Inside real life. A 360° view.

2015 Annual Report

Welcome to
HypoVereinsbank
Member of UniCredit

UniCredit firmly believes that to truly understand real life, we must directly experience it. That way we are more prepared to find sustainable solutions while the world's needs and values constantly change.

For us, helping customers fulfil the basic necessities of modern life is just as important as offering the very best financial and banking products.

This means providing a complete range of services to support families and businesses, fully aware that responding to their needs builds a sustainable future for everyone.

Our products begin with real human insights that help us accompany customers throughout their lives. Because life is full of ups and downs, but it is also full of many other things, like buying a home, getting married, having children and sending them to university, etc.

It's a 360-degree approach that we call Real Life Banking.

Over the following pages, our aim is not just to present data and numbers about our Group's performance. We also want to share stories that show how we have helped people realize their dreams and supported the communities that host our branches.

Because the drive to build a better future is what keeps people going.

And supporting people keeps us going too.

HVB Group Profile

- HVB Group is one of the **biggest financial institutions** in Germany. In its position as a universal bank, HypoVereinsbank offers a broad range of modern products and financial services for all customer groups – retail and private banking customers, business, corporate and real estate customers, very wealthy individuals, and institutionals. Our customers are served by **two business segments:** Commercial Banking, and Corporate & Investment Banking.
- The **ambitions of our customers** give rise to high ambitions we set for ourselves in terms of quality, innovation and appeal. The ambitions of our customers form the focal point of all we do. It is our ambition to meet these demands every day and to constantly improve at the same time.
- HypoVereinsbank is **part of UniCredit,** one of the biggest banking groups in Europe. It is responsible for all of UniCredit's German activities and is simultaneously the **centre of competence for international investment banking.**
- Like no other German bank, HypoVereinsbank combines long-standing **regional roots** with a **group-wide network of financial institutions** in 17 European countries. In total, HypoVereinsbank is represented in around 50 countries worldwide through UniCredit. The corporate affiliation is also reflected in our branding: Bayerische Hypo- und Vereinsbank AG was renamed UniCredit Bank AG in December 2009, although the brand name "HypoVereinsbank" was retained unchanged.
- Beyond its banking activities, HypoVereinsbank views itself as a **corporate citizen** and assumes a high level of social responsibility in the countries where we operate. We offer our people excellent opportunities to further their careers throughout Europe, thereby strengthening an entrepreneurial spirit. At the same time, we ensure strict compliance with the group-wide **Integrity Charter,** which encompasses the basic values our staff are expected to observe. We also have a coherent corporate mission statement. Among other things, this **Mission Statement** includes the self-imposed obligation to create customer benefits and generate lasting value.

Financial Highlights

Key performance indicators

	2015	2014
Net operating profit[1]	€983m	€892m
Cost-income ratio (based on operating income)[1]	76.6%	77.3%
Profit before tax[1]	€776m	€1,083m
Consolidated profit (from continuing operations)[1]	€750m	€785m
Return on equity before tax[1, 2]	3.9%	5.4%
Return on equity after tax[2]	3.7%	4.7%
Earnings per share[1]	€0.93	€0.96

Balance sheet figures/Key capital ratios

	31/12/2015	31/12/2014
Total assets	€298,745m	€300,342m
Shareholders' equity	€20,766m	€20,597m
Common Equity Tier 1 capital	€19,564m	€18,993m
Core capital (Tier 1 capital)	€19,564m	€18,993m
Risk-weighted assets (including equivalents for market risk and operational risk)	€78,057m	€85,768m
Common Equity Tier 1 capital ratio[3]	25.1%	22.1%
Core capital ratio (Tier 1 ratio)[3]	25.1%	22.1%
Leverage ratio[4]	5.9%	6.1%

	31/12/2015	31/12/2014
Employees (in FTEs)	16,310	17,980
Branch offices	581	796

1 2014 without discontinued operations
2 return on equity calculated on the basis of average shareholders' equity according to IFRS
3 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk
4 ratio of core capital to the sum total of the exposure values of all assets and off-balance-sheet items

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	STAND-ALONE RATING	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Fitch Ratings						AAA/stable	AAA/stable	6/11/2015 18/12/2015
Issuer Default Rating	A–	F2	negative	a–	7/3/2016			
Moody's				baa2	26/1/2016	Aaa/–	Aaa/–	23/6/2015
Counterparty Risk	A1	P-1	—		26/1/2016			
Deposits	A2	P-1	stable		26/1/2016			
Senior Unsecured and Issuer Rating	Baa1	P-1	stable		26/1/2016			
Standard & Poor's						AAA/negative	—	7/7/2015
Issuer Credit Rating	BBB	A-2	negative	bbb+	9/6/2015			

I’d rather play basketball.

Let’s talk about making the right investments.

Nina’s father thinks she has a future as a dancer, but she has other plans. What exactly? Well, actually, she changes her mind every day ... basketball player, pop singer, pianist, actress. Right now, she’s probably just not mature enough to invest seriously in her future. But Nina’s father doesn’t see that. He could use some wise advice.

Everyone has different goals and needs – and everyone can use a good consultant to help meet them. That’s why we take care of each of our customers by tailoring our solutions to their individual needs.

This premium approach is especially popular with our clients in Germany, thanks to the FinanzKonzept project, which provides an interactive consulting platform for integrated advice.

This is financial counseling 2.0: Smart, transparent, available via video and telephone, from advisors with the right skills. We are doing this because, in a world of data and numbers, it makes a difference to have a personal relationship with clients and figure out together what to expect from the future.

Contents

I know it's not the best time, but I need to check my finances.

Let's talk about financial advice anywhere, anytime.

Imagine you are in the middle of a ski holiday. Everything is beautiful and the conditions are just right. You feel like you don't have a single worry in the world. But suddenly a thought comes along to disturb your peace: Did you forget to settle your financial business last week?

That's exactly what happened to Nico. During his first romantic holiday with Emma, he realized that this little banking detail was driving him crazy, and spoiling the fun. And he thought to himself: "You know what would be really useful right now? A bank manager I can call or, even better, text."

No sooner said than done.

Thanks to SmartBanking in Austria, it's possible to bring the branch to you. Whether at home with your laptop or on the go with your mobile phone, SmartBanking enables you to manage your finances in the most convenient way for you.

Relationship managers will give advice quickly and conveniently, by any possible method you want, from SMS to video chat. So now answers that you need on every possible financial topic, from taking out a loan to explaining your banking transactions, are at your fingertips.

That means we can help you save for your holiday, and save your holiday.

Strategy and Results

Letter from the Supervisory Board Chairman

"I am particularly pleased that HVB's performance was consistent throughout the year, delivering a stable net operating profit from quarter to quarter."

Federico Ghizzoni
SUPERVISORY BOARD CHAIRMAN

Dear Stakeholders

In many respects, 2015 was a challenging year for the financial sector. Global markets were buffeted by the severe drop in oil prices, China's economic slowdown, the general downturn in emerging markets and geopolitical tensions.

While the eurozone experienced a partial economic recovery, financial markets were extremely volatile over the course of the year. Large fluctuations in the euro-dollar exchange rate and stock indices, including EURO STOXX Banks, were the norm. The resulting search for secure investments served to further drive down interest rates for government bonds, particularly those issued by the United States and Germany.

In this challenging environment, UniCredit performed well. Our ability to generate capital improved significantly, and the downward trend for our impaired loans continued apace, with the coverage ratio remaining stable. Our Group also gained around one million new customers in 2015, enlarged its market share in key countries and increased its investment in digitalisation, particularly through Fintech venture funds. Consequently, we saw a steady rise in the number of online and mobile users over the course of the year. Meanwhile, cost reductions remained a priority for our Group, and we made solid progress on this front across all regions.

We are well into the implementation of the UniCredit Strategic Plan, which will guide our Group to sustainable profitability and result in a simpler and more integrated organisation. The process also involves cost-cutting and restructuring efforts that are already yielding sizeable gains in efficiency.

Amid these critical undertakings, UniCredit Bank AG (HVB) stood out as a mainstay of the Group. HVB's 2015 performance is a model of the stable, sustainable profitability we want to foster across

UniCredit. From its increased net operating profit to a reduction of its risk-weighted assets despite an increased volume of loans, HVB has shown the way forward for us all: expanding profitable businesses while successfully managing risk.

I am particularly pleased that HVB's performance was consistent throughout the year, delivering a stable net operating profit from quarter to quarter. Another sign of HVB's strength is the healthy balance it struck between the operating income of its two business segments, Commercial Banking and Corporate & Investment Banking.

Despite factors ranging from inflation and regulatory expenses to higher pension costs, HVB has consistently managed to limit any increases in its operating costs. Its highly disciplined approach has enabled it to continue to reduce its total cost of risk and maintain an exceptionally solid capital base and liquidity position.

In growth areas such as wealth management, HVB has moved to increase its levels of investment significantly. At the same time, it has systematically updated its retail business, modernising and streamlining its branch offices while increasing the satisfaction of its customers by granting them a wider choice of channels for their banking activities. It is also making a substantial investment in fully digitalising its operations and internal processes. Perfectly anticipating structural shifts to its market, HVB reorganised its back office operations and booked all of the related expenses in 2015. These moves have given HVB the competitive edge it needs to achieve its ambitious goals in the 2016–18 Strategic Plan.

HVB is as integral to our Group today as it was over a decade ago, when our partnership began and we formed one of Europe's top banking networks. Together, we hold market-leading positions in large parts of Central and Eastern Europe and emerging markets like Turkey. And at home, HVB's strong regional identity and distinctive HypoVereinsbank brand allow it to compete successfully in the German market. HVB has proved particularly adept at making excellent use of the Group's extensive expertise and the economies of scale we generate in areas such as crossborder transactions and IT solutions. Given these advantages, it is clear that HVB is in an ideal position to expand its business with companies in Germany and abroad.

In closing, I will restate something that has been said many times before, because it still holds true: HVB's market position, operating efficiency and low funding costs continue to generate tremendous value. These points of strength will remain vital to our Group, given the geopolitical and economic uncertainty that we expect to characterize the rest of 2016. I am confident that HVB will remain a respected, profitable and cost-efficient financial institution that our Group can rely on to deliver strong and stable results for years to come.

Sincerely,

Federico Ghizzoni
Supervisory Board Chairman

Letter from the Management Board Spokesman

"HypoVereinsbank performed well in 2015 in this difficult overall environment, once more demonstrating just how robust it is."

Dr Theodor Weimer
MANAGEMENT BOARD SPOKESMAN

Dear Customers,
Investors and Partners
Ladies and Gentlemen

Rarely have the global political and economic conditions looked as inconsistent as they do today. The world around us seems to be spiralling out of control.

Conflicts in the Middle East, together with difficult economic situations in many parts of the world, reached our shores some time ago in the form of terrorist attacks and refugee flows. In this context, the migrant crisis is evolving into more than simply a serious challenge in terms of our country's ability to integrate the new arrivals. It is increasingly becoming a wedge that is driving Europe apart.

We're seeing a European Union that continues to operate in permanent crisis mode, struggling to find any common ground at all – let alone in the refugee issue. Furthermore, we're confronted to some extent with a new East-West standoff. And as if this weren't enough, numerous emerging markets are also in serious difficulties and weighing down the global economy.

And yet, a glance at the situation in Germany provides a sharp contrast to this general picture. The German economy is proving incredibly robust despite the numerous flashpoints around the world and the economic problems in China. Our country is recording solid growth and benefiting from a very positive trend on the labour market.

We should, however, not view this exclusively as a sign of our own strength. Indeed, the good position results from a massive stimulus provided equally by low commodity prices, a weak euro and near-zero interest rates.

Then again, low interest rates are a double-edged sword across the corporate world. While they do help to ease the burden of debt, they also push up pension costs and force down investment income, thus squeezing the space available for investment. For us banks, they cause both the interest margin we earn on our customer activities and the interest income we gain on proprietary investments to melt away, leaving the income statements of some banks looking distinctly “watered down”.

And the consequences of the stricter regulation of our industry similarly cut two ways. On the one hand, the burdens are rising fast, with both payroll and administrative costs ballooning while the opportunities to conduct business and earn profits are contracting. On the other hand, it is certainly the case that regulation has made banks safer and less crisis-prone, helping to restore the trust and reputation that they had lost.

HypoVereinsbank performed well in 2015 in this difficult overall environment, once more demonstrating just how robust it is. Net operating profit improved by around 10% to reach nearly a billion euros. After tax, we again earned some three-quarters of a billion euros.

Both of our business segments – Commercial Banking and Corporate & Investment Banking (CIB) – contributed to this success in roughly equal parts. Taken together with our thoroughly constant operating performance over the last few quarters, this reflects the tremendous stability and profitability of our business model.

In addition, the practically balanced ratio of deposits to lending volumes helps to maintain our relatively low reliance on the capital markets.

We also continue to keep very firm control over our risks, thanks to a conservative risk policy and the high quality of our lending portfolio. This is reflected in even lower risk provisions despite a rise in the volume of lending.

All in all, our Bank has changed significantly in 2015. We’ve made good progress on boosting our efficiency over the last twelve months. What’s more, we again succeeded in keeping our costs at the same level as last year by applying a consistent management approach. In this context, we’ve managed to balance rising spending on compliance, pensions and marketing to create leeway for investments in growth and digitalisation at the same time. Some €250 million was spent on these areas in 2015, up around 80% on the total for 2014. This gives us a strong springboard for staying on our successful course and leveraging further growth opportunities in the current financial year.

In our retail banking activity, we completed our ambitious plan to modernise and streamline our branch network in full by the end of 2015. In just 14 months, we’ve closed almost half of our offices and completely modernised all remaining 341 branches.

Uniform branding and innovative technology now connect all our branches, allowing us to boast what is quite probably the most attractive and most modern network of branches in Germany today. This quality offensive has been accompanied by a massive expansion of digital access to our Bank to facilitate use of online banking products and services.

This strategic repositioning has created the right conditions for turning the activity into a stable source of earnings. The initial impact is already evident in this year's results. Despite all the upheaval, earnings and customer numbers have remained constant, our core customers have expressed greater satisfaction and are more willing to recommend us to others, and our costs have declined – effects that will become even more visible going forward. All this reaffirms the decision we took. And the measures that our competitors are only now starting to implement show that we set the right direction of travel at a very early stage with the modernisation of our retail banking activity.

Our fast-growing Banking & Wealth Management unit is also continuing to perform well. Here we recorded a pleasingly sharp increase in the number of customers and wealth management mandates.

Once again, our Bank has expanded its strong market position in activities involving business customers. Healthy growth was achieved in commercial real estate finance and foreign trade in particular. That we're heading in the right direction in operations involving business customers overall is demonstrated by our expanded volume of lending in 2015, against the market trend.

The goal is for us to act as a strategic business partner offering our business customers a core bank function. Numerous initiatives are planned to keep us on course to achieve our ambitious growth targets, focusing notably on trade finance and the professional handling of company succession issues. We also aim to broaden the international make-up of our customer portfolio, with initial programmes concentrating on Asia and the United States already under way.

Our Corporate & Investment Banking business segment can also look back on a successful year. We booked particularly strong growth here in activities involving multinational corporates and financial service providers. At the same time, we led the market in Germany for syndicated loans and corporate bonds in 2015.

We aim to leverage the good position we've achieved to strengthen the CIB business segment. Huge potential is forecast for the Global Transaction Banking unit, the customer-related Markets business and the international Financing & Advisory department in particular. At the same time, we aim to strengthen ties between CIB and our business customer activity to generate new service and product offerings with a view to becoming the leading investment bank for the German Mittelstand.

HypoVereinsbank has carried out an annual review of its strategic plan to allow us to make full use of our business opportunities and ensure a successful future going forward. We intend to remain on the strategic path we've taken. In this context, the growth strategy in the various lines of business is being supplemented with programmes aimed at boosting efficiency on the administrative side. Among other things, these encompass the elimination of 1,200 positions in the back office units at HypoVereinsbank and our subsidiaries. Agreement on this was reached with the employee representatives at the end of

2015. As in the past, we're seeking to implement the job cuts in a socially responsible manner without resorting to compulsory redundancies. We've already set aside provisions covering the sums required through 2018 in the present annual accounts.

When implementing our growth strategy, we're continuing to rely heavily on the digitalisation of all our Bank's operations and processes. Digitalisation forms a key plank of our business strategy. Having been an early-mover in digital transformation, we're now well on the way to completing the changeover. There are, however, still plenty of steps to be concluded as we build upon the successes we've already achieved.

A key element underpinning the lasting success of the measures we've taken is our anchor role in the UniCredit family, which allows us to make use of a diverse and powerful international network. Our position in the corporate group creates additional opportunities for us and simultaneously enables us to act as an important source of earnings for UniCredit.

Alongside our commercial activities, we continue to act on our corporate social responsibility – specifically in light of the major challenges facing our society at present. Our Bank long ago made a binding commitment to meet its obligations in this regard. Sustainability and social responsibility are permanent features of our business model, as we again demonstrated in 2015 with the scheme we set up to assist with the integration of refugees.

Over the last three years, we've been busy working on a specific, visible demonstration of our sustainability credentials in turning the HVB Tower into a "green building". The renovation work will be concluded at the beginning of 2016 when we move into our new corporate headquarters.

There seems little doubt that the current financial year will also be dominated by a challenging political and economic environment. We'll need to be strong, innovative and agile if we're to keep our Bank moving in the right direction. It is of course impossible to rule out all eventualities over the coming months. But they arise exclusively from the markets, not our business model. The way that HypoVereinsbank has dealt with past challenges, coupled with the successes we've achieved to date, make me confident that we'll also be able to handle the tasks we face in 2016.

In this context, we can rely upon a workforce that has experience in dealing with major issues and demonstrated its creativity and adaptability time and again. On behalf of the entire Management Board, I would like to express my heartfelt thanks to the whole workforce and the employee representatives. This is another area where we boast the perfect starting point for shaping the future successfully, allowing us to face the months ahead with confidence.

Best regards

Dr Theodor Weimer
Management Board
Spokesman

Theodor Weimer

Summary of Results

Commercial Banking business segment

- Targets retail customers, wealthy individuals (private banking), business, corporate and commercial real estate customers
- 2015: operating income somewhat higher than last year
- Lower operating costs despite investments in branch modernisation and digitalisation
- Loan-loss provisions reduced from a low level
- Much improved pre-tax profit

Corporate & Investment Banking business segment

- Targets institutional customers, multinationals and corporate customers with capital market activities
- 2015: operating income up slightly year-on-year
- Much lower loan-loss provisions
- Pre-tax profit tax well below year-ago level due to higher provisions and lower net income from investments

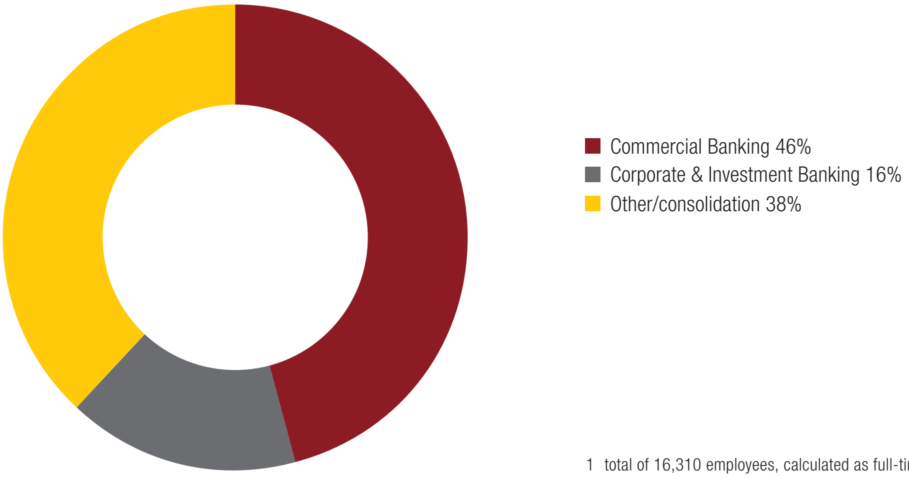
A detailed presentation of the results together with comments can be found in the segment reporting section of the notes to the consolidated financial statements.

Business segment highlights

(€ millions)

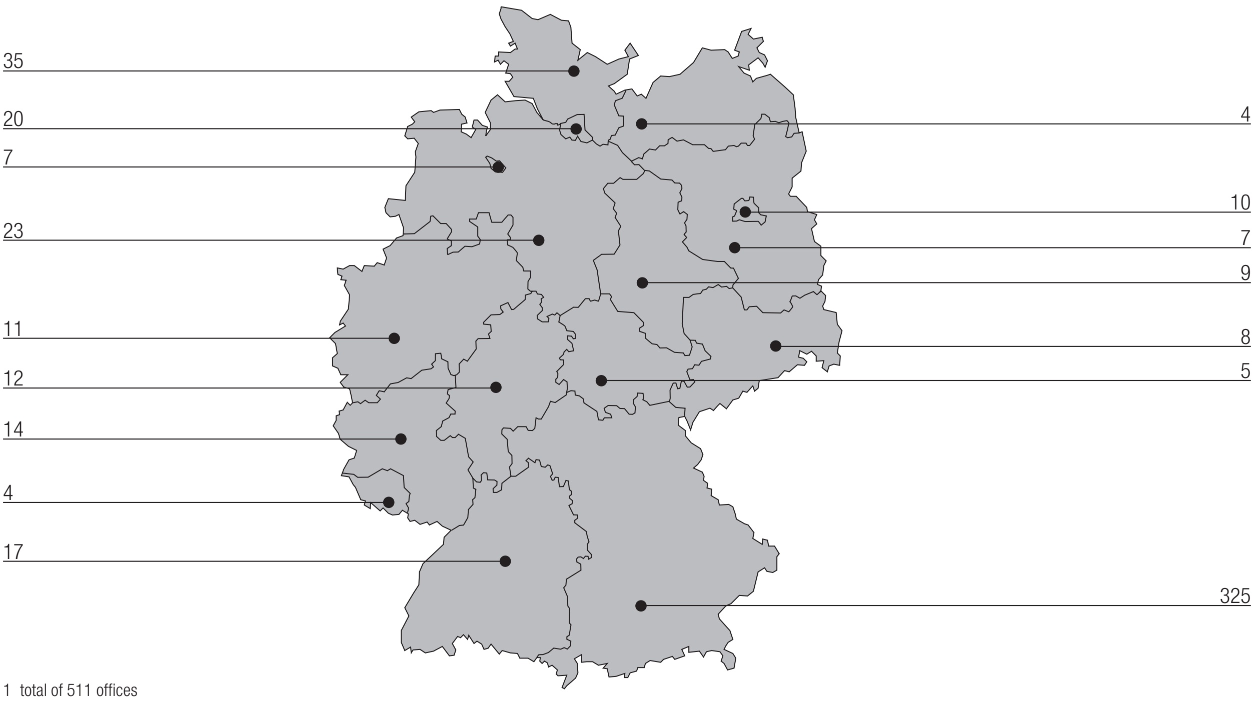
	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION
OPERATING INCOME			
2015	2,522	2,000	153
2014	2,434	1,968	200
Operating costs			
2015	(1,972)	(1,451)	(156)
2014	(1,979)	(1,429)	(151)
Net write-downs of loans			
and provisions for guarantees			
and commitments			
2015	(80)	(54)	21
2014	(108)	(112)	69
NET OPERATING PROFIT			
2015	470	495	18
2014	347	427	118
PROFIT BEFORE TAX			
2015	405	398	(27)
2014	338	563	182

Employees[1] by business segment



1 total of 16,310 employees, calculated as full-time equivalents (FTEs)

Offices in Germany[1]



1 total of 511 offices

Global Banking Services

Central service hubs boost customer focus and tap synergies

Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success for UniCredit Bank AG (HVB). The departments under GBS include Performance Management, Organisation, UniCredit Management Consultancy Germany, Service Management & Governance, IT Functions, Workout Services and Special Advisory, Markets Support, Real Estate, Security, and Data Protection. A Chief Data Office was set up in 2015. The UniCredit Global Business Services (UGBS) subsidiary comprises the units Real Estate Management, HR Service Centre, Purchasing and Operations for Markets & Treasury products. In total, GBS employs 2,400 people.

Performance Management

In line with our strict approach to cost management, several processes and committees have been set up to ensure sustainability and profitability for every capital expenditure and investment above a specific threshold. By constantly streamlining its internal workflows and optimising its processes as well, HVB has succeeded in keeping its operating costs practically constant for ten years now. This has offset various pay rises, inflation and especially the higher compliance costs and levies.

Organisation

The Organisation unit enables change within UniCredit Bank AG. Organisation contributes significantly in shaping the bank as efficient and customer oriented financial provider.

To implement process optimisation and transformation, Organisation is responsible for most Commercial Banking and GBS processes and coordinates the Bank-wide process architecture. To do so, Organisation leverages cross-legal-entity and cross-country cooperation within UniCredit Group and implements best practices to the benefit of UniCredit Bank AG. Organisation manages and prioritises the IT change project portfolio by means of IT Demand Management.

In 2015, Organisation made a significant contributes to the digital transformation process. Within the KOMPASS process, for example, Organisation implemented several process migrations from offline to online (with user interfaces accessible via the internet or mobile devices) and coordinated the branch closures and modernisations.

Furthermore, Organisation provides tools and training courses promoting efficient project management with a view to realising synergies, increasing process and product transparency and mitigating risks. The tools and courses aim to implement consistent and coherent project management standards as well as ensure regulation-compliant project and IT documentation.

UniCredit Management Consultancy Germany

In 2015, UniCredit Management Consultancy Germany (UMCG) helped the Bank to develop and implement strategic projects. Further focal points included the implementation of process optimisation and adaptation to regulatory changes. UMCG was one lever for reducing external consulting expenditures. In addition, the in-house consultants contributed greatly to the internalization of know-how and the application of project management skills within the Bank. UMCG acts as a talent pool for future managers. At the end of 2015, the consulting team consisted of 65 employees.

Service Management & Governance

The Service Management & Governance unit oversees the internal and external service providers in terms of cost, quality and risk targets, thus ensuring the Bank's ability to function properly. It acts as an interface serving to implement the sales units' requirements and, as the centre of competence for outsourcing, monitors compliance with all legal and regulatory requirements arising particularly from the German Banking Act (Kreditwesengesetz – KWG) and the relevant MaRisk regulations. The responsibility of the centre of competence as a tracking office begins in the run-up to planning and implementing any outsourcing project.

Service providers
The customer-account-partner services (core banking) and real estate loan servicing have been performed by UniCredit group subsidiaries since 2009, and by their successor UBIS since 2011. The focus in 2015 was on optimising the cost structure while maintaining a high level of service and rolling out new, action-oriented services.

Securities settlement and withholding tax activities, derivatives and treasury products
Caceis Bank Deutschland has carried out the back office activities for the Bank's cash securities and withholding tax since 1 January 2008. The settlement of derivatives and structured loans has been outsourced to UGBS since 1 November 2011.

Payment services
Betriebs-Center für Banken (BSB) has handled all cashless payment services since 2007. HVB's complete credit card portfolio is processed via UniCredit's own credit card platform at UBIS.

Outsourcing management
HVB's outsourcing portfolio is analysed for potential optimisation at regular intervals taking cost and risk considerations into account and discussed as part of the strategic refinement process.

IT services
The IT services for the Bank are provided mainly by the partner UBIS. The foundation for steering these IT services are the IT processes agreed between the Bank and UBIS under the CRESCENDO project and the IT control system based on these.

To optimise UBIS services, some portions of the UBIS services portfolio were sub-outsourced to third parties in 2013 (VTS, a joint venture of IBM and UniCredit), including infrastructure operations for the data centre and parts of application support. In conjunction with UBIS and VTS, the Bank's Service Management & Governance department is working with relevant functional units to secure a sustained increase in IT operating quality.

Workout services and Special Advisory
The classical workout function, credit processing, is called for whenever all the restructuring measures in a debtor/creditor relationship have failed. The aim is to recover as much of the amounts receivable from the borrower as possible, if necessary realising the existing security. At the same time, however, it is important to work with the administrator to find an acceptable solution.

The Special Advisory department is responsible for all legally sensitive topics arising in the customer relationship, including lending products and activities involving derivatives and investment funds. The department's mission is to clarify different opinions and interpretations of contractual and legal positions.

With a high recovery rate for non-performing loans as well as appropriate settlements of legal positions, these units play a vital role in minimising risks and defaults for the Bank.

Markets Business Support
The Bank's trading function is facing changed requirements resulting from new international regulations, leading to a wide-ranging adjustment of processes and controls. Global Markets Business Support pools the competencies required to support the trading units in their day-to-day business activities and implement the new regulations and controls.

The aim of this unit is to provide global support that is independent of the trading function and centralises certain operating activities in the Bank. Global Markets Business Support safeguards the completeness of trades in the Bank's books by ensuring the correct reproduction of the trades, securing data consistency in the systems and carrying out a regular portfolio reconciliation with customers and counterparties. The control mechanisms form the basis for implementing the risk-mitigating measures in line with the European Market Infrastructure Regulation (EMIR), the US Dodd-Frank Act and Basel III (such as prompt validation of the trades).

