities of HVB are regulated and supervised by the central banks and regulatory authorities in the countries and regions where HVB does business. The regulatory requirements in the individual countries/regions are subject to change at regular intervals. Their impact on the business activities and business models of banks needs to be tracked closely (global efforts to separate commercial and investment banking and the introduction of a European financial transaction tax (EU FTT) can be cited as examples in this respect). Such regulations might lead to adjustments in the strategic orientation. We assume that the trend towards more stringent regulatory provisions will persist.

Changes to the regulatory provisions in one state could yield further obligations for HVB. Besides a possible impact on the business model coupled with a higher cost of capital and a direct impact on the profitability of HVB, additional costs for the implementation of the new regulatory requirements and the necessary adjustments of the IT systems could also accrue for HVB. Differences in the regulatory requirements between countries or regions could lead to considerable distortions of competition that could have a direct impact on profitability. In addition, implementation of the modified regulatory requirements and their compliance could lead to a significant rise in operating costs, which would similarly have a negative impact on the financial position, and profit or loss of HVB.

The failure of HVB to fully satisfy the regulatory requirements of the supervisory authorities could lead to the responsible authority imposing sanctions. In the worst case, the business activities of HVB could be restricted.

The introduction of a single European banking regulator came into effect as of November 2014. At the same time, the ECB took over the task of supervising the 130 biggest, systemically important banks in the eurozone. HVB now comes under the supervision of the ECB both in its capacity as part of UniCredit and as a separate subsidiary.

Risks arising from a change in HVB's rating
HVB has a solid investment grade rating from the external rating agencies Standard & Poor's (S&P), Moody's and Fitch. The implementation of new regulations (Bank Recovery and Resolution Directive (BRRD)/Single Resolution Mechanism (SRM)) led to numerous reactions by the three rating agencies listed in 2015 and at the start of 2016. In short, the assumptions regarding state aid in the event of resolution in particular have been fundamentally changed and the changes in German insolvency law incorporated. HVB's ratings were adjusted in response to these factors.

A further downgrade could make funding costs higher for HVB or have a negative impact on the business opportunities for HVB as a counterparty in the interbank market or with rating-sensitive major customers. The possibility cannot be excluded that the risk-reward profile of business activities affected will alter so significantly that modifications are made to business segments with potentially negative consequences for the assets, liabilities, financial position, and profit or loss of HVB. The possible negative effects arising from this risk will depend notably on whether HVB's rating changes less than, the same as or more than that of its competitors.

Pension risk
HVB has undertaken to provide a range of different pension plans to current and former employees which are largely financed by various forms of investment, some of which are external. Pension risk may arise in connection with the pension plans on both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as an increase on the obligations on the liabilities side, due for instance to a reduction in the discount rate. Furthermore, actuarial risks such as longevity risk (changes to the mortality tables) may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.

The risks described are calculated and monitored at regular intervals in our risk management programme using a model devised specifically for pension risk. A risk figure is determined periodically using calculations based on changes in key risk parameters for both the various capital investments and the cash flows on the obligation side. The model was revised during the regular review process in the first half of 2015 and modified in several points. These adjustments led to a higher figure being stated for the risk (approximately €220 million). The change was driven mainly by the modelling of an even greater reduction of the discount rate within the risk calculation. A figure of €834 million was determined at 31 December 2015 (31 December 2014: €649 million) for the total pension risk of HVB; this is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the internal capital. In addition, the impact on pension risk is analysed at regular intervals as part of the cross-risk-type stress tests.

Low interest rates continue to be seen as the main negative factor for both the amount of the pension commitments disclosed and the amount of the income that can be generated from the capital investment with acceptable risk. It is perfectly conceivable that, should low interest rate levels persist for a longer period of time, the discount rate will have to be lowered again (a reduction to 2.35% was carried out at year-end 2015; at 30 June 2015 the discount rate was 2.45%), thus causing the pension obligations to rise further. Additional adjustments to the risk model applied are still under discussion. Depending on the final structure of the model with regard to the various risk factors applied, the pension risk might again significantly increase after a further adjustment. Furthermore, uniform European rules for the measurement of pension risk do not exist at present. This gives rise to further uncertainty regarding the future development of the disclosed pension risk.

Risks arising from outsourcing activities

Outsourcing risk is considered a cross-risk-type risk at HVB and is not treated as a separate risk type. Outsourcing activities affect the following risk types in particular: operational risk, reputational risk, strategic risk, business risk, credit, market and liquidity risk. Those risks that are identified and assessed in an in-depth risk analysis are managed as part of the respective risk type. Specific risks arising from outsourcing activities that cannot be assigned directly to a specific risk type are managed by the unit responsible for the outsourcing activity in question.

Outsourcing involves the transfer of activities and processes to external service providers. This involves the transfer of some of the liability for operational risk, while contractual risks arising from the outsourcing arrangement remain within HVB. An outsourcing arrangement is deemed to exist when a different company is contracted to carry out activities and processes in connection with the performance of banking business, financial services or other typical banking services that would otherwise be performed by the outsourcing company itself. This includes outsourcing arrangements within UniCredit as well as the subcontracting of outsourced activities and functions to subcontractors.

The respective project team and defined functional departments (including Operational Risk Management, Compliance, Legal, Corporate Affairs & Documentation, Data Protection and Business Continuity Management) use a standard procedure to classify outsourcing arrangements as “not material”, “material without considerable significance” and “material with considerable significance”. In accordance with the Group-wide regulations regarding outsourcing management that came into effect on 1 July 2015, all outsourcing arrangements will be divided into “not relevant” and “relevant” in the future in line with the provisions of the Bank of Italy’s Circular no. 263. An in-depth risk analysis covering the other risk types as well as operational risk is performed for the outsourcing arrangements classified as material or relevant. A retained organisation (RTO) responsible for the arrangement is set up for each material outsourcing arrangement that manages the risks identified. The identified risks are incorporated in risk management of HVB in the processes defined for the risk types concerned. The operational risk managers help the project manager and the heads of the RTOs to prepare and/or update the related risk analysis.

No further material new outsourcing arrangements were set up by HVB in 2015. HVB is planning to make a significant change to the outsourcing portfolio by folding the existing outsourcing firm UniCredit Global Business Services GmbH (UGBS GmbH) into UniCredit Business Integrated Services S.C.p.A. (UBIS). This does not yield any material change in risk that can be identified at the present time.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definitions and objectives

Section 289 (5) of the German Commercial Code (Handelsgesetzbuch – HGB) requires capital-market-oriented companies as defined in Section 264d HGB to describe the main features of the internal control system (ICS) and risk management system with regard to the financial reporting process.

The risk management system is formulated in broad terms and relates above all to strategic management, the identification, quantification, assessment, monitoring and active management of risk. The ensuing coordination of risk-management, risk-controlling and risk-monitoring processes in our corporate group is presented in the Risk Report in the present Management Report. The respective risk types are described in detail in the sections entitled "Risk types" and "Risk types in detail".

Risks with regard to the financial reporting process might, for example, involve human processing errors, system weaknesses or fraudulent conduct resulting in significant financial misrepresentations or delays in financial reporting, and these might not reflect the actual situation or not give an appropriate view of the assets, liabilities and financial position. These risks might possibly entail legal penalties and, in addition, the erosion of investors' confidence and damage to the Bank's reputation. The purpose of the ICS in relation to the financial reporting process is to implement controls that ensure with an adequate degree of certainty that the annual and consolidated financial statements together with the Management Report and Management's Discussion and Analysis are prepared in compliance with regulations despite the identified risks.

With regard to the financial reporting process, the ICS encompasses the policies, processes and measures needed to ensure the financial reporting process and compliance with the applicable legal provisions. It makes sure that internal and external financial reports are correct and reliable and that the assets, provisions, liabilities, and deferrals and accruals are classified, recognised and measured and changes in equity are correctly shown.

The method used for the design of the ICS and thus the introduction and risk assessment of processes is based on the international "Internal Control – Integrated Framework" standard issued by the Treadway Commission's Committee of Sponsoring Organizations (COSO) and creates a solid methodological framework. The main task in this context is to define specific objectives to facilitate a control system and to monitor the effectiveness of the control system on this basis. The following objectives are pursued:

- Completeness: All transactions have been recorded and all assets and liabilities, provisions and shareholders' equity are included in the financial statements.
- Measurement: The assets and liabilities, provisions and transactions are disclosed at their correct amounts in the financial reports.
- Presentation and disclosure: The financial reports are correctly classified and discussed with regard to recognition, structure and disclosures in the notes to the consolidated financial statements, comply with the legal requirements and are published on schedule.

Even the best possible structuring of the ICS can naturally only ensure that the objectives of the ICS are achieved with reasonable assurance but not with absolute certainty. The documented controls carried out within the framework of the ICS for the relevant processes or systems are therefore unable to completely eliminate mistakes or fraudulent actions. It must also be taken into account in this context that the work performed and spending on the ICS must be commensurate with the benefits achieved.

ICS organisation

The Management Board determines the extent and orientation of the ICS specifically geared to the Bank under its own responsibility, taking measures to refine the systems and adapt them to changing conditions. At Board meetings, it regularly discusses the key topic of the Internal Control Business Committee (ICBC), in terms of the consolidation and monitoring of all ICS-related projects and measures.

Responsibility for the financial reporting process and, in particular, for the preparation of the annual and consolidated financial statements rests with the CFO organisation. The CFO receives significant support in this context from the CRO organisation, the CRO thereby assuming responsibility for the measurement of financial instruments (receivables, securities and derivatives), among other things.

The CFO organisation is also supported in the technical process of preparing the financial statements by the Human Resources department (recognition and measurement of payroll expenses), the Legal department (recognition and measurement of legal disputes and other legal risks) and external third parties. The latter essentially extends to various expert opinions of external service providers relating to such things as the measurement and accounting treatment of pension provisions.

Global Banking Services (GBS) is responsible for ensuring the availability of the IT systems required for the financial reporting process. For purposes of the financial reporting process, the Data Governance department within GBS is responsible for the operation, refinement (in conjunction with the functional departments responsible and the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS)) and quality assurance of selected accounting and controlling systems. This department also has responsibility for the implementation of various IT projects relating to financial reporting.

Organisational structure and tasks of the CFO organisation

For purposes of the financial reporting processes, the Chief Financial Officer (CFO) organisation is essentially broken down into the following areas, from which the responsible Management Board member can draw on staff with the required skills and experience. Sets of values such as the Integrity Charter, the Code of Conduct and compliance rules have been implemented in all UniCredit countries for many years, and hence also in HVB. These values form the basis for responsible action on the part of all employees, including those involved in the financial reporting process.

HVB's financial reporting is conducted by the Accounting, Shareholdings, Regulatory Reporting (CFF) unit. This unit has functional responsibility for the financial reporting systems employed by HVB. At the same time, the CFF unit is responsible for fundamental accounting questions under IFRS and the German Commercial Code and for preparation of the consolidated financial statements. Furthermore, it prepares the financial reporting in the annual report of HVB. The management and administration of shareholdings for financial reporting purposes is also positioned in this unit. In addition, it submits the regulatory reports for HVB to the banking supervisory authorities.

The Tax Affairs (CFT) department is responsible for all tax-related concerns of HVB, including its foreign branches.

Regional Planning & Controlling (CCP) is tasked with central business management, cost controlling and equity capital management at HVB. Furthermore, CCP prepares and validates the segment report in accordance with IFRS. This department also has process responsibility for the preparation of income budgets and income projections. Moreover, the business segment-related controlling departments for all the segments excluding CIB are assigned to CCP. Controlling for CIB is the responsibility of CPA. This department is also responsible for the reconciliation of trading income jointly with Accounting.

ICS – Internal Control System (Continued)

Controls in the ICS for risk minimisation
To minimise the risk of misrepresentation in financial reporting as described above, we carry out various preventive and investigative controls which are integrated in operating processes. This includes permanent controls to ensure compliance with instructions, functional separation and compliance with approval authority regulations. The controls comprise both automated system-based controls within the IT systems and manual controls.

As part of UniCredit, HVB Group is also obliged to comply with Law 262 ("the Savings Law" – Law 262/2005, passed in Italy in 2005 and amended by Legislative Decree 303/2006, based on the Sarbanes-Oxley Act in the United States). Alongside the internal CFO controls, there are also checking and control steps in the upstream processes and organisations.

Based on the requirements under Law 262 and the legal requirements under the German Commercial Code, a number of financial reporting processes complete with the risks and controls included therein were already documented in the course of implementing the ICS at HVB. The corresponding process descriptions include detailed presentations of both the individual process steps and the organisational units involved in the processes. At the same time, risk and control are defined, together with their assessment, and documented.

The focus of risk and monitoring analysis is on identifying and evaluating the risks relevant to financial reporting. Identified risk potential is sufficiently reduced through defined control steps. Periodic random sampling serves to document the implementation of these controls and provide adequate records. If the controls do not sufficiently reduce risk, or no controls are in place, appropriate measures are initiated to eliminate the identified deficiencies. The timely implementation of these measures is reviewed on a quarterly basis.

In a half-yearly certification process, the Management Board confirms to the departments in charge of processes that reporting to the CFO of HVB Group, and from the CFO to UniCredit, is correct.

The controls cover the aspects of the ICS described below:

Group posting and accounting rules defined in the UniCredit-wide Group Accounting Manual (GAM) serve to ensure consistent financial reporting about the Group's business activities. In addition, there are general accounting rules set out in the Bank-wide Operating Guidelines, the application of which is mandatory for all process participants.

HVB uses SAP's standard SAP Balance Analyzer and Business Warehouse software to prepare its annual financial statements. The SAP Balance Analyzer concept is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger). The Accounting department collates the data relevant to the financial statements. It reconciles the positions delivered by the upstream systems and automatically checks the totals against the general ledger account balances, which serves as proof of the completeness of balance sheet items. At the same time, it also corrects errors and performs manual bookings of one-off transactions and closing entries. Adjustments and closing entries are entered by authorised persons in accordance with the principle of dual control. Furthermore, deviation analyses are conducted at item level to minimise the risk of error and incomplete data.

The ICS for securities, derivatives and other trading-related transactions comprises the following components:

– The allocation of transactions to the holding categories compliant with IFRS and HGB is primarily governed by the orientation of the operating units. The determination of the holding category is determined individually for each trading book and the related trading strategy. The Accounting department is incorporated as an authorising body to ensure compliance with individual requirements relating to classification based on the respective accounting standard.
– Booking standards based on the respective holding category – initiated by transactions – are defined in the accounting systems.
– The trading income calculated for purposes of financial reporting is checked on a monthly basis by comparing it with the result of the economic income statement that serves as the basis for the daily information provided to the Management Board members. Following this, the results are analysed and comments made on the content of the deviation analysis.
– The Risk Control department, which reports to the CRO, performs several tasks in connection with ensuring the valuation of the financial instruments mentioned above. Firstly, transactions are checked by the Risk Control department to ensure compliance with market pricing. Secondly, the Risk Control department reviews the valuation of financial instruments in the front office systems. Depending on the market parameters and asset classes, market data are supplied by both the trading departments and external sources such as Bloomberg, Reuters and MarktIT. Valuation adjustments and valuations based on estimates are agreed by the CRO and CFO units on an ongoing basis.
– In accordance with the separation of functions, the back office handles the processing of HVB trades. For derivatives, this is UniCredit Global Business Services GmbH (UGBS), which is supervised by the GBS unit. Furthermore, external service providers have been engaged to process securities transactions in Germany and for the Milan branch. It has thus been ensured that trades are processed independently of the Trading department.

A cross-departmental new product process is in place for developing and launching new products, as recorded in the Operating Guidelines. All the products relevant for a new product process are addressed in this process. Under the new product process, all concerned departments are involved to the extent that they have veto rights at the least and are authorised to enforce amendments up to and including the termination of the new product process.

The figures presented in the balance sheet and income statement are validated using deviation analysis at historical comparative figures and budget figures and on the basis of non-recurring effects in an ongoing process that is carried out over the entire course of the year under review as part of the process of preparing the monthly and quarterly financial statements.

With regard to the presentation and disclosure of financial-reporting-related data in financial reports, controls have been implemented to ensure compliance with disclosure duties particularly by such data conforming to checklists and being reviewed and approved particularly by management personnel within the CFO organisation.

Technical system support for the Accounting department and especially in connection with preparing the financial statements has been outsourced to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), the UniCredit subsidiary responsible for IT. The outsourced activities are monitored from a technical viewpoint in part by the central Regional Business Services (CFG1) department with the Finance Tools central service unit within Data Governance or GSM for the system of international branches. The technical support processes of the central service unit are governed by operating guidelines. UBIS carries out the back-up and archiving of data from financial-reporting-related application systems under the responsibility of the CFO in

ICS – Internal Control System (Continued)

accordance with Section 257 HGB in conjunction with Sections 238 and 239 HGB and the German Generally Accepted Accounting Principles (GAAP) under the supervision of CFG/GSM. Furthermore, controls between the upstream systems (e.g. EuroSIG) and the general ledger, namely first-level controls, have been outsourced to UBIS via additional service level agreements (SLAs). Another technical review takes place in the Accounting department within the framework of second-level controls.

The required protection against unauthorised access, and compliance with the principles of functional separation when using the Bank's financial reporting application systems are ensured notably by requesting and periodically monitoring individual rights in the authorisation controlling systems. For SAP rights, special approval is provided across the board by the functional units responsible for the application. The use of individual rights automatically implies a time restriction of no more than one year.