Global Banking Services (Continued)

Real Estate

GBS manages the Group's own real estate centrally. Within HVB, this is the responsibility of the Bank's Real Estate unit and the HVB subsidiaries HVB Immobilien AG and UGBS, which was engaged by HVB Immobilien AG by way of an operating contract on 1 August 2011. The Real Estate unit was set up to ensure strategic decision-making and to exercise owner interests for the Group's own real estate. The units listed above manage both the real estate required by the Bank for its operations and the Bank's real estate that it does not use itself.

In connection with the real estate portfolio used by the Bank, the GEMINI concept set up in 2010 and 2011 for the headquarters buildings in Munich and Hamburg was continued in 2015.The facility plans in Hamburg and Munich call for the optimisation of space utilisation, and the renovation and sale of buildings, and for HVB to vacate the empty buildings along with the relocation of the units affected.

Since 2013 the project has included the complete renovation of the HVB Tower and its conversion into a green building to meet the requirements of a sustainable and environmentally acceptable building strategy. The goal is to reduce energy consumption and thus significantly reduce the carbon footprint of the building.

Simultaneously, office areas are being refurbished to meet the requirements of modern ICT and improve work environment at the same time by rolling out innovative office concepts. Feedback from the Smart Working pilot project has been taken into account when furnishing floors in the HVB Tower. Upon completion, HVB Tower will become the headquarters of the Bank. Renovation of the HVB Tower will be finished in the first quarter of 2016, with a connected low-rise building to follow by 2019.

In 2014, the Bank's Management Board decided to carry out a future-looking, strategic reorientation of the Private Clients Bank (known as the Kompass project). In the branch network, this entailed consolidating offices and merging branches in 2014 and 2015. The remaining 350 or so branches have been renovated over 18 months and modernised in line with changing customer needs. All the offices now feature state-of-the-art infrastructure to meet customer requirements, including video advisory terminals. Every single branch was reopened on schedule after an average rebuild time of just four weeks. The Real Estate Management unit was responsible for the timely implementation of the property-management aspects of the project.

As a general rule, utilisation of the Bank's own real estate portfolio takes precedence over rental of third-party properties. The Bank continues to pursue this strategy when making changes in the use of floor space or meeting the space requirements of its units.

Portfolio reduction remains the priority for properties not used by the Bank. Various portfolio management measures (such as the cancellation of rental guarantee obligations, tenant management and renovation) are being implemented to achieve the best possible economic results for the Bank through the sale of these properties.

Security

The Security department is the focal point for the Bank's physical and IT security standards and processes. Furthermore, the department employs a consistent business continuity management concept to implement potential disaster recovery actions.

The digitalisation of the banking industry is set to accelerate over the coming years. As this progresses, the potential risk of the Bank becoming a target for cybercrime increases. Sensitive and valuable customer data need to be protected in particular. As a basic principle, all IT systems with internet access must be protected against cybercrime: mobile user devices, self-service machines and office printers, both internal and external networks, internet applications, databases and so on. At the same time, our customers demand the latest technology as well as easy-to-use tools and processes.

Information security is not only a challenge to systems and processes of the Bank; the attention and knowledge of our employees are also a key success factor. This enables the Bank to react properly in the event of cyber-attacks. A new campaign targeting cybercrime, phishing and spam emails was launched in 2015. This awareness campaign will be reinforced in 2016 and extended to specific customer groups.

An information security management system (ISMS) was introduced in 2014 and enhanced to meet the requirements of ISO/IEC 27001:2013. In 2015, the ISMS was certified by TÜV Austria Deutschland. With this certification, UniCredit Bank AG ensures that the IT security processes meets international standards.

The disaster recovery planning for critical business processes is monitored with a business continuity management tool on a daily basis, which serves to boost efficiency. New, comprehensive controls for the key tasks of business continuity, IT service continuity and crisis management ensure that the various measures are continuously optimised for critical business processes.

Together with Commerzbank and ING-DiBa, UniCredit Bank AG is a founding member of the German Competence Centre against Cyber Crime (G4C) that was established in 2013. G-Data joined the Centre in September 2015. The network provides and shares know-how, especially for early warning systems, with the aim of identifying and mitigating security risks like cybercrime at an early stage. Since it was founded, G4C has worked with the German Federal Crime Police Office (BKA) and cooperation with the German Federal Office for Information Security (BSI) was started in early 2015.

Data Protection

The Data Protection unit provides advice in response to specific enquiries and in conjunction with projects, taking into account the relevant legal, technical and banking requirements. In the process, the Data Protection unit attaches great importance to ensuring legal certainty and identifying reasonable practical solutions.

Besides completion of the All4Quality project, the advice provided by Data Protection during the reporting period focused on the digitalisation strategy and the increasing regulatory requirements, especially in respect of the European Court of Justice's ruling regarding the Safe Harbor agreement; adjustments and renegotiations with our US providers are inevitable.

The international data protection network with the contacts responsible for data protection in the foreign branches is well established. By discussing and agreeing data protection matters with those responsible at foreign branches and domestic subsidiaries, Data Protection is positioned as a customer and employee-oriented quality feature.

Chief Data Office

The position of Chief Data Officer (CDO) was introduced and established in the GBS organisation on 1 October 2015. The focus is on the areas of data governance, data quality, data management and production, data delivery and, prospectively, analytics as well as supporting data usage predominantly for the CFO and CRO competence lines.

Before the creation of the CDO function, these topics were covered by various units mainly in the CFO and CRO competence lines and partly within GBS. For this reason, the existing units from these competence lines were transferred to the new area together with many of their existing roles and responsibilities.

The CDO function was established primarily to allow us to respond better to the increasing regulatory requirements of the banking supervisors (such as the ECB and BaFin) and to increase data quality and data availability.

Outlook: continuation of strict productivity management and cost optimisation

HVB will again focus on improving the quality of its customer service and enhancing its internal processes in 2016. The restructuring of various processes in connection with the service providers UGBS and UBIS will continue to provide a fixed framework for realising further gains in productivity. The Bank aims to reduce its operating costs despite all product and quality enhancements and a challenging regulatory framework.

A special word of thanks goes to our highly trained, dedicated staff who have performed outstanding work this last year.

Dude, you should really consider a house with a garden.

Let's talk about the spaces where we live.

There's nothing like staying at home for real comfort. But sometimes you really need to get out -- especially if you're a dog.

Take Osvaldo: His owner is being a bit lazy, preferring to stay in a small apartment rather than dealing with the stress and paperwork of the real estate jungle. Poor Osvaldo.

But we have a complete solution to help. First of all, dear Osvaldo's owner, wouldn't it make you more confident to know what amount you can get from the bank before start house hunting?

Yes, our consultants know very well that this can make a difference. And with products like Voucher Mutuo, there's no risk of choosing a house that you cannot afford.

What about the rest? Well, we are a convenient, trusted partner whether you sell or buy a house. In Italy, our Subito Casa program can establish the value of the house or handle all the paperwork – helping you get engineers, lawyers, you name it.

So, dear Osvaldo's owner, feel free to start looking for your cosy new home, and leave the boring part up to us.

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Corporate structure

Legal corporate 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 97, "Members of the Supervisory Board", and Note 98, "Members of the Management Board", in the present consolidated financial statements.

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 and Männern in Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst). The targets are not less than the present status.

HVB Group'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"). The key performance indicators (KPIs) applied within the framework of the overall bank management at HVB Group are stated at the relevant places in the Financial Review.

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

HVB Group 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 Group 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 Group has 581 offices around the world, including 354 HVB branches in Germany. A breakdown of the offices of HVB Group by region is shown in Note 95, "Offices", in the notes to the consolidated financial statements.

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 Group 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 Group 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 Group 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.

Financial Review (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.

The business segments

HVB Group is divided into the following business segments:

– Commercial Banking
– Corporate & Investment Banking (CIB)
– Other/consolidation

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 Group 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 offerings are 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 Group 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,

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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.

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 Group 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 Group 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/consolidation business segment

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

The Global Banking Services business unit acts as a central internal service provider for customers and employees and covers particularly 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 Group. 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). The Group Corporate Centre encompasses profit contributions that do not fall within the jurisdiction of the Commercial Banking or CIB business segments. Among other items, this includes the profits and losses of consolidated subsidiaries and of non-consolidated holdings, provided they are not assigned to other business segments. In addition, contributions to earnings are reflected in this segment that arise within the scope of the management of HVB Group as a whole.

Corporate acquisitions and sales, and other major changes in the group of companies included in consolidation

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. PlanetHome AG (including its subsidiaries) thus left the group of companies included in consolidation by HVB. 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.

Other changes in the group of companies included in consolidation are listed in Note 7, "Companies included in consolidation".

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, 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

Financial Review (Continued)

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.

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 convertible 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's Discussion and Analysis entitled "Ratings".

Financial Review (Continued)

General comments on the business situation of HVB Group by the Management Board

As in previous years, the year 2015 was marked by a number of challenges posed by the economic, financial and geopolitical environment. HVB Group nonetheless generated a good net operating profit of €983 million in the 2015 financial year, surpassing the year-ago result by 10.2%. With a slight rise of 1.6% or €73 million to €4,675 million, the trend in operating income was positive. Within operating income, net interest was up by 3.2% to €2,728 million despite the historically low level of interest rates. At €1,035 million, net fees and commissions failed to match the good figure last year by 4.3% or €47 million mostly on account of the deconsolidation effect from PlanetHome AG and its subsidiaries sold in 2015. Despite the difficult market conditions and the branch closures implemented in the course of modernising our retail banking activities in the last two years, our income in the commission business remained stable. Net trading income was up by 8.7%, or €42 million, to €525 million, although the result was weighed down by expenses for funding valuation adjustments of €94 million made for the first time in the income statement in 2015. There was also a rise in net other expenses/income by 5.3%, or €16 million, to €318 million. At €3,579 million, we managed to maintain operating costs at last year's level (€3,559 million) on account of our strict cost management. Due to the good development in operating income and stable operating costs, the cost-income ratio improved slightly from 77.3% in 2014 to 76.6% in 2015. Net write-downs of loans and provisions for guarantees and commitments fell year-on-year by around one quarter to €113 million and are thus still at a very low level. By contrast, higher expenses than in 2014 arose in the non-operating business primarily due to net expenses of €194 million from additions and reversals of provisions (2014: net income of €25 million) and €112 million on account of restructuring costs (2014: income of €18 million from net reversals). In 2015, restructuring costs include provisions set up for our measures aimed at boosting both efficiency and earnings from our 2016–2018 Strategic Plan. At €99 million, net income from investments was lower than the year-ago figure of €148 million. In view of the charges from restructuring costs and provisions for risks and charges, we generated a profit before tax of €776 million overall that failed to match last year's figure of €1,083 million. After income tax for the period, which fell by €272 million to €26 million in the reporting period partly as a result of the addition of deferred tax assets to tax losses carried forward, the consolidated profit from continuing operations totalled €750 million, which is €35 million down on last year's figure. After adjusting the consolidated profit from continuing operations for the restructuring costs in 2015 and the income from the reversals of restructuring provisions in 2014, the adjusted consolidated profit from continuing operations, at €827 million, would have even been €54 million or 7.0% higher than the adjusted year-ago figure.

In our expectations regarding the development of profit before tax described in the outlook in last year's Management's Discussion and Analysis, we forecast a moderate year-on-year decline. At that time, we had not yet anticipated the restructuring costs which arose in the reporting period. Without these charges, the 16.6% decline in the profit before tax would have been in line with our expectations in the outlook in the 2014 Management's Discussion and Analysis. Pleasingly, our objective of generating a slight rise in earnings in the operating business was achieved. In this context, the higher than expected net interest, higher income from dividends and the expected increase in net trading income offset the weaker than planned development in net fees and commissions. In our planning, we anticipated a slight increase in operating costs. Thanks to our strict cost management, however, we managed to keep operating costs almost at last year's level. As net write-downs of loans and provisions for guarantees and commitments were also considerably lower than planned, we managed to achieve a good operating performance.

The operating business segments contributed to the profit before tax of the reporting period:

The Commercial Banking business segment recorded a good profit before tax of €405 million, which was up by €67 million, or 19.8%, on the year-ago figure despite restructuring costs of €119 million. Both operating income, up by €88 million, or 3.6%, to €2,522 million, and operating costs, down slightly by €7 million, or 0.4%, to €1,972 million, contributed to this development. Due to the lower net write-downs of loans and provisions for guarantees and commitments, which fell by around one quarter to what is still a very low level of €80 million, net operating profit increased by 35.4%, or €123 million, to €470 million.

The Corporate & Investment Banking (CIB) business segment also generated an increase of 15.9%, or €68 million, in net operating profit to €495 million. At €54 million, net write-downs of loans and provisions for guarantees and commitments, which were down by almost half, and the 1.6% or €32 million increase to €2,000 million in operating income contributed to this increase, while operating costs rose by 1.5% or €22 million. As a result of the €79 million increase in expenses for provisions for risks and charges and restructuring costs totalling €30 million, profit before tax amounted to €398 million and was thus unable to match the good year-ago figure of €563 million.

The Other/consolidation business segment recorded a loss before tax of €27 million in an environment with ultra-low interest rates. Apart from negative interest income of €9 million, particularly the restructuring costs of €96 million contributed to this loss.

HVB Group has had an excellent capital base for years. Both the Tier 1 ratio under Basel III and the Common Equity Tier 1 (CET1) capital ratio amounted to 25.1% at 31 December 2015 compared with 22.1% at year-end 2014. The total capital ratio (equity funds ratio) rose to 25.8% at the end of December 2015 after 22.9% at 31 December 2014. This means that these banking supervisory ratios are still at an excellent level by both national and international standards. The leverage ratio defined as the ratio of core capital to the overall risk position (risk position values of all assets and off-balance-sheet items) amounted to 5.9% at the end of December 2015 compared with 6.1% at year-end 2014.

Total assets fell slightly by 0.5%, or €1.6 billion, to €298.7 billion at 31 December 2015 compared with year-end 2014. On the assets side, the decline in financial assets held for trading on account of lower positive fair values of derivative financial instruments was largely offset by the higher cash and cash balances and the increase in loans and receivables with customers. On the liabilities side, there was a decrease in financial liabilities held for trading in line with the assets side which was almost compensated by the higher deposits from banks and from customers. The shareholders' equity shown in the balance sheet rose slightly by €0.2 billion, or 0.8%, to €20.8 billion.

HVB Group 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 this Management's Discussion and Analysis contains further information on the liquidity base of HVB Group.

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 Group 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

Financial Review (Continued)

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 of HVB Group

All the statements regarding the operating performance of HVB Group in this Management's Discussion and Analysis refer to the structure of our segmented income statement (see Note 30, "Income statement, broken down by business segment") which we set out below. By doing so, we are following the Management Approach incorporated into our segment reporting.

	2015	2014	CHANGE	
Income/Expenses	**€ millions**	**€ millions**	**€ millions**	**in %**
Net interest	2,728	2,643	+ 85	+ 3.2
Dividends and other income from equity investments	69	92	(23)	(25.0)
Net fees and commissions	1,035	1,082	(47)	(4.3)
Net trading income	525	483	+ 42	+ 8.7
Net other expenses/income	318	302	+ 16	+ 5.3
OPERATING INCOME	**4,675**	**4,602**	**+ 73**	**+ 1.6**
Payroll costs	(1,821)	(1,782)	(39)	+ 2.2
Other administrative expenses	(1,560)	(1,532)	(28)	+ 1.8
Amortisation, depreciation and impairment				
losses on intangible and tangible assets	(198)	(245)	+ 47	(19.2)
Operating costs	**(3,579)**	**(3,559)**	**(20)**	**+ 0.6**
OPERATING PROFIT	**1,096**	**1,043**	**+ 53**	**+ 5.1**
Net write-downs of loans and provisions for guarantees and commitments	(113)	(151)	+ 38	(25.2)
NET OPERATING PROFIT	**983**	**892**	**+ 91**	**+ 10.2**
Provisions for risks and charges	(194)	25	(219)	
Restructuring costs	(112)	18	(130)	
Net income from investments	99	148	(49)	(33.1)
PROFIT BEFORE TAX	**776**	**1,083**	**(307)**	**(28.3)**
Income tax for the period	(26)	(298)	+ 272	(91.3)
PROFIT AFTER TAX	**750**	**785**	**(35)**	**(4.5)**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**750**	**785**	**(35)**	**(4.5)**
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**—**	**173**	**(173)**	**(100.0)**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**750**	**958**	**(208)**	**(21.7)**

Net interest

We generated net interest in the reporting period of €2,728 million, which is €85 million, or 3.2% higher than the year-ago figure, in an environment weighed down by persistently very low interest rates.

This development can be attributed mainly to the increase of €106 million, or 10.3%, in net interest in the CIB business segment. At the same time, it was fortunately possible to compensate the continued fall in margins at least in part by increasing volumes in the lending business. Moreover, the rise in net interest is also due to the strategic adjustment of the liquidity provisioning in addition to non-recurrent effects. Income from trading-induced interest improved by €14 million.

At €1,604 million, the Commercial Banking business segment also slightly surpassed net interest generated last year (€1,585 million). This increase is attributable to the strong new business involving real estate finance and consumer loans in retail banking operations and a slight recovery in the demand for credit on the corporate banking side. Set against this, the margins in deposit-taking operations are still impacted by the persistently ultra-low interest rates.

In the Other/consolidation business segment, net interest fell by €40 million to a net loss of €9 million, due partly to lower investment returns in an environment of ultra-low interest rates.

Dividends and other income from equity investments

Income of €69 million from dividends and other income was generated from equity investments during the reporting period. This total includes an extraordinary dividend payout from our investment in EURO Kartensysteme GmbH. Last year, €92 million was generated in dividends and other income from equity investments. The decline compared with the year-ago figure is due almost exclusively to the lower dividend payouts as a result of the strategically targeted reduction in the portfolio of private equity funds and direct investments.

Net fees and commissions

We recorded €1,035 million for net fees and commissions. The slight year-on-year decline of €47 million is largely due to the deconsolidation effect of PlanetHome AG and its subsidiaries sold in the second quarter of 2015. The deconsolidation effect is shown particularly by the €21 million decline to €6 million in fees and commissions from other service operations. Fees and commissions from lending operations were also down by €15 million to €295 million, due partly to less demand by companies for capital market products such as bond or stock issuances. The €19 million decrease to €206 million in payment services can be attributed to both lower account management fees and lower commission in domestic and foreign payments. Pleasingly, we improved net fees and commissions by €8 million to €528 million in management, brokerage and consultancy services, which can be primarily attributed to our securities operations.

Net trading income

Net trading income was up by €42 million, or 8.7%, to €525 million, although funding valuation adjustments were carried out for the first time in the 2015 financial year in the income statement and served to reduce net trading income by €94 million. Previously, funding valuation adjustments were taken account of as deductible items in the regulatory core capital.

With higher year-on-year profit, currency-related operations significantly contributed to the increase in net trading income. A good profit that did not, however, match last year's total was also again generated in the business with equity derivatives. Substantial contributions to profit were generated by operations involving loan securitisations, fixed-income securities and interest rate derivatives, which were, however, lower than the year-ago total. The funding valuation adjustments contained in net trading income for the first time had a negative effect, while lower credit valuation adjustments year-on-year and valuation effects accruing on the own portfolio of financial liabilities held for trading (own credit spread) had a positive effect on the result.

Financial Review (Continued)

Net other expenses/income
Net other expenses/income rose a slight €16 million in the reporting period to €318 million. This can be attributed notably to an increase in gains on the sale of receivables, higher income in connection with our Bard Offshore 1 offshore wind farm and the non-recurrence of expenses for services in earlier years contained last year. Among other things, this was offset by higher expenses in connection with the initial consolidation of the Bard Group.

Operating costs
We succeeded in continuing our cost management of operating costs, which for the last ten years has been very successful. At €3,579 million, operating costs in the reporting period were significantly lower than when HVB was acquired by UniCredit (2005: €3,885 million). We have thus managed to more than compensate the additional costs incurred particularly since the onset of the financial crisis (2008) for the steadily increasing regulatory requirements and investments in the ongoing change and progressive digitalisation of the banking business.

Operating costs remained almost unchanged compared with last year (€3,559 million). Within this total, payroll costs rose slightly by €39 million or 2.2% to €1,821 million partly as a result of higher expenses for pension plans. Likewise, other administrative expenses increased only a slight €28 million, or 1.8%, to €1,560 million. This increase is due to both higher marketing expenses as a result of our advertising campaign launched in December 2014 and higher IT expenses resulting in part from our investments in the expansion of digital sales channels in addition to implementing tougher regulatory requirements. By contrast, amortisation, depreciation and impairment losses on intangible and tangible assets decreased significantly by €47 million to €198 million, particularly because of the depreciation taken in the previous year in connection with the initial consolidation of the BARD Group.

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)
The operating profit of HVB Group was up by €53 million, or 5.1%, to €1,096 million in the reporting period mainly on account of the slight rise in operating income together with an almost stable development in operating costs. This resulted in a small improvement in the cost-income ratio (ratio of operating expenses to operating income) from 77.3% in 2014 to 76.6% in 2015.

Net write-downs of loans and provisions for guarantees and commitments and net operating profit
At €113 million, net write-downs of loans and provisions for guarantees and commitments were again at a very low level and thus even lower than the already very low figure of €151 million recorded in the equivalent period last year. In total, a historically low cost-of-risk is calculated for HVB Group (ratio of net write-downs of loans and provisions for guarantees and commitments to average holdings of receivables with customers) of 10 basis points compared with the 14 basis points a year earlier.

In gross terms, the expenses of €1,091 million for additions in the current reporting period (2014: €1,198 million) are largely offset by releases and recoveries from write-offs of loans and receivables amounting to €978 million (2014: €1,047 million).

Net operating profit thus rose by 10.2%, or €91 million, to €983 million.

Provisions for risks and charges
In 2015, a sum of €194 million was transferred to provisions for risks and charges which are primarily provisions for legal risks. The legal risks of HVB Group are described in detail in the section entitled "Operational risk" in the Risk Report of this Management's Discussion and Analysis.

Net income of €25 million from net reversals related to derivative transactions was posted last year.

Restructuring costs
In the reporting period, further investments were made in the future of HVB Group resulting in net restructuring costs of €112 million. This total includes expenses for the creation of restructuring provisions relating to measures serving to boost efficiency and earnings in the 2016–2018 Strategic Plan (see section entitled "Strategic Plan links growth of the business segments to cost-cutting programme in the back office" in the present Management's Discussion and Analysis). These provisions essentially contain net additions for severance payments. Restructuring costs were partially offset in the reporting period by income from the reversal of restructuring provisions that were created in 2013 to modernise our retail banking operations but were no longer needed. In 2014, net income of €18 million from net reversals was recorded for restructuring provisions.

Net income from investments
Net income from investments amounted to €99 million in the reporting period. This result was generated with gains on disposal of €89 million which largely relate to gains of €51 million on the disposal of available-for-sale financial assets, such as from the sale of our holdings in Wüstenrot & Württembergische AG and gains of €35 million on the sale of investment properties. In addition, there was net income of €10 million from write-ups of investments. This relates to €16 million write-ups of investment properties which were partly compensated by write-downs and value adjustments recognised on available-for-sale financial assets.

For the equivalent period last year, HVB Group reports net income from investments of €148 million resulting from disposal gains of €170 million which were partially offset by expenses of €22 million for write-downs and value adjustments. The gains on disposal essentially arose from available-for-sale financial assets (€155 million) stemming from the sale of private equity funds in particular. In addition, gains of €16 million were generated among other things on the sale of investment properties. Write-downs and value adjustments of €22 million were mainly taken on the available-for-sale financial assets (€14 million) and on companies accounted for using the equity method (€9 million).

Profit before tax, income tax for the period and consolidated profit from continuing operations
HVB Group generated a profit before tax of €776 million in the reporting period. Compared with the year-ago figure (€1,083 million) this represented a decline of 28.3% or €307 million which can be partly attributed to the negative impact caused by restructuring costs of net €112 million for measures serving to boost earnings and efficiency in the 2016–2018 Strategic Plan. Adjusted for these expenses, the profit before tax would have come to €888 million, resulting in a moderate 16.6% year-on-year decline.

Income tax in the reporting period totalled €26 million and was thus significantly lower than the income tax reported for the equivalent period last year (€298 million). The decline in income tax for the period is caused in part by the addition of moderate deferred tax assets on tax losses carried forward together with the lower profit. After deducting income tax, the consolidated profit from continuing operations amounts to €750 million, which is €35 million less than the year-ago profit. Adjusted for the restructuring costs of the reporting period and the previous year (net income from net reversals of provisions for risks and charges), the consolidated profit from continuing operations would have risen 7.0% to €827 million.

Profit after tax from discontinued operations and consolidated profit of full HVB Group
The consolidated profit of the full HVB Group is identical to the consolidated profit from continuing operations in this financial year because there are no discontinued operations in 2015. Of the €750 million in consolidated profit of HVB Group, €743 million is attributable to the shareholder of HVB and €7 million to minorities.

Financial Review (Continued)

In 2014, the profit after tax from discontinued operations contained the income and expenses of DAB Bank AG (DAB) and its subsidiary direktanlage.at AG accruing until they were sold last year. The profit before tax from discontinued operations came to €185 million in 2014. This includes in particular the net income from investments of €165 million that primarily consisted of the gain on disposal of DAB. After the tax expense of €12 million is deducted, profit after tax from discontinued operations totals €173 million. Of the consolidated profit of the full HVB Group of €958 million in the previous year, €947 million related to the shareholder of HVB and €11 million to minorities.

Return on equity

The return on equity after tax sets the consolidated profit of the full HVB Group accruing to HVB shareholders against the average shareholders' equity consisting of subscribed capital, additional paid-in capital and other reserves without valuation changes of financial instruments and without consolidated profit and minority interest. It amounted to 3.7% in the 2015 financial year. Adjusted for restructuring costs, the ratio for 2015 stands at 4.3%. A figure of 4.7% was reported for 2014 which, however, included the gain on the disposal of DAB through the profit from discontinued operations. Without the profit from discontinued operations, the return on equity in 2014 would have come to 3.9%. The evaluation of these figures is to be seen particularly against the backdrop of the relatively high capital base of HVB Group.

Appropriation of net income

The profit available for distribution based on the German Commercial Code (Handelsgesetzbuch – HGB) disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €398 million in the reporting period. We will propose to the Shareholders' Meeting that a dividend of €398 million be paid in total to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.50 per share.

The consolidated profit of €627 million (around €0.78 per share) reported last year was distributed to UniCredit in accordance with a resolution adopted by the Shareholders' Meeting on 20 May 2015.

Segment results by business segment

The business segments contributed the following amounts to the profit before tax of €776 million in the 2015 financial year from the continuing operations of HVB Group:

(€ millions)

	2015	2014
Commercial Banking	405	338
Corporate & Investment Banking	398	563
Other/consolidation	(27)	182

The income statements for each business segment and comments on the economic performance of the individual business segments are provided in Note 30, "Income statement, broken down by business segment", in the present consolidated financial statements. The tasks and objectives of each business segment are described in detail in Note 29, "Method and components of segment reporting by business segment".

Financial situation

Total assets

The total assets of HVB Group fell slightly by €1.6 billion, or 0.5%, to €298.7 billion at 31 December 2015 compared with year-end 2014.

On the assets side, financial assets held for trading rose a sharp €14.0 billion to €97.8 billion compared with year-end 2014 due primarily to the €19.0 billion decline in the positive fair values of derivative financial instruments. This development was caused particularly by the persistently ultra-low interest rates over recent years in addition to smaller holdings of derivatives. By contrast, there were increases within financial assets held for trading of €2.0 billion in equity instruments, €2.5 billion in other financial assets held for trading resulting from an increase in reverse repos and €0.5 billion in fixed-income securities. The cash and cash balances increased sharply by €6.3 billion to €11.4 billion almost exclusively on the back of deposits from central banks (up €6.2 billion to €10.9 billion). There was pleasing growth of €3.9 billion in loans and receivables from customers to €113.5 billion. This rise is attributable in part to the increase in mortgage loans which were up by €1.1 billion to €41.7 billion in the reporting period for the first time again after several years of decline. In particular, there was also a rise of €4.6 billion in other loans and receivables with customers to €54.3 billion. Within loans and receivables with customers, there were declines of €0.6 billion in non-performing loans and receivables, €0.3 billion in cash collateral, €0.5 billion in reclassified securities and €0.4 billion in reverse repos. The financial assets at fair value through profit or loss were also up by €2.6 billion to €33.8 billion. At €32.8 billion, loans and receivables with banks in the reporting period remained almost at the same level as year-end 2014 (€32.7 billion).

On the liabilities side, financial liabilities held for trading fell substantially by €10.8 billion year-on-year to €77.1 billion which, in line with the financial assets held for trading, is due to lower negative fair values of derivative financial instruments (down €17.7 billion to €58.7 billion). In contrast, deposits from customers were up by €7.0 billion to €107.7 billion at year-end 2015 almost exclusively as a result of the increase of €11.5 billion to €67.9 billion in credit balances on current accounts while repos (down €3.2 billion) decreased and term deposits (down €1.5 billion) and savings deposits (down €0.8 billion) fell partly on account of the low interest rates. Furthermore, there was a €4.4 billion increase to €58.5 billion in deposits from banks, mainly due to the rise of €3.2 billion to €9.3 billion in deposits from central banks. In addition, repos were up by €0.9 billion and other liabilities by €0.7 billion while term deposits were down by €0.8 billion. Our debt securities in issue also fell by €2.2 billion to €26.0 billion, mainly on account of issues due.