To ensure the greatest possible efficiency in the process of preparing the annual financial statements, detailed timetables are drawn up on a regular basis showing precise dates for the individual process steps. These timetables serve to ensure and monitor the timely completion of financial reporting tasks and to identify the dependencies between the individual process steps and the units involved.

Furthermore, appropriate contingency plans are in place to ensure the availability of human and technical resources to handle processes regarding financial reporting. These contingency plans are constantly updated and refined.

Monitoring the effectiveness of the ICS

Internal Audit

The Internal Audit department is a process-neutral instrument of the Management Board, to which it reports directly. According to its internal regulations, the Management Board bears the overall responsibility for setting up the Internal Audit department and ensuring that it functions properly. In the 2015 financial year, operational responsibility for the audit function was assigned to the Board Spokesman (CEO).

The Internal Audit department is responsible for the risk-oriented, process-neutral auditing and assessment of all activities and processes, regardless of whether they are outsourced or not. The outsourced activities may be audited by the internal audit function of the service provider.

For this purpose, Internal Audit carries out a risk-based selection of individual operating and business processes in order to set scheduling priorities for audits. The Minimum Requirements for Risk Management (MaRisk) stipulate that all operating and business processes must be audited at least every three years – if deemed useful and appropriate. In the case of activities and processes deemed to be of lower priority in terms of risk, it is permissible to deviate from the three-year cycle. Operating and business processes subject to especially high levels of risk are audited at least once a year. If the need arises or it is instructed to do so, the Internal Audit department may also carry out tasks in subsidiaries, taking into account the findings of any audits performed by internal audit departments in those subsidiaries.

The Bank's Internal Audit department must audit and assess the following areas in particular:
– functionality, effectiveness, economic efficiency and appropriateness of the internal control system
– applications, functionality, effectiveness and appropriateness of the risk management and risk control systems, reporting, information systems, and finance and accounting
– compliance with legal and regulatory standards as well as other regulations
– observation of internal operational guidelines, ordinances and regulations
– correctness of operational and business processes
– regulations and measures to protect assets

While audit reports are submitted promptly to audited units and the responsible Management Board members, the Management Board as a whole receives an annual report which includes a comprehensive overview of audit findings as well as significant deficiencies, major deficiencies, severe deficiencies and particularly severe deficiencies as defined in the MaRisk rules, the measures taken and their current status.

The head of the Internal Audit department presents a report prepared by the Management Board and Internal Audit on a quarterly basis at meetings of the Audit Committee of the Supervisory Board to report on the main findings of the audits carried out by Internal Audit and other significant aspects of its work.

Supervisory Board
It is the task of the Supervisory Board to advise the Management Board on the running of the Bank and monitor it as it conducts its business. To support it in the performance of its duties, the Supervisory Board set up an Audit Committee tasked among other things with monitoring the financial reporting process. The Audit Committee looks at the development of the assets, liabilities, financial position, and profit and loss, particularly in connection with the interim reports, half-yearly financial reports and annual financial statements on a regular and ongoing basis. To monitor the effectiveness of the ICS, the Audit Committee also examined these systems and the planned improvements in detail at three of its meetings in 2015 on the basis of documents and verbal explanations provided by the Management Board.

Refinement of the ICS
When changes are made to the legal provisions and regulations for financial reporting, they must be assessed to determine what consequences, if any, they have for the financial reporting processes. In the case of amendments or new regulations that would have a substantial impact on the accounting processes, a corresponding project is set up to cover all measures such as IT adaptations, working procedures and posting instructions and the effects on financial reporting across all departments and business segments.

In the course of the regular update of the ICS, moreover, new processes are subject to half-yearly reviews in terms of organisational changes or changes in content by the persons responsible for the process. If necessary, the documentation is modified and a new risk assessment performed. In addition, the completeness of the process documentation is checked on an ongoing basis and, if necessary, further relevant processes added and assessed, and integrated into routine ICS operations.

Income Statement of UniCredit Bank AG

For the year ended 31 December 2015

Expenses (€ millions)

			2015	2014
1 Interest payable			1,781	2,456
2 Fees and commissions payable			297	543
3 Net expense from the held-for-trading portfolio			—	—
4 General administrative expenses				
a) payroll costs				
aa) wages and salaries	1,425			1,248
ab) social security costs and expenses for				
pensions and other employee benefits	461			316
		1,886		1,564
including: for pensions				
€266 million				(121)
b) other administrative expenses		1,743		1,695
			3,629	3,259
5 Amortisation, depreciation and impairment losses				
on intangible and tangible assets			37	40
6 Other operating expenses			286	182
7 Write-downs and impairments for receivables and				
certain securities as well as additions to provisions				
for losses on guarantees and indemnities			37	268
8 Write-downs and impairments on participating				
interests, shares in affiliated companies				
and investment securities			19	50
9 Expenses from absorbed losses			5	10
10 Extraordinary expenses			22	22
11 Taxes on income			101	97
12 Other taxes, unless shown under				
"Other operating expenses"			44	2
13 Net income			**398**	**627**
Total expenses			**6,656**	**7,556**

Income

(€ millions)

			2015	2014
1	Interest income from			
	a) loans and money market operations	3,565		4,107
	b) fixed-income securities and government-inscribed debt	570		666
			4,135	4,773
2	Current income from			
	a) equity securities and other variable-yield securities	246		248
	b) participating interests	46		48
	c) shares in affiliated companies	85		100
			377	396
3	Income earned under profit-pooling			
	and profit-and-loss transfer agreements		62	166
4	Fees and commissions receivable		1,435	1,670
5	Net income from the held-for-trading portfolio		284	162
	including: transfer as per Section 340e HGB			
	€32 million			(18)
6	Write-ups on bad and doubtful debts and on certain			
	securities as well as release of provisions for losses on			
	guarantees and indemnities		—	—
7	Write-ups on participating interests,			
	shares in affiliated companies and investment securities		—	—
8	Other operating income		363	389
9	Net loss		—	—
	Total income		6,656	7,556
1	Net income		398	627
2	Withdrawal from retained earnings			
	a) from the reserve for shares in a controlling			
	or majority interest-holding company	—		—
	b) from other retained earnings	38		29
			38	29
3	Transfer to retained earnings			
	a) to the reserve for shares in a controlling			
	or majority interest-holding company	38		29
	b) to other retained earnings	—		—
			38	29
4	Profit available for distribution		398	627

Balance Sheet of UniCredit Bank AG

at 31 December 2015

Assets

(€ millions)

		31/12/2015	31/12/2014
1 **Cash and cash balances**			
a) cash on hand	527		489
b) balances with central banks	10,271		4,649
including: with Deutsche Bundesbank			
€5,824 million			(2,188)
		10,798	5,138
2 **Treasury bills and other bills eligible**			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
b) bills of exchange	—		—
		—	—
3 **Loans and receivables with banks**			
a) repayable on demand	3,937		4,418
b) other loans and receivables	30,309		28,318
		34,246	32,736
including: mortgage loans			
€— million			(—)
municipal loans			
€65 million			(97)
against pledged securities			
€— million			(—)
4 **Loans and receivables with customers**		88,036	85,233
including: mortgage loans			
€38,995 million			(38,536)
municipal loans			
€9,757 million			(9,842)
against pledged securities			
€455 million			(585)
Amount carried forward:		133,080	123,107

Liabilities

(€ millions)

			31/12/2015	31/12/2014
1 Deposits from banks				
a) repayable on demand		9,148		6,203
b) with agreed maturity dates or periods of notice		42,392		44,232
			51,540	50,435
including: registered mortgage pfandbriefs in issue				
€451 million				(495)
registered public pfandbriefs in issue				
€232 million				(268)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage pfandbriefs				
€— million				(—)
and registered public pfandbriefs				
€— million				(—)
2 Deposits from customers				
a) savings deposits				
aa) with agreed period of notice of three months	13,708			14,523
ab) with agreed period of notice				
of more than three months	84			116
		13,792		14,639
b) registered mortgage pfandbriefs in issue		5,282		6,069
c) registered public pfandbriefs in issue		2,579		2,825
d) other debts				
da) repayable on demand	67,816			56,998
db) with agreed maturity dates or periods of notice	24,971			28,876
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage pfandbriefs				
€4 million				(4)
and registered public pfandbriefs				
€— million				(4)
		92,787		85,874
			114,440	109,407
Amount carried forward:			165,980	159,842

Assets

(€ millions)

				31/12/2015	31/12/2014
	Amount brought forward:			133,080	123,107
5	**Bonds and other**				
	fixed-income securities				
	a) money market paper				
	aa) issued by public authorities	3			3
	including: those eligible for collateral for				
	Deutsche Bundesbank advances				
	€— million				(—)
	ab) issued by other borrowers	1,628			4,431
	including: those eligible for collateral for				
	Deutsche Bundesbank advances				
	€— million				(—)
			1,631		4,434
	b) bonds and notes				
	ba) issued by public authorities	20,860			19,817
	including: those eligible for collateral for				
	Deutsche Bundesbank advances				
	€20,491 million				(19,501)
	bb) issued by other borrowers	27,508			25,562
	including: those eligible for collateral for				
	Deutsche Bundesbank advances				
	€17,054 million				(18,327)
			48,368		45,379
	c) own bonds		2,509		750
	nominal value €2,500 million				(750)
				52,508	50,563
6	**Equity securities and other variable-yield securities**			961	991
6a	**Held-for-trading portfolio**			55,027	52,250
7	**Participating interests**			164	308
	including: in banks				
	€8 million				(8)
	in financial service institutions				
	€7 million				(7)
8	**Shares in affiliated companies**			2,487	2,503
	including: in banks				
	€878 million				(878)
	in financial service institutions				
	€557 million				(488)
	Amount carried forward:			244,227	229,722

Liabilities (€ millions)

			31/12/2015	31/12/2014
Amount brought forward:			165,980	159,842
3 Debt securities in issue				
a) bonds				
aa) mortgage pfandbriefs	10,311			10,102
ab) public pfandbriefs	2,595			2,042
ac) other pfandbriefs	2,502			3,078
		15,408		15,222
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			15,408	15,222
3a Held-for-trading portfolio			34,242	28,907
4 Trust liabilities			4	4
including: loans taken out on a trust basis				
€4 million				(4)
5 Other liabilities			7,170	4,627
6 Deferred income				
a) from issuing and lending operations		32		17
b) other		137		112
			169	129
6a Deferred tax liabilities			—	—
7 Provisions				
a) provisions for pensions				
and similar commitments		—		—
b) tax provisions		627		647
c) other provisions		2,591		2,444
			3,218	3,091
8 Subordinated liabilities			554	575
9 Participating certificates outstanding			—	—
including: those due in less than two years				
€— million				(—)
10 Fund for general banking risks			622	590
thereof: as per Section 340e HGB				
€331 million				(299)
Amount carried forward:			227,367	212,987

Assets

(€ millions)

			31/12/2015	31/12/2014
	Amount brought forward:		244,227	229,722
9	Trust assets		4	4
	including: loans granted on a trust basis			
	€4 million			(4)
10	Intangible assets			
	a) internally generated intellectual property rights			
	and similar rights and assets	—		—
	b) purchased franchises, intellectual property rights,			
	and similar rights and assets,			
	as well as licences to such rights and assets	21		26
	c) goodwill	—		—
	d) advance payments	3		10
			24	36
11	Property, plant and equipment		170	159
12	Other assets		883	1,070
13	Prepaid expenses			
	a) from issuing and lending operations	39		40
	b) other	74		69
			113	109
14	Deferred tax assets		—	—
15	Excess of plan assets over pension liabilities		697	867
	Total assets		**246,118**	**231,967**

Liabilities

(€ millions)

			31/12/2015	31/12/2014
Amount brought forward:			227,367	212,987
11 Shareholders' equity				
a) called-up capital				
subscribed capital		2,407		2,407
divided into:				
802,383,672 shares of common				
bearer stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for shares in a controlling				
or majority interest-holding company	92			54
cc) statutory reserve	—			—
cd) other retained earnings	6,063			6,101
		6,155		6,155
d) profit available for distribution		398		627
			18,751	18,980
Total liabilities and shareholders' equity			**246,118**	**231,967**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		32,798		34,602
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			32,798	34,602
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		38,578		26,876
			38,578	26,876

Notes to the Annual Financial Statements

Legal basis

The annual financial statements of UniCredit Bank AG (HVB) for the 2015 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

HVB is active in all of the sectors served by commercial and mortgage banks.

Accounting, valuation and disclosure

The amounts shown in the tables and text below are figures at the reporting date of December 31 in the case of disclosures of balances and developments from 1 January to 31 December of the year in question in the case of disclosures regarding the income statement.

1 Consistency

The same accounting and valuation methods have essentially been applied as last year. Changes in accounting and valuation methods as well as disclosure modifications are indicated for the respective items.

2 Cash and cash balances

The cash and cash balances (asset item 1) are stated at nominal amounts.

3 Treasury bills and bills of exchange

Treasury bills and other bills (asset item 2) are shown at their cash value, less any discounted amounts.

4 Loans and receivables with banks and customers

Loans and receivables with banks and customers (asset items 3 and 4) are always stated at the nominal amount plus any accrued interest. Differences between acquisition cost and nominal amount (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income and taken to the income statement under net interest income in the correct period over the term of the underlying items. Any necessary write-downs and provisions compliant with Section 340f HGB are deducted.

Loans and receivables are valued at the lower of cost or market as stipulated in Section 253 (4) 1 HGB. HVB creates specific loan-loss provisions and accruals to the amount of the anticipated loss for all identifiable exposure to acute counterparty default risk. The expected flow-backs discounted with the original effective interest rate were used when determining the level of write-downs compliant with Section 253 HGB. Specific loan-loss provisions and accruals are reversed as soon as the default risk has ceased, or used if the receivable is classified as irrecoverable and written off.

Country risk is covered by specific loan-loss provisions for loans at risk of default; a distinction is no longer made between the default risk of the borrower and the transfer risk from the borrower to the Bank.

Latent lending risks are covered by global provisions. When assessing domestic latent lending risks, HVB applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. When assessing foreign latent lending risks, HVB similarly applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. The only exception is the calculation of latent lending risks for the Athens branch, where the global provisions are set up on the basis of Greek law (1% of the average volume of loans and receivables with customers).

Like other loans and receivables, mortgage loans are shown at their nominal values. Differences between the nominal amount and the actual amount paid out are included under either prepaid expenses or deferred income, and amortised over the period to which they apply.

The purpose defined at the time of acquisition (Section 247 (1) and (2) HGB) determines the assignment of loans, receivables and securities to the held-for-trading portfolios, the liquidity reserve or investment assets.

The Bank has made use of the option permitted by Section 340f (3) in the 2015 financial year and has included the change in provisions compliant with Section 340f HGB to net the write-downs and impairments for receivables and certain securities as well as additions to provisions for losses on guarantees and indemnities with the write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities.

5 Bonds and other fixed-income securities, and equity securities and other variable-yield securities

Investment securities and securities held for liquidity purposes (securities treated neither as held for trading purposes nor as investment securities) are shown under bonds and other fixed-income securities (asset item 5) and equity securities and other variable-yield securities (asset item 6).

We measure investment securities in accordance with the modified lower of cost or market principle compliant with Section 253 (3) 3 HGB, under which impairments are only to be deducted from the acquisition cost if the loss of value is expected to be permanent. In the case of equity instruments, we recognise an impairment loss if the fair value at the reporting date is significantly lower than the carrying amount or if the fair value has exceeded the carrying amount for a long period of time. In the case of debt instruments, on the other hand, an impairment that is likely to be permanent occurs when the issuer of the securities defaults. In the event of a loss of value that is attributable to market prices, we assume that the impairment is only temporary, as these losses will be balanced out again by the due date at the latest. On the other hand, securities held for liquidity purposes are treated as current assets valued at the lower of cost or market (Section 253 (4) 1 HGB) and carried at their acquisition cost or market value, or fair value, whichever is the lower. Appropriate write-downs are taken to take account of the creditworthiness of the issuer and the liquidity of the financial instrument (for more information about these fair value adjustments, please refer to the comments regarding the held-for-trading portfolio). Where the reasons for a write-down to the lower of cost or market no longer apply, the write-down is reversed compliant with Section 253 (5) HGB.

The Bank sets up portfolio and micro-valuation units documented in advance for certain interest-bearing securities, promissory notes (with a carrying amount of €35,015 million (2014: €29,807 million)) and certain interest rate derivatives hedged against interest rate risk by equivalent hedging derivatives (notably interest rate swaps). The hedge of the dynamic portfolio within the framework of the valuation unit is of unlimited duration; the hedging period of the individual hedging derivatives is always related to the residual maturity of the respective hedged items in the portfolio. The offset changes in the value of the interest-bearing securities amount to an increase of €299 million (2014: €506 million) for the portfolios whose hedged items encompass securities and promissory notes. The requirements of Section 254 HGB regarding valuation units have been met. The prospective hedging efficiency is documented using the interest rate risk sensitivity analysis based on basis point values (BPV). The changes in value arising from the hedged items and hedges induced from the hedged risk are set against each other and offset within the individual valuation units. Under the net hedge presentation method, no net valuation gain is taken to the income statement; provisions are set up to cover any net loss on the ineffective portion of the changes in value. Any valuation loss arising from the unhedged risk is included in the respective hedged items and hedging derivatives in accordance with the imparity principle.

The Bank makes use of the option permitted by Section 340f (3) HGB to net the write-downs and impairments for receivables and certain securities as well as additions to provisions for losses on guarantees and indemnities with the write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities.