The shareholders' equity shown in the balance sheet increased slightly by 0.8%, or €0.2 billion, to €20.8 billion at 31 December 2015. Within this total, other reserves were up by €0.5 billion. By contrast, the balance sheet profit reported for the 2015 financial year of €398 million is lower than last year's balance sheet profit of €627 million, which was paid as a dividend to UniCredit in the second quarter of 2015 as resolved by the Shareholders' Meeting. The subscribed capital and additional paid-in capital remained unchanged compared with the previous year while the changes in valuation of financial instruments recognised in shareholders' equity fell by €40 million due to the reduction of the available-for-sale reserve and minority interest by €27 million over year-end 2014.

The return on total assets compliant with Section 26a of the German Banking Act (Kreditwesengesetz – KWG) is defined as the ratio of net profit to total assets; it amounted to 0.25% at year-end 2015 (31 December 2014: 0.32%).

The contingent liabilities and other commitments not included in the balance sheet rose by €6.6 billion to €68.1 billion at 31 December 2015 compared with the 2014 year-end total. This figure includes an increase of €9.9 billion to €48.7 billion in irrevocable credit commitments which was partly offset by a decline of €3.2 billion to €19.4 billion in contingent liabilities in the form of financial guarantees. These contingent liabilities are offset by contingent assets of the same amount.

Financial Review (Continued)

Risk-weighted assets, key capital ratios, liquidity and leverage ratio of HVB Group
The total risk-weighted assets of HVB Group (including market risk and operational risk) determined in accordance with Basel III requirements amounted to €78.1 billion at 31 December 2015 and were thus €7.7 billion lower than year-end 2014.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use decreased by €3.9 billion to €58.1 billion. In the process, credit risk (excluding counterparty risk) fell by €4.2 billion at HVB, particularly on account of the offsetting of deferred tax assets and liabilities for the first time when calculating credit risk and in the course of the European Banking Authority (EBA) specifying the risk weighting of assets to cover pension obligations. In contrast, HVB's counterparty risk increased by €0.2 billion. At subsidiaries, the risk-weighted assets for credit risk (including counterparty risk) rose by €0.2 billion.

The risk-weighted assets for market risk fell by €3.1 billion to €9.7 billion. This is primarily due to a decline in market risk on the part of HVB's internal market risk model.

The risk-weighted asset equivalents for operational risk decreased by €0.7 billion to €10.3 billion mainly as a result of adjustments to the group-wide Advanced Measurement Approach Model (AMA Model).

At 31 December 2015 in accordance with approved annual financial statements, the core capital compliant with Basel III excluding hybrid capital (Common Equity Tier 1 capital/CET1 capital) and the core capital (Tier 1 capital) of HVB Group amounted to €19.6 billion and had thus increased by €0.6 billion compared with year-end 2014 (31 December 2014: €19.0 billion). The CET1 capital ratio (ratio of Common Equity Tier 1 capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) and the core capital ratio under Basel III (Tier 1 capital ratio; including market risk and operational risk) rose to 25.1% at 31 December 2015 (year-end 2014: 22.1% in both cases). The equity capital amounted to €20.1 billion at 31 December 2015 and was thus €0.5 billion higher than last year's level (31 December 2014: €19.6 billion). The equity funds ratio was 25.8% at the end of December 2015 (31 December 2014: 22.9%).

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 section of the Risk Report in the present Management's Discussion and Analysis entitled "Liquidity risk". A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). 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 had increased to 1.21 by the end of December 2015 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 over 100%.

The leverage ratio is determined by setting the core capital measure against the exposure measure. The total exposure measure is the sum total of the exposure values of all assets and off-balance sheet items. According to the regulatory report at 31 December 2015, HVB Group's leverage ratio was 5.9%, and fell only slightly compared with year-end 2014 (31 December 2014: 6.1%). The leverage ratio of HVB Group in accordance with the Commission Delegated Regulation (EU) 2015/62, which came into force on 18 January 2015, amounted to 6.2% 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.

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 224% at year-end 2015 (year-end 2014: 189%). 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.

Financial Review (Continued)

Report on subsequent events

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

Forecast report/Outlook

Management's Discussion and Analysis 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 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.

Financial Review (Continued)

Development of HVB Group
The group of companies included in consolidation used as the basis for planning in 2016 will not change materially compared with the 2015 financial year. All the companies initially consolidated or deconsolidated in the reporting period were incorporated appropriately when the budget was drawn up. The results of PlanetHome AG and its subsidiaries, which were deconsolidated in the 2015 financial year, are no longer included in the income statement for the 2016 forecast period; these are only included in the comparative period until the companies were sold in the second quarter of 2015.

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. Taking into account the current operating conditions, the Bank is planning to record a profit that is noticeably higher than the year-ago total.

We assume that 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.

For this reason, we also expect operating income to once again increase in the 2016 financial year. The persistently ultra-low interest rates and the non-recurrent effects contained in the reporting period will, however, significantly contribute to a noticeable decrease in net interest. Although we anticipate a significant increase in volumes in the lending business, this is likely to only partially offset the strains from the low interest rates and the non-recurrent effects. Dividends and similar income from capital investments will continue to fall in the 2016 financial year, especially since the 2015 financial year was positively affected by non-recurrent income. 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 trading income compared with 2015, particularly in the areas of Equity Derivatives Trading and Integrated Credit Trading (securitisation of loans and receivables, repos). There is likely to be a slight decrease in operating costs based on the consistent application of the strict cost management. At the same time, we expect lower payroll costs, notably due to the further decline in the number of employees. Likewise, other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets are likely to remain below the level of the 2015 financial year as a whole. Due to the increase in operating income coupled with a simultaneous decline in 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 noticeably 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.

We expect all the business segments to contribute a profit before tax to the results of HVB Group in the 2016 financial year as a whole. The results trends for the individual business segments in the 2016 financial year are discussed below:

In the Commercial Banking business segment, we project operating income for the 2016 financial year which is likely to be at around last year's level. In this context, we assume that the declines in net interest, dividends and other income from equity investments and net trading income will be offset by a noticeable increase in net fees and commissions. The improvement in net fees and commissions will essentially be driven by an expansion of cross-selling with corporate customers built on the deployment of production specialists in the Transaction Banking, Corporate Treasury Sales and Capital Market Products units, the consistent focus on the business model of our Private Banking & Wealth Management joint venture and the concentration on mandated product solutions demanded by customers. Net interest will again be adversely affected by the ultra-low interest rates in the 2016 financial year and is thus likely to be slightly lower than the 2015 level. Although we wish to continue our growth in lending operations, the deposit-taking business will probably decline on account of interest levels. Operating costs will in all probability fall slightly. With a lower number of employees, payroll costs are set to decline and other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets to remain largely unchanged compared with the reporting period. After the very low level of net write-downs of loans and provisions for guarantees and commitments in the 2015 financial year, we project a normalisation for 2016 and thus a significant increase in the cost of risk. The profit before tax will therefore probably come to around the same level as in the reporting period.

In the 2016 financial year, we expect the CIB business segment to record an increase in operating income compared with 2015. To this end, a project entitled SQUARED was launched for CIB within the framework of the 2016–2018 Strategic Plan. Above all, SQUARED targets three areas: making full use of the benefits of strong customer relationships with corporate customers and financial service providers to generate new business; extending and enhancing our international network; and expanding customer-driven business in Markets. A substantial increase is planned mainly in net fees and commissions and net trading income. Above all, Global Transaction Banking (Trade Finance) and Financing & Advisory (Global Capital Markets as well as credit-related commissions) are expected to boost net fees and commissions. The rise in net trading income is anticipated primarily in Equity Derivatives Trading and Integrated Credit Trading (securitisation of loans and receivables, repos). However, net interest is projected to noticeably decrease due to the setting of persistently low interest rates together with lower trading-induced interest than in 2015. With payroll costs remaining stable, operating costs will probably increase somewhat overall in 2016 in other administrative expenses and amortisation, depreciation and impairment losses due in part to higher expenses for the offshore wind farm. After the very low level of net write-downs of loans and provisions for guarantees and commitments in the 2015 financial year, we expect a normalised level in 2016. Despite the considerably higher net write-downs of loans and provisions for guarantees and commitments, the profit before tax in 2016 will, in all likelihood, be significantly higher than the profit before tax in 2015 particularly on account of the improved earnings planned in net fees and commissions and in net trading income.

In the Other/consolidation segment, we will probably generate a profit before tax in 2016 after a loss was recorded in the reporting period mainly as a result of restructuring costs. The profit before tax will continue to be affected by significantly lower net interest resulting from the persistently low interest rates.

The performance of HVB Group will again depend on the future development of the financial markets and in the real economy in 2016 as well as other remaining imponderables. In this environment, HVB Group 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 Group 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.

Financial Review (Continued)

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.

HVB Group 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 Group 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 Group, 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 Group 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 Group 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 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.

Financial Review (Continued)

Moreover, as a universal bank, HVB Group 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 HVB'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 Group 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 Group 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 Group has been evolving into a bank with strong and consistent cost management. The ability to manage costs is well developed throughout the Bank. HVB Group 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 Group 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 Group has opportunities to recruit highly qualified employees and managers. Both the size of UniCredit and the strategic positioning of HVB Group 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 shed 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 Group's workforce (measured in FTEs) decreased to 16,310 at year-end 2015 (2014: 17,980). The workforce at HVB 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.

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

Financial Review (Continued)

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 Group 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 Group. 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.

Financial Review (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 Group as a risk-taking entity

By their very nature, the business activities of HVB Group are subject to risk. HVB Group 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 Group. 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 of our Group. These activities are the precondition for providing adequate capital backing and maintaining an adequate liquidity base.

The income statements for each business segment and the comments on their economic performance are provided in Note 30, "Income statement, broken down by business segment", in the notes to the consolidated financial statements. The tasks and objectives of each segment are described in detail in Note 29, "Method and components of segment reporting by business segment".

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

All HVB Group companies that are included in the consolidated financial statements of HVB Group prepared in accordance with International Financial Reporting Standards (IFRS) are incorporated in the risk management programme of HVB Group. These Group companies are classified by applying various criteria as part of the Internal Capital Adequacy Assessment Process (ICAAP), such as size, portfolio structure and risk content. The economic capital for large and complex companies is measured differently for the individual risk types. A simplified approach is applied for all other companies.

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 Group 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 Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and special purpose vehicles (SPVs). 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 consolidated by HVB Group IFRS or 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 Group. **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 Group'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.

Risk Report (Continued)

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 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 Group-owned property is controlled centrally by Global Banking Services (GBS). Within HVB Group, 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 Group 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 Group. 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 Group 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 Group (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 Group. Its main objectives are to ensure that HVB Group 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 Group'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 "Responsibilities for the ICS in connection with financial reporting".

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 Group
– 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 Group, 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 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 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)

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 Group".

Risk Report (Continued)

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 Group was 25.8% at the end of December 2015 (31 December 2014: 22.9%).

Economic capital adequacy

HVB Group 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), an undifferentiated premium for pension risk and the economic capital for small legal entities. 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. On account of the low risk content, the economic capital for small legal entities of HVB Group is approximated with no differentiation by risk type.

An all-round overview of the risk situation of HVB Group 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	3,448	39.0	4,749	46.5
Market risk	2,178	24.7	2,038	20.0
Operational risk	1,439	16.3	1,711	16.8
Business risk	319	3.6	302	3.0
Real estate risk	367	4.2	346	3.4
Financial investment risk	168	1.9	304	3.0
Aggregated economic capital	**7,919**	**89.7**	**9,450**	**92.7**
Economic capital of small legal entities	51	0.6	93	0.9
Pension risk	859	9.7	657	6.4
Internal capital of HVB Group	**8,829**	**100.0**	**10,200**	**100.0**
Available financial resources of HVB Group	**19,747**		**19,284**	
Risk-taking capacity of HVB Group, in %	**223.7**		**189.1**	

The internal capital falls by €1.4 billion overall. 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 financial investment risk decreased on account of the disposal of financial investments.

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.

Aggregated economic capital[1] after portfolio effects (confidence level 99.93%)

	2015		2014	
Broken down by business segment	€ millions	in %	€ millions	in %
Commercial Banking	1,843	23.1	2,186	22.9
Corporate & Investment Banking	5,372	67.4	5,834	61.1
Other/consolidation	756	9.5	1,523	16.0
Aggregated economic capital of HVB Group	**7,971**	**100.0**	**9,543**	**100.0**

1 aggregate of economic capital of the individual risk types and economic capital of small legal entities, excluding pension risk

Risk appetite

HVB Group'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 countermeasures 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 Group normally controls its risk-taking capacity under a gone-concern approach. In other words, the risk-taking capacity spotlights HVB Group'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.

HVB Group 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 Group totalled €19.7 billion at 31 December 2015 (31 December 2014: €19.3 billion).

Risk Report (Continued)

With internal capital of €8.8 billion, the risk-taking capacity for HVB Group is 223.7% (31 December 2014: 189.1%). This figure is much higher than the target we have set ourselves. The increase of 35 percentage points for HVB Group compared with 31 December 2014 can be attributed to a decline of €1.4 billion, or 13.4%, in internal capital. This effect is reinforced by the increase of €0.4 billion, or 2.1%, 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 and the development of undisclosed reserves in real estate.

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.

This system of limits reflects the business and risk strategies, taking into account the risk appetite and the available financial resources of HVB Group, and ensures compliance with the risk-taking capacity. The risk limits are approved by the Management Board of HVB each year during the strategy process.

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 Group 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.
– Grexit scenario – This scenario was calculated as a special analysis in response to current developments as of the first quarter of 2015. It was integrated in the Contagion scenario as of the fourth quarter of 2015.
– 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 Group 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 and ad hoc 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.

Ad hoc stress tests are carried out in response to internal and external events that might have a considerable impact on HVB Group. Examples of ad hoc stress tests include: negative deposit rates charged by the ECB; quantitative easing (ECB bond-purchasing programme); rating downgrade scenario in the banking sector; the UK leaving the EU; and economic developments in China.

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 Group 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 larger subsidiaries adapted this approach. A simplified procedure is used to determine the relevant risks for smaller subsidiaries. The results of the 2015 risk inventory were presented to the RC at HVB Group 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 Group and various topics are identified, 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 Report (Continued)

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

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 Group 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

A risk strategy has been approved for HVB Group 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 Group 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 Group 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 Group. 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 Group.
- 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 Group.
  In addition, a limit is set for cross-border country risk exposure.

Risk Report (Continued)

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

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 Group 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.

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 Report (Continued)

Risk density
The risk density is another risk metric alongside the EaD and EL that is used to manage the individual HVB Group sub-portfolios. HVB Group 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 Group 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 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 Group 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 Group 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 Group, without taking account of diversification effects between the risk types, amounts to €3.5 billion, which is €1.3 billion lower than the total at 31 December 2014 (€4.8 billion). If the new credit portfolio introduced in 2015 were applied retroactively, the comparative figure at 31 December 2014 would be €4.6 billion. If the effect arising from the changeover to the new model is disregarded, the economic capital declined by €1.1 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 Group 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.

Development of metrics by business segment (€ millions)

	EXPECTED LOSS[1]		ECONOMIC CAPITAL[2]		
	2015	2014	2015	2014[3]	2014[4]
Commercial Banking	155	166	878	697	1,024
Corporate & Investment Banking	190	243	2,622	2,847	2,997
Other/consolidation	4	35	26	1,073	795
HVB Group	**349**	**444**	**3,526**	**4,617**	**4,816**

1 expected loss of the performing exposure
2 without taking account of diversification effects
3 retroactive application of the new credit portfolio model introduced in 2015
4 previous year-end date using the credit portfolio model used until November 2015

The expected loss of HVB Group fell by €95 million in 2015. This development can be attributed mainly to an improvement in the portfolio structure in several industries.

The decline in both the expected loss and the economic capital in the Other/consolidation business segment is attributable to the reduction in single-name concentrations.

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

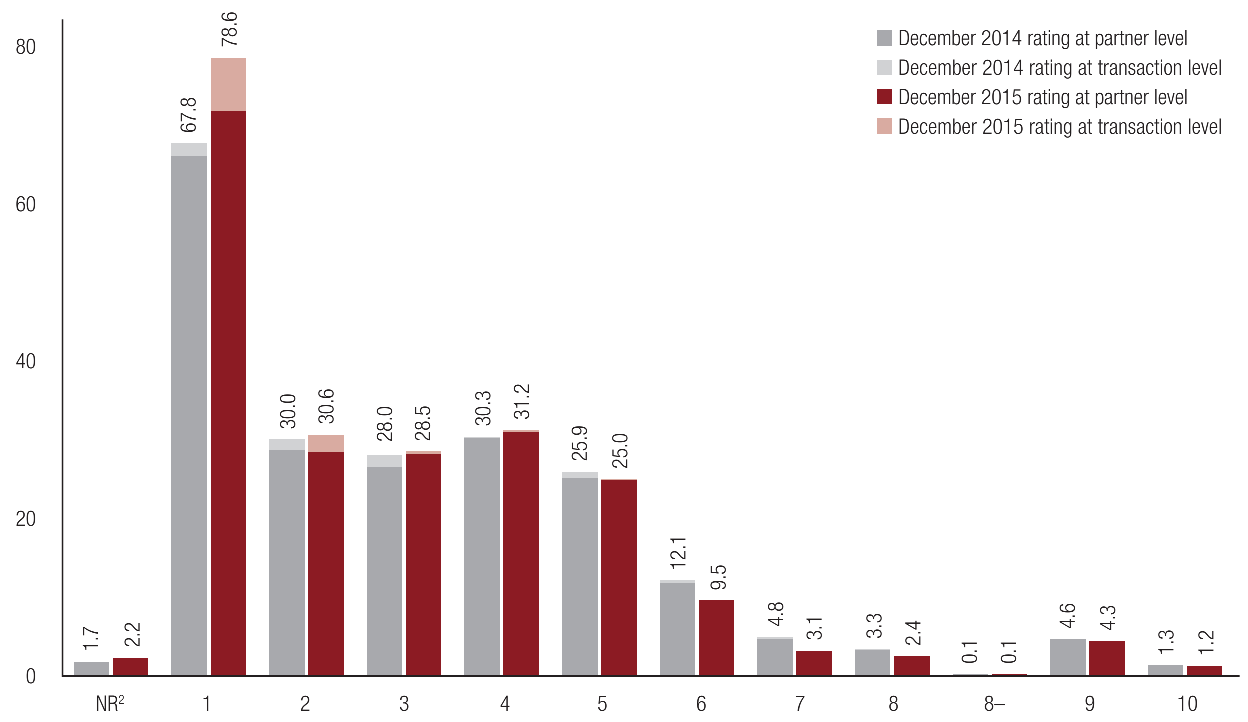
Breakdown of exposure by business segment	CREDIT DEFAULT RISK [2]		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Commercial Banking	93.0	91.0	3.8	4.7	0.2	0.1	0	0	93.0	91.0
Corporate & Investment Banking	121.8	113.1	19.5	19.9	43.2	42.5	7.2	9.2	129.0	122.3
Other/consolidation	1.7	5.8	0.1	0	0.1	4.0	0	0	1.7	5.8
HVB Group	**216.5**	**209.9**	**23.4**	**24.6**	**43.5**	**46.6**	**7.2**	**9.2**	**223.7**	**219.1**

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

The total exposure of HVB Group increased by €4.6 billion. In particular, the exposure in the CIB business segment increased by €6.7 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 Group 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		EXPECTED LOSS[2] € millions		RISK DENSITY in BPS[3]	
	2015	2014	2015	2014	2015	2014
Banks, insurance companies (including sovereigns)	49.8	46.7	34	41	7	9
Public sector	32.3	36.8	2	2	1	1
Real estate	24.6	22.9	27	26	11	12
Special products	12.2	9.6	29	67	24	72
Energy	10.2	10.0	18	19	18	20
Chemicals, pharmaceuticals, health	9.0	9.2	17	17	19	19
Machinery, metals	8.6	8.4	24	27	30	34
Automotive industry	6.7	5.7	9	8	14	14
Food, beverages	5.4	4.5	8	7	14	16
Shipping	5.3	5.5	76	87	192	214
Consumer goods	5.3	5.2	10	8	19	16
Services	5.2	4.7	17	20	34	43
Transport, travel	5.1	4.8	11	15	25	35
Construction, wood	4.6	4.6	10	11	22	25
Telecoms, IT	4.1	3.1	5	6	13	19
Electronics	2.4	2.3	3	2	11	10
Agriculture, forestry	2.2	2.2	6	4	26	20
Media, paper	1.7	2.0	5	4	34	25
Tourism	1.4	1.5	4	10	25	64
Textile industry	1.3	1.3	4	4	30	29
Retail	19.1	18.9	30	59	16	32
HVB Group	**216.5**	**209.9**	**349**	**444**	**17**	**22**

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 €3.1 billion in 2015. An increase in the exposure to central banks and sovereigns in particular was responsible for this. The decline of €7 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 €2.6 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.

The expected loss in the retail industry group declined by €29 million, causing the risk density to fall by 16 BPS with the exposure remaining almost the same. Rating improvements in this sub-portfolio are the main reason for this.

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 Group 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 Group's liquidity placements led to a significant reduction of €4.5 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 Group 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 Group 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.

Risk Report (Continued)

Global acquisition finance in the core markets of HVB Group
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 Group risk strategy.

HVB Group'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 Group 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.

Special focus facilities
The HVB Group portfolio includes exposures relating to the completion of an offshore wind farm (Ocean Breeze). Delays to the completion of the wind farm made it necessary to restructure the exposure – especially with regard to the general contractor (BARD).

The erection of the wind farm was completed in August 2013. This enabled the transfer of the facility from the general contractor to the company Ocean Breeze to be concluded at year-end 2013 as planned. Outstanding work identified in the course of the handover was analysed and assessed accordingly.

With 80 turbines and an output of up to 400 MW, the facility is currently one of the biggest commercial offshore wind farms in the world. Given the scope of the project, some rectification work needs to be done after the handover, as is often the case with major projects. It may well take several years to finish optimising the facilities, as certain work can only be carried out in periods of light winds (in the summer, for instance).

Based on the performance parameters of the wind farm, it can be assumed that the cash flow forecast to be generated by regular operation will be enough to ensure that the debt level will be reduced over a period that is usual for the industry.

The wind farm was plagued by technical difficulties in 2014 and 2015 (including massive problems with connections to the grid), which led to long idle times. The search for the technical causes of the grid connection problems revealed the origins to be resonance arising from an instable grid configuration overall. The issue has been resolved in the meantime by updating the software, meaning that the wind farm is now operating as envisaged.

Based on Section 17e of the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG), Ocean Breeze has already received compensation for some of the lost revenues from the grid operator, TenneT. A further tranche of the claims for damages asserted by Ocean Breeze accordingly remains in dispute between Ocean Breeze and TenneT with regard to fundamental questions of interpretation regarding the application of Section 17e EnWG. These more fundamental questions of interpretation will now probably be filed for court ruling shortly. A net profit for the year was recorded in 2014, enabling debts of €100 million to be paid back as planned. A further €50 million was repaid in 2015. The output of the wind farm has improved greatly and stabilised in 2015. It is, however, not possible to exclude the risk of (unexpected) technical problems having a negative impact on performance.

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]	133,614	132,390	8,553	7,530	22,799	27,456	1,576	1,908	135,190	134,298	834
Luxembourg	9,843	10,637	2,127	1,592	4,020	3,771	590	1,170	10,433	11,807	634
Italy	7,149	11,145	3,722	3,650	1,549	5,098	1,310	1,630	8,459	12,775	2,493
Spain	6,790	3,734	64	63	5,791	2,904	136	240	6,926	3,974	3,786
France	5,574	6,004	797	821	2,212	1,902	703	829	6,277	6,833	576
Netherlands	5,395	4,339	436	300	1,983	1,359	220	341	5,615	4,680	22
Ireland	2,910	2,394	127	261	491	325	90	183	3,000	2,577	—
Austria	1,754	2,374	256	149	775	837	410	459	2,164	2,833	583
Belgium	672	480	102	298	117	51	294	183	966	663	185
Greece	357	401	70	85	—	—	4	0	361	401	2
Finland	104	102	22	31	24	—	217	154	321	256	34
Cyprus	141	114	2	2	—	—	7	0	148	114	7
Slovenia	129	116	84	67	—	—	11	9	140	125	4
Portugal	57	108	17	32	3	32	13	14	70	122	0
Malta	43	155	5	2	—	—	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	—	4
Estonia	0	2	—	—	—	—	1	4	1	6	0
HVB Group	**174,553**	**174,521**	**16,386**	**14,891**	**39,764**	**43,735**	**5,603**	**7,142**	**180,156**	**181,663**	**9,178**

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 Group'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.

Risk Report (Continued)

Luxembourg
The exposure in Luxembourg declined by €1.4 billion, due among other things to a change in the way the economic risk of the partner Ocean Breeze is presented (now in Germany). 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 Group 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)

Region/country	TOTAL 2015	TOTAL 2014	OF WHICH ISSUER RISK IN TRADING BOOK 2015	OF WHICH ISSUER RISK IN TRADING BOOK 2014
UK	11,699	11,636	377	633
USA	9,897	7,172	275	214
Asia/Oceania	7,549	4,624	42	22
Switzerland	4,756	3,186	214	298
Turkey	2,056	2,483	6	57
Western Europe (without Switzerland, UK)	1,953	1,820	375	346
Russia	1,322	2,014	69	36
Middle East/North Africa	1,097	916	4	8
Eastern Europe[2]	1,086	1,075	173	281
North America (including offshore jurisdictions, without USA)	920	1,326	52	69
Southern Africa	596	684	5	13
Central and South America	514	356	24	12
Central Asia (without Russia, Turkey)	106	92	0	—
HVB Group	**43,551**	**37,384**	**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.

The total exposure of the regions/countries outside the eurozone rose by €6.2 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 Group 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 Group 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 Group, 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 Group.

Risk Report (Continued)

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	**1,003,955**	**737,399**	**815,056**	**2,556,410**	**2,565,085**	**64,452**	**88,708**	**62,123**	**85,213**
OTC products									
Forward rate agreements	181,844	2,278	—	184,122	124,167	26	13	21	8
Interest rate swaps	624,068	676,814	675,595	1,976,477	2,058,269	60,961	83,040	56,311	77,411
Interest rate options									
– purchased	64,174	26,094	74,007	164,275	150,047	3,326	4,959	203	496
– written	64,724	20,954	63,477	149,155	136,684	125	692	5,256	7,295
Other interest rate derivatives	16,035	—	—	16,035	2,916	11	3	329	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	**278,130**	**31,263**	**985**	**310,378**	**230,250**	**4,028**	**4,716**	**4,464**	**5,070**
OTC products									
Foreign exchange forwards	241,211	26,029	943	268,183	201,925	3,664	4,284	4,009	4,618
Foreign exchange options									
– purchased	18,033	2,735	24	20,792	14,467	237	348	153	101
– written	18,880	2,499	18	21,397	13,848	127	84	302	351
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	6	—	—	6	10	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**54,735**	**101,730**	**62,304**	**218,769**	**251,534**	**6,502**	**5,911**	**7,906**	**6,869**
Equity/index derivatives	**36,349**	**33,629**	**6,160**	**76,138**	**157,944**	**2,158**	**2,271**	**2,955**	**2,891**
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	515	66	169
– written	7,411	10,353	4,512	22,276	91,463	25	30	690	897
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	1,467	1,359	2,051	1,595
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 Group	**1,392,904**	**959,927**	**888,354**	**3,241,185**	**3,305,483**	**79,257**	**103,794**	**78,956**	**101,895**

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 €799,903 million at 31 December 2015 (thereof credit derivatives: €3,288 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2015	2014	2015	2014
Central governments and central banks	5,541	5,838	1,754	2,027
Banks	45,348	64,752	49,735	66,040
Financial institutions	24,921	30,133	24,939	31,787
Other companies and private individuals	3,447	3,071	2,528	2,041
HVB Group	**79,257**	**103,794**	**78,956**	**101,895**

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 Group	**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 Group	**64,015**	**—**	**5,506**	**69,521**	**92,503**

Risk Report (Continued)

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, ad hoc 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 and to a lesser – and diminishing – extent by our subsidiaries. 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.

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 Group 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 Group 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 Group 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%.

Risk Report (Continued)

- 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 securitisations 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 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 Group, without taking account of diversification effects between the risk types, amounts to €2.7 billion, and has hardly changed at all compared with the figure at 31 December 2014 (€2.6 billion).

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

Market risk from trading-book activities of HVB Group (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 Group[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 Group (€ 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	5	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 Group are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB business segment at HVB Group.

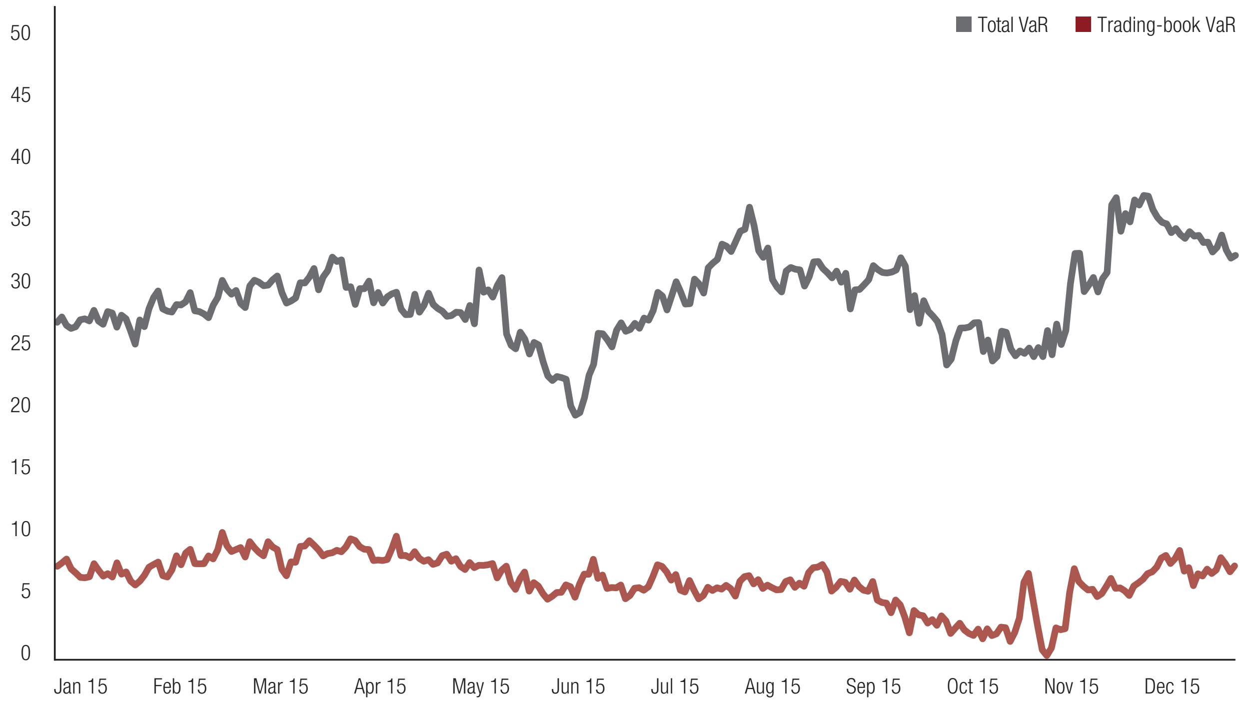
Risk Report (Continued)

Market risk from trading- and banking-book activities of HVB Group (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	28	25	24	24	24	27
Interest rate positions	8	6	8	8	8	8	7
Foreign exchange positions	8	2	5	9	7	1	2
Equity/index positions[1]	4	2	3	3	3	3	2
HVB Group[2]	**31**	**28**	**28**	**29**	**30**	**26**	**28**

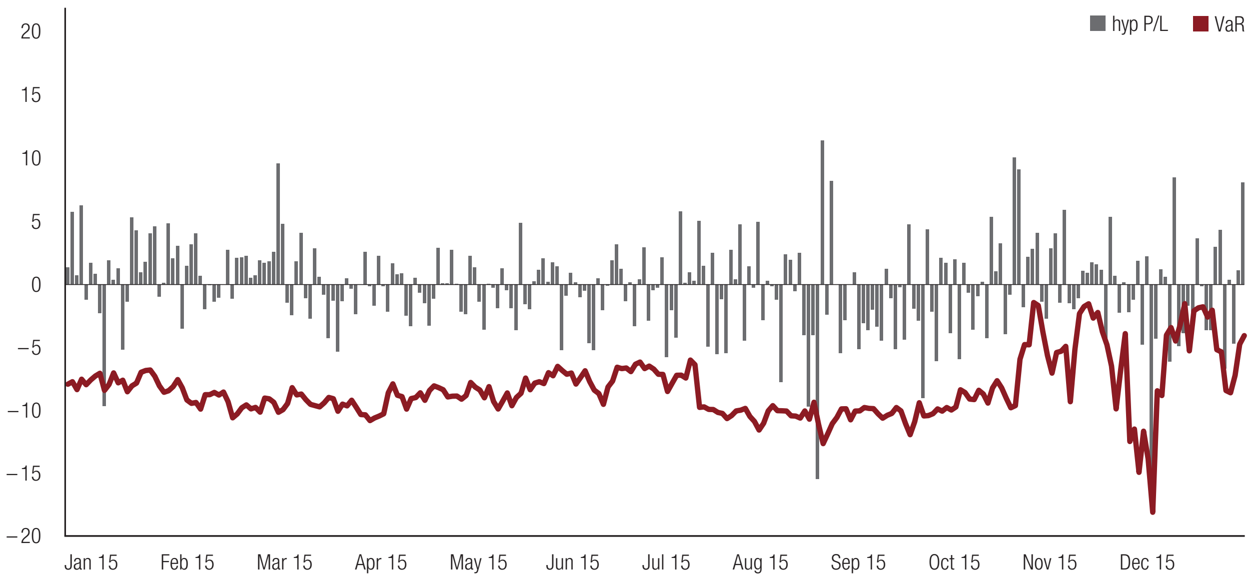
1 including commodity risk
2 Because of the diversification effects between the risk categories, the total risk is less than the sum of the individual risks.

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



The total VaR at HVB Group 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 Group may not be able to sell such a position, as the market does not offer enough liquidity or HVB Group holds a position that is too large set against the market turnover.

Risk Report (Continued)

Greater volatility on the financial markets could also make it more difficult for HVB Group 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 Group 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 Group, 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).

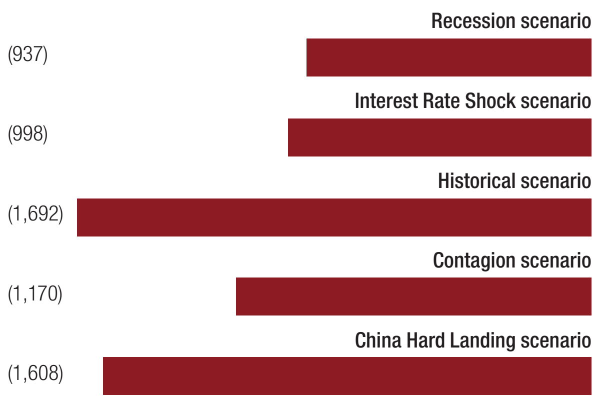
One example for a historical scenario used is based on experience gained from the financial crisis. To evaluate the effects of a financial crisis on a regular basis, we introduced the Historical scenario. This scenario reflects the trend in the financial crisis in 2009. To take account of the low market 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 Group stress tests 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 0.8% (31 December 2014: 0.0%). When calculated from the regulatory viewpoint (without the model book), a capital charge of 7.3% becomes apparent given an increase of 200 BPS in interest rates (31 December 2014: 5.3%). HVB Group is well below the 20% mark specified above which the banking supervisory authorities consider a bank to have increased interest rate risk. These figures include the positions of HVB as well as the positions of the material Group companies.

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 Group 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 Group 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.

Risk Report (Continued)

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 Group 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 Group.

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 Group'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 Group 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 Group-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 and its domestic subsidiaries engaged in banking activities are 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 Group 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 Group 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 Group 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.

Risk Report (Continued)

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 Group by the Finance unit in the CFO organisation.

Quantification and specification

Short-term liquidity risk

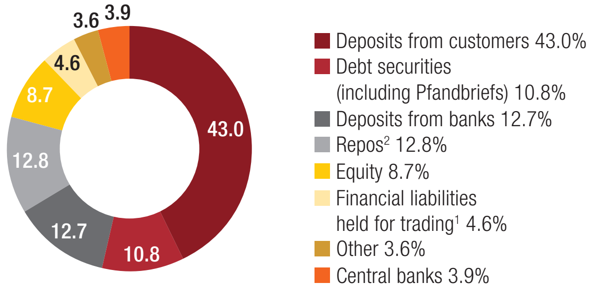
Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €38.0 billion in HVB Group for the three-month maturity bucket at the end of December 2015 (31 December 2014: €24.3 billion). The holding of available securities eligible as collateral for central bank borrowings that can be employed on the next banking day to compensate for unexpected outflows of liquidity amounted to €31.8 billion at the end of December of 2015 (31 December 2014: €21.8 billion).

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB Group during the reporting period. The funds available exceeded its payment obligations for the following month by an average of €21.1 billion for HVB Group 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 Group 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 Group obtained longer-term funding with a volume of €6.1 billion on the capital market until the end of December 2015 (31 December 2014: €5.7 billion). At the end of December 2015, 98.2% (31 December 2014: 96.8%) 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.

Breakdown of sources of funding of HVB Group (31 December 2015)



1 without the item "Negative fair values arising from derivative financial instruments"
2 repos from the items "Financial liabilities held for trading", "Deposits from customers" and "Deposits from banks"

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 Group 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 Group 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.

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 Group 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.

Risk Report (Continued)

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.

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 and other companies belonging to HVB Group are involved in various legal proceedings. The following is a summary of pending cases against HVB or other companies belonging to HVB Group, which have a value in dispute exceeding €50 million or are of significance for HVB for other reasons.

HVB and other companies belonging to HVB Group are 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 and other companies belonging to HVB Group 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 IFRS accounting principles applied by HVB Group.

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.

Risk Report (Continued)

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.

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.

Risk Report (Continued)

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.

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 Group, without taking account of the diversification effects between the risk types, amounted to €1.9 billion at 31 December 2015 (31 December 2014: €2.2 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 Group.

Stress tests

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

Risk Report (Continued)

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 Group 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 Group; 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.

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 €22 million to €803 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 Group amounted to €319 million at 31 December 2015 (31 December 2014: €302 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 Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and SPVs. 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 Group (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 Group at market terms on a cost-optimised basis. As a result, around one-third of the properties currently used by the Bank are owned by HVB Immobilien Group, including almost all of the buildings housing central functions.

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.

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.

Real estate risk is managed overall on the basis of an IC limit for HVB Group. In addition, standalone EC limits adjusted for diversification effects were allocated to the business segments and the relevant subsidiaries for 2015 in the context of overall bank management. 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).

Risk Report (Continued)

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 €482 million at 31 December 2015, which is €21 million higher than the reported figure of €461 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 €434 million. If the effect arising from the changeover to the new model is disregarded, the economic capital increased by €48 million. The figure is based on a portfolio worth €3,047 million. The main reason for the greater risk is the higher market value of the HVB Tower (Z2) following its renovation. Rents in the HVB Tower and Flachbau Süd building have been revised to reflect the state-of-the-art facilities and the discount rate used in the calculation has been adjusted.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2015	2014	2015	2014
Strategic real estate	1,728	1,484	56.7	50.9
Non-strategic real estate	1,319	1,431	43.3	49.1
HVB Group	**3,047**	**2,915**	**100.0**	**100.0**

The fully diversified economic capital for real estate risk at HVB Group amounted to €367 million (31 December 2014: €346 million). Apart from a few transactions involving additions and disposals, the structure of the real estate portfolio of HVB Group remained largely unchanged in 2015. The main geographical focus is on the Munich area, which accounts for 43.8% of the total portfolio value.

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 consolidated by HVB Group under IFRS or 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 contains mainly listed and unlisted interests, private equity investments 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 is managed overall on the basis of an IC limit for HVB Group. In addition, standalone EC limits adjusted for diversification effects were allocated to the business segments and the relevant subsidiaries for 2015 in the context of overall bank management. 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 €171 million to total €216 million at 31 December 2015. The fully diversified economic capital of HVB Group amounts to €168 million (31 December 2014: €304 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	124	150	45.6	31.4
Private equity investments	30	69	11.0	14.4
Other holdings[1]	118	259	43.4	54.2
HVB Group	**272**	**478**	**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 Group 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 and HVB Group.

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.

HVB and its most important subsidiaries apply 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.

Risk Report (Continued)

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: impact 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 Group.

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 Group 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 Group with its Commercial Banking and CIB segments 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 Group.

The regular economic analysis carried out by HVB Group 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 Group 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 Group.

Risks arising from the strategic orientation of HVB Group's business model
HVB Group 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 Group 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 Group.

The branch will continue to represent the core element of our multi-channel 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 Group.

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 Group. HVB Group 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 Group'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 Group 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 Group.

Risk Report (Continued)

Risks arising from changes to the regulatory and statutory environment
The activities of HVB Group are regulated and supervised by the central banks and regulatory authorities in the countries and regions where HVB Group 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 the HVB Group companies. Besides a possible impact on the business model coupled with a higher cost of capital and a direct impact on the profitability of HVB Group, additional costs for the implementation of the new regulatory requirements and the necessary adjustments of the IT systems could also accrue for HVB Group. 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 Group.

The failure of HVB or one of its subsidiaries 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 or its subsidiaries 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 Group 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 Group. 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 Group 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 €237 million). A figure of €859 million was determined at 31 December 2015 (31 December 2014: €657 million) for the total pension risk of HVB Group; 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 Group 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 or a subsidiary of HVB Group. 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 Group 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. Bankhaus Neelmeyer AG outsourced some parts of its compliance function to 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 315 (2) No. 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's Discussion and Analysis. 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 Group. 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 consolidated financial statements of HVB Group. 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 Group 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 consolidated financial statements prepared in accordance with IFRS are based on the standalone financial statements of HVB, the subsidiaries included in the consolidated financial statements and special purpose entities on the basis of local accounting rules. These financial statements are converted by the reporting companies to HVB Group standards in accordance with the UniCredit Accounting Principles and transformed to comply with the corporate position classifications. The financial information reported within the framework of the consolidated financial statements is included in the process of auditing the consolidated financial statements. The figures for the consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system marketed by Tagetik Software S.R.L. This is used across the entire corporate group and networked across all Group companies. After the figures have been entered in or transferred to this system by the Group companies, the system is closed for further entries in line with the phases of the consolidation process. These data may only be changed in exceptional circumstances, as agreed with the subsidiary concerned. The consolidation process includes system-based validation checks at a diverse range of levels to minimise the risk of error.
In addition, plausibility checks are carried out on a regular basis.

ICS – Internal Control System (Continued)

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. In addition, the data are also verified by analysing the segment report.

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 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, consolidated and interim 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 positions, 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.

My ideas are so big, they make me feel small.

Let's talk about realizing your projects.

Stefan runs his family's company in Bucharest. He has designed and built kitchens since he was a boy, and still loves it. But since he also loves to cook, he thinks it would be perfect to combine his passions by opening a special show room that hosts cooking classes and workshops with famous chefs.

A place like that would have some cultural value and give his whole neighborhood a boost, so he thinks he could apply to receive public funds. But he doesn't know where to start. He needs a partner, someone who helps prove the feasibility of the project to the government.

Hey Stefan, why not ask us? We often give advice to customers who want to get grants and other funding. In Romania, for instance, we provide 360° support, from the stage when a client gets an investment idea, to when the client secures funding, until even after that, while the client's use of funding is monitored.

Thanks to our preliminary advice, including guidance on where to apply for funds, and our full range of banking products and attentive monitoring service, Stefan can make his idea a reality. And, who knows, maybe it will also help him become the world's next great artisan-cook.

Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

Income/Expenses	NOTES	2015 € millions	2014 € millions	CHANGE € millions	 in %
Interest income		4,618	5,014	(396)	(7.9)
Interest expense		(1,890)	(2,371)	+ 481	(20.3)
Net interest	34	2,728	2,643	+ 85	+ 3.2
Dividends and other income from equity investments	35	69	92	(23)	(25.0)
Net fees and commissions	36	1,035	1,082	(47)	(4.3)
Net trading income	37	525	483	+ 42	+ 8.7
Net other expenses/income	38	318	302	+ 16	+ 5.3
Payroll costs		(1,821)	(1,782)	(39)	+ 2.2
Other administrative expenses		(1,560)	(1,532)	(28)	+ 1.8
Amortisation, depreciation and impairment losses on intangible and tangible assets		(198)	(245)	+ 47	(19.2)
Operating costs	39	(3,579)	(3,559)	(20)	+ 0.6
Net write-downs of loans and provisions for guarantees and commitments	40	(113)	(151)	+ 38	(25.2)
Provisions for risks and charges	41	(194)	25	(219)	
Restructuring costs	42	(112)	18	(130)	
Net income from investments	43	99	148	(49)	(33.1)
PROFIT BEFORE TAX		**776**	**1,083**	**(307)**	**(28.3)**
Income tax for the period	44	(26)	(298)	+ 272	(91.3)
PROFIT AFTER TAX		**750**	**785**	**(35)**	**(4.5)**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS		**750**	**785**	**(35)**	**(4.5)**
Profit before tax from discontinued operations	45	—	185	(185)	
Income tax from discontinued operations	45	—	(12)	+ 12	
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	45	**—**	**173**	**(173)**	
CONSOLIDATED PROFIT OF FULL HVB GROUP		**750**	**958**	**(208)**	**(21.7)**
attributable to the shareholder of UniCredit Bank AG		743	947	(204)	(21.5)
attributable to minorities		7	11	(4)	(36.4)

Earnings per share

(in €)

	NOTES	2015	2014
Earnings per share from continuing operations (undiluted and diluted)	46	0.93	0.96
Earnings per share of full HVB Group (undiluted and diluted)	46	0.93	1.18

Consolidated statement of total comprehensive income for the year ended 31 December 2015

(€ millions)

	2015	2014
Consolidated profit recognised in the income statement	**750**	**958**
Income and expenses recognised in other comprehensive income		
Income and expenses not to be reclassified to the income statement in future periods		
Actuarial profit/(loss) on defined benefit plans (pension commitments)	162	(873)
Non-current assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	(52)	276
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	14	6
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	(45)	17
Unrealised gains/(losses)	(6)	42
Gains/(losses) reclassified to the income statement	(39)	(25)
Changes in valuation of financial instruments (hedge reserve)	3	3
Unrealised gains/(losses)	—	—
Gains/(losses) reclassified to the income statement	3	3
Other changes	(2)	20
Taxes on income and expenses to be reclassified to the income statement in future periods	2	(14)
Total income and expenses recognised in equity under other comprehensive income	**82**	**(565)**
Total comprehensive income	**832**	**393**
of which:		
attributable to the shareholder of UniCredit Bank AG	825	379
attributable to minorities	7	14

Consolidated Balance Sheet

Assets

	NOTES	31/12/2015 € millions	31/12/2014 € millions	CHANGE € millions	in %
Cash and cash balances	47	11,443	5,173	+ 6,270	>+ 100.0
Financial assets held for trading	48	97,800	111,838	(14,038)	(12.6)
Financial assets at fair value through profit or loss	49	33,823	31,205	+ 2,618	+ 8.4
Available-for-sale financial assets	50	1,354	1,569	(215)	(13.7)
Investments in associates and joint ventures	51	56	77	(21)	(27.3)
Held-to-maturity investments	52	63	66	(3)	(4.5)
Loans and receivables with banks	53	32,832	32,654	+ 178	+ 0.5
Loans and receivables with customers	54	113,488	109,636	+ 3,852	+ 3.5
Hedging derivatives	57	450	753	(303)	(40.2)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		57	66	(9)	(13.6)
Property, plant and equipment	58	3,230	2,949	+ 281	+ 9.5
Investment properties	59	1,163	1,293	(130)	(10.1)
Intangible assets	60	462	478	(16)	(3.3)
of which: goodwill		418	418	—	—
Tax assets		1,631	1,695	(64)	(3.8)
Current tax assets		347	476	(129)	(27.1)
Deferred tax assets		1,284	1,219	+ 65	+ 5.3
Non-current assets or disposal groups held for sale	61	104	32	+ 72	>+ 100.0
Other assets	62	789	858	(69)	(8.0)
Total assets		**298,745**	**300,342**	**(1,597)**	**(0.5)**

Liabilities

	NOTES	31/12/2015 € millions	31/12/2014 € millions	CHANGE € millions	in %
Deposits from banks	64	58,480	54,080	+ 4,400	+ 8.1
Deposits from customers	65	107,690	100,674	+ 7,016	+ 7.0
Debt securities in issue	66	26,002	28,249	(2,247)	(8.0)
Financial liabilities held for trading	67	77,148	87,970	(10,822)	(12.3)
Hedging derivatives	68	1,049	749	+ 300	+ 40.1
Hedge adjustment of hedged items					
in the fair value hedge portfolio	69	2,030	2,430	(400)	(16.5)
Tax liabilities		745	749	(4)	(0.5)
Current tax liabilities		646	660	(14)	(2.1)
Deferred tax liabilities		99	89	+ 10	+ 11.2
Liabilities of disposal groups held for sale	70	31	1	+ 30	>+ 100.0
Other liabilities	71	2,572	2,534	+ 38	+ 1.5
Provisions	72	2,232	2,309	(77)	(3.3)
Shareholders' equity	73	20,766	20,597	+ 169	+ 0.8
Shareholders' equity attributable to the shareholder of					
UniCredit Bank AG		20,762	20,566	+ 196	+ 1.0
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		8,125	7,660	+ 465	+ 6.1
Changes in valuation of financial instruments		41	81	(40)	(49.4)
AfS reserve		11	54	(43)	(79.6)
Hedge reserve		30	27	+ 3	+ 11.1
Consolidated profit		398	627	(229)	(36.5)
Minority interest		4	31	(27)	(87.1)
Total shareholders' equity and liabilities		**298,745**	**300,342**	**(1,597)**	**(0.5)**

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (corresponding to the consolidated profit of HVB Group), which forms the basis for the appropriation of profit, 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.

Statement of Changes in Consolidated Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	
			TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2014	**2,407**	**9,791**	**7,920**	**(648)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under				
other comprehensive income³	**—**	**—**	**(581)**	**(597)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	(597)	(597)
Reserve arising from foreign currency translation	—	—	7	—
Other changes	—	—	9	—
Total other changes in equity	**—**	**—**	**321**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	320	—
Changes in group of consolidated companies	—	—	1	—
Capital decreases	—	—	—	—
Shareholders' equity at 31/12/2014	**2,407**	**9,791**	**7,660**	**(1,245)**
Shareholders' equity at 1/1/2015	**2,407**	**9,791**	**7,660**	**(1,245)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised				
in equity under other comprehensive income³	**—**	**—**	**122**	**110**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	110	110
Reserve arising from foreign currency translation	—	—	14	—
Other changes	—	—	(2)	—
Total other changes in equity	**—**	**—**	**343**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	345	—
Changes in group of consolidated companies	—	—	(2)	—
Capital decreases	—	—	—	—
Shareholders' equity at 31/12/2015	**2,407**	**9,791**	**8,125**	**(1,135)**

1 The Shareholders' Meeting of 2 June 2014 resolved to distribute the 2013 consolidated profit in the amount of €756 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.94 per share. The Shareholders' Meeting of 20 May 2015 resolved to distribute the 2014 consolidated profit in the amount of €627 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.78 per share.
2 UniCredit Bank AG (HVB)
3 see Consolidated statement of total comprehensive income

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS					
AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[2]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
63	**25**	**756**	**20,962**	**47**	**21,009**
—	**—**	**947**	**947**	**11**	**958**
11	**2**	**—**	**(568)**	**3**	**(565)**
27	—	—	27	2	29
(22)	2	—	(20)	—	(20)
—	—	—	(597)	—	(597)
(1)	—	—	6	—	6
7	—	—	16	1	17
(20)	**—**	**(1,076)**	**(775)**	**(30)**	**(805)**
—	—	(756)	(756)	(4)	(760)
—	—	(320)	—	—	—
(20)	—	—	(19)	(26)	(45)
—	—	—	—	—	—
54	**27**	**627**	**20,566**	**31**	**20,597**
54	**27**	**627**	**20,566**	**31**	**20,597**
—	**—**	**743**	**743**	**7**	**750**
(43)	**3**	**—**	**82**	**—**	**82**
(6)	—	—	(6)	—	(6)
(37)	3	—	(34)	—	(34)
—	—	—	110	—	110
—	—	—	14	—	14
—	—	—	(2)	—	(2)
—	**—**	**(972)**	**(629)**	**(34)**	**(663)**
—	—	(627)	(627)	(2)	(629)
—	—	(345)	—	—	—
—	—	—	(2)	(4)	(6)
—	—	—	—	(28)	(28)
11	**30**	**398**	**20,762**	**4**	**20,766**

Consolidated Cash Flow Statement

for the year ended 31 December 2015

(€ millions)

	2015	2014
Consolidated profit	**750**	**958**
Write-downs, provisions for losses on, and write-ups of, loans and receivables and additions to		
provisions for losses on guarantees and indemnities	170	202
Write-downs and depreciation less write-ups on non-current assets	223	266
Change in other non-cash positions	791	(249)
Profit from the sale of investments, property, plant and equipment	(96)	(334)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(3,013)	(2,680)
Subtotal	**(1,175)**	**(1,837)**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	(6,675)	(4,738)
Loans and receivables with banks	(204)	2,215
Loans and receivables with customers	(3,846)	617
Other assets from operating activities	156	(65)
Deposits from banks	4,234	6,288
Deposits from customers	6,830	(5,031)
Debt securities in issue	(2,203)	(2,618)
Other liabilities from operating activities	6,711	(1,198)
Taxes on income paid	(4)	(231)
Interest received	4,677	5,025
Interest paid	(2,035)	(2,524)
Dividends received	301	295
Cash flows from operating activities	**6,767**	**(3,802)**
Proceeds from the sale of investments	774	1,465
Proceeds from the sale of property, plant and equipment	144	155
Payments for the acquisition of investments	(411)	(641)
Payments for the acquisition of property, plant and equipment	(356)	(412)
Effects of the change in the group of companies included in consolidation	12	—
Effect of the disposal of discontinued operations	—	307
Cash flows from investing activities	**163**	**874**

(€ millions)

	2015	2014
Change in additional paid-in capital	—	—
Dividend payments	(627)	(755)
Issue of subordinated liabilities and hybrid capital	12	434
Repayment/buy-back of subordinated liabilities and hybrid capital	(117)	(1,585)
Other financing activities (debt, fund for general banking risks) (+)	72	—
Other financing activities (debt, fund for general banking risks) (–)	—	(619)
Cash flows from financing activities	**(660)**	**(2,525)**
Cash and cash equivalents at end of previous period	**5,173**	**10,626**
Net cash provided/used by operating activities	**6,767**	**(3,802)**
Net cash provided/used by investing activities	**163**	**874**
Net cash provided/used by financing activities	**(660)**	**(2,525)**
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at end of period	**11,443**	**5,173**

Legal basis

UniCredit Bank AG (HVB) is a universal bank with its registered office and principal place of business in Kardinal-Faulhaber-Straße 1, Munich, Germany. HVB is an affiliated company of UniCredit S.p.A., Rome, Italy (ultimate parent company).

As a globally active company, HVB prepares its financial statements in accordance with the requirements of the International Accounting Standards Board (IASB). This provides a reliable and internationally comparable basis for evaluating the assets, liabilities, financial position and profit or loss of HVB Group. Our value-based management is similarly based on these accounting principles.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (IAS-VO) together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 8 March 2016 and adopted by the Supervisory Board on 17 March 2016. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the IFRS Interpretations Committee (IFRS IC) and its predecessor known as IFRICs and SICs. All the standards and interpretations subject to mandatory adoption in the EU for the 2015 financial year have been applied. Section 315a HGB also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

Our listed subsidiary AGROB Immobilien AG has published the equivalent statement of compliance required by Section 161 AktG on its website.

Management's Discussion and Analysis meets the requirements of Section 315 (1, 2) HGB. Also incorporated is a risk report pursuant to Section 315 HGB. Compliant with Section 264b HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Grünwald
– BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
– Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
– H & B Immobilien GmbH & Co. Objekte KG, Munich
– HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung, Munich
– HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung, Munich
– HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
– HVZ GmbH & Co. Objekt KG, Munich
– Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG, Munich
– Ocean Breeze Energy GmbH & Co. KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Perlach KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich

– Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
– Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Saarland, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
– Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
– TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich
– TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich
– Vermietungsgesellschaft mbH & Co. Objekt MOC KG, Munich

Compliant with Section 264 (3) HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH, Munich
– BV Grundstücksentwicklungs-GmbH, Munich
– CUMTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– HJS 12 Beteiligungsgesellschaft mbH, Munich
– HVB Asset Management Holding GmbH, Munich
– HVB Capital Partners AG, Munich
– HVB Immobilien AG, Munich
– HVB Principal Equity GmbH, Munich
– HVB Profil Gesellschaft für Personalmanagement mbH, Munich
– HVB Projekt GmbH, Munich
– HVB Tecta GmbH, Munich
– HVB Verwa 1 GmbH, Munich
– HVB Verwa 4 GmbH, Munich
– HVB Verwa 4.4 GmbH, Munich
– Interra Gesellschaft für Immobilienverwaltung mbH, Munich
– MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich
– MILLETERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– NF Objekt FFM GmbH, Munich
– NF Objekt München GmbH, Munich
– NF Objekte Berlin GmbH, Munich
– Orestos Immobilien-Verwaltungs GmbH, Munich
– RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– Selfoss Beteiligungsgesellschaft mbH, Grünwald
– Spree Galerie Hotelbetriebsgesellschaft mbH, Munich
– Transterra Gesellschaft für Immobilienverwaltung mbH, Munich
– UniCredit Direct Services GmbH, Munich
– Verwaltungsgesellschaft Katharinenhof m.b.H., Munich

Accounting and Valuation

1 Reporting date/period
The amounts shown in the tables and texts below relate to the reporting date of 31 December 2015 for disclosures regarding balance sheet items and totals and the period from 1 January to 31 December of the respective year for disclosures regarding the income statement.