Notes to the Annual Financial Statements (Continued)

6 Held-for-trading portfolio

Compliant with Section 340e (3) HGB, financial instruments held by banks for trading purposes are measured at fair value less a risk discount and recognised in the balance sheet. Any ensuing changes in value and provisions relating to trading transactions are recognised in the income statement under net income from the held-for-trading portfolio. In addition, compliant with Section 340e (4) HGB an amount is allocated to the "Fund for general banking risks" in accordance with Section 340g HGB, and shown in the balance sheet separately. HVB assigns all financial instruments (bonds, equity securities, derivatives, loans and receivables, and liabilities, including delivery obligations arising from short sales of securities) to the held-for-trading portfolio that are acquired and sold with the intention of generating a short-term gain on proprietary trading. This is done to exploit existing or anticipated differences between buying and selling prices or fluctuations in market rates, prices, values or interest rates to generate a trading gain or margin. No changes have been made compared with last year regarding the criteria for assignment to the trading portfolio (definition of the intention to trade). No financial instruments have been reclassified to or from the held-for-trading portfolio. The assets and liabilities that are held for trading are shown separately in the balance sheet (asset item 6a and liability item 3a).

We have determined the fair value of the financial instruments held for trading purposes in accordance with the valuation hierarchy specified in Section 255 (4) HGB. The fair value is normally defined as the amount at which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The market price is used for financial instruments for which there is an active market. Where there is no active market that can be used to determine the market price, the fair value is determined with the aid of generally recognised valuation methods (notably present value and option price models).

The fair values of securities and derivatives are assumed on the basis of either external price sources (such as stock exchanges or other price providers like Reuters) or determined using internal valuation models. For the most part, prices from external sources are used to calculate the fair value of securities. HVB's credit risk is included in the fair value of liabilities held for trading purposes. Derivatives are primarily measured on the basis of valuation models. The parameters for our internal valuation models (such as yield curves, volatilities and spreads) are taken from external sources, and checked for their validity and correctness by the Risk Control unit.

Appropriate adjustments (referred to as fair value adjustments) are made to the fair values calculated in this way in order to take account of further influences on the fair value (such as the liquidity of the financial instrument or model risks when the fair value is calculated using a valuation model). Rating-related default risk in trading-book derivatives is covered by applying suitable valuation adjustments (CVAs and DVAs). Funding valuation adjustments (FVAs) were recognised in the income statement for the first time at 31 December 2015 for the measurement at fair value of not fully secured derivatives. Apart from unsecured derivatives, this also affects derivatives for which collateral has been provided in favour of the counterparty only.

The main conditions that can influence the amount, timing and certainty of future cash flows from derivatives essentially relate to the following features of derivatives:

- Where the cash flows under derivatives are linked to current market prices or rates, the respective market price or market rate at the payment date determines the amount payable (in the case of interest rate swaps, for instance, the payment of the variable interest rate on the payment date depends on the interest rate fixed on this date, such as Euribor).
- Where the derivatives allow for cash settlement at fair value on the due date, the amount payable is calculated as the difference between the price set when the derivative was entered into and the current market price (in the case of a foreign exchange forward with cash settlement, for instance, the difference between the agreed forward price and the current price is payable).
- In the case of American options, unlike European options, the option buyer has the right to exercise the option at any time during the term of the option.
- Where it is possible to terminate a derivative prior to maturity (as is the case with all exchange-traded derivatives, for instance), the derivative may be terminated by paying the current fair value.
- The counterparty's credit rating and solvency are a further important consideration. If the counterparty becomes insolvent, it can no longer be expected that it will meet its obligations arising from the derivative.

These features may be included in the terms agreed for any type of derivative. Thus it is possible that foreign exchange, interest rate and equity options may be exercised at any time (American option) or only at maturity (European option). It is generally possible to determine the size of the derivative positions entered into from the respective nominal amounts.

In order to obtain the final figures disclosed in the balance sheet for the held-for-trading portfolios, the risk discount required by Section 340e (3) 1 HGB is deducted from the fair values of the financial instruments held for trading purposes determined in this way. Including the risk discount in net trading income reflects the risk of possible price losses up until the earliest possible date of realisation of unrealised valuation gains or losses. In accordance with the relevant regulatory rules, the risk discount is determined on the basis of the internal risk management system using an accounting value-at-risk approach (holding period of ten days; confidence level: 99%; 2-year observation period). We have deducted the risk discount determined for the entire held-for-trading portfolio from the assets held for trading purposes in the balance sheet (asset item 6a) and recognised it in the net income from the held-for-trading portfolio.

HVB employs derivative financial instruments both for trading purposes and to hedge balance sheet items. The vast majority are trading derivatives which are disclosed at their fair value in the held-for-trading portfolio items on the assets side and liabilities side of the balance sheet and taken to the income statement.

Derivatives that are not associated with the held-for-trading portfolio continue to be treated in accordance with the principle of the non-recognition of pending transactions. Only cash flows that have started, such as option premiums and accrued upfront payments on unvalued banking book derivatives, are disclosed under other assets (asset item 12), other liabilities (liability item 5) and deferred income or prepaid expenses (asset item 13 and liability item 6). Irrespective of whether it results from the hedged item or the hedging derivative, any net loss arising from valuation units set up for the netting (compensation) of the change in value of the hedged item and hedging derivative associated with the hedged risk is to be taken to the income statement as a provision for valuation units. In accordance with German GAAP, any change in fair value arising from the unhedged risk in both the hedged item and the hedging instrument is recognised on a gross basis in compliance with individual valuation under the imparity principle.

The interest rate derivatives employed for asset/liability management of the general interest rate risk associated with receivables and liabilities in the banking book are measured as part of the aggregate interest position. Please refer to the Risk Report for a discussion of the management of the overall interest rate position.

The few remaining standalone derivatives outside the trading book are valued in accordance with the imparity principle. A provision for anticipated losses on pending transactions is set up for unrealised valuation losses; unrealised valuation gains are not recognised.

Derivatives held for trading purposes that were concluded under master agreements together with a credit support annex allowing for daily exchange of collateral are netted for each counterparty in the balance sheet. Such netting encompasses both the carrying amount of the derivatives and the collateral provided for each counterparty.

Extensive information about our derivative financial instruments, complete with detailed breakdowns by product and risk type, and showing the nominal amounts, fair values and the counterparty structure, is included in the note to the annual financial statements regarding derivative financial instruments.

The Risk Report contains a detailed overview of the Bank's derivative transactions.

7 Participating interests and shares in affiliated companies

Participating interests and shares in affiliated companies (asset items 7 and 8) are shown at the lower of acquisition cost or – if there is a permanent impairment – fair value prevailing at the balance sheet date.

Where HVB holds a controlling interest, profits and losses of partnerships as well as dividends paid by limited or incorporated companies are recognised in the year in which they arise, provided the relevant legal conditions are met.

Compliant with Section 340c (2) 1 HGB, HVB nets income from write-ups on participating interests, shares in affiliated companies and investment securities (income item 7) with write-downs on these investments (expense item 8). In addition, the expense and income items which reflect the results from the disposal of financial assets are included in this netting process in accordance with the option permitted by Section 340c (2) 2 HGB.

Notes to the Annual Financial Statements (Continued)

8 Intangible assets

Goodwill and software are disclosed under intangible assets (asset item 10).

Purchased goodwill is calculated by setting the acquisition cost of a company against the value of the company's individual assets, less the liabilities at the time of acquisition. It is normally amortised over the standard useful life of five years assumed by law. In justified cases, the goodwill may be amortised over a longer period, provided the individual expected useful operating life exceeds five years. An impairment is recognised in the event of a permanent loss of value. Should the reasons for the impairment no longer apply, the lower amount recognised for derivative goodwill is retained.

Purchased intangible assets are capitalised at cost and amortised over their expected useful life of three to five years (software) or a longer contractual useful life of up to ten years (other intangible assets). Impairments are recognised where necessary. HVB has not made use of the capitalisation option for internally generated intangible assets classified as non-current.

9 Property, plant and equipment

Property, plant and equipment (asset item 11) is valued at acquisition or production cost, less – insofar as the assets are depreciable – depreciation using the straight-line method based on their expected useful life. In such cases, the useful lives are closely related to the depreciation rules specified in Section 7 of the German Income Tax Act (Einkommensteuergesetz – EStG) in conjunction with the depreciation tables for equipment. Pro rata depreciation is taken to the income statement for additions to furniture and office equipment in the year of acquisition.

Low-value assets with acquisition costs of up to €150 are fully expensed in the year of acquisition and shown as additions and disposals in the analysis of non-current assets. We set up a collective item for all items of property, plant and equipment with acquisition costs of between €150 and €1,000 (pool depreciation in accordance with Section 6 (2a) EStG), one-fifth of which we reverse in the financial year of creation and each of the following four years in the income statement.

10 Liabilities

Liabilities (liability items 1 to 3, 8 and 9) are stated at the amount repayable plus accrued interest. Differences between the amount repayable and the amount disbursed (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income, and reversed under net interest income in the correct accounting period. Liabilities without current interest payments (zero-coupon bonds) are stated at their present value calculated using a constant discount rate over the relevant terms.

11 Provisions

In accordance with the principles of sound commercial judgement, we assess provisions for taxes, uncertain liabilities and anticipated losses on pending transactions (liability item 7) at the amount repayable, taking into account anticipated future price and cost increases. Provisions falling due in more than one year are discounted using the average market rate of the past seven financial years determined and published by Deutsche Bundesbank as appropriate for the respective maturities.

HVB offers its employees various types of company pension plans. To fund the company pension plans, HVB has covered its pension commitments largely with plan assets managed as external trustee assets with limited access. These plan assets are set against the liabilities arising from pension commitments or similar long-term commitments. If the plan assets of the pension funds, pension guarantee associations or retirement benefit corporations in question do not cover the amount of the equivalent pension commitments payable, HVB recognises a provision for pension funds and similar obligations in the amount of the shortfall. If the fair value of the plan assets exceeds the commitments, the difference is recognised as the excess of plan assets over pension liabilities.

We measure payment obligations arising from pension commitments at the amount payable calculated using the projected unit credit method on the basis of biometric probabilities. Anticipated future salary and pension increases are taken into account when measuring the pension commitment. Insofar as the amount of the pension commitments is determined exclusively by the fair value of securities, we recognise provisions for this at the fair value of these securities where it exceeds a guaranteed minimum amount. HVB has made use of the option to employ the average market rate determined and published by Deutsche Bundesbank as the discount rate for an assumed residual maturity of 15 years.

The discount rate for December 2015 published by Deutsche Bundesbank for a residual maturity of 15 years at 3.89% p. a. (2014: 4.58% p. a.) and a pension trend of 1.60% p. a. (2014: 1.70% p. a.) were applied in the actuarial calculation of the amount payable at 31 December 2015. A figure of 2.00% p. a. (2014: 2.50% p. a.) has been included in the calculation for the anticipated wage and salary increases; a figure of 0.50% (2014: 0.50%) has been included in the calculation for the career trend. Mortality and disability rates are based on the modified Heubeck 2005 G tables. At HVB, life expectancy has been reduced to 90% for women (2014: 90%) and 75% for men (2014: 75%), and the probability of disability to 80% for both men and women (2014: 80%), of the figures shown in the tables.

Income and expenses arising from the compounding and discounting of provisions for pensions are included in other operating income less other operating expenses. However, the current service cost accruing during the period and the effects arising from changed assumptions regarding the wage, salary and pension trend and biometric probabilities are disclosed under payroll costs. The same principles apply for the impact on earnings arising from the change in the group of beneficiaries and the change in provisions for pension in connection with company restructuring activities. Similarly, the impact on earnings of the change in the discount rate arising during the course of the 2015 financial year is allocated to payroll costs.

An allocation totalling €332 million is required as the recognised provision for pensions and similar commitments rises on account of the inclusion of future pay and pension increases and the change in the discount rate caused by the changeover to the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). HVB makes use of the option compliant with Section 67 (1) 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The annual allocation of €22 million is charged to extraordinary income/expenses in the income statement.

Furthermore, IDW RS BFA 3 requires the Bank to check whether it has incurred a loss on the aggregate holding of interest-bearing transactions in the banking book. The Bank applies the net present value approach to ascertain whether there are any circumstances beyond the individual valuation that had already occurred in economic terms at the reporting date that would lead to losses in the future. In this instance, it would be necessary to set up a provision for anticipated losses on pending transactions to ensure loss-free valuation in the banking book. To do this, the cash flows from the interest-bearing transactions in the banking book are discounted on the basis of the market interest rates at the reporting date and set against their carrying amounts using the net present value approach. All on- and off-balance-sheet, interest-bearing financial instruments outside of the held-for-trading portfolio are included in this process. All costs to be incurred in connection with the interest-bearing transactions such as risk costs, administration costs for handling the transactions through to their maturity, funding costs and so on are taken into account for discounting. The contractual cash flows are normally used as the basis; appropriate assumptions regarding the anticipated utilisation are only made and hence an economic maturity used as the basis for financial instruments with no fixed maturity (such as demand and savings deposits) in compliance with the internal risk management rules. The present values calculated in this way are set against the carrying amounts; derivatives concluded to hedge interest rate risk in the banking book are recognised at their fair value and generally set against a carrying amount of zero as they are not carried as general hedging derivatives individually in the banking book. A provision for anticipated losses on pending transactions needs to be set up to cover any shortfall between the present value determined in this way and the carrying amount. In this context, positive differences on interest-bearing transactions may not be offset against negative differences unless the transactions concerned are controlled together in internal interest rate risk management.

Notes to the Annual Financial Statements (Continued)

12 Plan assets
Assets serving exclusively to settle pension commitments or similar long-term commitments, and to which all other creditors do not have recourse, are measured at fair value and offset against the underlying commitment.

If the offsetting results in an excess of commitments over plan assets, we recognise a provision for pensions and similar commitments (liability item 7) to this amount. If the value of the assets exceeds the commitments, the amount is recognised under excess of plan assets over pension liabilities (asset item 15).

The plan assets consist mainly of investment fund shares that are recognised at the current redemption price (fair value).

Income and expenses arising from plan assets are shown in net interest income.

Compliant with Section 8a of the German Semi-Retirement Act (Altersteilzeitgesetz – AltTZG), employee credits for semi-retirement are secured by pledging securities to the trustee.

13 Deferred tax assets and liabilities
Compliant with Section 274 HGB, deferred tax items are determined for temporary differences between the carrying amount of an asset, liability or deferred item shown in the commercial balance sheet and the corresponding amount disclosed for tax reporting purposes as well as for tax loss carryforwards and tax credits. German corporations are normally charged a corporate income tax rate of 15%, irrespective of any dividend distribution. Deferred taxes are measured using the uniform corporate income tax rate of 15.8%, including the solidarity surcharge, and the municipal trade tax dependent upon the applicable municipal trade tax multiplier. At HVB, this results in an overall valuation rate for the domestic portion of deferred taxes of 31.4%. The respective local tax rates are applied analogously for the foreign establishments. Compliant with Section 274 (1) 2 HGB, the deferred tax assets involved have not been recognised on account of an aggregate future reduction in tax. This results mainly from tax valuation provisions regarding general provisions and held-for-trading portfolios as well as tax loss carryforwards.

14 Foreign currencies
Amounts in foreign currency are translated in accordance with the principles set forth in Section 340h and Section 256a HGB. As a result, assets and liabilities denominated in foreign currency and spot transactions outstanding at the balance sheet date are always converted into euros using the mean spot rate applicable at the balance sheet date. The foreign currency positions in the portfolio not held for trading that are concluded in each currency are transferred to the held-for-trading portfolio on a daily basis under a standard system of currency risk management that is applicable across the Bank as a whole. The translation gains on the foreign currency positions managed in the held-for-trading portfolio are recognised at fair value in the income statement in accordance with the valuation methods applicable to the held-for-trading portfolio (Section 340e (3) 1 HGB). Consequently, the entire net income from FX trading is disclosed under net income from the held-for-trading portfolio in the income statement. On the other hand, investment securities denominated in foreign currency that are not specifically covered in the same currency and are not transferred to the held-for-trading portfolio as part of currency risk management applicable throughout the Bank are carried at their historical cost. Outstanding forward transactions are translated using the forward rate effective at the balance sheet date.

Notes to the Balance Sheet

15 Breakdown by maturity of selected asset items

The following table shows the breakdown by maturity of selected asset items:

(€ millions)

	2015	2014
A 3 b) Other loans and receivables with banks		
with residual maturity of less than 3 months	15,248	11,623
at least 3 months but less than 1 year	9,021	11,656
at least 1 year but less than 5 years	5,242	4,257
5 years or more	798	782
A 4 Loans and receivables with customers		
with residual maturity of less than 3 months	7,028	6,715
at least 3 months but less than 1 year	7,074	6,134
at least 1 year but less than 5 years	28,658	27,703
5 years or more	36,222	35,508
No fixed maturity	9,054	9,173
A 5 Bonds and other fixed-income securities, amounts due in the following year	10,932	15,703

16 Breakdown by maturity of selected liability items

The following table shows the breakdown by maturity of selected liability items:

(€ millions)

	2015	2014
L 1 Deposits from banks		
L 1b) with agreed maturity dates or periods of notice		
with residual maturity of less than 3 months	24,621	17,314
at least 3 months but less than 1 year	6,813	15,261
at least 1 year but less than 5 years	6,297	7,187
5 years or more	4,661	4,470
L 2 Deposits from customers		
L 2ab) savings deposits with agreed maturity dates or periods of notice		
with residual maturity of less than 3 months	12	6
at least 3 months but less than 1 year	20	28
at least 1 year but less than 5 years	50	77
5 years or more	2	5
L 2b) registered mortgage pfandbriefs in issue		
L 2c) registered public pfandbriefs in issue		
L 2 db) other debts with agreed maturity dates or periods of notice		
with residual maturity of less than 3 months	11,331	15,330
at least 3 months but less than 1 year	8,042	8,103
at least 1 year but less than 5 years	4,843	5,179
5 years or more	8,616	9,158
L 3 Debt securities in issue		
L 3a) Bonds, amounts due in following year	4,218	5,065
L 3b) other debt securities in issue		
with residual maturity of less than 3 months	—	—
at least 3 months but less than 1 year	—	—
at least 1 year but less than 5 years	—	—
5 years or more	—	—

Notes to the Balance Sheet (Continued)

17 Amounts receivable from and payable to affiliates and companies in which participating interests are held

(€ millions)

	2015		2014	
	AFFILIATES	PARTICIPATING INTERESTS	AFFILIATES	PARTICIPATING INTERESTS
Loans and receivables with banks	15,428	221	19,920	205
of which: UniCredit S.p.A.	1,830	—	873	—
Loans and receivables with customers	3,066	716	3,021	679
Bonds and other fixed-income securities	43	5,669	4,488	3,174
of which: UniCredit S.p.A.	39	—	4,178	—
Deposits from banks	5,403	165	10,702	191
of which: UniCredit S.p.A.	961	—	1,142	—
Deposits from customers	1,120	542	1,278	411
Debt securities in issue	321	—	457	—
of which: UniCredit S.p.A.	—	—	—	—
Subordinated liabilities	308	—	292	—

There have been a number of transactions involving UniCredit S.p.A. and other UniCredit group companies since the integration of HVB into the UniCredit group of companies.

The sharp rise in loans and receivables with UniCredit S.p.A. in the reporting period results mainly from securities repurchase transactions. Furthermore, the portfolio of bonds and other fixed-income securities with UniCredit S.p.A. fell sharply on account of short-term issues falling due.

In its role as centre of competence for markets and investment banking for the entire UniCredit group, HVB acts as counterparty for derivative transactions conducted by UniCredit companies. For the most part, this involves hedge derivatives of UniCredit group companies that are externalised on the market by HVB.

18 Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2015	2014
Trust assets	**4**	**4**
Loans and receivables with banks	—	—
Loans and receivables with customers	4	4
Equity securities and other variable-yield securities	—	—
Participating interests	—	—
Other assets	—	—
Trust liabilities	**4**	**4**
Deposits from banks	4	4
Deposits from customers	—	—
Debt securities in issue	—	—
Other liabilities	—	—

There were no significant changes in trustee activities compared with last year.

19 Foreign-currency assets and liabilities

(€ millions)

	2015	2014
Assets	**46,672**	**46,706**
Cash and cash balances	4,447	2,461
Treasury bills and other bills eligible for refinancing with central banks	—	—
Loans and receivables with banks	3,511	4,211
Loans and receivables with customers	14,657	13,303
Bonds and other fixed-income securities	3,151	2,571
Equity securities and other variable-yield securities	—	—
Held-for-trading portfolio (assets held for trading purposes)	20,710	23,975
Participating interests	8	8
Shares in affiliated companies	86	80
Trust assets	—	—
Intangible assets	—	—
Property, plant and equipment	5	5
Other assets	91	85
Prepaid expenses	6	7
Liabilities	**40,615**	**36,596**
Deposits from banks	13,013	9,040
Deposits from customers	6,463	6,489
Debt securities in issue	10	239
Held-for-trading portfolio (liabilities held for trading purposes)	20,720	20,381
Trust liabilities	—	—
Other liabilities	147	197
Deferred income	52	40
Provisions	43	59
Subordinated liabilities	167	151

The amounts shown represent the euro equivalents of all currencies.

20 Subordinated asset items

The following balance sheet items contain subordinated assets:

(€ millions)

	2015	2014
Subordinated asset items	**2,839**	**2,492**
Loans and receivables with banks	322	642
Loans and receivables with customers	68	86
Bonds and other fixed-income securities	2,174	1,495
Equity securities and other variable-yield securities	—	7
Held-for-trading portfolio	275	262

Notes to the Balance Sheet (Continued)

21 Marketable debt and investments

The listed and unlisted marketable securities included in the respective balance sheet items break down as follows: (€ millions)

	2015			2014		
	TOTAL MARKETABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED	TOTAL MARKETABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED
Bonds and other fixed-income securities	52,508	41,781	10,727	50,563	40,096	10,467
Equity securities and other						
variable-yield securities	76	—	76	80	4	76
Held-for-trading portfolio	27,248	22,209	5,039	25,518	20,467	5,051
Participating interests	—	—	—	106	106	—
Shares in affiliated companies	—	—	—	—	—	—

Non-current marketable securities contain financial instruments carried at an amount higher than their fair value. (€ millions)

	2015		2014	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Non-current securities	**4,652**	**4,530**	**2,199**	**2,080**
Bonds and other fixed-income securities	4,652	4,530	2,199	2,080
Equity securities and other variable-yield securities	—	—	—	—

Given the development of interest and rating risks, we do not believe that these securities have suffered a permanent loss of value.

22 Held-for-trading portfolio

The following table shows the breakdown of assets held for trading purposes (asset item 6a) by financial instruments: (€ millions)

	2015	2014
Assets held for trading	**55,027**	**52,250**
Derivative financial instruments (positive fair values)	13,679	15,662
Loans and receivables	12,204	9,946
Bonds and other fixed-income securities	14,766	14,899
Equity securities and other variable-yield securities	13,624	11,567
Other assets	777	201
Less risk discount (for entire portfolio of assets held for trading purposes)	(23)	(25)

The following table shows the breakdown of liabilities held for trading purposes (liability item 3a) by financial instruments: (€ millions)

	2015	2014
Liabilities held for trading	**34,242**	**28,907**
Derivative financial instruments (negative fair values)	11,618	12,862
Liabilities (including delivery obligations arising from short sales of securities)	22,624	16,045

Derivatives held for trading purposes that were concluded under master agreements together with a credit support annex allowing for daily exchange of collateral were netted for each counterparty in the balance sheet. The netting for each counterparty encompasses both the carrying amount of the derivatives and the collateral provided. This involved netting positive fair values of €48.2 billion with negative fair values of €49.3 billion on derivatives held for trading with the associated receivables (€9.4 billion) and liabilities (€8.3 billion) from collateral provided.

23 Investment funds

The following table contains information regarding shares in investment funds compliant with Section 285 No. 26 HGB for which the Bank's holding exceeds 10% of the total number of shares: (€ millions)

	31/12/2015				31/12/2014			
	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE CARRYING AMOUNT/ FAIR VALUE	DIVIDEND PAYMENTS	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE CARRYING AMOUNT/ FAIR VALUE	DIVIDEND PAYMENTS
Total investment funds	840	844	4	2.7	658	661	3	0.6
Equity funds	256	256	—	1.7	151	151	—	—
Money market funds and								
near-money market funds	32	32	—	—	20	20	—	—
Mixed funds	188	192	4	0.2	220	223	3	0.2
Index funds	241	241	—	0.2	208	208	—	0.1
Bond funds	66	66	—	0.3	37	37	—	0.3
Funds of funds	57	57	—	0.3	22	22	—	—

In addition, the Bank holds all the shares in the "European-Office-Fonds" property special purpose entity, which is fully consolidated in the Bank's consolidated financial statements in accordance with IFRS 10.

Under Section 246 (2) HGB, assets to which all other creditors do not have access and which serve exclusively to settle liabilities arising from pension commitments or similar long-term commitments must be offset against these liabilities. Where these assets represent shares in investment funds, they are not shown in this table.

The shares listed in this table are held in either the Bank's held-for-trading portfolio or its liquidity reserve. Where necessary, the holdings in the liquidity reserve are always written down to the lower fair value.

In the case of the information regarding the dividend payments, it should be noted that the positions included in the table frequently represent investment funds that reinvest dividends in themselves. Consequently, the dividend payments shown in the table serve only as a limited indicator for the performance of the investment funds.

There are no indications of a restriction on daily return for the shares listed here.

Notes to the Balance Sheet (Continued)

24 Analysis of non-current assets

(€ millions)

	ACQUISITION/ PRODUCTION COST	ADDITIONS DURING FINANCIAL YEAR	DISPOSALS DURING FINANCIAL YEAR	RECLASSIFICATIONS DURING FINANCIAL YEAR[1]
Intangible assets	**699**	**6**	**127**	**1**
thereof:				
Software	689	3	127	11
Downpayments	10	3	—	(10)
Other intangible assets	—	—	—	—
Property, plant and equipment	**456**	**31**	**42**	**6**
thereof:				
Land and buildings used by HVB in its operations	205	2	6	(1)
Furniture and office equipment	251	29	36	7
Other non-current assets	**21**	**—**	**—**	**—**
	ACQUISITION COST			CHANGES +/−[2]
Participating interests	272			(108)
Shares in affiliated companies	2,696			(209)
Investment securities	11,539			(2,054)

1 The "Reclassifications during financial year" column shows the changes in value as a result of currency translation, among other things.
2 Use has been made of the possibility of combining amounts allowed by Section 34 (3) RechKredV.

25 Other assets

The following table shows the main items included in other assets:

(€ millions)

	2015	2014
Claims to tax reimbursements	526	518
Claims to dividends from affiliated companies	138	261
Proportion of income from commission/interest not yet received	57	64
Trade debtors	35	25
Proportion of income from portfolio fees	30	33
Capital investments with life insurers	24	22
Works of art	21	21

The claims to tax reimbursements consist of claims of €346 million (2014: €473 million) arising from income tax and of €180 million (2014: €45 million) arising from non-income taxes. The claims to dividends from affiliated companies include €64 million (2014: €85 million) in prorated income from UniCredit Luxembourg.

26 Prepaid expenses

The prepaid expenses arising from issuing and lending operations include the following:

(€ millions)

	2015	2014
Discounts on funds borrowed	39	40
Premiums on amounts receivable	—	—

(€ millions)

WRITE-UPS DURING FINANCIAL YEAR	DEPRECIATION/ AMORTISATION ACCUMULATED	SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIALYEAR	NON SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIALYEAR	DISPOSALS DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR	NET BOOK VALUE 31/12/2015	NET BOOK VALUE 31/12/2014
—	**555**	**17**	**—**	**125**	**24**	**36**
—	555	17	—	125	21	26
—	—	—	—	—	3	10
—	—	—	—	—	—	—
—	**281**	**19**	**1**	**36**	**170**	**159**
—	104	7	1	6	96	103
—	177	12	—	30	74	56
—	**—**	**—**	**—**	**—**	**21**	**21**
					NET BOOK VALUE 31/12/2015	**NET BOOK VALUE 31/12/2014**
					164	308
					2,487	2,503
					9,485	11,539

27 Excess of plan assets over pension liabilities

An amount payable of €1,543 million arising from liabilities due to pension and similar commitments was set against offsetting plan assets with a fair value of €2,041 million. Under the initial application provisions of the BilMoG, use was made of the option to spread the amount allocable to pension provisions equally over a period of 15 years. One-fifteenth of the transitional amount was allocated to the provision for pensions in the 2015 financial year. The omitted transitional allocation in the year under review totalled €199 million. The excess of assets over commitments, taking into account the omitted transitional allocation, is disclosed in the balance sheet as the excess of plan assets over pension liabilities (€697 million). The acquisition cost of the offsetting plan assets totalled €1,814 million. The assets involved are essentially fund shares, subordinated bonds, investments, and cash and cash equivalents.

(€ millions)

	2015	2014
Amount payable for offset pension and similar commitments	1,543	1,335
Fair value of the offsetting plan assets	2,041	1,981
Omitted transitional allocation	199	221
Excess of plan assets over the commitments, including the shortfall	697	867
Acquisition cost of the offsetting plan assets	1,814	1,788

The following table shows the surplus from pension commitments:

(€ millions)

	2015	2014
Net interest income from pension commitments	**—**	**17**
Income from plan assets used to offset pension and similar commitments	58	75
Expense component of the change in provisions for pensions and similar commitments	58	58
Expenses from plan assets used to offset pension and similar commitments	—	—

Notes to the Balance Sheet (Continued)

28 Assets assigned or pledged as security for own liabilities

Assets were assigned or pledged as security for the following liabilities:

(€ millions)

	2015	2014
Assets assigned or pledged as security for own liabilities	**43,306**	**33,860**
Deposits from banks	31,018	25,954
Deposits from customers	12,288	7,906

In addition, collateral is pledged to the ECB, irrespective of whether this is actually used to borrow funds or not. At 31 December 2015, the volume of pledged collateral amounted to €14 billion (2014: €13 billion).

Examples of own liabilities for which HVB provides collateral are special credit facilities provided by KfW and similar institutions, which the Bank has passed as loans in compliance with their conditions.

As a seller under repurchase agreements, HVB has transferred securities with a book value of €34 billion (2014: €24 billion) to its funding partners. The total includes €7 billion relating to own securities holdings. These securities continue to be shown under HVB's assets. The consideration received in return is stated under liabilities. They comprise mainly international money market transactions.

At the same time, further assets totalling €16,132 million (2014: €17,405 million) were pledged as security for securities lending transactions and exchange-traded derivatives.

In setting up a contractual trust arrangement (CTA), HVB transferred collateral to the asset administrator to hedge pension and semi-retirement obligations. Pursuant to Section 8a AltTZG, employers are required to hedge credit exceeding three times the amount of normal earnings, including the associated employer's contribution to the total social security charge, against the risk of insolvency. Recognised provisions and obligations to cover the costs of other group companies are not considered suitable means of security.

29 Other liabilities

The following table shows the main items included in other liabilities:

(€ millions)

	2015	2014
Amounts owed to special purpose entities	5,657	3,140
Obligations arising from debts assumed	846	911
Taxes payable	173	67
Other amounts owed to employees	122	109
Trading book valuation reserves	13	26
Amounts yet to be distributed from outplacements, etc.	6	10
Liabilities from losses absorbed from subsidiaries	4	9

The true sale transactions included under amounts owed to special purpose entities were carried out with a view to using the securities generated as collateral for repurchase agreements with the ECB. The underlying receivables are still recognised by HVB. All tranches are retained by the Bank, meaning that there is no corresponding reduction in risk-weighted assets.

The obligations arising from debts assumed essentially reflect obligations arising from the liquidation of media funds.

The taxes payable mainly include liabilities from non-income taxes of €173 million.

30 Deferred income

Discounts on amounts receivable shown at nominal value totalled €13 million (2014: €10 million). Furthermore, other deferred income includes accrued commissions of €23 million (2014: €15 million) and interest of €58 million (2014: €61 million) collected in advance.

31 Provisions

Other provisions include the following items: (€ millions)

	2015	2014
Total other provisions	**2,591**	**2,444**
Provisions for losses on guarantees and indemnities	224	243
Anticipated losses on pending transactions	—	—
Provisions for uncertain liabilities	2,367	2,201
thereof:		
Legal risks	548	416
Valuation units	482	455
Payments to employees	319	293
Restructuring	204	264
Payments for early retirement, semi-retirement, etc.	91	57
Anniversary bonus payments	41	43
Bonuses on saving plans	23	24
Other	659	649

The provisions for legal risks shown under provisions for uncertain liabilities contain provisions for litigation fees and damage payments. The other provisions essentially include provisions for pre-emptive rights and rental guarantees.

32 Subordinated liabilities

This item includes accrued interest of €4 million (2014: €5 million). HVB incurred interest expenses of €29 million on subordinated liabilities in 2015 (2014: €48 million).

The borrower cannot be obliged to make early repayment in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated loans are only repaid after the claims of all primary creditors have been settled. For the purposes of a bank's liable funds as defined under banking supervisory regulations, subordinated liabilities are regarded as supplementary capital.

On 25 January 2001, HVB issued a subordinated promissory note with a volume of €96 million. This subordinated promissory note matures on 27 January 2031 and bears interest at the 6-month Euribor rate, taking account of a surcharge of 0.65% p.a. for the entire term.

Shareholders' Equity

33 Analysis of shareholders' equity shown in the balance sheet

(€ millions)

a) Called-up capital		
Subscribed capital		
Balance at 1 January 2015	2,407	
Balance at 31 December 2015		2,407
b) Additional paid-in capital		
Balance at 1 January 2015	9,791	
Balance at 31 December 2015		9,791
c) Retained earnings		
ca) Legal reserve		
Balance at 1 January 2015	—	
Balance at 31 December 2015		—
cb) Reserve for shares in a controlling or majority interest-holding company		
Balance at 1 January 2015	54	
Transfer to the reserve for shares in a controlling or majority		
interest-holding company	38	
Balance at 31 December 2015		92
cc) Reserve set up under the Articles of Association		
Balance at 1 January 2015	—	
Balance at 31 December 2015		—
cd) Other retained earnings		
Balance at 1 January 2015	6,101	
Withdrawal for the transfer to the reserve for shares in a controlling		
or majority interest-holding company	(38)	
Balance at 31 December 2015		6,063
d) Profit available for distribution		
Balance at 1 January 2015	627	
Dividend payout of HVB for 2014	(627)	
Net profit 2015	398	
Balance at 31 December 2015		398
Shareholders' equity		
Balance at 31 December 2015		18,751

34 Holdings of HVB stock in excess of 5%

(in %)

	2015	2014
UniCredit S.p.A.	100.0	100.0

Compliant with Section 271 (2) HGB, HVB is an affiliated company of UniCredit S.p.A., Rome (UniCredit), and is included in the consolidated financial statements of UniCredit, which can be obtained from the Trade and Companies Register in Rome, Italy.