2 Uniform Group accounting policies
The separate financial statements of the domestic and foreign subsidiaries are incorporated in the consolidated financial statements of HVB in accordance with uniform principles of accounting and valuation. Where options have been exercised, the details are explained under the balance sheet items concerned.

3 Consistency
In accordance with the IFRS Framework together with IAS 1 and IAS 8, we apply the accounting and disclosure principles consistently from one period to the next. Where significant accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted retroactively. Where retroactive adjustment is not possible in exceptional circumstances, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively.

At 31 December 2015, we recognised funding valuation adjustments (FVAs) in the income statement for the first time for the measurement at fair value of not fully unsecured derivatives. Apart from unsecured derivatives, this also affects derivatives for which collateral has been provided in favour of the counterparty only. The expenses of €94 million resulting from this change were posted to net trading income. Up until now, funding valuation adjustments were carried as deductible items in shareholders' equity for regulatory purposes.

Changes in estimates have been recognised in net income for the period affected by the change in the estimation method. Provided the change in the estimation method does not affect the income statement, the carrying amount of the concerned asset or liability, or shareholders' equity position has been adjusted.

The consolidated financial statements are prepared under the assumption of a going concern. Accounting and valuation in accordance with IFRS contains values that have been determined reliably using estimates and assumptions. The estimates and assumptions applied are based on past experience and other factors such as budgets, expectations and forecasts regarding future events which seem appropriate under the present circumstances. This mainly affects the determination of the fair value of certain financial assets and liabilities, net write-downs of loans and provisions for guarantees and commitments, deferred taxes, and the accounting and valuation of provisions. The actual values may differ from the assumptions and estimates made.

The following matters in particular are affected by estimates, assumptions and discretionary decisions:
- Measurement of goodwill: The Strategic Plan drawn up by the Bank forms the main basis for the impairment test for goodwill. The Strategic Plan contains forecasts of future trends in terms of both the Bank's respective business units and macroeconomic developments. This means that the impairment test for goodwill is also subject to estimates, assumptions and discretionary decisions.
- Determination of loan-loss allowances: Specific allowances: These represent the difference between the estimated, discounted expected future cash inflows and the carrying amount. This means that, to determine the loan-loss allowances, assumptions and forecasts must be made regarding the payments that may still be received from the borrower and/or proceeds from the realisation of the collateral.
- Portfolio allowances: Portfolio allowances are determined on the basis of the Bank's credit portfolio model described in the Risk Report. This internal model similarly draws on forecasts and assumptions which are thus relevant for the measurement of the portfolio allowance.

- Determination of fair value: The Bank employs internal models to determine the fair value of financial instruments for which no price is available on an active market. The application of these internal models presupposes assumptions and forecasts, among other things, the scope of which depends on the complexity of the financial instrument and the valuation parameters derived from market data.
- Provisions are recognised for present or future obligations to cover the payments required to settle these obligations. In this context, it is necessary to estimate the amount of these expenses or costs and also the date at which the liabilities are expected to be settled. This involves making assumptions regarding the actual amount of the costs occurring and, in the case of long-term provisions, also estimating possible cost increases up until the settlement date. If the settlement date is more than one year in the future, the forecast expenses and costs are discounted over the period until the liability is settled.
- Deferred tax assets and liabilities: Apart from a few exceptions defined in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (liability method). Accounting and valuation are performed in accordance with IAS 12 on the basis of local tax regulations that are expected to apply to the period when an asset is realised or a liability is settled. The regulations and applicable local tax rates are assumed that are enacted or substantively enacted at the reporting date. Deferred tax assets are not recognised to the extent that it seems unlikely that sufficient taxable profit will be available in future periods.
  Furthermore, deferred tax assets are recognised for unused tax losses carried forward and unused tax credits to the extent that recoverability is demonstrated. This is done on the basis of a five-year plan for HVB Group, which is subject to segment-specific and macroeconomic assumptions and takes account of local tax regulations. Appropriate haircuts are applied in the Strategic Plan. Estimation uncertainties are inherent.
- Share-based compensation: Assumptions must similarly be made to determine the cost of share-based compensation programmes. The costs for the instruments to be transferred are amortised over the vesting period or the beneficiaries' claims expire if they leave UniCredit first. This makes it necessary to forecast what proportion of employees will leave UniCredit during the vesting period. At the same time, the shares granted must be measured at fair value at the grant date. The comments made above regarding the determination of fair value are applicable analogously.
- Property, plant and equipment: Depreciable items of property, plant and equipment are depreciated over their useful lives. Since the useful life is not independent of the usage of the actual asset in question, it must be estimated in light of the circumstances in each case.
- Intangible assets: With the exception of goodwill, intangible assets are amortised over their useful life. Here, too, suitable assumptions must be made to estimate the useful life.
- Investment properties: These assets are depreciated over the useful life of the property (excluding the land portion), meaning that a forecast is also required here.

Apart from this, the accounting, valuation and disclosure principles applied in 2015 are the same as those applied in the consolidated financial statements for 2014, with the exception of the new IFRS rules to be applied as described in Note 6.

4 Events after the reporting period

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

5 Initial adoption of new IFRS accounting rules

The following standards and interpretations newly published or revised by the IASB were mandatorily applicable for EU-based enterprises for the first time in the 2015 financial year:
- IFRIC Interpretation 21 "Levies"
- "Annual Improvements to IFRSs 2011–2013 Cycle"

Accounting and Valuation (Continued)

IFRIC 21 is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" notably providing guidance on when a present obligation arises to pay levies imposed by a government that are not income taxes within the meaning of IAS 12, sales taxes, fines or penalties, and whether they are to be recognised in the financial statements as a provision or liability. Upon initial adoption in the 2015 financial year, IFRIC 21 was applied for the new EU bank levy, meaning that the annual contribution to the Single Resolution Fund was recognised in full as an expense in the first quarter of 2015. The amount was not recognised on a pro rata basis.

The 2011–2013 cycle to be applied as part of the IASB's annual improvement process notably contains clarifications of the existing standards IFRS 3 (Business Combinations), IFRS 13 (Fair Value Measurement) and IAS 40 (Investment Property). Implementation did not have any effect on the consolidated financial statements of HVB Group.

6 Published IFRS that are not yet the subject of mandatory adoption and that have not been the subject of early adoption

As permitted, we have decided against the early voluntary adoption of the standards and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2016 financial year or thereafter. The Bank will apply these standards and interpretations in the financial year in which the new provisions in question become mandatorily applicable for EU-based enterprises for the first time.

The EU has adopted the following into European law:

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2016.
- Amendments to IAS 1 "Presentation of Financial Statements – Disclosure Initiative". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38 – "Clarification of Acceptable Methods of Depreciation and Amortisation". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2016.
- Amendments to IAS 19 "Employee Benefits – Defined Benefit Plans: Employee Contributions". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 February 2015.
- Amendments to IAS 27 "Equity Method in Separate Financial Statements". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2016.
- "Annual Improvements to IFRSs 2010–2012 Cycle". These minor amendments and corrections to various existing standards are subject to mandatory adoption for reporting periods beginning on or after 1 February 2015.
- "Annual Improvements to IFRSs 2012–2014 Cycle". These minor amendments and corrections to various existing standards are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.

The EU has not yet adopted the following into European law:

- IFRS 9 "Financial Instruments (July 2014)". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
- IFRS 14 "Regulatory Deferral Accounts". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016. IFRS 14 has, however, not been adopted into European law by the EU (no EU endorsement).
- IFRS 15 "Revenue from Contracts with Customers". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.

– IFRS 16 “Leases”. The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2019.
– Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”. The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”. Mandatory adoption has been postponed by the IASB for an indefinite period and the EU endorsement shelved accordingly.

The new IFRS standards to be applied in the future that are relevant for HVB Group are discussed below:

In July 2014, the IASB published the definitive version of IFRS 9 “Financial Instruments” to replace IAS 39, the current standard covering the recognition and measurement of financial instruments. IFRS 9 contains a complete revision of the main regulations regarding the classification and measurement of financial instruments, the recognition of impairments of financial assets and the recognition of hedges. Provided it is adopted into European law by the EU, which is anticipated, IFRS 9 is subject to adoption for reporting periods beginning on or after 1 January 2018. Initial application should be retrospective.

UniCredit has started a group-wide project involving HVB to implement IFRS 9. The project is organised across department lines in order to integrate the new accounting requirements as well as their impact on the strategic orientation of the Bank. Within the group-wide project, HVB has assumed a pilot function for the implementation of IFRS 9 in the investment banking activity in line with its responsibility for the investment banking activity within the corporate group. Now that group-wide policies regarding IFRS 9 have been drawn up, the project activities are now focusing on the creation of detailed technical concepts to implement new requirements and the development of the methods and models required for the new and modified valuation techniques under IFRS 9. In addition, since IFRS 9 is principles-based, numerous interpretation issues regarding details have still to be clarified or are under discussion. Against this backdrop, it is impossible to make any quantitative assessment of the impact of the adoption of IFRS 9.

In May 2014, the IASB published a new standard regarding revenue realisation, IFRS 15 “Revenue from Contracts with Customers”, which defines a uniform principles-based model for determining how and when revenue is recognised. Since income accruing in connection with financial instruments is not affected by this, we only expect IFRS 15 to have a minor effect on HVB Group.

In January 2016, the IASB published the new IFRS 16 “Leases”, which will replace the existing standard covering the accounting treatment of leases, IAS 17, and the interpretations IFRIC 4, SIC-15 and SIC-27 as of 1 January 2019. The main new rules relate to the accounting treatment by the lessor, who will be required to recognise all leases in the balance sheet in the future, including any operating leases, which the lessor was previously not required to disclose in the balance sheet. The impact of the new standard is being analysed.

We do not expect the remaining amended standards to be applied in the future to have any significant effects on the consolidated financial statements.

Accounting and Valuation (Continued)

7 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 192 (2014: 192) subsidiaries, of which 41 (2014: 37) are classified as structured entities within the meaning of IFRS 12.

	2015	2014
Total subsidiaries	**334**	**344**
Consolidated companies	192	192
of which:		
structured entities according to IFRS 12	41	37
Non-consolidated companies	142	152
of which:		
structured entities according to IFRS 12	7	11
Joint ventures	**2**	**2**
of which:		
accounted for using the equity method	—	—
Associated companies	**13**	**15**
of which:		
accounted for using the equity method	6	7

At year-end 2015, we had a total of 151 (2014: 162) affiliated and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they do not have a material impact for the Group.

The structured entities include 17 borrowers (2014: 23) over which HVB gained control during the course of restructuring or resolution. The borrowers are classified as structured entities within the meaning of IFRS 12 as, on account of their financial difficulties, they are controlled by their credit relationship with HVB and no longer by voting rights. Not all of the borrowers are disclosed in Note 96, "List of holdings pursuant to Section 313 HGB", for data protection reasons. Ten (2014: twelve) of these borrowers have been consolidated; seven (2014: eleven) borrowers have not been consolidated for materiality reasons.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these minor non-consolidated affiliated companies makes up 0.51% (2014: 0.23%) of the consolidated profit of HVB Group, while such companies provide around 0.09% (2014: 0.18%) of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets and loans extended under loans and receivables with customers.

Subsidiaries

The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the supervisory authorities that regulate UniCredit. The fully consolidated subsidiaries prepared their annual financial statements for the period ending 31 December 2015.

The following companies have different year-end dates:

– Grand Central Funding Corporation, New York	31 May
– Kinabalu Financial Products LLP, London	30 November
– Kinabalu Financial Solutions Limited, London	30 November

Since these companies are insignificant for the consolidated financial statements, it was decided not to convert their financial years. When the consolidated financial statements are being prepared, interim financial statements are prepared at the corporate year-end date for all these companies.

41 fully consolidated subsidiaries are classified as structured entities in accordance with IFRS 12. Please refer to Note 87 for more information about structured entities.

There were significant restrictions on the ability of HVB Group to access assets of the subsidiaries as follows:
– Subsidiaries classified as credit institutions or financial services institutions for supervisory purposes are subject to the provisions of the German Banking Act, the CRR and MaRisk/ICAAP regarding their capital base. The capital to be maintained under these provisions limits the ability of HVB Group to adopt resolutions regarding dividend distributions.
– Fully consolidated structured entities are not generally included in the consolidated financial statements on account of HVB Group's position as a shareholder. Accordingly, HVB Group has no ability to decide on dividend distributions and is bound by the contractual arrangements (such as lending agreements or derivative contracts).

The non-controlling interests at 31 December 2015 have no significant effects on the consolidated financial statements of HVB Group either individually or in aggregate. At 31 December 2015, third parties hold non-controlling interests in 57 (2014: 51) fully consolidated subsidiaries. The non-controlling interests are shown separately in the consolidated balance sheet and generally participate in the profits and losses of the companies; their shareholders hold voting rights in the companies, but without breaking the controlling influence of HVB Group.

The following companies were newly added to the group of companies included in consolidation at HVB Group in 2015:
– Bayerische Wohnungsgesellschaft für Handel und Industrie Gesellschaft mit beschränkter Haftung, Munich
– Elektra Purchase No. 37 Ltd., Dublin
– Elektra Purchase No. 38 Ltd., Dublin
– Elektra Purchase No. 40 Ltd., Dublin
– Elektra Purchase No. 41 DAC, Dublin
– GELDILUX-TS-2015 S.A., Luxembourg
– Rosenkavalier 2015 UG, Frankfurt am Main
– WealthCap Aircraft 27 GmbH & Co. geschlossene Investment KG, Grünwald
– WMC Aircraft 27 Leasing Limited, Dublin

The structured entities (Elektra Purchase No. 37 Ltd., Dublin; Elektra Purchase No. 38 Ltd., Dublin; Elektra Purchase No. 40 Ltd., Dublin; Elektra Purchase No. 41 DAC., Dublin; GELDILUX-TS-2015 S.A., Luxembourg; Rosenkavalier 2015 UG, Frankfurt am Main) are new entities that have entered into their assets (receivables) and liabilities (notes issued) at normal market terms and conditions. Thus, the carrying amounts correspond to the fair values upon addition or at the date of initial consolidation, meaning that it is not necessary to carry out a remeasurement in line with the application of IFRS 3.

The following companies left the group of companies included in consolidation of HVB Group in 2015 due to sale or completed liquidation:
– Alexanda Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Wiesbaden
– Enderlein & Co. GmbH, Bielefeld
– Keller Crossing Texas L.P., Wilmington
– PlanetHome AG, Unterföhring
– PlanetHome GmbH, Mannheim
– PlanetHome Immobilien Austria, Vienna
– Status Vermögensverwaltung GmbH, Schwerin

Accounting and Valuation (Continued)

Moreover, another company left the group of companies included in consolidation; its only significant asset was a property that was sold to third parties during 2015. The proceeds upon disposal were used to redeem the loan extended to the company, meaning that the basis for consolidation under IFRS 10 no longer applied for HVB. No further information, including the name of the company, is being provided for data protection reasons.

On account of the deconsolidation of the subsidiaries listed above, HVB Group realised a gain upon deconsolidation in accordance with IFRS 10.25 of €5 million. This is disclosed under net income from investments in the income statement.

In addition, Life Science I Beteiligungs GmbH, Munich, was absorbed by HVB Life Science GmbH & Co. Beteiligungs-KG, Munich, and is therefore no longer included in the group of companies included in consolidation by HVB Group.

Associated companies
No financial statements at 31 December 2015 were available for the associated companies listed below valued using the equity method when the consolidated financial statements were prepared. The following financial statements were used for valuation using the equity method:

– Adler Funding LLC, Dover	30 September 2015
– Bulkmax Holding Ltd., Valletta	30 September 2015
– Comtrade Group B.V., Amsterdam	30 November 2015
– SwanCap Partners GmbH, Munich	30 September 2015

There were no significant events at these companies between the date when the above financial statements were prepared and 31 December 2015 that could have an impact on the assets, liabilities, financial position, and profit or loss.

The shares held by the Bank in Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Istanbul, were sold during the reporting period.

In addition, as of 19 November 2015 BV-BGPB Beteiligungsgesellschaft privater Banken für Internet- und mobile Bezahlungen mbH was renamed paydirekt Beteiligungsgesellschaft privater Banken mbH, which is consolidated using the equity method.

The group of consolidated companies does not include any companies for which the proportionate consolidation method is applied.

There are no significant restrictions on our ability to access assets of the associated enterprises within the framework of the percentage interest we hold.

8 Principles of consolidation
An enterprise (or economically separate entity) is fully consolidated when it is controlled by HVB Group. Control is deemed to exist when the following three criteria defined in IFRS 10 are met: HVB Group must have power over the relevant activities of the company and be exposed to variable income from the enterprise. In addition, HVB Group must be able to use its power to influence the variable earnings it obtains from the enterprise.

Control is independent of the type of financial relationship between parent company and subsidiary and does not require any participation in the enterprise's capital. Control may also be derived from contractual arrangements or legal provisions.

To assess whether an enterprise is controlled by HVB Group, a detailed analysis must be carried out of the business purpose, the relevant activities of the enterprise, the parties involved and the distribution of the variable income from the enterprise. The analysis includes an assessment of whether HVB Group is acting as the principal and has delegated power over the enterprise to a third party (agent). This may be the case when the decision-maker who has power over the enterprise does not pursue own economic interests out of the enterprise or these are insignificant and the decision-maker merely exercises delegated decision-making powers for HVB Group.

An enterprise is initially consolidated as soon as HVB Group gains control over the enterprise. During initial consolidation, the assets and liabilities of the enterprise measured are included at their fair values at the effective date. The uniform Group accounting and valuation policies are then applied. Expenses and income of the respective company are included in the consolidated income statement from the effective date of initial consolidation. Participating interests in a consolidated company held by third parties are carried under minority interests, provided the criteria for disclosure as shareholders' equity are met. Otherwise, they are recognised as debt.

Consolidation is performed by offsetting the purchase price of a subsidiary company against the value of the interest held in the completely remeasured shareholders' equity at the time of acquisition, provided the transactions involved are not internal to UniCredit. This amount represents the difference between the assets and liabilities of the acquired company measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the remeasured balance of assets and liabilities is recognised as goodwill under intangible assets in the balance sheet on a prorated basis. Goodwill on companies accounted for using the equity method is carried under shares in associates valued at equity and joint ventures valued at equity. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the business segments. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment at least once a year at cash-generating unit level. This involves comparing the carrying amount of the cash-generating unit with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell.

The most recent Strategic Plan approved by the Management Board normally covering a period of five years and created at segment level forms the basis for testing impairment. In this context, the earnings drivers are net trading income, net interest, fees and commissions, operating costs and the projected net write-downs of loans and provisions for guarantees and commitments. To allow the earnings components to be planned, the Strategic Plan includes an income budget as well as budgets for risk-weighted assets and loans and receivables with customers and deposits from customers. The budgets are based on forecasts by the UniCredit Economics department, with the forecasts for overall economic development (gross domestic product) and interest and inflation rates playing a crucial role. Furthermore, the Strategic Plan also reflects the experience gained by management from past events and an assessment of the underlying economic conditions.

We have used the Strategic Plan as the basis for determining appropriate values in use for the CGUs to which goodwill is allocated. The values in use are determined using the discounted cash flow method. The figures for profit before tax from the segments' strategic plans are included as cash flows. The average cash flows in the Strategic Plan are assumed for the subsequent period. The segment-specific cost of capital rates used for discounting average 8.7% (2014: 12.0%) for the Corporate & Investment Banking business segment and 8.3% (2014: 9.8%) for the Commercial Banking business segment. No growth factor has been assumed for the government perpetuity. These values in use are employed as recoverable amounts and exceed the carrying amount and goodwill of the CGU. It is not necessary to estimate the selling price unless the value in use is less than the carrying amount.

Accounting and Valuation (Continued)

IFRS 3 is not applicable to combinations of businesses under common control (IFRS 3.2 (c)). IAS 8.10 requires an appropriate accounting and valuation method to be developed accordingly for such cases. Given that HVB Group is part of UniCredit, the carrying amounts of the parent company are retained for business combinations within UniCredit. Any difference between the purchase price paid and the net carrying amount of the company acquired is recognised in equity under reserves.

Compliant with IAS 28, shares in associates are accounted for using the equity method and disclosed in the balance sheet accordingly. HVB is able to exercise significant influence over associates without being able to control them. Significant influence is assumed when a company holds more than 20% but less than 50% of the voting rights in an associate. This assumption of association can be refuted where a qualitative analysis demonstrates that significant influence over the financial and strategic decisions of the associate is not possible. Shares in associates are recognised at cost upon initial inclusion in the consolidated financial statements. For the purposes of subsequent measurement, the carrying amount increases or decreases in accordance with the share of HVB in the profit or loss of the associate. This share of the associate's profit or loss attributable to HVB is measured on the basis of the fair values of the associate's assets, liabilities and contingent liabilities when the shares were acquired. The accounting and valuation principles of HVB Group are applied for subsequent measurement.

Business transactions between consolidated companies are eliminated. Any profits or losses arising from intercompany transactions are also eliminated.

9 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one company and a financial liability or equity instrument of another company.

The classes required by IFRS 7.6 are defined as follows:

– Cash and cash reserves
– Financial assets and liabilities held for trading
– Financial assets at fair value through profit or loss
– Available-for-sale financial assets (measured at cost)
– Available-for-sale financial assets (measured at fair value)
– Held-to-maturity investments
– Loans and receivables with banks (classified as loans and receivables)
– Loans and receivables with customers (classified as loans and receivables)
– Receivables under finance leases (classified as loans and receivables)
– Hedging derivatives
– Other deposits from banks
– Other deposits from customers
– Other debt securities in issue
– Financial guarantees and irrevocable credit commitments

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within Management's Discussion and Analysis. Compliant with IFRS 7.36 (a), the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 80 for the guarantee/amount of the lending commitments not yet utilised.

IAS 39 requires all financial instruments to be recognised in the balance sheet, classified in the given categories and measured in line with this classification.

Financial assets and liabilities are initially recognised from the date on which the corporate group becomes a contractual party to the financial instrument in question. HVB Group normally recognises customary market purchases and sales of financial assets (known as regular way contracts) at the settlement date. Derivatives are recognised at the trading date.

The regulations set forth in IAS 39 regarding reclassifications have been observed. The reclassifications carried out in 2008 and 2009 are disclosed in Note 77, "Reclassification of financial instruments pursuant to IAS 39.50 et seq. and IFRS 7".

Financial assets and liabilities at fair value through profit or loss
The "at fair value through profit or loss" category is divided into two categories:

– Financial assets and liabilities held for trading

  Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. This category also includes all derivatives (apart from hedging derivatives) which qualify for hedge accounting. Financial assets and liabilities held for trading purposes are shown under financial assets and liabilities held for trading.

  In accordance with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the positive and negative fair values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty (CCP).

– All financial assets designated as financial instruments measured at fair value through profit or loss upon initial recognition (fair value option)

  We only use the fair value option for certain financial assets designated as at fair value through profit or loss upon initial recognition. In this context, for most of the actual cases, we have exercised the designation option of the accounting mismatch by means of which valuation or profit-recognition inconsistencies are avoided or considerably reduced in economic hedges for which hedge accounting is not applied. Only for a specific, smaller portfolio is the designation based on fair value-based risk management or structured products that must be separated.

Financial assets and liabilities at fair value through profit or loss are disclosed upon initial recognition at their fair value without any transaction costs.

Both financial assets held for trading and fair value option portfolios are measured at fair value. Changes in value are recognised in the income statement.

Loans and receivables
The category "loans and receivables" includes non-derivative financial assets – both originated by us and acquired – with fixed or determinable payments that are not quoted in an active market unless they are classified as at fair value through profit or loss or available for sale. Loans and receivables are measured at amortised cost and capitalised under loans and receivables with banks and loans and receivables with customers. Premiums and discounts are taken to the income statement under net interest over the term of the underlying items. This is done using the effective interest method. Loans and receivables are disclosed upon initial recognition at their fair value including any transaction costs.

Accounting and Valuation (Continued)

Held-to-maturity investments
Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss or available for sale. We take a very restrictive approach when assessing whether the intention to hold to maturity exists and premature resale can be excluded. This means that investments are only classified as held-to-maturity in exceptional cases. When classifying financial instruments as held-to-maturity investments, we ensure that it is possible to hold the instruments to maturity taking liquidity considerations into account. Held-to-maturity investments are disclosed upon initial recognition at their fair value including any transaction costs and thereafter measured at amortised cost, with premiums and discounts taken to the income statement under net interest over the term of the underlying items. This is done using the effective interest method.

Available-for-sale financial assets
All other non-derivative financial assets are classified as available-for-sale (AfS) securities and receivables. A distinction is made within this category between measurement at fair value and measurement at cost.

– Debt instruments and equity instruments for which the fair value can be reliably determined are measured at fair value. The difference between the fair value and amortised cost is carried in a separate item under shareholders’ equity (AfS reserve) in the balance sheet until the asset is sold or an impairment to be recognised in profit or loss has occurred. Premiums and discounts on debt instruments are taken to the income statement under net interest over the term of the underlying items.

– Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at cost. Besides shares in unlisted companies, this primarily concerns investments in private equity funds, which we measure at cost. It is not possible to reliably determine a fair value for these equity instruments since there is no active market in these instruments and, especially with regard to investments in private equity funds, the Bank as shareholder with a small holding does not have enough influence to obtain the necessary data promptly for a model-based determination of fair value. Consequently, they are not included in the AfS reserve.

With the exception of the effect on results arising from the translation of monetary available-for-sale financial assets denominated in foreign currency, gains or losses on available-for-sale financial assets are recognised in net income from investments in the income statement (see Note 43).

Determination of fair value
We can normally reliably determine the fair value of financial instruments measured at fair value. Certain equity instruments classified as available-for-sale represent an exception to this rule; these are measured at cost as described above. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (no forced liquidation or distress sale) between market participants at the measurement date. Thus, the fair value based on a notional transfer corresponds to a selling or, in the case of a liability, the transfer price (exit price).

The fair value is determined using the same three-level fair value hierarchy under IFRS 13 as is applicable for the disclosures regarding the fair value hierarchy (Note 79):
– Level 1: Financial instruments measured using (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
– Level 2: Assets or liabilities for which no price can be observed on an active market and whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data
– Level 3: Assets or liabilities for which the fair value cannot be measured exclusively on the basis of observable market data; the fair values also include measurement based on model assumptions instead (non-observable input data)

Suitable adjustments are applied to the fair value determined in this way in order to reflect further factors affecting the fair value (such as the liquidity of the financial instrument or model risks when the fair value is determined using a valuation model). When determining these valuation adjustments, we have exercised the option permitted by IFRS 13 under certain circumstances to determine fair value on a portfolio basis for certain OTC derivative portfolios.

The risk of a counterparty defaulting on derivatives is covered by credit valuation adjustments (CVAs). Funding valuation adjustments (FVAs) are also set up for derivatives that are not fully covered by relevant collateral.

The own credit spread is also included in the underlying valuation parameters for liabilities held for sale.

Further disclosures regarding fair values and the fair value hierarchy are given in Note 79, “Fair value hierarchy”, and Note 80, “Fair values of financial instruments compliant with IFRS 7”.

Financial guarantees
Under IAS 39, a financial guarantee contract is a contract that requires the issuer to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Viewed overall, the fair value of a financial guarantee is zero when the contract is concluded because the value of the premium received will normally match the value of the guarantee obligation in standard market contracts. The guarantee premium is recognised on a pro-rata basis. The existence of an impairment is checked during the subsequent measurement.

Credit derivatives, and most notably standardised credit default swaps (CDS), are measured at fair value through profit or loss as they are considered derivatives held for trading and not financial guarantees.

Embedded derivatives
Outside the portfolio held for trading purposes or designated at fair value through profit or loss, embedded derivative financial instruments that must be separated within a structured product are detached from the underlying contract and recorded as separate derivative financial instruments. The underlying contract is then accounted for in accordance with the classification made. The change in value arising from the derivatives that are detached and carried at fair value is recognised in net trading income in the income statement.

Hedge accounting
Hedges between financial instruments are recognised in accordance with the forms of the fair value hedge described in IAS 39. In 2008 and 2009, HVB Group changed the previously applied macro cash flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest rate risk at portfolio level in large areas of asset/liability interest rate risk management. This is described additionally below alongside the principles covering general fair value hedges.