35 Amounts not available for distribution

The measurement at fair value of offsetting plan assets in connection with pension commitments and semi-retirement agreements gives rise to an amount of €228 million (2014: €193 million). Compliant with Section 268 (8) HGB, freely disposable provisions have been set up to cover the amount not available for distribution.

36 Holdings pursuant to Section 285 No. 11 and 11a HGB

The complete list of shareholdings as a constituent part of the notes to the financial statements is given in the section entitled "List of Holdings" in this Annual Report.

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

37 Breakdown of income by region

The following table shows a breakdown by region of:
– interest income
– current income from equity securities and other variable-yield securities, participating interests and shares in affiliated companies
– fees and commissions receivable
– net profit on financial operations and
– other operating income

(€ millions)

	2015	2014
Total income	**6,595**	**7,389**
Germany	5,567	6,108
Italy	441	623
UK	330	380
Rest of Europe	40	41
Americas	144	153
Asia	73	84

38 Net interest income

The following table shows the breakdown of net interest:

(€ millions)

	2015	2014
Net interest income	**6,355**	**2,879**
Interest income from		
lending and money market transactions	3,565	4,107
fixed-income securities and government-inscribed debt	570	666
Current income from equity securities and other variable-yield securities, participating interests and shares in affiliated companies	377	396
Income from profit-pooling and profit-and-loss-transfer agreements	62	166
Interest expenses	1,781	2,456

Negative interest that the Bank is required to pay for assets (such as interest for average reserve assets exceeding the required minimum reserves and for other deposits at the ECB) is reported under interest income with a negative sign; where negative interest is received on the liabilities side, this is entered as interest expenses with a positive sign.

Current interest income and expenses related to the held-for-trading portfolios as well as dividend income (so-called trading-induced interest) of €476 million are included in net interest income.

The interest expense arising from the compounding of provisions amounts to €4 million (2014: €6 million).

Notes to the Income Statement (Continued)

39 Services performed for third parties
HVB performed significant services for third parties notably in portfolio, asset and trust-loan management, in the brokerage of insurance, savings and loan contracts and investment funds, in investment and securities commission activities, and in the handling of payments.

40 Net income from the held-for-trading portfolio
The net income from the held-for-trading portfolio (net trading income) of €284 million (2014: €162 million) includes the offset income and expenses arising from transactions involving financial instruments held for trading purposes, complete with the full net income from FX operations. Also carried here are certain fees and commissions in connection with transactions involving financial instruments held for proprietary trading purposes and trading with precious metals. We carry the current interest income/expense resulting from held-for-trading portfolios (so-called trading-induced interest) as well as dividend income in net interest income and in current income rather than in net trading income in accordance with our internal management.

41 Breakdown of other operating income and expenses
This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€154 million (2014: €232 million)), payroll costs and cost of materials passed on (€67 million (2014: €71 million)) and the recognition of income from services performed in earlier years (€8 million).

Other operating expenses include the following:
– compensation and ex gratia payments (€21 million (2014: €14 million))
– additions to provisions other than provisions for lending and securities operations (€218 million (2014: €101 million))
– expenses of €3 million related to other periods as well as
– expenses of €58 million (2014: €58 million) arising from the compounding and discounting of provisions for pensions and similar provisions

42 Expenses from absorbed losses
There was an expense of €110,000 from an absorbed loss in other accounting periods in the 2015 financial year.

43 Extraordinary income/expenses
The initial application of the new provisions set forth in the BilMoG at 1 January 2010 resulted in expenses of €22 million in 2015 (2014: €22 million) arising from the revaluation of provisions for pensions to be disclosed under extraordinary income/expenses.

44 Taxes on income
All of the taxes on income relate to income from ordinary operations.

45 Net profit
The profit available for distribution amounts to €398 million. We will propose to the Shareholders' Meeting that a dividend of €398 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.50 per share after around €0.78 in 2014. In accordance with a resolution adopted by the Shareholders' Meeting on 20 May 2015, the profit available for distribution of €627 million generated in 2014 was distributed to UniCredit.

Other Information

46 Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €32,798 million:

(€ millions)

	2015	2014
Guarantees and indemnities	16,554	19,346
Loan guarantees	14,264	13,016
Documentary credits	1,980	2,240
Total	**32,798**	**34,602**
thereof to affiliated companies	15,940	15,368

Irrevocable lending commitments totalling €38,578 million break down as follows:

(€ millions)

	2015	2014
Book credits	33,544	24,758
Mortgage and municipal loans	2,319	1,601
Guarantees	2,715	517
Bills of exchange	—	—
Total	**38,578**	**26,876**
thereof to affiliated companies	944	855

Utilisation by the Bank on account of the contingent liabilities and other commitments that it has entered into is possible as part of its banking activities. Thus, every loan is fundamentally granted by utilising a previously made lending commitment that is shown under other commitments. Although utilisation by the Bank under contingent liabilities is not very probable in the case of guarantees it has issued, the possibility cannot be excluded. Utilisation is also the general case with regard to the documentary credits also shown here, as these are employed in the handling of foreign trade payments.

The key factor in this regard is that utilisation by the Bank under its contingent liabilities and other commitments does not generally lead to a loss. Instead, it results in the loan granted being recognised as is the case when a lending commitment is utilised. Provisions for anticipated losses on pending transactions that are required due to commitments to make payouts to defaulting borrowers are set up and deducted from the disclosed contingent liabilities and other commitments.

Up until now, we have carried the credit card facilities granted to customers (credit card limits) under irrevocable lending commitments. Given the fact that the credit card agreement and the related facility may be terminated at any time, these are revocable lending commitments that do not need to be disclosed. We have modified disclosure and accordingly adjusted the year-ago totals by €1,847 million.

HVB has made use of the option to provide up to 30% of the annual contribution to the bank restructuring fund in the form of fully secured payment claims (irrevocable payment commitments) in accordance with Section 12 of the German Bank Restructuring Fund Act (Restrukturierungsfondsgesetz – RstruktFG). The cash collateral provided in this regard amounted to €22 million at year-end 2015.

Other financial commitments arising from real estate and IT operations total €293 million (2014: €268 million). A large part of the total relates to contracts with subsidiaries (€149 million (2014: €138 million)). The contracts run for standard market periods, and no charges have been put off to future years.

Other Information (Continued)

At the reporting date on 31 December 2015, HVB had pledged securities worth €1,885 million (2014: €1,090 million) as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main.

As part of real estate financing and development operations, HVB assumes rental obligations or issues rental guarantees to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds. Provisions have been set aside to cover identifiable risks arising from such guarantees.

Commitments for uncalled payments on shares not fully paid up amounted to €44 million at year-end 2015 (2014: €45 million), and similar obligations for shares in cooperatives totalled €1 thousand (2014: €1 thousand). HVB was not liable for any defaults on such calls under Section 22 (3) and Section 24 GmbHG.

Where employees are granted a bonus that is disbursed over a period of several years under their variable compensation arrangements, such a bonus represents an expense for the period from 2011 to 2015 and is taken to the income statement on a pro rata basis accordingly. Especially in the case of the group of employees identified as "risk-takers", the German regulations governing institutions' remuneration systems (Instituts-Vergütungsverordnung) requires such a bonus to be disbursed over a period of several years. The bonus is granted subject to the proviso that the beneficiaries satisfy specific criteria (in the case of bonuses granted in the form of shares, stock options or deferred cash payments) that comply with both the regulatory requirements and the Bank's own rules. In addition, the bonus is linked to further conditions (such as a malus arrangement that ensures that no loss is recorded at either the UniCredit corporate level or the level of the individual beneficiary or there is a significant reduction in the results achieved). Provisions totalling €166 million were set aside in the income statement at 31 December 2015 in connection with bonus commitments. The final amount disbursed may be higher, should the plan conditions be met.

In a ruling dated 30 September 2014, the German Federal Labour Court (Bundesarbeitsgericht – BAG) had decided that the escape clause concerning the adjustment of occupational pensions is not applicable for occupational pensions originated before the German Actuarial Reserve Regulation (Deckungsrückstellungsverordnung – DeckRV) came into force or under which the discount rate exceeds the maximum rate specified. This could also have been applicable to the occupational pension commitments undertaken by the Bank by way of Versicherungsverein des Bankgewerbes a.G. (BVV). At the end of 2015, the lawmaker responded to the BAG's decision by amending Section 16 (3) No. 2 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG) and clarified its intention. Withdrawing the reference to the maximum rate under the Actuarial Reserve Regulation negates the employer's obligation to assess an adjustment if the occupational pension is provided by a regulated pension fund and the latter uses all the shares in surpluses accruing on the pension pool to increase the occupational pensions. Accordingly, the BAG decision is not expected to have any major impact and the existence or incurrence of an obligation for the Bank is not anticipated.

In its function as personally liable shareholder, HVB had unlimited liability arising from shares in two partnerships at the reporting date.

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest.

With a Statement of Responsibility dated 21 December 1993, HVB issued an undertaking to the State of Baden Wuerttemberg (Ministry of Finance) to assume a liquidity provision obligation in the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

47 Statement of Responsibility

HVB ensures that, to the extent of its shareholding, the companies set forth below are in a position to meet their contractual obligations except in the event of political risks:

1. Banks
Bankhaus Neelmeyer AG, Bremen
UniCredit Luxembourg S.A., Luxembourg
2. Financial companies
UniCredit Leasing GmbH, Hamburg
3. Companies with bank-related auxiliary services
HypoVereinsFinance N.V., Amsterdam

HVB's commitment arising from the above Statement of Responsibility declines by the extent to which HVB's shareholding decreases in the future with regard to such commitments of the relevant company that did not arise until after HVB's shareholding decreased. Where HVB is no longer a shareholder in a company listed above, our commitment arising from the above Statement of Responsibility ends on the date on which our holding ceased with regard to such liabilities of the relevant company that did not arise until our shareholding ceased.

HVB no longer provides a Statement of Responsibility for companies for which a Statement of Responsibility had been provided in earlier annual reports but which no longer appear in the above list. Liabilities of these companies arising before the reduction or cessation of the shareholding are only not covered by such Statements of Responsibility that were earlier subject to the Statements of Responsibility provided before the reduction or cessation of the shareholding in each case.

48 Auditor's fees

We have made use of the option provided by Section 285 No. 17 HGB and refer to the disclosures regarding the fees paid to the independent auditors in the section of the consolidated financial statements at 31 December 2015 entitled "Other Information".

49 Off-balance-sheet transactions

Special purpose entities

HVB maintains business relations with a number of special purpose entities that pursue varying business models and hold various different types of assets. HVB's business relations with the special purpose entities are recognised in the financial statements either on or off the balance sheet.

The Bank uses special purpose entities to securitise both the Bank's own receivables and customer receivables. The latter involve commercial paper conduits for which the Bank provides guarantees and liquidity facilities.

In the case of the Bank's own receivables, the special purpose entities mainly serve to procure liquidity. These do not, however, result in the securitised receivables being taken off the books as they involve either synthetic securitisations aimed at reducing risk or securitisation transactions with all risks retained to create securities as collateral with central banks. The securitisation of customer receivables is generally accompanied by an improvement in the customer's liquidity situation and a broadening of the funding base, whereby the Bank generates income from the structuring service and the facilities provided. HVB may face economic disadvantages, in particular, should the facilities provided be drawn down.

In addition, there are special purpose entities for which HVB acts solely as an investor, for instance to purchase securities or grant loans. The ensuing risks may lead to write-downs being recognised on the positions involved.

In some instances, HVB controls a special purpose entity from an economic point of view, which entails full consolidation of the special purpose entity in the consolidated financial statements of HVB.

Other Information (Continued)

Revocable credit commitments
HVB has granted its customers credit and liquidity facilities that are callable at any time and are not shown either on or off the balance sheet. The advantage for HVB from this customary, standardised product lies in the possibility of generating additional interest and commission income. This is set against the risk of a deterioration in the financial situation of those customers to whom these credit commitments were made.

Outsourcing of activities
Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A., Milan. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services.

Furthermore, HVB has transferred certain activities relating to the settlement of transactions to UniCredit Global Business Services GmbH, Unterföhring, and UniCredit Business Integrated Solutions S.C.p.A., Milan, companies affiliated with the Bank that provide settlement services for HVB and other affiliated companies in line with a standard business and operating model.

HVB has outsourced the handling of securities transactions in Germany and its Milan branch to an external service provider. The purpose of this for HVB is to permanently reduce its operating costs.

50 Regulatory disclosure requirements (Disclosure Report)
HVB has been classified as a significant subsidiary of UniCredit within the meaning of Article 13 (1) of the Capital Requirements Regulation (CRR), making it subject to the scope of the CRR (Article 13 (1) and Part 8 CRR) and certain extended in accordance with Section 26a KWG (disclosure under Pillar III).

HVB discloses this information on a standalone basis in the form of a separate disclosure report. Since 2015, this report has been published on the Bank's website under About us > Investor Relations > Reports on an annual basis at 31 December, at each quarter-end during the year and shortly after the publication of the annual and interim reports.

Due to the increased significance, the disclosure of the remuneration policy and practices for those categories of staff whose professional activities have a material impact on the Bank's risk profile (known as "risk takers") required by Article 450 CRR in conjunction with Section 16 (1) of the German Regulation on the Requirements for the Remuneration Systems of Institutions under Regulatory Law (Institutsvergütungsverordnung – InstitutsVergV) takes the form of a separate report for HVB. This is published on the Bank's website under About us > Investor Relations > Corporate Governance once a year at 31 December and shortly after the Shareholders' Meeting of UniCredit Bank AG.

51 Own funds
Pursuant to Article 72 CRR, for regulatory purposes own funds consists of Tier 1 capital and Tier 2 capital; they amounted to €19,007 million (year-end 2014: €18,889 million) at year-end 2015 based on annual financial statements approved by the Supervisory Board. We have not allocated any unrealised reserves to Tier 2 capital compliant with Section 10 (2b) KWG as applicable until 31 December 2013.

The eligible capital calculated in accordance with Article 4 (1) (71)(b) in conjunction with Article 494 CRR are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits. It amounted to €19,007 million (year-end 2014: €18,889 million) at year-end 2015.

52 Derivative financial instruments

The following table provides detailed information about the nominal amount and fair values of all derivative transactions and credit derivative transactions of HVB:

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2015	2014	2015	2014	2015	2014
Interest rate derivatives	**1,004,886**	**737,453**	**813,172**	**2,555,511**	**2,566,066**	**64,455**	**88,581**	**62,177**	**85,193**
OTC products									
Forward rate agreements	181,844	2,278	—	184,122	124,167	26	13	21	8
Interest rate swaps	624,464	676,868	673,711	1,975,043	2,059,250	60,965	82,922	56,350	77,402
Interest rate options									
– purchased	64,174	26,094	74,007	164,275	150,047	3,325	4,951	203	495
– written	64,724	20,954	63,477	149,155	136,684	125	691	5,259	7,285
Other interest rate derivatives	16,570	—	—	16,570	2,916	11	3	341	2
Exchange-traded products									
Interest rate futures	26,730	11,259	1,213	39,202	37,893	—	—	—	1
Interest rate options	26,380	—	764	27,144	55,109	3	1	3	—
Foreign exchange derivatives	**281,065**	**31,263**	**985**	**313,313**	**233,971**	**4,059**	**4,837**	**4,476**	**5,069**
OTC products									
Foreign exchange forwards	244,146	26,029	943	271,118	205,646	3,695	4,406	4,021	4,618
Foreign exchange options									
– purchased	18,033	2,735	24	20,792	14,467	237	347	153	101
– written	18,880	2,499	18	21,397	13,848	127	84	302	350
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	6	—	—	6	10	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**54,791**	**101,774**	**62,306**	**218,871**	**251,534**	**6,503**	**5,901**	**7,910**	**6,859**
Equity/index derivatives	**36,349**	**33,629**	**6,160**	**76,138**	**157,944**	**2,157**	**2,268**	**2,956**	**2,888**
OTC products									
Equity/index swaps	4,295	4,751	155	9,201	9,825	165	219	139	217
Equity/index options									
– purchased	4,160	2,327	252	6,739	20,240	483	514	66	168
– written	7,411	10,353	4,512	22,276	91,463	25	30	690	896
Other equity/index derivatives	320	—	—	320	2,332	3	136	3	2
Exchange-traded products									
Equity/index futures	6,232	15	—	6,247	5,825	15	12	6	11
Equity/index options	13,931	16,183	1,241	31,355	28,259	1,466	1,357	2,052	1,594
Credit derivatives	**14,213**	**52,184**	**3,124**	**69,521**	**92,503**	**1,446**	**1,823**	**1,124**	**1,533**
Other transactions	**5,522**	**3,722**	**725**	**9,969**	**8,167**	**671**	**365**	**384**	**319**
HVB	**1,396,826**	**960,025**	**886,472**	**3,243,323**	**3,310,185**	**79,291**	**103,775**	**79,027**	**101,861**

Most of the derivatives are held for trading purposes.

The banking book contains derivatives with positive fair values of €1.7 billion (2014: €2.0 billion) and negative fair values of €0.9 billion (2014: €1.3 billion).