A fair value hedge is generally a hedge of the exposure to changes in the fair value of a recognised asset, liability or an unrecognised firm commitment – or an identified portion thereof – that is attributable to a particular risk and that might affect net income for the period. In this respect, a high level of effectiveness is required, with the changes in the fair value of the hedged item with regard to the hedged risk and hedging derivative compensating each other within a range of 80% to 125%. In fair value hedge accounting, we use interest rate and credit derivatives to hedge changes in the fair value of recognised assets and liabilities. Under this method, the hedging instrument is measured at fair value through profit or loss. The carrying amounts of the hedged item are adjusted by the valuation results relating to the hedged risk in a way that affects the income statement.

Accounting and Valuation (Continued)

Starting in 2009, we have applied fair value hedge accounting for credit risks (micro fair value hedge). The purpose of hedge accounting for credit risks is to reduce the volatility in the income statement. This is done by including existing hedges in hedge accounting. Otherwise existing inconsistencies upon valuation (accounting mismatch) are corrected by hedge accounting.

As part of hedge accounting for credit risks, in accordance with IAS 39.86 (a) the credit-induced changes in the fair value of selected hedged items such as loans and receivables with customers and irrevocable credit commitments (off-balance-sheet fixed commitments) and the full-induced changes in the fair value of the hedging instrument (CDS) are offset.

The change in the credit-induced fair value determined for the hedged items is taken to the income statement under effects arising from hedge accounting in net trading income. Where the hedged items are assets recognised in the balance sheet, the carrying amount is adjusted for the changes in the credit-induced fair value. Irrevocable credit commitments (fixed commitments not shown in the balance sheet), on the other hand, are not recognised in the balance sheet. The credit-related changes in the fair value relating to these are carried under other assets in the balance sheet.

We show the associated hedging instruments (CDS) at their fair value as hedging derivatives; the changes in the fair value are similarly taken to the income statement as effects arising from hedge accounting in net trading income.

The hedge is terminated compliant with IAS 39.91 if either the hedging instrument or the hedged item expires, the hedge is no longer efficient, or the Bank decides to terminate the hedge.

When the hedge is terminated, the credit-induced changes in the fair value accruing to that date with regard to the hedged risk (hedge adjustment) are amortised over the remaining term of the hedged item. This amortisation is disclosed in net interest. If the hedged item similarly expires upon termination of the hedge exceptionally (e.g. in the event of early repayment by the borrower), the hedge adjustment accruing to that date is taken directly to the income statement.

If the hedge is terminated prior to the hedging instrument maturing, this derivative is assigned to the held-for-trading portfolio at fair value and continues to be recognised at fair value under net trading income in the income statement.

We apply the fair value hedge accounting for a portfolio hedge of interest rate risk for the accounting treatment of interest rate risk in asset/liability interest rate risk management. Recognising a fair value hedge for a portfolio of interest-bearing financial assets and liabilities using interest rate derivatives makes it possible to largely reflect the standard bank risk management procedures for the hedging of fixed interest rate risks in the accounts.

Under this accounting treatment of hedges across several items, the changes in the value of the hedged amount of the hedged items attributable to the hedged risk are carried altogether as a separate asset or liability item and not as an adjustment to the carrying amount of individual items as is the case with micro hedges. The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately. The hedged amount of the hedged items is determined as part of interest rate risk management and cannot be directly allocated to individual assets or liabilities. Where the hedge conditions are met, the offsetting changes in value of the hedged amount of the hedged items and the hedging instruments (interest derivatives) are recognised directly in profit and loss. Hedge inefficiencies arising within the necessary hedge efficiency thresholds of 80% to 125% are recognised as profit or loss in net hedging income.

Furthermore, for economic reasons cross-currency interest rate swaps (CCIRS) have been used in the refinancing of loans denominated in foreign currency. The CCIRS exchange longer dated fixed-interest positions denominated in euros for variable-yield positions denominated in foreign currency. This serves to hedge the hedged item against interest rate risk as part of the fair value hedge portfolio accordingly.

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values of the existing cash flow hedge derivatives are amortised over the remaining term in net interest. This means that the amortisation of the cash flow hedge reserve will have no overall impact on profit or loss in the future until they are fully amortised. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date, are treated in accordance with the new fair value hedge portfolio model.

The cash flow hedge that is no longer used was employed to hedge the risk arising from volatile cash flows resulting from a recognised asset, recognised liability or planned transaction to be taken to the income statement. We had employed derivatives in cash flow hedge accounting to hedge future streams of interest payments. In this context, payments arising from variable-interest assets and liabilities were swapped for fixed payments primarily using interest rate swaps. Hedging instruments were measured at fair value. The valuation result was divided into an effective and an ineffective portion. The effective portion of the hedging instruments was recognised in a separate item within shareholders' equity (hedge reserve) without affecting reported profit or loss. The ineffective portion of the hedging derivatives was recognised directly in profit and loss. The hedged item was recognised at amortised cost.

At the same time, HVB has also employed a fair value hedge for a portfolio of interest rate risks since 2007 for a limited portfolio of liabilities outside of asset/liability interest rate management.

10 Financial assets held for trading
This item includes securities held for trading purposes and positive fair values of traded derivatives. All other derivatives not classified as hedging derivatives (which are shown separately in the balance sheet) are similarly considered held for trading. Provided they are held for trading purposes, promissory notes, registered bonds and treasury bills are carried as other financial assets held for trading.

Financial assets held for trading purposes are carried at fair value. Gains and losses arising from the valuation and realisation of financial assets held for trading are taken to the income statement as gains less losses arising from trading securities.

11 Financial assets at fair value through profit or loss
In most cases, HVB Group applies the fair value option for financial assets with economic hedges for which hedge accounting is not applied. The designation removes or significantly reduces valuation or profit-recognition incongruences resulting from an accounting mismatch. The portfolio mostly comprises interest-bearing securities not held for trading that are hedged against interest rate risks by means of interest rate swaps. In the case of promissory note receivables similarly included here, there is no material fair value change in terms of the credit risk on account of the top rating of the issuers. Changes in fair value of the hedged items and the associated derivatives are shown separately in net trading income; current interest income/expenses are recognised in net interest. Given a fundamental intention to hold to maturity, the new investments were made primarily with a view to being able to sell the holdings again quickly if necessary (liquidity reserve). Alongside an accounting mismatch as the main grounds for designation, the designation for a specific, smaller portfolio is based on fair value-based risk management or structured products that must be separated.

12 Available-for-sale financial assets
We recognise interest-bearing securities, equities and other equity-related securities, investment certificates and participating interests as available-for-sale financial instruments under available-for-sale financial assets in the balance sheet.

Accounting and Valuation (Continued)

Interest-bearing securities are accrued in accordance with the effective interest method. Should the estimated cash inflows and outflows underlying the calculation of the effective interest change, the effects are recognised in the income statement as net interest compliant with IAS 39 AG 8.

Provided they are not significant, both shares in non-consolidated subsidiaries and joint ventures and associates accounted for using the equity method are subsumed in available-for-sale financial assets. Listed companies are always carried at fair value. Where the fair value cannot be determined reliably for non-listed companies, they are valued at cost.

13 Shares in associates accounted for using the equity method and joint ventures accounted for using the equity method
Investments in joint ventures and associated companies are accounted for using the equity method.

14 Held-to-maturity investments
HVB Group has classified interest-bearing assets as held to maturity and recognised them under held-to-maturity investments. Held-to-maturity investments are measured at amortised cost; the resulting interest income is included in net interest.

15 Loans and receivables
Loans and receivables are recognised in the balance sheet under loans and receivables with banks, and loans and receivables with customers. They are carried at amortised cost, provided they are not hedged items of a recognised fair value hedge. The amount shown in the balance sheet has been adjusted for allowances for losses on loans and receivables.

16 Impairment of financial assets
Impairment losses are recognised for financial assets that are measured at amortised cost and classified as available for sale.

An impairment loss is determined in two steps. First, an assessment is made to see if there is any objective evidence that the financial asset is impaired. The second step involves assessing whether the financial instrument is actually impaired.

Objective evidence of impairment refers to events that normally lead to an actual impairment. In the case of debt instruments, these are events that could result in the borrower not being able to settle his obligations in full or at the agreed date. In the case of equity instruments, significant or prolonged lower fair values compared with the initial costs represent objective evidence of impairment. An equity instrument is considered impaired as soon as an impairment loss has been recognised.

Objective evidence is provided only by events that have already occurred, not anticipated events in the future.

How an impairment is determined for each relevant category is described below.

In the case of loans and receivables, objective evidence of an impairment exists when a default has occurred in accordance with the definition of a default given in Basel II and/or the German Solvency Regulation (Solvabilitätsverordnung – SolvV). This is the case when either the borrower is at least 90 days in arrears or HVB believes that the debtor is unable to meet the payment obligations in full without steps to realise collateral being undertaken. In this context, an event of default notably includes the period of 90 days in arrears, an application for or opening of insolvency proceedings, the expectation of liquidity problems as a result of the credit-monitoring process or the need for restructuring or collateral realisation steps such as terminating loans, putting loans on a non-accrual basis or enforcing realisation of collateral by HVB.

The assessment of the borrower's credit-worthiness using internal rating processes is applicable. This assessment is reviewed periodically and when negative events occur. When the borrower is 90 days in arrears this is considered objective evidence of an impairment, similarly leading promptly to a review of the borrower's individual rating on account of the occurrence of a negative event with regard to the borrower. Based on internal procedures, the classification of the borrower is updated to "in default" or "not in default". As a result, the borrower's credit rating is always assessed with regard to his ability to meet outstanding liabilities.

The credit rating of the borrower and his ability to meet outstanding payment obligations is normally assessed irrespective of whether the borrower is already in arrears with payments or not.

Lending agreements can be modified to ease the burden on borrowers in poor financial situations and improve the probability of the loans being serviced ("forbearance"). It should be noted, however, that not every modification of a lending agreement is due to difficulties of the borrower and represents forbearance. Different strategies may be used to ease the burden on the borrower. Possible measures include deferrals and temporary moratoriums, longer periods allowed for repayment, reduced interest rates and rescheduling, and even debt forgiveness.

Exposures that are modified or refinanced to ease the burden on borrowers in financial difficulties ("forbearance") are subject to the same risk-provisioning processes as other loans. A possible deferral agreement aimed at avoiding arrears does not automatically lead to the Bank not recognising impairments. Where repayments are deferred or terms adjusted (with longer periods allowed for repayment deferred or covenant clauses waived) as a result of a deterioration in credit quality, and there is objective evidence of an impairment with regard to the restructured payments, this is considered a separate impairment trigger for testing whether an impairment needs to be recognised. The simple deferral of payment obligations does not always have an influence on the borrower's financial position and his ability to meet outstanding liabilities in full. Should a borrower not be in a position to meet all outstanding liabilities, a deferral of the liabilities does not alter the overall situation. A deferral neither reduces the amount of the payment obligations nor does it influence the amount of payments received by the borrower.

Where the Bank waives payments by the borrower (such as waived fees, reduction of contractual interest rates, etc.) as a result of a deterioration in credit quality, such a waiver represents objective evidence of the borrower defaulting. The write-off of such payments accruing to the Bank caused by an issued waiver is recognised in the income statement as an impairment, provided an allowance had not already been set up for this in the past or recognition was waived on account of the borrower defaulting (such as putting a loan on an internal non-accrual basis).

Please refer to Note 55, "Forbearance", for more information about the forbearance portfolio of the HVB Group.

An impairment is the difference between the carrying amount and the present value of the anticipated future cash flows. The future cash flows are determined taking into account past events (objective evidence). The anticipated future cash flows may comprise the repayments and/or interest payments still expected and the income from the realisation of collateral. A specific loan-loss provision is recognised for the impairment determined in this way.

If a receivable is considered uncollectible, the amount concerned is written down, which leads to the receivable being written off.

The same method is applied for held-to-maturity investments.

In the case of loan receivables, the impairment determined in this way is posted to an impairment account, which reduces the carrying amount of the receivable on the assets side. In the case of securities, an impairment directly reduces the carrying amount of the security.

Accounting and Valuation (Continued)

In the case of financial guarantees and irrevocable credit commitments, a possible impairment is determined in the same way; the impairment loss is recognised as a provision.

Specific loan-loss allowances are also determined on a collective basis for individual cases where the amounts involved are not significant. The classification as impaired is also based primarily on the individual rating of the borrower in these cases. These allowances are recognised and disclosed within specific loan-loss allowances at HVB Group. Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made individually to cover all identifiable default risks arising from lending operations (loans, receivables, financial guarantees and credit commitments), with the amount of the expense being estimated. Both changes in the anticipated future cash flows and the time effect arising from a shortening of the discounting period are taken into account in the subsequent measurement. Specific loan-loss allowances are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified as uncollectible and written off. Where a specific loan-loss allowance is reversed because the reason for its formation no longer exists, the borrower concerned is classified as recovered, meaning that the classification as "in default" is reversed. The amount is written off if the receivable in question is due, any available collateral has been realised and further attempts to collect the receivable have failed. Acute country-specific transfer risks are included in this process.

In the case of receivables (and guarantees and credit commitments) for which no specific allowances have been formed, portfolio allowances are set up to cover losses (= impairments) that have been incurred but not yet recognised by the Bank at the reporting date. We apply the loss confirmation period method for this. The loss confirmation period represents the period between a default event occurring or a borrower defaulting, and the point at which the Bank identifies the default. The loss confirmation period is determined separately for various credit portfolios on the basis of statistical surveys. The loss that has occurred but has not yet been recognised is estimated by means of the expected loss.

In the case of assets classified as available for sale, a distinction is made between debt and equity instruments.

A debt instrument is impaired when an event occurs that results in the borrower not being able to settle his contractual obligations in full or at the agreed date. Essentially, an impairment exists in the same cases as for credit receivables from the same borrower (issuer).

The amount of the impairment is defined as the difference between the amortised cost and the current fair value, whereby the difference first recognised in the AfS reserve in the balance sheet is taken to the income statement when an impairment occurs.

Should the reason for the impairment no longer apply, the difference between the higher fair value and the carrying amount at the previous reporting date is written back in the income statement up to the amount of amortised cost. If the current fair value at the reporting date exceeds the amortised cost, the difference is recognised in the AfS reserve under shareholders' equity.

In the case of equity instruments carried at fair value, an impairment exists if the current fair value is significantly below the initial cost or if the fair value has remained below the initial cost for a prolonged period of time. When impairment is first identified, the difference between the current fair value and initial cost is recognised as profit or loss in the income statement. Upon subsequent measurement, a further impairment loss is only taken to the income statement if the current fair value is below the initial cost less any impairment losses already recognised (amortised cost). If the fair value rises in the future, the difference between a higher fair value and the amortised cost is recognised in the AfS reserve under shareholders' equity.

Equity instruments valued at cost are considered impaired if the present value is significantly or permanently less than the acquisition cost (or, if an impairment has already been recognised in the past, it is less than the acquisition cost less the recognised impairment). If there is objective evidence of an impairment, the present value of the equity instruments must be determined. The estimated future cash flows discounted by the current market return on a comparable asset are used as the basis for determining this value. The amount of the impairment is calculated as the difference between the present carrying amount and the value of the equity instrument determined as described above. The impairment is taken to the income statement. An impairment of an equity instrument is not permitted to be reversed if the reasons for the impairment no longer apply.

17 Property, plant and equipment

Property, plant and equipment is valued at acquisition or production cost less depreciation – insofar as the assets are depreciable – using the straight-line method based on the assets' useful lives. Fixtures in rented buildings are depreciated over the term of the rental contract, taking into account any extension options, if this is shorter than the normal useful life of the asset concerned.

PROPERTY, PLANT AND EQUIPMENT	USEFUL ECONOMIC LIFE
Buildings	25 – 60 years
Fixtures in buildings not owned	10 – 25 years
Plant and office equipment	3 – 25 years
Other property, plant and equipment	
Wind farm	25 years
Other property, plant and equipment	10 – 20 years

The estimated useful lives of property, plant and equipment are reviewed once a year and adjusted as appropriate should the expectations differ from earlier estimates.

Impairments are taken in accordance with IAS 36 on property, plant and equipment whose value is impaired. An asset is considered impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is normally determined on the basis of the value in use. Should the reasons for the impairment no longer apply, a subsequent write-up is taken to the income statement; the amount of this subsequent write-up must not increase the value of the property, plant and equipment to a level in excess of the amortised acquisition or production cost.

Depreciation, impairments and write-ups on items of property, plant and equipment are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised, provided additional future economic benefits will flow to the Bank. Expenditure on repairs or maintenance of property, plant and equipment is recognised as expense in the year in which it is incurred.

Government grants for items of property, plant and equipment (IAS 20.24) are deducted from the acquisition or production cost of the underlying assets on the assets side of the balance sheet.

18 Lease operations

Under IAS 17, a lease is an agreement under which the lessor transfers the right to use an asset to the lessee for an agreed period against payment.

Lease agreements are divided into finance leases and operating leases. A lease is classified as an operating lease if the lessor retains substantially all the risks and rewards incident to ownership of the asset. By contrast, a finance lease transfers substantially all the risks and rewards incident to ownership of the asset to the lessee. Title may or may not eventually be transferred.

HVB Group nevertheless treats agreements concluded without the legal form of a lease as leases provided compliance with the agreement depends on the use of a given asset and the agreement transfers a right to use the asset.

HVB Group leases both movable assets and real estate.

Accounting and Valuation (Continued)

HVB Group as lessor

– Operating leases
  The assets leased to the lessee under an operating lease are considered held by the lessor, who should continue to account for them. The leased assets are carried under property, plant and equipment, investment properties or intangible assets in the consolidated balance sheet and valued in accordance with the relevant methods. The lease proceeds are recognised on a straight-line basis over the lease term and disclosed under other operating income.
– Finance leases
  Where assets are transferred under a finance lease, the lessor is required to derecognise the leased asset in its balance sheet and recognise a receivable from the lessee. The receivable is carried at the amount of the net investment in the lease when the lease agreement was concluded. The lease payments received are divided into a finance charge recognised in the income statement and a redemption payment. The interest income is recognised over the period of the lease in such a way that it essentially reflects a constant periodic return on the net investment in the lease; the redemption payment represents a repayment of the principal that reduces the amount of the receivable outstanding.

HVB Group as lessee

– Operating leases
  The lease payments made by the lessee under operating leases are recognised as expense on a straight-line basis over the lease term and carried under other operating expenses or operating costs to the extent that they represent lease expenses. The lease term commences as soon as the lessee controls the physical use of the leased asset. The lessee does not capitalise the leased assets involved.
– Finance leases
  In the case of finance leases, the lessee recognises the leased assets under property, plant and equipment, investment properties or intangible assets in the balance sheet as well as a liability on the liabilities side. The asset and the corresponding liability are each initially recognised at the fair value of the leased asset at the inception of the lease or, if lower, the present value of the minimum lease payments. The internal rate of return underlying the lease is used to calculate the present value of the minimum lease payments. The lease payments under finance leases are divided into a finance charge and redemption payment. The redemption payment reduces the outstanding liability while the finance charge is treated as interest expense.

Conditional lease payments made under operating and finance leases are normally recognised as income by the lessor and expense by the lessee in the period in which they accrue. None of HVB Group's current lease agreements contain any conditional lease payments.

Please refer to Note 76 for more information.

19 Investment properties

Compliant with IAS 40.30 in conjunction with IAS 40.56, land and buildings held by us as investments with a view to generating rental income and/or capital gains are carried at amortised cost and written down on a straight-line basis over a useful economic life of 25 to 60 years.

Where investment properties additionally suffer an impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Current expenses and rental income from investment properties are disclosed in net other expenses/income. Scheduled depreciation on such investments carried at amortised cost is included in operating costs, whereas impairments and write-ups are recognised in net income from investments.

In some cases, it may prove difficult to classify a property as an investment property rather than property, plant and equipment. Classification is especially difficult if part of the property is held by the Group as an investment while another part is used for the Bank's own purposes as an administration building, and the parts of the property cannot be sold separately or leased out under a finance lease, making it impossible to account for the two parts separately. In such cases, HVB Group classifies a mixed usage property in full as an investment property if more than 90% of the property is leased to an external third party and the part of the property used by the Bank is insignificant. The whole property is classified as property, plant and equipment if the part of the property leased externally totals 90% or less.

20 Intangible assets

The main items included in intangible assets are goodwill arising from the acquisition of fully consolidated subsidiaries and software. An intangible asset shall only be recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Goodwill has an indefinite useful life. Consequently, it is only tested for impairment compliant with IAS 36 and not amortised (impairment only approach). The value of goodwill is tested annually and where there is an indication of impairment. Impairments are taken where necessary. It is not permitted to write up in subsequent periods any impairment losses recognised on goodwill.

Software has a limited useful life and is valued at amortised cost. Amortisation is taken over an expected useful life of three to five years. Other intangible assets are also recognised at amortised acquisition or production cost less cumulative amortisation, as they have a limited useful life. Amortisation is taken on a straight-line basis over an expected useful life of up to ten years.

Where intangible assets additionally suffer impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Impairment losses on goodwill are shown in a separate item in the income statement.

Amortisation, impairments and write-ups on software and other intangible assets are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

21 Non-current assets or disposal groups held for sale

Under IFRS 5, non-current assets or disposal groups held for sale are carried upon reclassification at the lower of the carrying amount or fair value less costs to sell at the reporting date. Upon subsequent measurement following reclassification, the non-current assets or disposal groups held for sale are, if necessary, written down to a lower fair value less costs to sell if this has fallen at subsequent reporting dates. Should the fair value increase, the total may be written up to an amount that is no more than the cumulative impairment loss.

22 Liabilities

Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective micro fair value hedge are reported at amortised cost. Upon initial recognition, they are disclosed at their fair value including any transaction costs.

Accounting and Valuation (Continued)

23 Financial liabilities held for trading

This item includes the negative fair values of traded derivatives and all other derivatives that are not classified as hedging derivatives (which are recognised separately). Also included here are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

Financial liabilities held for trading are carried at fair value. Gains and losses arising from the valuation and realisation of financial liabilities held for trading are taken to the income statement as net trading income. We act as market maker for the structured products we issue.

24 Hedge adjustment of hedged items in the fair value hedge portfolio

Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 69). The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately.

25 Other liabilities

Compliant with IAS 37, accruals and other items are shown under other liabilities. These reflect future expenditure of uncertain timing or amount, but the uncertainty is much less than for provisions. Accruals are liabilities for goods and services received that have been neither paid for nor invoiced by the supplier, nor formally agreed. This also includes current liabilities to employees, such as flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

26 Provisions

Present legal or constructive obligations as a result of past events involving a probable outflow of resources, and whose amount can be reliably estimated, are recognised as provisions.

When assessing provisions for uncertain liabilities and anticipated losses on onerous transactions, we use the best estimate compliant with IAS 37.36 et seq. Long-term provisions are discounted.

In accordance with IAS 19, provisions for pensions and similar obligations arising from defined benefit plans are recorded on the basis of external actuarial reports by applying the projected unit credit method, with each pension plan being valued separately. This accrued benefit method pro-rated on service takes into account dynamic considerations when determining the expected pension benefits upon retirement and distributes these over the beneficiaries' entire period of employment. This means that the measurement of the defined benefit obligation is based on an actuarially calculated present value of the future benefit entitlement for services already rendered (vested benefit entitlements), taking into account the expected compensation increases including career trends and forecast pension progression. The actuarial assumptions to be defined when measuring the benefit obligation vary in line with the economic and other underlying conditions in the country in which the plans exist.

The underlying valuation assumptions may differ from the actual developments as a result of changing market, economic and social conditions. The actuarial gains or losses resulting from the change to the valuation parameters may have a significant impact on the amount of the obligations for pensions and similar post-employment benefits.

The discount rate used to discount the defined benefit obligations (actuarial interest rate) is determined by reference to yields recorded on the market at the reporting dated for high quality, fixed-rate corporate bonds and with maturities and currencies that match the obligations to be measured. A basket of AA-rated corporate bonds denominated in euros serves as the data basis for determining the discount rate for the obligations. These individual bond data are translated into a yield curve which forms the basis for determining the discount rate by using a numerical compensation technique. Funded pension obligations differ from unfunded pension obligations in that plan assets are allocated to cover the entitlements of the beneficiaries. The beneficiaries include active employees, former employees with vested benefit entitlements, and pensioners and their surviving dependants. Both HVB and a number of subsidiaries have set up plan assets in external, restricted-access pension organisations to fund their pension obligations.

If the beneficiaries' benefit entitlements or the Group's benefit obligations are not funded by assets, HVB Group recognises a pension provision in the amount of the present value of the defined benefit obligation (DBO) in its consolidated balance sheet.

In the case of funded pension obligations, by contrast, the present value of the defined benefit obligation is set against the fair value of the plan assets to determine the net defined benefit liability or net defined benefit asset from the defined benefit plans. The net amount is recognised in the consolidated balance sheet as a pension provision in the event of an excess of liabilities over assets or under other assets in the event of an excess of assets over liabilities adjusted for any effects of the asset ceiling. In the event of excess allocations to the plan, the amount of the net defined benefit asset recognised in the balance sheet is limited to the present value of the economic benefits associated with the surplus plan assets.

In the case of defined benefit obligations, actuarial gains and losses are recognised immediately and in full in other comprehensive income (OCI) in the period in which they accrue. Consequently, the pension provision or other asset recognised in the consolidated balance sheet corresponds to the actual deficit or surplus for a given commitment.

Under the net interest approach, the net interest to be recognised in profit or loss for the period is calculated by multiplying the net defined benefit liability (asset) from defined benefit plans by the discount rate underlying the measurement of the defined benefit obligation. Since any plan assets are deduced from the net defined benefit liability (asset), this calculation method implicitly assumes the return on plan assets in the amount of the discount rate.

If the present value of a defined benefit obligation changes as a result of a plan amendment or plan curtailment, the Group recognises the ensuing effects in full as past service cost in the profit or loss for the period. The amount is normally recognised at the date when the plan amendment or plan curtailment occurs. The gains and losses when a plan is settled are also recognised directly in profit or loss when the settlement occurs.

Accounting and Valuation (Continued)

The net pension expense of defined benefit obligations consists of a service cost component, a net interest component and a remeasurement component. This is recognised in the consolidated income statement and consolidated statement of total comprehensive income as follows:

The service cost component consists of the current and past service cost including the gains and losses on plan settlements. The net interest component comprises the interest expense on the defined benefit obligation, the interest income on plan assets and, in the event of excess allocations to the plan, the interest on any effects arising from the adjustment of the asset surplus to reflect the asset ceiling. The service cost and net interest components are taken to the consolidated income statement in profit or loss for the period. HVB Group also recognises the net interest component under pension and other employee benefit costs in payroll costs alongside the service cost component.

The remeasurement component encompasses the actuarial gains and losses arising from the valuation of the defined benefit obligation, the difference between the typical return on plan assets assumed at the beginning of the period in the amount of the discount rate and the actual return realised on plan assets and, in the event of excess allocations to the plan, any adjustment of the asset surplus to reflect the asset ceiling, excluding the amounts already recognised in net interest. This component is recognised immediately in shareholders' equity without affecting profit or loss. The remeasurements recognised in other comprehensive income in the consolidated statement of total comprehensive income may not be reclassified in later periods in profit or loss (no recycling).

The disclosure requirements for defined benefit plans contain a principles-based disclosure concept requiring companies to make judgements regarding the necessary level of detail or any emphases in the disclosures pertaining to defined benefit plans. The reporting is intended to meet the information needs of the users of the financial statements and give them a wide-ranging understanding of the risk structure and risk management of the pension plans (pension governance).

In contrast to defined benefit plans, no provisions for pensions and similar obligations are recognised for defined contribution plans. The amounts paid are recognised in the period of the payment taken to the income statement under payroll costs.

The provisions for pensions and similar obligations are described in detail in Note 72.

In accordance with IAS 19, the provisions for partial retirement and similar benefits recognised under other provisions are measured on the basis of external actuarial reports.

The top-up amounts promised under partial-retirement agreements are accounted for as other long-term employee benefits and the associated expenses accrued over their vesting period. HVB Group applies the first-in first-out (FiFo) method for the straight-line accrual of top-up benefits. The benefits are discounted to determine their present value. Remeasurements are recognised in profit or loss in the period in which they arise.

The other long-term employee benefits also include the deferred employee compensation under the Group's bonus programmes, if not expected to be settled wholly before twelve months after the end of the reporting period. The Group has a net liability in the amount of the future benefits to which the employees are entitled in exchange for the work performed in the current period and earlier periods. HVB Group recognises a bonus provision in the amount of the present value of these benefits in its consolidated balance sheet, with allocations made to the promised bonus amounts over the respective vesting period on a pro rata basis. Remeasurements of the net liability are recognised directly in profit or loss for the period.

The employee compensation schemes are described in detail in Note 39.

27 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros at the reporting date using current market rates. In the case of monetary assets available for sale, the effect arising from foreign currency translation is recognised as net currency income in net trading income. In other words, the monetary assets available for sale are treated in the same way as if they were recognised at amortised cost in the foreign currency. Non-monetary items carried at fair value are similarly translated into euros using current market prices at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

Income and expense items arising from foreign currency translation at the individual Group companies are stated under net trading income in the income statement.