Other Information (Continued)

53 Employees

The average number of staff employed was as follows:

	2015	2014
Staff (excluding apprentices)	14,485	14,890
of whom:		
full-time	10,840	11,216
part-time	3,645	3,674
Apprentices	616	773

The staff's length of service was as follows: (in %)

	WOMEN (EXCLUDING TRAINEES)	MEN (EXCLUDING TRAINEES)	2015 TOTAL	2014 TOTAL
Staff's length of service				
25 years or more	23.2	21.1	22.2	22.4
15 to 25 years	32.5	21.9	27.5	31.3
10 to 15 years	18.5	17.8	18.2	10.0
5 to 10 years	12.8	17.6	15.0	21.9
less than 5 years	13.0	21.6	17.1	14.4

54 Emoluments

(€ thousands)

	2015						
	SHORT-TERM COMPONENTS		LONG-TERM INCENTIVES				
	FIXED SALARY	SHORT-TERM PERFORMANCE-RELATED CASH REMUNERATION	LONG-TERM PERFORMANCE-RELATED CASH REMUNERATION	SHARE-BASED REMUNERATION	POST-EMPLOYMENT BENEFITS	TERMINATION BENEFITS	TOTAL
Members of the Management Board of UniCredit Bank AG	6,376	923	901	1,724	1,519	—	11,443
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	804	—	—	—	—	—	804
Members of the Supervisory Board of UniCredit Bank AG for activities as employee representatives	477	32	—	—	30	—	539
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	—	30	54	100	1,993	—	2,177

(€ thousands)

	2014						
	SHORT-TERM COMPONENTS		LONG-TERM INCENTIVES				
	FIXED SALARY	SHORT-TERM PERFORMANCE-RELATED CASH REMUNERATION	LONG-TERM PERFORMANCE-RELATED CASH REMUNERATION	SHARE-BASED REMUNERATION	POST-EMPLOYMENT BENEFITS	TERMINATION BENEFITS	TOTAL
Members of the Management Board of UniCredit Bank AG	6,239	956	1,182	686	1,523	—	10,586
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	810	—	—	—	—	—	810
Members of the Supervisory Board of UniCredit Bank AG for activities as employee representatives	475	66	—	—	54	—	595
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	—	—	—	—	1,945	—	1,945

It is the task of the Bank's full Supervisory Board to decide on the total remuneration paid to the individual members of the Management Board and to review the structure of the remuneration systems for the Management Board. The full Supervisory Board receives assistance in this regard from the Remuneration Control committee, which submits appropriate proposals to the full Supervisory Board. Appropriateness and sustainability are key criteria for the form and structure of the remuneration paid to the members of the Management Board. The structure of remuneration is derived from the service agreements with the members of the Management Board. It has two components: a fixed salary and a variable element. The variable remuneration is normally granted in deferred tranches over several years in the form of cash and in shares, with disbursement dependent upon defined corporate targets being achieved in the subsequent years.

Pension commitments for seven members of the Management Board are shown in the table alongside the direct emoluments. Seven members of the Management Board took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2015. The Bank will provide/has provided 35% of the fixed salary contributions (2015: €1,368 thousand (2014: €1,523 thousand)). It has been agreed with the members of the Management Board that this amount of their pay would be converted which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

Other Information (Continued)

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed remuneration shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to HVB.

At 31 December 2015, there were provisions in the amount of €43.6 million (2014: €39.6 million) for pensions payable to former members of the Management Board and retired members of the Management Board of HVB and their surviving dependents, as calculated in accordance with actuarial principles using the projected unit credit method, taking into account anticipated future rises in pensions.

Share-based remuneration was granted to the members of the Management Board under the Group Incentive Scheme in the reporting period as follows:

SHARES GRANTED TO MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	2015	2014
Number of shares granted	468,856	160,019
Fair value on grant date (€)	6.190	6.115

55 Loans to executive board members

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: (€ thousands)

	2015			2014		
	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES
Members of the Management Board						
and their related parties	1,761	—	7,058	2,392	3	7,620
Members of the Supervisory Board						
and their related parties	337	—	3,461	522	—	3,497

Members of the Supervisory Board and Management Board at HVB and their respective immediate family members are considered related parties.

Loans and advances were granted to members of the Management Board and their immediate family members in the form of mortgage loans with interest rates of between 1.36% and 3.96% and falling due in the period from 2016 to 2025.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of unplanned overdraft facilities with interest rates of between 6.00% and 10.89%, planned overdraft facilities with an interest rate of 10.89% and no fixed maturity, and mortgage loans with interest rates of between 1.92% and 3.33% falling due in the period from 2017 to 2035.

All banking transactions involving the group of people listed were conducted at customary market terms with the usual collateral.

56 Supervisory Board

Federico Ghizzoni	Chairman
Peter König until 20 May 2015 Florian Schwarz since 20 May 2015 Dr Wolfgang Sprissler	Deputy Chairmen
Mirko Davide Georg Bianchi Aldo Bulgarelli until 20 May 2015 Beate Dura-Kempf Klaus Grünewald Werner Habich Prof Dr Annette G. Köhler since 20 May 2015 Dr Marita Kraemer Dr Lothar Meyer until 20 May 2015 Gianni Franco Papa since 20 May 2015 Klaus-Peter Prinz Jens-Uwe Wächter	Ordinary Members

57 Management Board

Dr Andreas Bohn until 30 September 2015	Corporate & Investment Banking
Peter Buschbeck	Commercial Banking/ Private Clients Bank
Dr Michael Diederich since 1 September 2015	Corporate & Investment Banking
Lutz Diederichs	Commercial Banking/ Unternehmer Bank
Francesco Giordano since 1 June 2015	Chief Financial Officer (CFO)
Peter Hofbauer until 31 May 2015	Chief Financial Officer (CFO)
Heinz Laber	Chief Operating Officer (COO) Human Resources Management, Global Banking Services (GBS)
Andrea Umberto Varese	Chief Risk Officer (CRO)
Dr Theodor Weimer	Board Spokesman

List of Executives and Outside Directorships

58 Supervisory Board

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan Chairman		
Peter König until 20 May 2015 Employee, UniCredit Bank AG, Haar-Salmdorf Deputy Chairman	BVV Pensionsfonds des Bankgewerbes AG, Berlin	BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Florian Schwarz since 20 May 2015 Employee, UniCredit Bank AG, Munich Deputy Chairman		
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft, Hamburg (Chairman)	UniCredit Bank Austria AG, Vienna, until 8 May 2015 Dr. R. Pfleger Chemische Fabrik Gesellschaft mit beschränkter Haftung, Bamberg (Deputy Chairman)
Mirko Davide Georg Bianchi Chief Financial Officer der UniCredit Bank Austria AG, Lugano-Casagnola		UniCredit Bank Ireland p.l.c., Dublin, until 5 August 2015 UniCredit Bank Czech Republic and Slovakia, a.s., Prague (Chairman), since 24 September 2015 Zagrebačka banka d.d., Zagreb, since 10 December 2015 UniCredit Bank SA, Bucharest (formerly UniCredit Bank Tiriac Bank S.A.), since 30 July 2015 Koç Finansal Hizmetler A.S., Istanbul, since 30 June 2015 Yapi ve Kredi Bankasi A.S., Istanbul, since 9 July 2015
Aldo Bulgarelli until 20 May 2015 Attorney, BULGARELLI & CO. AVVOCATI, Verona		AMMANN Italy S.p.A., Bussolengo (President of the Collegio Sindacale)
Beate Dura-Kempf Employee, UniCredit Bank AG, Litzendorf		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia & GAD IT AG, Frankfurt am Main (formerly FIDUCIA IT AG, Karlsruhe)	
Werner Habich Employee, UniCredit Bank AG, Mindelheim		

1 as of 31 December 2015

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Prof Dr Annette G. Köhler since 20 May 2015 University professor and Chair of Accounting, Auditing and Controlling, University of Duisburg-Essen, Faculty of Business Administration – Mercator School of Management, Düsseldorf	Value-Holdings Capital Partners AG, Gersthofen	
Dr Marita Kraemer Member of the Management Board of Zurich GI Management Aktiengesellschaft (Deutschland) and member of the Management Board of Zurich Service GmbH, Frankfurt am Main		
Dr Lothar Meyer until 20 May 2015 Former Chairman of the Management Board of ERGO Versicherungsgruppe Aktiengesellschaft, Bergisch Gladbach	ERGO Versicherungsgruppe Aktiengesellschaft, Düsseldorf, until 27 March 2015	
Gianni Franco Papa since 20 May 2015 Head of Corporate & Investment Banking (CIB) Division of UniCredit S.p.A., Vienna		Koç Finansal Hizmetler A.S., Istanbul (Deputy Chairman) Yapi ve Kredi Bankasi A.S., Istanbul
Klaus-Peter Prinz Employee, UniCredit Luxembourg S.A., Trier		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		

1 as of 31 December 2015

List of Executives and Outside Directorships (Continued)

59 Management Board

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Dr Andreas Bohn born 1963 Corporate & Investment Banking until 30 September 2015		SwanCap Partners GmbH, Munich (Chairman)[2], until 23 July 2015 Tikehau Investment Management S.A.S., Paris
Peter Buschbeck born 1961 Commercial Banking/Private Clients Bank	Bankhaus Neelmeyer AG, Bremen (Chairman)[2] PlanetHome AG, Unterföhring (Chairman)[2], until 15 June 2015 WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Chairman)[2] Wüstenrot & Württembergische AG, Stuttgart	Wealth Management Capital Holding GmbH, Munich (Chairman)[2]
Dr Michael Diederich born 1965 Corporate & Investment Banking since 1 September 2015		PORR AG, Vienna
Lutz Diederichs born 1962 Commercial Banking/Unternehmer Bank	Bayerische Börse AG, Munich, since 1 January 2015	ESMT European School of Management and Technology GmbH, Berlin, since 17 June 2015 UniCredit Luxembourg S.A., Luxembourg (Chairman)[2] UniCredit Leasing GmbH, Hamburg (Chairman)[2] UniCredit Leasing Finance GmbH, Hamburg (Chairman)[2]
Francesco Giordano born 1966 Chief Financial Officer (CFO) since 1 June 2015	HVB Trust Pensionsfonds AG, Munich (Deputy Chairman), since 2 July 2015 UniCredit Global Business Services GmbH, Unterföhring[2], since 30 June 2015 WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Deputy Chairman)[2], since 1 July 2015	Immobilien Holding GmbH, Vienna (Deputy Chairman), until 30 June 2015 Koç Finansal Hizmetler A.S., Istanbul, until 30 June 2015 UniCredit Tiriac Bank S.A., Bucharest, until 1 July 2015 UniCredit Turn-Around Management CEE GmbH, Vienna (Deputy Chairman), until 30 June 2015 UniCredit Bank Czech Republic and Slovakia, a.s., Prague (Chairman), until 15 July 2015 Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2], since 1 July 2015 Yapi ve Kredi Bankasi A.S., Istanbul, until 30 June 2015
Peter Hofbauer born 1964 Chief Financial Officer (CFO) until 31 May 2015	HVB Immobilien AG, Munich (Deputy Chairman)[2], until 30 June 2015 HVB Trust Pensionsfonds AG, Munich (Deputy Chairman), until 13 May 2015 UniCredit Global Business Services GmbH, Unterföhring[2], until 30 June 2015 WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Deputy Chairman)[2], until 30 June 2015	Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2], until 30 June 2015 Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck, since 13 May 2015 Oberbank AG, Linz, since 19 May 2015 BKS Bank AG, Klagenfurt, since 20 May 2015
Heinz Laber born 1953 Chief Operating Officer (COO) Human Resources Management, Global Banking Services	HVB Immobilien AG, Munich (Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Chairman) UniCredit Global Business Services GmbH, Unterföhring (Chairman)[2]	BVV Versorgungskasse des Bankgewerbes e.V., Berlin (Chairman) BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Chairman) ESMT European School of Management and Technology GmbH, Berlin, until 14 April 2015
Andrea Umberto Varese born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2] UniCredit Global Business Services GmbH, Unterföhring[2] WealthCap Kapitalverwaltungsgesellschaft mbH, Munich[2]	UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman)[2] Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer born 1959 Board Spokesman	DAB Bank AG, Munich (Chairman), until 17 January 2015 ERGO Versicherungsgruppe Aktiengesellschaft, Düsseldorf FC Bayern München AG, Munich	

1 as of 31 December 2015
2 Group directorship

60 List of employees and outside directorships

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Thomas Breiner	AGROB Immobilien AG, Ismaning[2]
Dr Bernhard Brinker	UniCredit Luxembourg S.A., Luxembourg[2]
Matthias Brückl	M&M Militzer & Münch International Holding GmbH, St. Gallen
Bernd Brunke	bmp media investors AG, Berlin
Joachim Dobrikat	VALOVIS BANK AG, Essen
Dr Jochen Fischer	Bankhaus Neelmeyer AG, Bremen[2]
Matthias Glückert	OECHSLER AG, Ansbach
Christian Klatt	Bankhaus Neelmeyer AG, Bremen[2]
Stephanie Kraus	UniCredit Luxembourg S.A., Luxembourg[2]
Dr Andreas Mayer	UniCredit Luxembourg S.A., Luxembourg[2]
Ansgar Oberreuter	Bankhaus Neelmeyer AG, Bremen[2]
Jörg Pietzner	Bankhaus Neelmeyer AG, Bremen[2]
Gabriele Rauer	UniCredit Direct Services GmbH, Munich[2]
Dr Christian Reichmayr	UniCredit Direct Services GmbH, Munich[2]
Dr Guido Schacht	AVAG Holding SE, Augsburg
Peter Weidenhöfer	AGROB Immobilien AG, Ismaning[2]
Karoline Würtz	Saarländische Investitionskreditbank Aktiengesellschaft, Saarbrücken

1 as of 31 December 2015
2 Group directorship

List of Holdings

Compliant with Section 313 (2) German Commercial Code for the consolidated financial statements and Section 285 No. 11 and 11a German Commercial Code for the annual financial statements of UniCredit Bank AG

61 List of Holdings

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
1 Controlled companies						
1.1 Controlled by voting rights						
1.1.1 Consolidated subsidiaries						
1.1.1.1 Banks and financial institutions						
Bankhaus Neelmeyer AG	Bremen	100.0		EUR	63,400	[1.1]
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	160,013	[2]
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,339,356	64,243
1.1.1.2 Other consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	31	8,142
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	34	144
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	39	679
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	23,495	1,723
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	0
Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	[2]
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(42,551)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(39,212)	(1)
A&T-Projektentwicklungs GmbH & Co.						
Potsdamer Platz Berlin KG[3]	Munich	100.0	100.0	EUR	(37,209)	0
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	7,669	627
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	92	2
Bayerische Wohnungsgesellschaft für Handel und Industrie,						
Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	294	[2]
B.I. International Limited	George Town	100.0	100.0	EUR	(1,210)	(80)
BIL Leasing-Fonds GmbH & Co VELUM KG						
(share of voting rights: 66.7% total,						
of which 33.3% held indirectly)	Grünwald	100.0		EUR	(2)	0
BIL Leasing-Fonds Verwaltungs-GmbH	Grünwald	100.0	100.0	EUR	32	(1)
Blue Capital Europa Immobilien GmbH & Co.						
Achte Objekte Großbritannien KG	Munich	100.0	100.0	EUR	30	334
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	511	0
CUMTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(22,880)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(53,477)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(59,493)	0
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	71	(91)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(440)	35
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	416	(23)
Food & more GmbH	Munich	100.0		EUR	235	[1.2]