Where they are not stated in euros, the assets and liabilities reported by our subsidiaries are translated using current market rates at the reporting date in the consolidated financial statements. Average rates are used to translate the income and expenses of these subsidiaries.

Exchange rate differences resulting from the translation of financial statements of international business units are recognised in shareholders' equity without affecting profit or loss and are only taken to the income statement if the operation is sold in part or in full.

28 Income tax for the period

Income tax for the period is accounted for in accordance with the principles set forth in IAS 12. Current taxes are determined taking into account local laws in the respective tax jurisdictions concerned. Apart from a few exceptions allowed for in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (balance sheet approach). Deferred tax assets arising from unused losses carried forward for tax-reporting purposes are shown where permitted by IAS 12.

Since the concept is based on the approach of future tax assets and liabilities under the liability method, the assets and liabilities are computed using the relevant local tax rates that are expected to apply when the differences are reversed. Deferred tax assets and liabilities are offset provided the offsetting requirements defined in IAS 12 are met.

Segment Reporting

29 Method and components of segment reporting by business segment

Method of segment reporting by business segment

In segment reporting, the activities of HVB Group are divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking (CIB)
– Other/consolidation

Segment reporting is based on the internal organisational and management structure together with internal financial reporting. In accordance with IFRS 8 "Operating Segments", segment reporting thus follows the Management Approach, which requires segment information to be presented externally in the same way as it is regularly used by the Management Board, as the responsible management body, when allocating resources (such as risk-weighted assets compliant with Basel III) to the business segments and assessing profitability (profit before tax). Since the income statement of HVB Group broken down by segment is reported internally to the Management Board of HVB down to profit before tax, we have also taken the profit before tax as the basis for external reporting. In this context, the segment data are determined in accordance with International Financial Reporting Standards (IFRS).

In segment reporting, the business segments operate as autonomous companies with their own equity resources and responsibility for profits and losses. The business segments are delimited by responsibility for serving customers. For a description of the customer groups assigned to the individual business segments and the main components of the segments, please refer to the section entitled "Components of the business segments of HVB Group". In 2015, a change to the organisational structure of a unit within the Other/consolidation business segment led to some securities moving to the Corporate & Investment Banking business segment. The resulting reorganisation yielded a shift in net interest and net fees and commissions in the Corporate & Investment Banking and Other/consolidation business segments. In addition, there were minor shifts in net fees and commissions in all the business segments. The year-ago figures have been adjusted accordingly.

The income statement items of net fees and commissions, net trading profit and net other expenses/income shown in the segments are based almost exclusively on transactions involving external customers. Net interest is assigned to the business segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses. For this reason, a separate presentation broken down by external/internal revenues (operating income) has not been included.

The equity capital allocation used to calculate the return on investment on companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) is based on a uniform core capital allocation for each business segment. Pursuant to Basel III, this involves allocating 10.0% (previous year: 9.0%) of core capital from risk-weighted assets to the business segments. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest. The percentage used for the return on the equity capital allocated to the companies HVB and UniCredit Luxembourg S.A. equals the base rate plus a premium in the amount of the 6-year average of the spread curve for the lending business of HVB both secured by land charges and unsecured. This rate is set for one year in advance as part of each budgeting process. The percentage changed to 2.38% in 2015 after 2.80% in the 2014 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

Operating costs, which contain payroll costs, other administrative expenses as well as amortisation, depreciation and impairment losses on tangible and other intangible assets (without goodwill), are allocated to the appropriate business segment according to causation. The Global Banking Services and the Group Corporate Centre business units of the Other/consolidation business segment are treated as external service providers, charging the business segments for their services at a price which covers their costs. The method of calculating the costs of general banking services involves employing a weighted allocation key (costs, income, FTEs, base amount) in the budgeting process for each business segment to determine the assigned costs that cannot be allocated directly. The majority of the depreciation and impairment losses taken on property, plant and equipment are posted for the BARD Offshore 1 wind farm allocated to the Corporate & Investment Banking business segment and the real estate companies of HVB Group included in the Global Banking Services business unit of the Other/consolidation business segment.

The income of €10 million (previous year: €3 million) from investments in associated companies relates to the following companies accounted for using the equity method: Adler Funding LLC, Bulkmax Holding Ltd., Comtrade Group B.V., Nautilus Tankers Limited, paydirekt Beteiligungsgesellschaft privater Banken mbH and SwanCap Partners GmbH. All of these companies with the exception of paydirekt Beteiligungsgesellschaft privater Banken mbH are assigned to the CIB business segment. paydirekt Beteiligungsgesellschaft privater Banken mbH is assigned to the Commercial Banking business segment. The amount involved is disclosed under dividends and other income from equity investments in the income statement. The carrying amount of the companies accounted for using the equity method is €56 million (previous year: €77 million).

Components of the segments of HVB Group

Commercial Banking business segment

The Commercial Banking business segment serves all customers in Germany with a need for standardised or personalised service and advice. In this context, its Private Clients Bank and Unternehmer Bank business units offer a wide range of banking services. Depending on the service approach, a needs-based distinction is made within Commercial Banking between private customers, private banking clients, high net worth individuals/ultra high net worth individuals and family offices under Wealth Management, business and corporate customers, and commercial real estate customers. All in all, Commercial Banking serves around 2.5 million customers. In this context, the Commercial Banking business segment builds on a shared "HypoVereinsbank" brand and a largely identical sales network.

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 payment services, consumer loans, mortgage loans, savings-and-loan and insurance products and banking services for private customers through to business loans, foreign trade financing, and liquidity and financial risk management 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.

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. The number of branches across Germany has been reduced from 579 at the end of 2013 to 278 by the end of 2015. A total of 63 branches are being retained as advice offices where customers will have access solely to self-service-based service functionalities alongside personal advice.

In the Key Account relationship model, corporate customers with complex advisory needs find the right contact for developing individual customer solutions, especially for large transaction volumes and international issues.

In the Mid & Small Cap relationship model for corporate and business customers, the product portfolio covers tailored financing offers, for example through the use of subsidies or leasing offers as well as solutions for the management of financial risks, in addition to the traditional bank services of payments and lending. Furthermore, the services provided for special target groups, such as insolvency administrators, healthcare professional or public sector workers, are being continuously refined.

The distinguishing features of the Real Estate relationship model are individual solutions for commercial real estate customers, institutional investors, residential construction firms, property developers and building contractors. In this context, customers benefit particularly from specific financing expertise, for example in the Real Estate Structured Finance and Loan Syndication product areas.

The Private Banking & Wealth Management customer segment within Commercial Banking is also 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.

Segment Reporting (Continued)

The Commercial Banking business segment is run by two members of the Management Board 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.

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 Group 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.

The competitive business model of HVB Group's Commercial Banking was again rewarded by a number of awards in 2015:
– Private Clients Bank: top mark of 5***** awarded to the HVB FinanzKonzept for outstanding investment advice by the Institut für Vermögensaufbau in March 2015
– Private Banking & Wealth Management: "summa cum laude" and "Elite der Family Offices" in the Elite Report sector test
– Unternehmer Bank: named "Beste Mittelstandsbank" among private and public-sector banks in Germany for the second time in a row in the annual Focus Money customer survey

Corporate & Investment Banking business segment
In terms of advisory expertise, product and process quality, and value added, the Corporate & Investment Banking (CIB) business segment intends to be the first port of call for large corporate customers. At the same time, CIB is oriented to building stable, strategic business partnerships in the long term and to positioning itself as a core bank for customers in commercial and investment banking. Its customer focus entails professional, active relationship management that is competent, quick, transparent and works on the basis of an advice-centred approach with in-depth understanding of the customer's business model and sector. CIB supports our corporate customers – also those served in the Unternehmer Bank business unit of the Commercial Banking business segment – in their positioning, growth and internationalisation by acting as an intermediary to the capital market.

The business success of the CIB business segment is based on the close cooperation and coordination between the sales, service and product units as well as on its collaboration with other countries and segments of UniCredit, particularly with back offices. The three global product factories – Financing & Advisory, Global Transaction Banking and Markets – are integral parts of the segment's integrated value chain. They support customers in strategic, transaction-based activities, solutions and products. In the light of the change in markets and increase in market risks, we are seeking to closely support customers. We also cover all the corporate banking needs of our customers, including in areas like growth, internationalisation and restructuring. This requires up-to-date knowledge of specific branches and markets which also meets the growing demands on a finance provider.

The CIB business segment has four business lines: Multinational Corporates (MNC), CIB Americas, CIB Asia Pacific, and Financial Institutions Group (FIG). MNC concentrates on European customers and on European subsidiaries of American or Asian corporate customers; most customers are investment grade rated or in a fringe area to this, they operate in an international context and/or on the capital market. CIB Americas and CIB Asia focus on American or Asian customers whose business is related to the home countries of UniCredit (inbound) or if customers headquartered outside America or Asia operate there (outbound). FIG is a globally operating sales unit that ensures the comprehensive care of UniCredit's institutional customers.

The following customer groups are served by the **Financing & Advisory** (F&A) product factory on a global basis: Financial Sponsors, Global Project & Commodity Trade Finance, Global Syndicate & Capital Markets, Structured Finance (Corporate, Real Estate and Export) and Global Shipping. Portfolio & Pricing Management (PPM) is responsible groupwide for managing all leveraged, project, aircraft and commodity finance transactions. All other F&A asset classes are managed at the level of HVB by PPM in cooperation with representatives of the sales channels. Furthermore, the Ocean Breeze Energy GmbH & Co. KG subsidiary is overseen by F&A.

Global Transaction Banking (GTB) offers a broad array of products in the areas of cash management and e-banking, trade finance, supply chain management and global securities services.

The **Markets** business is essentially a customer-oriented product factory that supports the corporate banking operations of UniCredit. It covers the following product lines: Rates, Integrated Credit Trading, FX, CEE Trading, Commodities, Equity Derivatives and Treasury. The products are sold through three main sales channels: Institutional Distribution, Corporate Treasury Sales and Private Investor Product & Institutional Equity Derivatives, each of which are an integral part of the product lines. The sales units are supported by Research, the Structuring & Solutions Group, the Quants Team and the CVA Desk.

The profits and losses of several subsidiaries and holdings also flow into the business segment's result. Above all, this includes UniCredit Luxembourg S.A., which operates across business segments within HVB Group and is involved in the handling, management and securitisation of the national and international credit of the group and in interest management as the group's funding unit in the money market.

Other/consolidation business segment
The Other/consolidation business segment encompasses the business units Global Banking Services (GBS) and Group Corporate Centre and consolidation effects.

The **Global Banking Services** business unit acts as a central internal service provider for customers and employees and covers particularly purchasing, organisation, corporate security, logistics and facility management, cost management and back-office 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 the Real Estate unit (GRE), HVB Immobilien AG and UniCredit Global Business Services GmbH (UGBS) engaged by HVB Immobilien AG by way of an operating contract.

The **Group Corporate Centre** business unit includes profit contributions that do not fall within the jurisdiction of the individual business segments. Among other items, this includes the profits and losses of consolidated subsidiaries and non-consolidated holdings, provided they are not assigned to the business segments, together with the net income from securities holdings for which the Management Board is responsible. Also incorporated in this business unit are the amounts arising from decisions taken by management with regard to asset/liability management. This includes contributions to earnings from securities and money trading activities involving UniCredit S.p.A. and its subsidiaries. The Group Corporate Centre also includes the Real Estate Restructuring (RER) customer portfolio.

Segment Reporting (Continued)

30 Income statement, broken down by business segment

Income statement, broken down by business segment for the period from 1 January to 31 December 2015 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,604	1,133	(9)	2,728
Dividends and other income from equity investments	48	18	3	69
Net fees and commissions	772	279	(16)	1,035
Net trading income	88	441	(4)	525
Net other expenses/income	10	129	179	318
OPERATING INCOME	**2,522**	**2,000**	**153**	**4,675**
Payroll costs	(716)	(488)	(617)	(1,821)
Other administrative expenses	(1,245)	(891)	576	(1,560)
Amortisation, depreciation and impairment				
losses on intangible and tangible assets	(11)	(72)	(115)	(198)
Operating costs	**(1,972)**	**(1,451)**	**(156)**	**(3,579)**
OPERATING PROFIT/(LOSS)	**550**	**549**	**(3)**	**1,096**
Net write-downs of loans and provisions for guarantees and commitments	(80)	(54)	21	(113)
NET OPERATING PROFIT	**470**	**495**	**18**	**983**
Provisions for risks and charges	(119)	(69)	(6)	(194)
Restructuring costs	14	(30)	(96)	(112)
Net income from investments	40	2	57	99
PROFIT BEFORE TAX	**405**	**398**	**(27)**	**776**

Income statement, broken down by business segment for the period from 1 January to 31 December 2014 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,585	1,027	31	2,643
Dividends and other income from equity investments	12	78	2	92
Net fees and commissions	804	291	(13)	1,082
Net trading income	20	450	13	483
Net other expenses/income	13	122	167	302
OPERATING INCOME	**2,434**	**1,968**	**200**	**4,602**
Payroll costs	(735)	(465)	(582)	(1,782)
Other administrative expenses	(1,233)	(859)	560	(1,532)
Amortisation, depreciation and impairment				
losses on intangible and tangible assets	(11)	(105)	(129)	(245)
Operating costs	**(1,979)**	**(1,429)**	**(151)**	**(3,559)**
OPERATING PROFIT	**455**	**539**	**49**	**1,043**
Net write-downs of loans and provisions for guarantees and commitments	(108)	(112)	69	(151)
NET OPERATING PROFIT	**347**	**427**	**118**	**892**
Provisions for risks and charges	(11)	10	26	25
Restructuring costs	—	—	18	18
Net income from investments	2	126	20	148
PROFIT BEFORE TAX	**338**	**563**	**182**	**1,083**

Development of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	2015	2014	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest	1,604	1,585	397	404	410	393
Dividends and other income from equity investments	48	12	5	42	—	1
Net fees and commissions	772	804	169	191	197	215
Net trading income	88	20	30	10	41	7
Net other expenses/income	10	13	14	7	6	(16)
OPERATING INCOME	**2,522**	**2,434**	**615**	**654**	**654**	**600**
Payroll costs	(716)	(735)	(170)	(177)	(182)	(187)
Other administrative expenses	(1,245)	(1,233)	(296)	(310)	(317)	(322)
Amortisation, depreciation and impairment						
losses on intangible and tangible assets	(11)	(11)	(2)	(3)	(3)	(3)
Operating costs	**(1,972)**	**(1,979)**	**(468)**	**(490)**	**(502)**	**(512)**
OPERATING PROFIT	**550**	**455**	**147**	**164**	**152**	**88**
Net write-downs of loans and provisions for						
guarantees and commitments	(80)	(108)	(22)	4	(29)	(33)
NET OPERATING PROFIT	**470**	**347**	**125**	**168**	**123**	**55**
Provisions for risks and charges	(119)	(11)	(43)	(40)	(33)	(3)
Restructuring costs	14	—	14	—	—	—
Net income from investments	40	2	4	(1)	36	—
PROFIT BEFORE TAX	**405**	**338**	**100**	**127**	**126**	**52**
Cost-income ratio in %	78.2	81.3	76.1	74.9	76.8	85.3

The Commercial Banking business segment increased its operating income by 3.6% year-on-year to reach €2,522 million during the 2015 financial year.

Net interest contributed €1,604 million to the total, a slight increase of €19 million achieved despite ultra-low interest rates. Among other things, this rise is attributable to the strong new business involving real estate finance as well as to consumer lending activities and a slight recovery in the demand for credit on the corporate banking side. Set against this, deposit-taking operations continued to be impacted by the persistently ultra-low interest rates. Furthermore, dividends and other income from equity investments rose by a strong €36 million to €48 million on account of an extraordinary dividend payout received from our investment in EURO Kartensysteme GmbH. In addition, net trading income also increased by a healthy €68 million to €88 million as a result of higher income from currency trading and the positive effect from credit valuation adjustments, among other things. At €772 million, net fees and commissions failed to fully match the year-ago total of €804 million. This is mainly due to the sale of PlanetHome AG and its subsidiaries in the second quarter of 2015. Furthermore, consumer loans are no longer being brokered externally, meaning that no fees and commissions were generated by this business in 2015. Loans are being extended by HVB directly instead, which is reflected in net interest.

Operating costs fell by a slight 0.4% to €1,972 million, with the business segment already starting to benefit from positive cost effects arising from the repositioning of the retail banking activity. Payroll costs fell by €19 million to €716 million. Despite the investments made in the branches, the multi-channel approach and staff training, other administrative expenses only rose by a minor €12 million to €1,245 million.

The cost-income ratio improved from 81.3% in the previous year to 78.2% in the reporting period on the back of the higher operating income together with the simultaneous slight decline in operating costs.

Segment Reporting (Continued)

At €80 million, net write-downs of loans and provisions for guarantees and commitments were again at a very low level following a decline of around one-quarter. Together with the good operating performance, this led to a strong increase of 35.4% in operating profit to €470 million.

Provisions for risks and charges of €119 million essentially result from legal risks. The sharp rise in net income from investments to €40 million can be attributed mainly to the sale of the participating interests in Wüstenrot und Württembergische AG and PlanetHome AG together with its subsidiaries. All in all, the business segment generated a profit before tax of €405 million, which is 19.8% or €67 million higher than the year-ago total.

Development of the Corporate & Investment Banking business segment (€ millions)

INCOME/EXPENSES	2015	2014	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest	1,133	1,027	353	241	271	269
Dividends and other income from equity investments	18	78	3	7	3	5
Net fees and commissions	279	291	64	61	62	91
Net trading income	441	450	9	37	221	174
Net other expenses/income	129	122	64	57	16	(7)
OPERATING INCOME	**2,000**	**1,968**	**493**	**403**	**573**	**532**
Payroll costs	(488)	(465)	(116)	(126)	(124)	(121)
Other administrative expenses	(891)	(859)	(202)	(217)	(237)	(235)
Amortisation, depreciation and impairment						
losses on intangible and tangible assets	(72)	(105)	(19)	(18)	(17)	(18)
Operating costs	**(1,451)**	**(1,429)**	**(337)**	**(361)**	**(378)**	**(374)**
OPERATING PROFIT	**549**	**539**	**156**	**42**	**195**	**158**
Net write-downs of loans and provisions for						
guarantees and commitments	(54)	(112)	(43)	24	(1)	(35)
NET OPERATING PROFIT	**495**	**427**	**113**	**66**	**194**	**123**
Provisions for risks and charges	(69)	10	(36)	(5)	(29)	—
Restructuring costs	(30)	—	(30)	—	—	—
Net income from investments	2	126	1	—	(5)	6
PROFIT BEFORE TAX	**398**	**563**	**48**	**61**	**160**	**129**
Cost-income ratio in %	72.6	72.6	68.4	89.6	66.0	70.3

The operating profit of the Corporate & Investment Banking business segment improved by a slight €10 million to €549 million during the reporting period compared with the previous year. Within this total, operating income rose by €32 million to €2,000 million, while operating costs increased by €22 million to €1,451 million.

The rise in operating income results mainly from the €106 million increase in net interest to €1,133 million. As was already the case in 2014, the extremely low interest rates in the reporting period generally had an adverse effect on the results in interest-related operations. Pleasingly, higher volumes in lending operations partly offset constantly narrowing margins. Furthermore, the increase in net interest can be attributed to the strategic adjustment of the liquidity reserve as well as non-recurring effects. The surplus arising from trading-induced interest activities improved by €14 million year-on-year as well. Besides net interest, net other expenses/income, which was up by €7 million to €129 million on account of higher gains on the sale of receivables, also contributed to the increase in operating income.

By contrast, dividend income essentially stemming from lower dividend payouts from private equity funds suffered a year-on-year decline of €60 million to €18 million in the reporting period. This development is down to the fact that the holdings of private equity investments have been greatly reduced for strategic reasons in response to the focus on core activities and in anticipation of regulatory changes. At €279 million, net fees and commissions were down only a slight €12 million on the year-ago total of €291 million, attributable mainly to the decline in demand from companies for equity or debt funding using capital market products such as bonds and shares. Net trading income remained at the same level as last year (2014: €450 million), suffering a slight decline of €9 million to €441 million. Within this total, a higher profit was generated on forex trading than in the previous year. A good result was again achieved in operations involving equity derivatives, although the year-ago total was not matched. Even though impressive profit contributions were generated from operations involving loan securitisations, fixed-income securities and interest derivatives, these were less than the year-ago total. The funding valuation adjustments included in net trading income for the first time had a negative effect, while lower credit valuation adjustments and lower valuation effects from the inclusion of the own credit spread on financial liabilities held for trading had a positive impact on the total.

Operating costs increased by a slight €22 million year-on-year to €1,451 million. Within this total, payroll costs rose by €23 million to €488 million, while other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets, at €963 million, matched the year-ago level of €964 million. Within that total, amortisation, depreciation and impairment losses on intangible and tangible assets declined by a sharp €33 million to €72 million, as higher amortisation and depreciation was contained in the previous year in connection with the BARD Group. By contrast, other administrative expenses rose by €32 million to €891 million, driven by higher IT spending resulting among other things from the implementation of greater regulatory requirements. At 72.6%, the cost-income ratio remained at the same level as last year, as operating income and operating costs increased at almost exactly the same rate.

The very low net write-downs of loans and provisions for guarantees and commitments of just €54 million during the reporting period reflect our risk-sensitive business policy as well as the economic environment; the total was even €58 million below the extremely low figure of €112 million reported in the previous year. Provisions for risks and charges amounted to €69 million in the reporting period, accruing mainly in connection with legal risks. A net gain of €10 million was generated in the previous year on the back of reversals of provisions for derivative and certificate activities. Restructuring costs of €30 million (2014: €0 million) accrued in connection with measures aimed at boosting efficiency and earnings from the 2016–2018 Strategic Plan. Net income from investments amounted to €2 million in the reporting period, while €126 million was generated in the previous year mainly from the sale of holdings in direct investments and hedge funds.

This means that the CIB business segment recorded a profit before tax of €398 million in the 2015 financial year. This is €165 million below the total of €563 million recorded in the previous year due mainly to the higher provisions and lower net income from investments.

Segment Reporting (Continued)

Development of the Other/consolidation business segment (€ millions)

INCOME/EXPENSES	2015	2014	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest	(9)	31	14	(1)	(13)	(10)
Dividends and other income from equity investments	3	2	—	(1)	4	—
Net fees and commissions	(16)	(13)	(3)	(6)	(2)	(4)
Net trading income	(4)	13	(6)	(5)	8	(1)
Net other expenses/income	179	167	48	42	43	44
OPERATING INCOME	**153**	**200**	**53**	**29**	**40**	**29**
Payroll costs	(617)	(582)	(154)	(154)	(154)	(156)
Other administrative expenses	576	560	117	151	154	154
Amortisation, depreciation and impairment losses on intangible and tangible assets	(115)	(129)	(27)	(29)	(30)	(29)
Operating costs	**(156)**	**(151)**	**(64)**	**(32)**	**(30)**	**(31)**
OPERATING PROFIT/(LOSS)	**(3)**	**49**	**(11)**	**(3)**	**10**	**(2)**
Net write-downs of loans and provisions for guarantees and commitments	21	69	19	15	(18)	6
NET OPERATING PROFIT/(LOSS)	**18**	**118**	**8**	**12**	**(8)**	**4**
Provisions for risks and charges	(6)	26	(12)	1	5	1
Restructuring costs	(96)	18	(96)	—	—	—
Net income from investments	57	20	31	6	10	11
PROFIT/(LOSS) BEFORE TAX	**(27)**	**182**	**(69)**	**19**	**7**	**16**
Cost-income ratio in %	102.0	75.5	120.8	110.3	75.0	106.9

The operating income of this business segment came to €153 million in the reporting period compared with €200 million in the previous year, which represents a decline of €47 million. Within this total, net interest declined by €40 million to minus €9 million. This is attributable among other things to the lower return on investments due to declining interest rates. The net trading loss of €4 million in the reporting period is €17 million below the total recorded in the previous year. This decline can for the most part be attributed to currency effects. By contrast, other expenses/income rose by €12 million to €179 million, among other things as a result of the non-recurrence in the reporting period of expenses contained in 2014 from services provided in previous years. With operating costs increasing by a minor €5 million to €156 million, an operating loss of €3 million was recorded for 2015, down €52 million year-on-year.

There was a net reversal of €21 million in net write-downs of loans and provisions for guarantees and commitments compared with a net reversal of €69 million in the previous year. Restructuring costs of €96 million accrued in connection with measures aimed at boosting efficiency and earnings from the 2016–2018 Strategic Plan. A net reversal of €18 million was recorded in the previous year due to restructuring provisions that were no longer required. After taking account of the provisions for risks and charges of €6 million (2014: net reversal of €26 million) and net income from investments of €57 million (2014: €20 million) essentially arising from gains on the disposal of investment properties during the reporting period, a loss before tax of €27 million arose, well below the profit of €182 million reported a year ago, due mainly to spending on the measures aimed at boosting efficiency and earnings from the 2016–2018 Strategic Plan.

31 Balance sheet figures, broken down by business segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with banks				
31/12/2015	985	32,925	(1,078)	32,832
31/12/2014	712	28,190	3,752	32,654
Loans and receivables with customers				
31/12/2015	77,154	37,344	(1,010)	113,488
31/12/2014	75,424	35,335	(1,123)	109,636
Goodwill				
31/12/2015	130	288	—	418
31/12/2014	130	288	—	418
Deposits from banks				
31/12/2015	3,442	48,190	6,848	58,480
31/12/2014	3,183	44,734	6,163	54,080
Deposits from customers				
31/12/2015	75,401	27,632	4,657	107,690
31/12/2014	71,187	24,626	4,861	100,674
Debt securities in issue				
31/12/2015	1,411	2,469	22,122	26,002
31/12/2014	916	3,084	24,249	28,249
Risk-weighted assets compliant with Basel III				
(including equivalents for market risk				
and operational risk)				
31/12/2015	28,171	42,327	7,559	78,057
31/12/2014	28,435	45,047	12,286	85,768

1 Balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Notes 61 and 70.

32 Employees, broken down by business segment[1]

	2015	2014
Commercial Banking	7,467	8,768
Corporate & Investment Banking	2,654	2,671
Other/consolidation	6,189	6,541
Total	**16,310**	**17,980**

1 in full-time equivalents (FTEs)

Segment Reporting (Continued)

33 Segment reporting by region

The allocation of amounts to regions is based on the head office of the Group companies or offices involved.

Income statement, broken down by region (€ millions)

	GERMANY	ITALY	LUXEMBOURG	UK	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
OPERATING INCOME									
2015	4,392	298	165	262	41	78	34	(595)	4,675
2014	5,460	234	151	303	66	91	21	(1,724)	4,602
OPERATING PROFIT/(LOSS)									
2015	745	206	125	36	1	32	(3)	(46)	1,096
2014	1,782	182	114	66	37	41	(29)	(1,150)	1,043

Total assets, broken down by region (€ millions)

	2015	2014
Germany	273,074	275,677
Italy	43,253	53,021
Luxembourg	24,832	25,088
UK	12,967	12,102
Rest of Europe	5,583	4,918
Americas	5,862	4,797
Asia	5,010	3,094
Consolidation	(71,836)	(78,355)
Total	**298,745**	**300,342**

Property, plant and equipment, broken down by region (€ millions)

	2015	2014
Germany	2,947	2,899
Italy	—	—
Luxembourg	32	32
UK	10	13
Rest of Europe	236	1
Americas	3	3
Asia	2	1
Consolidation	—	—
Total	**3,230**	**2,949**

Investment properties, broken down by region (€ millions)

	2015	2014
Germany	1,140	1,269
Italy	—	—
Luxembourg	23	24
UK	—	—
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**1,163**	**1,293**

Intangible assets, broken down by region (€ millions)

	2015	2014
Germany[1]	460	476
Italy	—	—
Luxembourg	2	1
UK	—	1
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**462**	**478**

1 includes goodwill

Employees, broken down by region[1]

	2015	2014
Germany	14,702	16,296
Italy	287	287
Luxembourg	170	175
UK	542	563
Rest of Europe	235	276
Africa	2	2
Americas	179	183
Asia	193	198
Total	**16,310**	**17,980**

1 in full-time equivalents (FTEs)

Notes to the Income Statement

34 Net interest

(€ millions)

	2015	2014
Interest income from	4,618	5,014
lending and money market transactions	3,124	3,480
other interest income	1,494	1,534
Interest expense from	(1,890)	(2,371)
deposits	(328)	(574)
debt securities in issue and other interest expenses	(1,562)	(1,797)
Total	**2,728**	**2,643**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €3,300 million (same period last year: €3,622 million) and €1,296 million (same period last year: €1,874 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

Interest that the Bank is required to pay on assets (such as interest payable on average reserves maintained with the ECB above the minimum required reserve and other deposits with the ECB) is carried as a negative item under interest income; where interest receivable accrues on the liabilities side, this is similarly recognised as a positive item under interest expense.