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	0
Grundstücksaktiengesellschaft am Potsdamer Platz (Haus Vaterland)	Munich	98.2	98.2	EUR	4,495	[2]
Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft[3]	Munich	100.0	100.0	EUR	52	1,004
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	(1)
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	594
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	238
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	26	[2]
HJS 12 Beteiligungsgesellschaft mbH[3]	Munich	100.0		EUR	278	[1,3]
HVB Asset Leasing Limited	London	100.0		USD	0	(37)
HVB Asset Management Holding GmbH[3]	Munich	100.0	100.0	EUR	25	[2]
HVB Capital LLC	Wilmington	100.0		USD	1,128	87
HVB Capital LLC II	Wilmington	100.0		GBP	2	0
HVB Capital LLC III	Wilmington	100.0		USD	1,107	90
HVB Capital Partners AG[3]	Munich	100.0		EUR	12,671	[1,4]
HVB Export Leasing GmbH	Munich	100.0		EUR	39	0
HVB Funding Trust II	Wilmington	100.0		GBP	2	0
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	28	0
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	12,978
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,631	384
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1,5]
HVB Investments (UK) Limited	George Town	100.0		GBP	0	0
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	1,025	36
HVB London Investments (AVON) Limited	London	100.0		GBP	0	0
HVB Principal Equity GmbH[3]	Munich	100.0		EUR	34	[1,6]
HVB Profil Gesellschaft für Personalmanagement mbH[3]	Munich	100.0		EUR	28	[1,7]
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	[2]
HVB Realty Capital Inc.	New York	100.0	100.0	USD	0	0
HVB Secur GmbH	Munich	100.0		EUR	126	[1,8]
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 1 GmbH[3]	Munich	100.0		EUR	41	[1,9]
HVB Verwa 4 GmbH[3]	Munich	100.0		EUR	10,132	[1,10]
HVB Verwa 4.4 GmbH[3]	Munich	100.0	100.0	EUR	10,025	[2]
HVBFF International Greece GmbH	Munich	100.0	100.0	EUR	14	(1)
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	8	(1)
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	37	(2)
HVBFF Produktionshalle GmbH i.L.	Munich	100.0	100.0	EUR	20	0
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	(10,906)
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	14	2
Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(2,103)
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG[3]	Munich	80.0	80.0	EUR	(850)	0
HypoVereinsFinance N.V.	Amsterdam	100.0		EUR	2,279	201
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	51	[2]
Kinabalu Financial Products LLP	London	100.0		GBP	818	(28)
Kinabalu Financial Solutions Limited	London	100.0		GBP	1,700	0
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	[2]
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung[3]	Munich	100.0		EUR	16,692	[1,11]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	11,373	6,967
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	16	(1)
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	[2]
NF Objekt München GmbH[3]	Munich	100.0	100.0	EUR	75	[2]
NF Objekte Berlin GmbH[3]	Munich	100.0	100.0	EUR	15,725	[2]
Ocean Breeze Asset GmbH & Co. KG	Bremen	100.0	100.0	EUR	0	(3)
Ocean Breeze Energy GmbH & Co. KG[3]	Bremen	100.0	100.0	EUR	(57,444)	(26,247)
Ocean Breeze GmbH	Bremen	100.0	100.0	EUR	22	(2)
Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG[3]	Munich	100.0	94.0	EUR	26	(1)
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	(142)
Omnia Grundstücks-GmbH & Co. Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	3,075	(1,316)
Orestos Immobilien-Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	56,674	[2]
Othmarschen Park Hamburg GmbH & Co. Centerpark KG[3]	Munich	100.0	100.0	EUR	(18,942)	0
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	0
Perikles 20092 Vermögensverwaltung GmbH	Bremen	100.0	100.0	EUR	24	(1)
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	2,850
"Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	30	0
Redstone Mortgages Limited	London	100.0		GBP	26,674	10,814
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
Roncasa Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	(38,070)	950
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Saarland[3]	Munich	100.0	100.0	EUR	1,534	(1,103)
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	10,725
Salvatorplatz-Grundstücksgesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	711	[2]
Selfoss Beteiligungsgesellschaft mbH[3]	Grünwald	100.0	100.0	EUR	25	[2]
Simon Verwaltungs-Aktiengesellschaft i.L.[4]	Munich	<100.0		EUR	3,084	(15)
Sirius Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(143,835)	[2]
Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG[3]	Munich	100.0	100.0	EUR	(33,823)	950
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Structured Invest Société Anonyme	Luxembourg	100.0		EUR	7,000	3
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	36,750	[2]
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(7,024)	(17)
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,489)	(24)
TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs-KG[3]	Munich	75.0	75.0	EUR	(268,579)	0
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(391)	(20)
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	12,366	4,850
Transterra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	8,757	945
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	21,291	3,842
Trinitrade Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0		EUR	1,319	(3)
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,175	[1,12]
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	103,216	3,216
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	2,427	186

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	927	[1.13]
UniCredit Global Business Services GmbH	Unterföhring	100.0		EUR	11,546	3,538
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	(2,985)	(1,112)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	452,026	[1.14]
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	114,597	18
UniCredit Zweite Beteiligungs GmbH	Munich	100.0		EUR	1,000	[1.15]
US Property Investments Inc.	Dallas	100.0		USD	721	(20)
Verba Verwaltungsgesellschaft mit beschränkter Haftung	Munich	100.0		EUR	748	(6)
Vermietungsgesellschaft mbH & Co. Objekt MOC KG[3]	Munich	89.0	89.0	EUR	(102,083)	1,787
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.16]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
VuWB Investments Inc.	Wilmington	100.0	100.0	USD	3,684	308
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,531	[1.17]
WealthCap Aircraft 27 GmbH & Co. geschlossene Investment KG	Grünwald	100.0	100.0	USD	1	-1
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	1,256	(460)
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	1,219	1,194
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	(392)	208
WealthCap Initiatoren GmbH	Munich	100.0	100.0	EUR	275	219
WealthCap Investment Services GmbH	Munich	100.0	90.0	EUR	5,101	[2]
WealthCap Investments, Inc.	Wilmington	100.0	100.0	USD	1,386	(6)
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	[2]
WealthCap Kapitalverwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	7,099	[2]
WealthCap Leasing GmbH	Grünwald	100.0	100.0	EUR	531	180
WealthCap Management Services GmbH	Grünwald	100.0	100.0	EUR	210	23
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	46	15
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	3,065	2,019
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	43	1
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	178	128
WMC Aircraft 27 Leasing Limited	Dublin	100.0	100.0	USD	(2,500)	3,401
1.1.2 Non-consolidated subsidiaries[5]						
Other non-consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH	Grünwald	100.0	100.0	EUR	25	[2]
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
"Alte Schmelze" Projektentwicklungsgesellschaft mbH	Munich	100.0	100.0			
Altea Verwaltungsgesellschaft mbH & Co. Objekt I KG	Munich	100.0	100.0			
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH	Ebersberg	98.8	98.8			
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.9			
Apir Verwaltungsgesellschaft mbH & Co. Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(27,550)	950
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	100.0	100.0			
BFL Beteiligungsgesellschaft für Flugzeug-Leasing mbH	Munich	100.0				
BIL Aircraftleasing GmbH	Grünwald	100.0	100.0			
BIL Immobilien Fonds GmbH	Munich	100.0	100.0			
BIL Leasing GmbH & Co Hotel Rostock KG i.L.	Rostock	58.9	58.9			
Blue Capital Metro Amerika Inc.	Wilmington	100.0	100.0			
BV Grundstücksentwicklungs-GmbH & Co. Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.9	EUR	26	[2]
Ferra Immobilien- und Projektentwicklungs GmbH & Co. Projekt Großenhainer Straße KG	Munich	100.0	100.0	EUR	(8,933)	900
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]

List of Holdings (Continued)

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	[2]
H.F.S. Immobilienfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 4 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 6 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 8 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 9 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 10 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 11 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 12 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 15 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 16 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 18 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 2 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Beteiligungs B.V.	The Hague	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds GmbH & Co. Europa 4 KG	Munich	100.0	100.0			
H.F.S. Leasingfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds GmbH	Ebersberg	100.0	100.0			
H.F.S. Value Management GmbH	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 2 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 3 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 4 GmbH & Co. KG	Munich	100.0	100.0			
Hofgarten Real Estate B.V. (share of voting rights: 50.5%)	Amsterdam	47.2	47.2	EUR	(49,269)	(19)
HVB Life Science GmbH	Munich	100.0				
HVB London Trading Ltd.	London	100.0				
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVBFF Baumanagement GmbH	Munich	100.0	100.0	EUR	50	[2]
HVBFF Kapitalvermittlungs GmbH	Munich	100.0	100.0	EUR	19	[2]
HVBFF Leasing & Investition GmbH & Co Erste KG	Munich	100.0	100.0			
HVBFF Leasing Objekt GmbH	Grünwald	100.0	100.0			
HVBFF Leasing-Fonds Verwaltungs GmbH	Munich	100.0	100.0			
HVZ GmbH & Co. Objekt Unterföhring KG	Munich	100.0	100.0			
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH	Munich	100.0	100.0	EUR	128	[2]
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0			
Life Britannia Management GmbH	Grünwald	100.0	100.0			
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Olos Immobilien- und Projektentwicklungs GmbH & Co. Grundstücksentwicklungs KG	Munich	100.0	100.0			
Omnia Grundstücks-GmbH	Munich	100.0	100.0	EUR	26	[2]
Omnia Grundstücks-GmbH & Co. Betriebs KG	Munich	100.0	94.0			
Othmarschen Park Hamburg Wohn- und Gewerbepark GmbH	Munich	100.0	100.0	EUR	102	[2]
Perterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Projekt Vorrat GmbH	Munich	100.0	100.0			
Projekt-GbR Kronstadter Straße München	Munich	75.0	75.0			
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0			

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Saphira Immobilien- und Projektentwicklungs GmbH & Co.						
Frankfurt City West Office Center und Wohnbau KG	Munich	100.0	100.0			
Schloßberg-Projektentwicklungs-GmbH & Co 683 KG	Munich	100.0	100.0			
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co.						
Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(3,002)	0
Tishman Speyer Berlin Friedrichstraße KG i.L.						
(share of voting rights: 96.6% total, of which 7.1% held indirectly)	Munich	97.1	5.9			
UniCredit CAIB Securities UK Ltd.	London	100.0				
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(23,947)	975
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
WealthCap Aircraft 27 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Canadian Management Inc.	Toronto	100.0	100.0			
WealthCap Dritte Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Entity Service GmbH	Munich	100.0	100.0	EUR	263	251
WealthCap Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Erste Kanada Immobilien Verwaltung GmbH	Munich	100.0	100.0			
WealthCap Europa Erste Immobilien –						
Objekt Niederlande – Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien						
Fünfte Objekte Österreich Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Europa Immobilien						
Siebte Objekte Österreich Komplementär GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Immobilien Deutschland 39 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilien Nordamerika 16 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien Nordamerika 17 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien und Verwaltung Sekundär GmbH	Munich	100.0	100.0			
WealthCap Immobilien 1 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilien 2 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 37 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 38 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Los Gatos 121 Albright Way GP, Inc.	Wilmington	100.0	100.0			
WealthCap Los Gatos 121 Albright Way L.P.	Wilmington	100.0	100.0			
WealthCap Los Gatos 131 Albright Way GP, Inc.	Wilmington	100.0	100.0			
WealthCap Los Gatos 131 Albright Way L.P.	Wilmington	100.0	100.0			
WealthCap Management, Inc.	Wilmington	100.0	100.0	USD	238	297
WealthCap Mountain View GP, Inc.	Georgia	100.0	100.0			
WealthCap Objekt Essen GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Hannover Ia GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Hannover Ib GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Hannover II GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Riem II GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Schwabing GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 6 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 9 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 9 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 11 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 12 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 13 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Private Equity GmbH	Munich	100.0	100.0			
WealthCap Private Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity 19 Komplementär GmbH	Grünwald	100.0	100.0			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Private Equity 20 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Real Estate GmbH	Munich	100.0	100.0			
WealthCap Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
WealthCap SachWerte Portfolio 2 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 3 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial-AIF 1 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial-AIF 3 GmbH & Co.						
geschlossene Investment KG	Munich	100.0	100.0			
WealthCap Vorrats-1 GmbH	Grünwald	100.0	100.0			
WealthCap Vorrats-2 GmbH	Grünwald	100.0	100.0			
WealthCap Zweite Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Zweite USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte Immobilien 4 Komplementär GmbH	Munich	100.0	100.0			

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
1.2 Fully consolidated structured entities				
with or without shareholding				
Altus Alpha Plc	Dublin	0	EUR	40
Arabella Finance Ltd.	Dublin	0	EUR	<1
BARD Engineering GmbH	Emden	0	EUR	100
BARD Holding GmbH	Emden	0	EUR	25
Buitengaats Holding B.V.	Eemshaven	0	EUR	18
Cuxhaven Steel Construction GmbH	Cuxhaven	0	EUR	25
Elektra Purchase No. 17 S.A. – Compartment 2	Luxembourg	0	EUR	<1
Elektra Purchase No. 28 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 31 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 32 S.A.	Luxembourg	0	EUR	31
Elektra Purchase No. 33 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 34 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 35 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 36 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 37 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 38 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 40 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 41 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 911 Ltd.	St. Helier	0	EUR	<1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-TS-2013 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2015 S.A.	Luxembourg	0	EUR	31
GEMMA Verwaltungsgesellschaft mbH & Co.				
Vermietungs KG (held indirectly)	Pullach	6.1	EUR	68,326
Grand Central Funding Corporation	New York	0	USD	1
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG				
(Immobilienleasing) (held indirectly)	Munich	<0.1	EUR	61,171
H.F.S. Leasingfonds Deutschland 7 GmbH & Co. KG				
(held indirectly)	Munich	<0.1	EUR	56,605
HVB Funding Trust	Wilmington	0	USD	0
HVB Funding Trust III	Wilmington	0	USD	0
MOC Verwaltungs GmbH & Co. Immobilien KG				
(held indirectly)[4,6]	Munich	23.0	EUR	5,113

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
Newstone Mortgage Securities No. 1 Plc.	London	0	GBP	13
Ocean Breeze Finance S.A. – Compartment 1	Luxembourg	0	EUR	0
OSI Off-shore Service Invest GmbH	Hamburg	0	EUR	25
OWS Logistik GmbH	Emden	0	EUR	13
OWS Natalia Bekker GmbH & Co. KG	Emden	0	EUR	1
OWS Ocean Zephyr GmbH & Co. KG	Emden	0	EUR	6
OWS Off-shore Wind Solutions GmbH	Emden	0	EUR	25
OWS Windlift 1 Charter GmbH & Co. KG	Emden	0	EUR	1
Pure Funding No. 10 Ltd.	Dublin	0	EUR	<1
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Rosenkavalier 2015 UG	Frankfurt am Main	0	EUR	8
Royston Leasing Ltd.	Grand Cayman	0	USD	1

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %		CURRENCY	EQUITY CAPITAL	NET PROFIT
		TOTAL	OF WHICH HELD INDIRECTLY		in thousands of currency units	in thousands of currency units
2 Joint ventures						
Minor joint ventures						
Other companies						
Heizkraftwerk Cottbus Verwaltungs GmbH i.L.	Cottbus	33.3		EUR	354	245
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	138	822
3 Associated companies						
3.1 Associated companies valued at equity						
Other companies						
Adler Funding LLC	Dover	32.8		USD	11,027	4,192
Bulkmax Holding Ltd.	Valletta	45.0	45.0	USD	29,252	(598)
Comtrade Group B.V.	Amsterdam	21.1	21.1	EUR	32,577	9,636
Nautilus Tankers Limited	Valletta	45.0	45.0	USD	31,424	2,200
paydirekt Beteiligungsgesellschaft privater Banken mbH	Berlin	24.0		EUR	8,384	5
SwanCap Partners GmbH (share of voting rights: 49.0%)	Munich	75.3		EUR	5,238	2,734
3.2 Minor associated companies[5]						
Other companies						
BioM Venture Capital GmbH & Co. Fonds KG (share of voting rights: 20.4%)	Planegg	23.5		EUR	453	(1,701)
CMP Fonds I GmbH (share of voting rights: 25.0%)	Berlin	32.7				
DFA Deggendorfer Freihafen Ansiedlungs-GmbH	Deggendorf	50.0	50.0			
DFA Deggendorfer Freihafen Ansiedlungs-GmbH & Co. Grundstücks-KG	Deggendorf	50.0	50.0			
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	(7,675)	(3,256)
MOC Verwaltungs GmbH	Munich	23.0	23.0			
SK BV Grundstücksentwicklung Verwaltung GmbH i.L.	Cologne	50.0	50.0			
4 Holdings in excess of 20% without significant influence[5]						
Other companies						
BayBG Bayerische Beteiligungsgesellschaft mbH[7]	Munich	22.5		EUR	200,331	6,734
Bayerischer BankenFonds GbR	Munich	25.6				
B.I.I. Creditanstalt International Ltd. (share of voting rights: 0%)	George Town	40.2				

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Felicitas GmbH i.L.	Munich	20.8				
GermanIncubator Erste Beteiligungs GmbH						
(share of voting rights: 9.9%)	Munich	39.6				
HVB Trust Pensionsfonds AG (share of voting rights: 0%)[8]	Munich	100.0		EUR	4,022	103
Lauro Ventidue S.p.A. (share of voting rights: 0%)	Milan	24.2	24.2	EUR	21,148	(91,451)
Meditinvest Gayrimenkul Danismanlik A.S.	Istanbul	42.1	42.1	TRY	20,014	(671)
Mozfund (Proprietary) Limited (share of voting rights: 12.5%)	Sandton	40.0				
Mühoga Münchner Hochgaragen Gesellschaft						
mit beschränkter Haftung	Munich	25.0	25.0	EUR	4,391	2,133
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share of voting rights: 0%)	Luxembourg	38.3	38.3	EUR	80	(15,685)
SwanCap FLP SCS (share of voting rights: 37.5%)[9]	Senningerberg	0		EUR	1,755	3
SwanCap FLP II SCSp (share of voting rights: 37.5%)[9]	Senningerberg	0				

NAME		REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SHARE OF VOTING RIGHTS OF HVB in %
5	**Holdings in large corporations**			
	in which the holding exceeds 5% of the voting rights			
	but is not already listed under holdings in excess of 20%			
5.1	**Banks and financial institutions**			
AKA Ausfuhrkredit-Gesellschaft mbH		Frankfurt am Main	15.4	15.4
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen		Munich	10.5	10.5
Bürgschaftsbank Brandenburg GmbH		Potsdam	7.8	7.8
Bürgschaftsbank Mecklenburg-Vorpommern GmbH		Schwerin	9.1	9.1
Bürgschaftsbank Sachsen GmbH		Dresden	4.7	5.4
Bürgschaftsbank Sachsen-Anhalt GmbH		Magdeburg	8.9	8.9
Bürgschaftsbank Schleswig-Holstein GmbH		Kiel	5.4	5.4
Bürgschaftsbank Thüringen GmbH		Erfurt	8.7	8.7
Bürgschaftsgemeinschaft Hamburg GmbH		Hamburg	10.5	10.5
5.2	**Other companies**			
ConCardis Gesellschaft mit beschränkter Haftung		Eschborn	6.0	6.0
VBW Bauen und Wohnen GmbH		Bochum	10.1	10.1

NAME	REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SUBSCRIBED CAPITAL € MILLIONS
6 Other selected holdings below 20%			
6.1 Banks and financial institutions			
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH	Berlin	4.3	3.2
Saarländische Investitionskreditbank AG	Saarbrücken	3.3	5.2
6.2 Other companies			
BioM Aktiengesellschaft Munich Bio Tech Development	Planegg	8.5	2.9
Börse Düsseldorf AG	Düsseldorf	3.0	5.0
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	13.6	4.1
EURO Kartensysteme GmbH	Frankfurt	6.0	2.6
Kepler Cheuvreux S.A.	Paris	5.2	54.7
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	5.0	3.6
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH			
(share of voting rights: 11.1%)	Mainz	9.8	2.6
MBG Mittelständische Beteiligungsgesellschaft Schleswig-Holstein mbH			
(share of voting rights: 3.7%)	Kiel	3.6	1.4
Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg mbH	Potsdam	11.6	5.7
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern GmbH	Schwerin	15.4	5.1
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH	Hanover	8.2	0.9
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	11.8	29.0
Mittelständische Beteiligungsgesellschaft Sachsen-Anhalt mit beschränkter Haftung	Magdeburg	12.7	6.5
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	13.4	10.0
Saarländische Kapitalbeteiligungsgesellschaft mbH	Saarbrücken	8.7	0.8

List of Holdings (Continued)

Exchanges rates for 1 euro at 31 December 2015
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

China	1 euro =	7.0608	CNY
Turkey	1 euro =	3.1765	TRY
UK	1 euro =	0.73395	GBP
USA	1 euro =	1.0887	USD

Notes and comments to the list of holdings

Percentages marked < or > are rounded up or down to one decimal place, e.g. < 100.0% = 99.99% or > 0.0% = 0.01%.

1 UniCredit Bank AG has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Bankhaus Neelmeyer AG, Bremen	2,068
1.2	Food & more GmbH, Munich	(823)
1.3	HJS Beteiligungsgesellschaft mbH, Munich	4
1.4	HVB Capital Partners AG, Munich	(2,232)
1.5	HVB Immobilien AG, Munich	17,486
1.6	HVB Principal Equity GmbH, Munich	(12)
1.7	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	(129)
1.8	HVB Secur GmbH, Munich	2
1.9	HVB Verwa 1 GmbH, Munich	(2)
1.10	HVB Verwa 4 GmbH, Munich	266
1.11	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	794
1.12	UniCredit Beteiligungs GmbH, Munich	4,526
1.13	UniCredit Direct Services GmbH, Munich	1,941
1.14	UniCredit Leasing GmbH, Hamburg	20,000
1.15	UniCredit Zweite Beteiligungs GmbH, Munich	1
1.16	Verwaltungsgesellschaft Katharinenhof mbH, Munich	(112)
1.17	Wealth Management Capital Holding GmbH, Munich	13,339

2 Profit and loss transfer to shareholders and partners

3 Compliant with Sections 264b and 264 (3), German Commercial Code, the company is exempt from the obligation to make annual financial statements public in accordance with the provisions applicable to corporations.

4 Figures of the 2014 annual accounts are indicated for this consolidated company.

5 Where equity capital and net profit are not stated, the information is omitted due to minor importance compliant with Section 286 (3) 1 No. 1, German Commercial Code. This information is omitted for companies compliant with Section 285 No. 11a, German Commercial code, for the same reason.

6 Equity capital amounts to €23,000 and net profit €1,069,000.

7 Despite a holding of 22.5%, UniCredit Bank AG has no significant influence over the company on account of the ownership structure and voting patterns to date.

8 The company is held by a trustee for UniCredit Bank AG.

9 UniCredit Bank AG has the position of a limited partner under company law and participates in the profit of the company.

Mortgage Banking

62 Coverage

The statement of coverage is as follows:

(€ millions)

	2015	2014
A. Mortgage Pfandbriefs		
Standard cover		
1. Loans and receivables with banks	—	—
Mortgage loans	—	—
2. Loans and receivables with customers	23,815	23,165
Mortgage loans	23,815	23,165
Other eligible cover[1]		
1. Other lending to banks	—	—
2. Bonds and other fixed-income securities	763	2,209
3. Equalisation claims on government authorities	—	—
Subtotal	**24,578**	**25,374**
Total Mortgage Pfandbriefs requiring cover	15,870	16,418
Overcollateralisation	**8,708**	**8,956**
B. Public Pfandbriefs		
Standard cover		
1. Loans and receivables with banks	49	182
Mortgage loans	—	—
Municipal loans	49	182
2. Loans and receivables with customers	6,198	6,579
Mortgage loans	15	19
Municipal loans	6,183	6,560
3. Bonds and other fixed-income securities	1,039	439
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**7,286**	**7,200**
Total Public Pfandbriefs requiring cover	5,324	5,047
Overcollateralisation	**1,962**	**2,153**

1 compliant with Section 19 (1) of the German Pfandbrief Act
2 compliant with Section 20 (2) of the German Pfandbrief Act

63 Pfandbriefs outstanding and cover assets used

The following table shows Pfandbriefs outstanding and cover assets, broken down by Mortgage Pfandbriefs and Public Pfandbriefs: (€ millions)

	2015			2014		
	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE[1]	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE[1]
1. Mortgage Pfandbriefs						
Mortgage Pfandbriefs	15,870	17,325	16,526	16,418	18,306	17,625
thereof: derivatives	—	—	—	—	—	—
Cover assets[2]	24,578	26,816	25,762	25,374	27,949	27,053
thereof: derivatives	—	—	—	—	—	—
Overcollateralisation	**8,708**	**9,491**	**9,236**	**8,956**	**9,643**	**9,428**
2. Public Pfandbriefs						
Public Pfandbriefs	5,324	5,953	5,703	5,047	5,829	5,591
thereof: derivatives	—	—	—	—	—	—
Cover assets[3]	7,286	8,127	7,701	7,200	8,162	7,803
thereof: derivatives	—	—	—	—	—	—
Overcollateralisation	**1,962**	**2,174**	**1,998**	**2,153**	**2,333**	**2,212**

1 dynamic procedure compliant with Section 5 (1) No. 2 of the German Pfandbrief Net Present Value Regulation
2 including further cover assets compliant with Section 19 (1) of the German Pfandbrief Act with a nominal amount of €763 million at 31 December 2015 and €2,209 million at 31 December 2014
3 including further cover assets compliant with Section 20 (2) of the German Pfandbrief Act with a nominal amount of €0 million at 31 December 2015 and €0 million at 31 December 2014

64 Maturity structure of Pfandbriefs outstanding and fixed-interest periods of respective cover assets

The following table shows the maturity structure of Pfandbriefs outstanding and fixed-interest periods of cover assets: (€ millions)

	2015		2014	
	PFANDBRIEFS	COVER ASSETS	PFANDBRIEFS	COVER ASSETS
1. Mortgage Pfandbriefs[1]	**15,870**	**24,578**	**16,418**	**25,374**
up to 0.5 years	1,822	2,633	3,323	2,735
more than 0.5 years up to 1 year	457	1,689	1,183	1,940
more than 1 year up to 1.5 years	1,515	1,575	1,819	1,923
more than 1.5 years up to 2 years	1,179	2,040	478	1,795
more than 2 years up to 3 years	1,429	2,829	2,258	3,631
more than 3 years up to 4 years	1,605	2,365	992	2,892
more than 4 years up to 5 years	1,360	2,202	552	1,955
more than 5 years up to 10 years	4,457	7,549	3,638	7,389
more than 10 years	2,046	1,696	2,175	1,114
2. Public Pfandbriefs[2]	**5,324**	**7,286**	**5,047**	**7,200**
up to 0.5 years	1,321	868	229	459
more than 0.5 years up to 1 year	122	603	390	649
more than 1 year up to 1.5 years	336	366	1,312	831
more than 1.5 years up to 2 years	118	590	128	523
more than 2 years up to 3 years	716	752	454	765
more than 3 years up to 4 years	451	704	226	614
more than 4 years up to 5 years	773	888	451	580
more than 5 years up to 10 years	896	1,372	1,060	1,675
more than 10 years	591	1,143	797	1,104

1 including further cover assets in accordance with Section 19 (1) of the German Pfandbrief Act; broken down by fixed-interest period and maturity of Pfandbriefs respectively
2 including further cover assets in accordance with Section 20 (2) of the German Pfandbrief Act; broken down by fixed-interest period and maturity of Pfandbriefs respectively

Mortgage Banking (Continued)

65 Volume of claims used as cover for Pfandbriefs, broken down by size class

The following table shows volume of claims used as cover for Pfandbriefs:

(€ millions)

	2015	2014
Mortgage cover assets	**23,815**	**23,165**
up to and including €300,000	10,688	10,900
more than €300,000 up to and including €1,000,000	3,423	3,254
more than €1,000,000 up to and including €10,000,000	5,236	5,182
more than €10,000,000	4,468	3,829
Public Pfandbriefs[1]	**7,286**	**—**
up to and including €10,000,000	1,682	—
more than €10,000,000 up to and including €100,000,000	2,028	—
more than €100,000,000	3,576	—

1 Volume of claims used as cover for public Pfandbriefs according to size classes, in each case with respect to a debtor or a guaranteeing entity. Publication as of 30 June 2015, pursuant to the 2014 amendment of the Pfandbrief Act; no appropriate data therefore exist before 2015.

66 Volume of claims used as cover for Mortgage Pfandbriefs, broken down by state in which the real property collateral is located and property type

The following table shows the volume of claims used as cover for Mortgage Pfandbriefs, broken down by state in which the real property collateral is located and property type:

(€ millions)

	2015		2014	
	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY
1. Germany	**16,082**	**7,731**	**15,779**	**7,383**
Condominiums	4,083	—	4,043	—
Single-family and two-family houses	6,229	—	6,053	—
Multiple-family houses	5,487	—	5,366	—
Office buildings	—	3,688	—	3,541
Retail buildings	—	2,492	—	2,282
Industrial buildings	—	480	—	503
Other commercially used buildings	—	776	—	729
New buildings under construction, not yet profitable	266	246	304	260
Building land	17	49	13	68
2. France	**2**	**—**	**2**	**—**
Single-family and two-family houses	2	—	2	—
New buildings under construction, not yet profitable	—	—	—	—
3. Italy	**—**	**—**	**1**	**—**
Single-family and two-family houses	—	—	1	—
Multiple-family houses	—	—	—	—
Total	**16,084**	**7,731**	**15,782**	**7,383**

67 Volume of claims used as cover for Public Pfandbriefs, broken down by type of debtor or guaranteeing entity and its home country

The following table shows the volume of claims used as cover for Public Pfandbriefs broken down by type of borrower or guaranteeing entity (in case of a full guarantee) and head office (state) as well as by whether or not the guarantee was granted for reasons of promoting exports:

(€ millions)

	2015	2014
1. Germany		
Central government	573	—
Regional authorities	2,940	2,701
Local authorities	3,369	3,502
Other	54	789
Total Germany	**6,936**	**6,992**
thereof: guarantees for reasons of promoting exports[1]	573	—
2. Austria	**350**	**200**
Central government	350	200
3. Spain	**—**	**8**
Local authorities	—	8
Total	**7,286**	**7,200**
thereof: guarantees for reasons of promoting exports[1]	573	—

1 publication as of 30 June 2015, pursuant to the 2014 amendment of the Pfandbrief Act; no appropriate data therefore exist before 2015

68 Other eligible cover

The following table shows the breakdown of other eligible cover for Pfandbriefs:

(€ millions)

	2015	2014
1. Mortgage Pfandbriefs	**763**	**2,209**
Equalisation claims according to Section 19 (1) No. 1 PfandBG	—	—
All states	—	—
Money claims according to Section 19 (1) No. 2 PfandBG[1]	—	—
All states	—	—
thereof: covered bonds according to Article 129 of Regulation (EU) No. 575/2013	—	—
Bonds according to Section 19 (1) No. 3 PfandBG[2]	763	2,209
Germany	763	2,089
Italy	—	20
Austria	—	100
2. Public Pfandbriefs	**—**	**—**
Equalisation claims according to Section 20 (2) No. 1 PfandBG	—	—
All states	—	—
Money claims according to Section 20 (2) No. 2 PfandBG	—	—
All states	—	—
thereof: covered bonds according to Article 129 of Regulation (EU) No. 575/2013	—	—

1 without cover assets according to Section 4 (1) sentence 2 No. 1 and 2 German Pfandbrief Act
2 including cover assets according to Section 19 (1) No. 2 German Pfandbrief Act in conjunction with Section 4 (1) sentence 2 No. 1 and 2 German Pfandbrief Act

Mortgage Banking (Continued)

69 Key figures for Pfandbriefs outstanding and associated cover assets

The following table shows the breakdown of key figures for Pfandbriefs outstanding assets and their respective cover assets:

		2015	2014
1. Mortgage Pfandbriefs			
Mortgage Pfandbriefs outstanding	€ millions	15,870	16,418
thereof: percentage share of fixed-interest Pfandbriefs			
(Section 28 (1) No. 9 PfandBG)	%	85.26	86.27
Cover assets[1]	€ millions	24,578	25,374
thereof: total amount of claims which exceed the limits laid down			
in Section 13 (1) PfandBG (Section 28 (1) No. 7 PfandBG)	€ millions	—	—
thereof: total amount of claims which exceed the limits laid down			
in Section 19 (1) No. 2 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: total amount of claims which exceed the limits laid down			
in Section 19 (1) No. 3 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: percentage share of fixed-interest cover (Section 28 (1) No. 9 PfandBG)	%	73.61	73.65
Net present value pursuant to Section 6 Pfandbrief Net Present			
Value Regulation for each foreign currency, in euros			
(Section 28 (1) No. 10 PfandBG – balance of asset/liability sides)	€ millions	—	—
Volume-weighted average age of the maturity that has passed			
since the loan was granted (seasoning) (Section 28 (1) No. 11 PfandBG)	years	8.5	9.1
Average loan-to-value ratio (Section 28 (2) No. 3 PfandBG)	%	40.38	39.81
2. Public Pfandbriefs			
Public Pfandbriefs outstanding	€ millions	5,324	5,047
thereof: percentage share of fixed-income Pfandbriefs			
(Section 28 (1) No. 9 PfandBG)	%	83.94	87.37
Cover assets[2]	€ millions	7,286	7,200
thereof: total amount of claims which exceed the limits laid down			
in Section 20 (2) No. 2 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: share of fixed-income cover (Section 28 (1) No. 9 PfandBG)	%	78.24	79.12
Net present value pursuant to Section 6 Pfandbrief Net Present			
Value Regulation for each foreign currency, in euros			
(Section 28 (1) No. 10 PfandBG – balance of asset/liability sides)	€ millions	—	—

1 including further cover assets according to Section 19 (1) German Pfandbrief Act
2 including further cover assets according to Section 20 (2) German Pfandbrief Act

70 Payments in arrears

Total amount of payments in arrears for at least 90 days in respect of the claims used as cover for Pfandbriefs and breakdown by states in which the real property collateral is located:

(€ millions)

	2015	2014
1. Mortgage Pfandbriefs		
Payments in arrears of at least 90 days	(1)	(1)
Germany	(1)	(1)
Payments in arrears of at least 90 days, arrears equal at least 5% of the loan	—	(1)
Germany	—	(1)
2. Public Pfandbriefs		
Payments in arrears of at least 90 days	—	—
All states	—	—
Payments in arrears of at least 90 days, arrears equal at least 5% of the loan	—	—
All states	—	—

71 Foreclosures and sequestrations

The following table shows the breakdown of foreclosures and sequestrations carried out in 2015:

		OF WHICH IN 2015:	
	NUMBER OF PROCEEDINGS	COMMERCIAL PROPERTY	RESIDENTIAL PROPERTY
1. Foreclosures and sequestrations			
a) Pending at 31 December 2015			
Foreclosure proceedings	328	53	275
Sequestration proceedings	15	3	12
Foreclosure and sequestration proceedings	253	51	202
	596	**107**	**489**
(comparative figures from 2014	637	112	525)
b) Foreclosures finalised in 2015	**48**	**1**	**47**
(comparative figures from 2014	70	5	65)
2. Properties repossessed			
As in the previous year, the Pfandbrief bank did not have to repossess any properties during the year under review to prevent losses on mortgage loans.			

72 Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2014 and 30 September 2015 breaks down as follows: (€ millions)

	2015	2014
Interest in arrears	**—**	**—**
Commercial property	—	—
Residential property	—	—

The present annual financial statements were prepared on 8 March 2016.

UniCredit Bank AG
The Management Board

Buschbeck | Dr Diederich | Diederichs | Giordano

Laber | Varese | Dr Weimer

Declaration by the Management

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of HVB, and the Management Report includes a fair review of the development and performance of the business and the position of HVB, together with a description of the principal opportunities and risks associated with the expected development of HVB.

Munich, 8 March 2016

UniCredit Bank AG
The Management Board

Buschbeck　　Dr Diederich　　Diederichs　　Giordano

Laber　　Varese　　Dr Weimer

Auditors’ Report

Independent Auditors’ Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of UniCredit Bank AG, Munich, for the business year from 1 January to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (“German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of UniCredit Bank AG, Munich, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Munich, 8 March 2016

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Leuschner	Kopatschek
German Public Auditor	German Public Auditor

Financial Calendar

Important Dates 2016[1]

Press Conference for the Provisional Results for 2015	10 February 2016
Publication of the Annual Report for 2015	18 March 2016
Interim Report at 31 March 2016	11 May 2016
Half-yearly Financial Report at 30 June 2016	4 August 2016
Interim Report at 30 September 2016	11 November 2016

1 dates planned

Contacts

Should you have any questions about the annual report or our interim reports, please contact Media Relations by
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