Net interest attributable to related parties

The following table shows the net interest attributable to related parties:

(€ millions)

	2015	2014
Non-consolidated affiliated companies	67	99
of which:		
UniCredit S.p.A.	24	46
Sister companies	41	53
Joint ventures	3	1
Associated companies	10	9
Other participating interests	—	—
Total	**80**	**109**

35 Dividends and other income from equity investments

(€ millions)

	2015	2014
Dividends and other similar income	59	89
Companies accounted for using the equity method	10	3
Total	**69**	**92**

36 Net fees and commissions

(€ millions)

	2015	2014
Management, brokerage and consultancy services	528	520
Collection and payment services	206	225
Lending operations	295	310
Other service operations	6	27
Total	**1,035**	**1,082**

This item comprises the balance of fee and commission income of €1,355 million (equivalent period last year: €1,649 million) and fee and commission expense of €320 million (equivalent period last year: €567 million). Fee and commission income of €112 million (equivalent period last year: €117 million) and fee and commission expense of €5 million (equivalent period last year: €5 million) relate to financial instruments not measured at fair value through profit or loss.

Fees and commissions charged for individual services are recognised as soon as the service has been performed. In contrast, deferred income is recognised for fees and commissions relating to a specific period (such as fees for financial guarantees).

Net fees and commissions from related parties

The following table shows the net fees and commissions attributable to related parties: (€ millions)

	2015	2014
Non-consolidated affiliated companies	42	91
of which:		
UniCredit S.p.A.	(38)	13
Sister companies	80	78
Joint ventures	1	—
Associated companies	14	34
Other participating interests	—	—
Total	**57**	**125**

37 Net trading income

(€ millions)

	2015	2014
Net gains on financial assets held for trading[1]	556	450
Effects arising from hedge accounting	(7)	(14)
Changes in fair value of hedged items	159	(830)
Changes in fair value of hedging derivatives	(166)	816
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	(26)	45
Other net trading income	2	2
Total	**525**	**483**

1 including dividends on financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets through fair value at profit or loss (effect in 2015: plus €158 million; 2014: minus €296 million)

The net gains on financial assets in the reporting period include negative credit valuation adjustments of €14 million on our holdings of derivatives (equivalent period last year: minus €98 million).

At 31 December 2015, we recognised funding valuation adjustments (FVAs) in the income statement for the first time 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 expenses of €94 million resulting from this change were posted to net trading income. Up until now, funding valuation adjustments were carried as deductible items in shareholders' equity for regulatory purposes.

The effects arising from hedge accounting include the hedge results of the fair value hedge portfolio and the individual micro fair value hedges as a net aggregate total. The net hedge accounting expense of €7 million (2014: expense of €14 million) arises from the increase of €159 million (2014: decrease of €830 million) in fair value relating to the secured risk of the hedged items and the decrease of €166 million in the fair value of hedging derivatives (2014: increase of €816 million).

The net gains on holdings at fair value through profit or loss (held-for-trading portfolio and fair value option) generally only contain the changes in fair value disclosed in the income statement. The interest income from held-for-trading portfolios is normally disclosed under net interest. To ensure that the full contribution of these activities to profits is disclosed, the interest cash flows are only carried in net trading income for the interest rate swap trading book, which exclusively contains interest rate derivatives.

Notes to the Income Statement (Continued)

38 Net other expenses/income

(€ millions)

	2015	2014
Other income	543	605
Other expenses	(225)	(303)
Total	**318**	**302**

Other income includes rental income of €170 million (2014: €166 million) from investment properties and mixed usage buildings. Current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €59 million (2014: €56 million) are netted with the other income. Other expenses include expenses of €53 million for the European bank levy accruing for the first time in the 2015 financial year. The year-ago total included expenses of €39 million for the German bank levy which was no longer payable in the reporting period following the introduction of the European bank levy. Net other expenses/income includes income of €172 million (2014: €158 million) in connection with the BARD Offshore 1 offshore wind farm.

At the same time, there were gains of €43 million (2014: €16 million) on the sale of unimpaired receivables.

Net other expenses/income attributable to related parties

The following table shows the net other expenses/income attributable to related parties:

(€ millions)

	2015	2014
Non-consolidated affiliated companies	135	28
of which:		
UniCredit S.p.A.	26	11
Sister companies	109	17
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**135**	**28**

39 Operating costs

(€ millions)

	2015	2014
Payroll costs	(1,821)	(1,782)
Wages and salaries	(1,480)	(1,461)
Social security costs	(216)	(227)
Pension and other employee benefit costs	(125)	(94)
Other administrative expenses	(1,560)	(1,532)
Amortisation, depreciation and impairment losses	(198)	(245)
on property, plant and equipment	(177)	(193)
on software and other intangible assets, excluding goodwill	(21)	(52)
Total	**(3,579)**	**(3,559)**

Wages and salaries includes payments of €12 million (2014: €14 million) made upon the termination of the employment contract. The expenses for similar payments under restructuring measures are recognised under restructuring costs in the income statement and explained in Note 42.

Operating costs of related parties

The following table shows the operating costs of related parties included in the total operating costs shown in the income statement: (€ millions)

	2015	2014
Non-consolidated affiliated companies	(653)	(599)
of which:		
UniCredit S.p.A.	(13)	(3)
Sister companies	(640)	(596)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(653)**	**(599)**

Share-based payment compliant with IFRS 2

Share-based payments were granted primarily under the Group Incentive System in the reporting period. In addition, UniCredit has further schemes under which shares or stock are granted that are also accounted for in accordance with IFRS 2: the long- term incentive programme, the "2012 Share Plan for Group Talents and Mission Critical Players", and the employee share ownership plan ("Let's Share").

Group Incentive System

The Group Incentive System has governed variable compensation payable to selected staff since the 2010 financial year. This system is built around the principle that the variable compensation is granted partially in shares and scheduled for disbursement over a number of years.

Employees whose duties have a significant impact on the Bank's overall risk are beneficiaries of the Group Incentive System. Under the Group Incentive System, the bonus promised for the respective reporting period is split into a cash component and a stock component.

The cash component is disbursed in tranches over a period of up to five years. Accordingly, this group of employees received 20% to 30% of the bonus for 2015 in cash with the commitment at the beginning of 2016, and a further 10% to 20% will be disbursed after year-end 2016 and year-end 2018/2020.

At the beginning of 2016, the beneficiaries receive a commitment for the remaining 50% of the total bonus to allocate shares in UniCredit S.p.A. as part of the bonus for 2015, to be transferred to the beneficiaries after year-end 2017 to 2019 and 2020.

The deferred payment after year-end 2016, 2018 and 2020 and the transfer of shares after year-end 2017, 2018, 2019 and 2020 to the beneficiaries is subject to the provision that, as part of a malus arrangement, it is ensured that a loss has not been recorded at the UniCredit corporate level or at the level of the individual beneficiary, or a significant reduction in the results achieved.

The fair value of the granted shares is calculated using the average stockmarket price of UniCredit S.p.A. shares in the month prior to the resolution by the Board of Directors in March 2016 regarding the granting, adjusted for a discount for expected dividends during the vesting period.

6.2 million UniCredit S.p.A. shares (before possible adjustment due to adjustments in the equity of UniCredit S.p.A.) were granted in the reporting period as a component of the bonus granted for 2014, with a fair value of €34.6 million. The shares granted in 2015 as part of the bonus for 2014 will be transferred in 2018, 2019 and 2020. The following table shows the fair value per share at the time of granting:

	2015
Fair value of the shares to be transferred in 2018 (€ per share)	5.839
Fair value of the shares to be transferred in 2019 (€ per share)	5.559
Fair value of the shares to be transferred in 2020 (€ per share)	5.200

Notes to the Income Statement (Continued)

Analysis of outstanding shares

	2015		2014	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**19,741,750**	**December 2015**	**18,246,089**	**February 2015**
Additions				
Newly granted shares	6,160,619	January 2019	5,950,516	November 2016
From corporate transfers	—	—	—	—
Releases				
Forfeited shares	633,817	January 2017	737,942	August 2015
Transferred shares	7,971,995	May 2015	3,716,913	May 2014
Expired shares	—	—	—	—
Total at end of period	**17,296,557**	**June 2017**	**19,741,750**	**December 2015**

The promised bonuses are recognised in the income statement on a pro rata basis over the respective vesting period.

Bonuses for the 2015 financial year falling due for disbursement in 2016 are recognised in full as expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.153 in conjunction with IAS 19.68. Thus, deferred cash payments under the bonus promised for 2015 are recognised as expense in the respective period (starting with the 2015 financial year to the end of the financial year in which the waiting period for the respective tranche ends) on a pro rata basis.

UniCredit S.p.A. delivers shares to the employees for commitments made by HVB Group once the conditions for granting shares have been met. HVB Group reimburses to UniCredit S.p.A. the expenses accruing in this regard. The expense for the shares transferred corresponds to the fair value of the shares at the grant date.

In the 2015 financial year, prorated expenses of €52 million (2014: €32 million) accrued for the stock component arising from the bonuses promised for 2011 to 2015 in the form of share-based payments compliant with IFRS 2. These expenses are recognised under payroll costs. The provision set up totalled €117 million (2014: €85 million).

Long-term incentive programme
A long-term incentive programme including share-based remuneration transactions featuring compensation in UniCredit shares, has been set up for executives and junior managers of all UniCredit companies selected using defined criteria. Within this umbrella programme, individual schemes were set up in recent years, the key elements of which included the granting of stock options starting in 2011 in the form of performance stock options and performance shares.

UniCredit S.p.A. undertakes the commitment to employees of HVB; in return, HVB reimburses to UniCredit S.p.A. the expenses for stock options and performance shares actually transferred to the beneficiaries after the vesting period has expired and the conditions attached to the commitment have been checked. The fair value of the instrument at the time of granting is recognised as the expense for the stock options and performance shares transferred.

The following statements relate to all eligible HVB Group employees covered by the long-term incentive programme. The information provided in Note 92 in this regard merely relates to the stock options and performance shares granted to members of the Management Board.

The performance stock options grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. In the case of stock options issued during or after 2011, beneficiaries are only entitled to exercise their options in a range between 0% and 150% (depending on the level of target achievement) of the underlying total originally granted if the respective targets have been met after around three to four years. The options may only be exercised during a fixed period which starts after the vesting period expires. If the beneficiary has already left UniCredit by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis or in full in certain exceptional circumstances, such as disability, retirement or an employer leaving UniCredit.

The fair values of the stock options at the grant date are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:
– The probability of the option expiring due to the beneficiary leaving the company prematurely after the lock-up period has expired.
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of the UniCredit share exceeds the exercise price by the exercise barrier multiplier (usually a factor of 1.5).
– Dividend yield of the UniCredit share.
– Average historical daily volatility over a period equivalent to the vesting period.

The stock options granted in 2012 become exercisable in 2016, provided the relevant targets are achieved in each case. Furthermore, the stock options were granted subject to the condition that the beneficiaries continued to work for UniCredit. All other stock options granted in earlier years are already exercisable.

As in the previous year, no new stock options were granted in the 2015 financial year.

Analysis of outstanding stock options

	2015			2014		
	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY
Outstanding at start of period	**13,538,008**	**4.62**	**December 2018**	**13,955,927**	**4.64**	**December 2018**
Additions						
Newly granted options	—	—	—	—	—	—
From corporate transfers	—	—	—	—	—	—
Releases						
Forfeited stock options	355,356	4.83	November 2018	417,919	5.11	April 2018
Exercised stock options	—	—	—	—	—	—
Expired stock options	—	—	—	—	—	—
Total at end of period	**13,182,652**	**4.62**	**December 2018**	**13,538,008**	**4.62**	**December 2018**
Exercisable options at end of period	12,054,403	4.67	December 2018	12,409,759	4.68	August 2018

1 The average strike price is only of limited information value on account of the non-inclusion of completed capital increases and stock consolidations (final measure in 2012: stock consolidation at a ratio of 10:1 and subsequent capital increase at a ratio of 1:2 at a price of €1.943) in line with the conditions for granting the stock options.

The fair value of the options granted is recorded as an expense pro rata temporis over the vesting period on the basis of the expected number of options transferred at the end of the vesting period.

As in the previous year, no new performance shares were granted in 2015. This means that, as in the previous year, no performance shares were outstanding at the reporting date.

The forfeited instruments, the prorated expenses for the granted instruments and the income from the valuation of granted instruments resulted in a net gain of €2 million for stock options at HVB Group in 2015 (2014: net expense of €1 million). These expenses are recognised under payroll costs.

The provision set up to cover granted, not yet allocated and non-forfeited stock options at HVB Group totalled €0 million at year-end 2015 (2014: €2 million).

Notes to the Income Statement (Continued)

2012 Share Plan for Group Talents and Mission Critical Players

The parent company, UniCredit S.p.A., set up a Share Plan for Group Talents and Mission Critical Players in 2012 for selected employees with high potential and outstanding performance who generate sustainable growth for the corporate group. The beneficiaries were entitled to receive a previously defined number of UniCredit S.p.A. shares. The shares were granted in three equal tranches over a period of three years in 2013, 2014 and 2015, provided annually defined performance targets were met and the employees were in regular, indefinite employment at the respective grant date. Otherwise, the shares were normally forfeited. The shares may be transferred in full in certain exceptional cases, such as disability, retirement or employer leaving UniCredit.

Under the terms of this plan, UniCredit S.p.A. undertakes the commitments directly with the HVB employees concerned. Similarly, HVB reimburses the expenses to UniCredit S.p.A. on the basis of the fair value at the grant date. The fair value for the shares is determined on the basis of the share price on the grant date, adjusted for a discount for expected dividend payments up to the transfer date, provided the criteria are met.

Information regarding the 2012 Share Plan for Group Talents and Mission Critical Players

	2012
Total (shares)	1,176,064
Market price of UniCredit share on grant date (€)	4.0100
Conditional grant date	27/3/2012
Exercise date should criteria be met (start of exercise period)	1/3 in each case by the end of July 2013, 2014 and 2015
Fair value per share on grant date (€)	4.0100

Analysis of outstanding shares

	2015	2014
	TOTAL (SHARES)	TOTAL (SHARES)
Outstanding at start of period	**364,501**	**759,840**
Additions		
Newly granted shares	—	—
Releases		
Forfeited shares	10,530	30,935
Transferred shares	353,971	364,404
Expired shares	—	—
Total at end of period	**—**	**364,501**

The fair value at the grant date is recorded as an expense for such shares pro rata temporis over the period of the respective tranche.

As in the previous year, there were no prorated expenses arising from the granted shares or income from forfeited shares in the reporting period.

The provision set up for this share plan totalled €1 million at year-end 2015 (2014: €1 million) as no utilisation has taken place yet.

Employee share ownership plan

An employee share ownership plan ("Let's Share") has been set up enabling UniCredit employees to purchase UniCredit shares at discounted prices.

Between January 2015 and December 2015, employees participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). However, the plan offers the following advantage compared with buying the shares directly on the market:

Participating employees first receive the right to obtain free shares with a value of one-third of the amount they have invested under the plan. At the end of a one-year vesting period in January 2016 (or July 2016 in the event of participation from July 2015), the participants receive regular UniCredit shares in exchange for their rights, over which they have an immediate right of disposal. The rights to the free shares generally expire when employees sell the investment shares or their employment with a UniCredit company is terminated before the vesting period ends.

Thus, employees can enjoy an advantage of around 33% of the investment made as a result of the granting of free shares. Added to this is a tax break that exists in Germany for such employee share ownership plans.

UniCredit S.p.A. also undertakes the commitments to the employees under the employee share ownership plan. The Bank reimburses the expenses actually accruing to UniCredit S.p.A. when the free shares are transferred. The expense corresponds to the fair value of the free shares at the grant date. The fair value of the outstanding free shares is determined on the basis of the share price at the date when the employees bought the investment shares, taking into account a discount for expected dividend payments over the vesting period.

It is intended to operate the plan on an annual basis. Similar programmes had already been set up in previous years. The employee share ownership plan is of minor significance for the consolidated financial statements of HVB Group overall.

40 Net write-downs of loans and provisions for guarantees and commitments

(€ millions)

	2015	2014
Additions	(1,090)	(1,198)
Allowances for losses on loans and receivables	(992)	(1,010)
Allowances for losses on guarantees and indemnities	(98)	(188)
Releases	920	996
Allowances for losses on loans and receivables	786	825
Allowances for losses on guarantees and indemnities	134	171
Recoveries from write-offs of loans and receivables	58	51
Gains/(losses) on the disposal of impaired loans and receivables	(1)	—
Total	**(113)**	**(151)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €43 million in the year under review (equivalent period last year: €16 million). The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €106 million (equivalent period last year: net expense of €118 million).

Net write-downs of loans and provisions for guarantees and commitments to related parties

The following table shows the net write-downs of loans and provisions for guarantees and commitments attributable to related parties: (€ millions)

	2015	2014
Non-consolidated affiliated companies	—	—
of which:		
UniCredit S.p.A.	—	—
Sister companies	—	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	1	—
Total	**1**	**—**

41 Provisions for risks and charges

In 2015, €194 million were transferred to provisions for risks and charges which are primarily provisions for legal risks. The legal risks of HVB Group are described in detail in the section entitled “Operational risk” in the Risk Report of the Management’s Discussion and Analysis.

Net income of €25 million from net reversals related to derivative transactions was posted last year.

Notes to the Income Statement (Continued)

42 Restructuring costs

In the reporting period, further investments were made in the future of HVB Group resulting in net restructuring costs of €112 million. This total includes expenses for the creation of restructuring provisions relating to measures serving to boost efficiency and earnings in the 2016–2018 Strategic Plan (see "Strategic Plan links growth of the business segments to cost-cutting programme in the back office" in the section of Management's Discussion and Analysis entitled "Corporate structure"). These provisions essentially contain net additions for severance payments. Restructuring costs were partially offset in the reporting period by income from the reversal of restructuring provisions that were created in 2013 to modernise our retail banking operations but were no longer needed. In 2014, net income of €18 million from net reversals was recorded for restructuring provisions.

43 Net income from investments

(€ millions)

	2015	2014
Available-for-sale financial assets	45	141
Shares in affiliated companies	5	(8)
Companies accounted for using the equity method	(10)	(9)
Held-to-maturity investments	—	4
Land and buildings	—	—
Investment properties[1]	51	17
Other	8	3
Total	**99**	**148**

1 gains on disposal, impairments and write-ups

Net income from investments breaks down as follows:

(€ millions)

	2015	2014
Gains on the disposal of	89	170
available-for-sale financial assets	51	155
shares in affiliated companies	5	(8)
companies accounted for using the equity method	(10)	—
held-to-maturity investments	—	4
land and buildings	—	—
investment properties	35	16
other	8	3
Write-downs, value adjustments and write-ups on	10	(22)
available-for-sale financial assets	(6)	(14)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	(9)
held-to-maturity investments	—	—
investment properties	16	1
Total	**99**	**148**

The gains on disposal of €89 million in the reporting period include a gain of €51 million from AfS financial assets stemming mostly from the sale of our shareholding in Wüstenrot & Württembergische AG. Furthermore, gains of €35 million were recognised on the sale of investment property.

In 2014, the gains on disposal included €155 million from AfS financial assets stemming essentially from the sale of private equity funds. Furthermore, gains of €16 million were recognised on the sale of investment properties.

44 Income tax for the period

(€ millions)

	2015	2014
Current taxes	(141)	(144)
Deferred taxes	115	(154)
Total	**(26)**	**(298)**

The current tax expense for 2015 includes tax income of €70 million for previous years (2014: €30 million).

The deferred tax income in the reporting period stems from income totalling €94 million arising from value adjustments on deferred tax assets on tax losses carried forward and temporary differences together with income totalling €21 million arising from the origination and reversal of temporary differences and the origination and utilisation of tax losses. The deferred tax expense in the previous year stemmed from an expense arising from the origination and reversal of temporary differences and the origination and utilisation of tax losses.

The differences between computed and recognised income tax are shown in the following reconciliation:

(€ millions)

	2015	2014
Profit before tax	776	1,083
Applicable tax rate	31.4%	31.4%
Computed income taxes	(244)	(340)
Tax effects		
arising from previous years and changes in tax rates	173	47
arising from foreign income	16	12
arising from non-taxable income	45	55
arising from different tax laws	(21)	24
arising from non-deductible expenses	(65)	(79)
arising from value adjustments and the non-recognition of deferred taxes	69	(17)
arising from other differences	1	—
Recognised income taxes	**(26)**	**(298)**

As in 2014, an applicable tax rate of 31.4% has been assumed in the tax reconciliation. This comprises the current rate of corporate income tax in Germany of 15.0%, the solidarity surcharge of 5.5% and an average trade tax rate of 15.6%. This reflects the fact that the consolidated profit is dominated by profits generated in Germany, meaning that it is subject to German corporate income tax and trade tax.

The effects arising from tax on foreign income are a result of different tax rates applicable in other countries.

The item tax effects from different tax law comprises the municipal trade tax modifications applicable to domestic companies and other local peculiarities.

Notes to the Income Statement (Continued)

The deferred tax assets and liabilities are broken down as follows:

(€ millions)

	2015	2014
Deferred tax assets		
Financial assets/liabilities held for trading	244	350
Investments	8	30
Property, plant and equipment/intangible assets	108	117
Provisions	633	694
Other assets/other liabilities/hedging derivatives	579	725
Loans and receivables with banks and customers,		
including provisions for losses on loans and receivables	150	169
Losses carried forward/tax credits	376	334
Other	1	1
Total deferred tax assets	**2,099**	**2,420**
Effect of offsetting	(815)	(1,201)
Recognised deferred tax assets	**1,284**	**1,219**
Deferred tax liabilities		
Loans and receivables with banks and customers,		
including provisions for losses on loans and receivables	59	69
Financial assets/liabilities held for trading	27	176
Investments	99	167
Property, plant and equipment/intangible assets	69	34
Other assets/other liabilities/hedging derivatives	571	738
Deposits from banks/customers	3	14
Non-current assets or disposal groups held for sale	—	—
Other	86	92
Total deferred tax liabilities	**914**	**1,290**
Effect of offsetting	(815)	(1,201)
Recognised deferred tax liabilities	**99**	**89**

Deferred taxes are normally measured using the local tax rates of the respective tax jurisdiction. German corporations use the uniform corporate income tax rate that is not dependent on any dividend distribution of 15.8%, including the solidarity surcharge, and the municipal trade tax rate dependent on the applicable municipal trade tax multiplier. As last year, this resulted in an overall valuation rate for deferred taxes of 31.4% for HVB in Germany. The applicable local tax rates are applied analogously for other domestic and foreign units. Changes in tax rates have been taken into account, provided they had already been enacted or substantially enacted by the end of the reporting period.

No deferred tax liabilities were debited to the AfS reserve of HVB Group (2014: deferred tax liabilities of €2 million) and deferred tax liabilities of €13 million (2014: €12 million) were offset against the hedge reserve. The deferred taxes are mainly included in the items “Investments” and “Other assets/other liabilities/hedging derivatives” mentioned above. Deferred tax assets of €519 million (2014: €571 million) were recognised outside profit or loss in connection with the accounting for pension commitments in accordance with IAS 19. In each case, the deferred tax items offset directly against reserves or other comprehensive income are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €3,025 million (2014: €3,418 million), most of which do not expire, and deductible temporary differences of €1,623 million (2014: €1,540 million).

The deferred tax assets were calculated using plans of the individual business segments, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon remained unchanged at five years. Measurement was carried out taking into account possible restrictions of local regulations regarding time and the so-called minimum taxation rule for domestic tax losses carried forward. Estimation uncertainties are inherent in the assumptions used in any strategic plan. Where changes are made to the Strategic Plan, this may have an impact on the valuation of the volume of deferred tax assets already capitalised or to be capitalised.

45 Income statement of discontinued operations

The income and expenses of discontinued operations disclosed in 2014 relate to DAB, which was sold in 2014 together with its direktanlage.at AG subsidiary. No amounts are shown for 2015 as there were no discontinued operations in the reporting period.

Income/Expenses	2015 € millions	2014 € millions	CHANGE € millions	 in %
Interest income	—	58	(58)	(100.0)
Interest expense	—	(12)	+ 12	(100.0)
Net interest	—	46	(46)	(100.0)
Dividends and other income from equity investments	—	—	—	—
Net fees and commissions	—	78	(78)	(100.0)
Net trading income	—	1	(1)	(100.0)
Net other expenses/income	—	(1)	+ 1	(100.0)
Payroll costs	—	(38)	+ 38	(100.0)
Other administrative expenses	—	(54)	+ 54	(100.0)
Amortisation, depreciation and impairment losses on intangible and tangible assets	—	(11)	+ 11	(100.0)
Operating costs	—	(103)	+ 103	(100.0)
Net write-downs of loans and provisions for guarantees and commitments	—	(1)	+ 1	(100.0)
Provisions for risks and charges	—	—	—	—
Restructuring costs	—	—	—	—
Net income from investments	—	165	(165)	(100.0)
PROFIT BEFORE TAX FROM DISCONTINUED OPERATIONS	**—**	**185**	**(185)**	**(100.0)**
Income tax for the period from discontinued operations	—	(12)	+ 12	(100.0)
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**—**	**173**	**(173)**	**(100.0)**
attributable to the shareholder of UniCredit Bank AG	—	167	(167)	(100.0)
attributable to minorities	—	6	(6)	(100.0)

46 Earnings per share

	2015	2014
Average number of shares	802,383,672	802,383,672
Continuing operations		
Consolidated profit from continuing operations attributable to the shareholder (€ millions)	743	774
Earnings per share (€)	0.93	0.96
Full HVB Group		
Consolidated profit of full HVB Group attributable to the shareholder (€ millions)	743	947
Earnings per share (€)	0.93	1.18

Notes to the Balance Sheet

47 Cash and cash balances

(€ millions)

	2015	2014
Cash on hand	530	492
Balances with central banks	10,913	4,681
Total	**11,443**	**5,173**

48 Financial assets held for trading

(€ millions)

	2015	2014
Balance-sheet assets	36,187	31,178
Fixed-income securities	10,360	9,829
Equity instruments	11,446	9,430
Other financial assets held for trading	14,381	11,919
Positive fair value from derivative financial instruments	61,613	80,660
Total	**97,800**	**111,838**

The financial assets held for trading include €275 million (31 December 2014: €259 million) in subordinated assets.

Financial assets held for trading of related parties
The following table shows the breakdown of financial assets held for trading involving related parties:

(€ millions)

	2015	2014
Non-consolidated affiliated companies	16,359	19,579
of which:		
UniCredit S.p.A.	10,494	12,660
Sister companies[1]	5,865	6,919
Joint ventures	4	22
Associated companies	655	403
Other participating interests	11	15
Total	**17,029**	**20,019**

1 mostly derivative transactions involving UniCredit Bank Austria AG

49 Financial assets at fair value through profit or loss

(€ millions)

	2015	2014
Fixed-income securities	32,660	29,935
Equity instruments	—	—
Investment certificates	—	—
Promissory notes	1,163	1,270
Other financial assets at fair value through profit or loss	—	—
Total	**33,823**	**31,205**

76% (31 December 2014: 79%) of the promissory notes was issued by the federal states and regional authorities in the Federal Republic of Germany. The portfolio also includes two promissory notes issued by the Republic of Austria.

On account of the prime ratings of the promissory notes, the fair value fluctuations contain only minor effects from changes in credit ratings.

The financial assets at fair value through profit or loss (fair value option) include €6 million (31 December 2014: €324 million) in subordinated assets.

50 Available-for-sale financial assets

(€ millions)

	2015	2014
Fixed-income securities	1,048	1,071
Equity instruments	95	113
Other available-for-sale financial assets	45	42
Impaired assets	166	343
Total	**1,354**	**1,569**

Available-for-sale financial assets at 31 December 2015 included €214 million (31 December 2014: €266 million) valued at cost. Within this total, equity instruments with a carrying amount of €4 million (31 December 2014: €126 million) were sold during the reporting period, yielding a gain of €2 million (31 December 2014: €128 million).

Available-for-sale financial assets at 31 December 2015 contain a total of €166 million (31 December 2014: €343 million) in impaired assets. Impairments of €7 million (31 December 2014: €15 million) were taken to the income statement during the period under review.

None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets include €165 million (31 December 2014: €200 million) in subordinated assets at 31 December 2015.

51 Shares in associated companies accounted for using the equity method and joint ventures accounted for using the equity method

(€ millions)

	2015	2014
Associated companies accounted for using the equity method	56	77
of which: goodwill	11	29
Joint ventures accounted for using the equity method	—	—
Total	**56**	**77**

Two joint ventures and seven associated companies were not accounted for in the consolidated financial statements using the equity method for materiality reasons.

Notes to the Balance Sheet (Continued)

Change in portfolio of shares in associated companies accounted for using the equity method (€ millions)

	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January 2014	**71**
Additions	15
Purchases[1]	4
Write-ups	—
Changes from currency translation	5
Other additions[2]	6
Disposals	(9)
Sales	—
Impairments	(9)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[2]	—
Carrying amounts at 31 December 2014	**77**
Carrying amounts at 1 January 2015	**77**
Additions	17
Purchases[1]	1
Write-ups	—
Changes from currency translation	5
Other additions[2]	11
Disposals	(38)
Sales	(35)
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[2]	(3)
Carrying amounts at 31 December 2015	**56**

1 also including capital increases
2 also including changes in the group of companies included in consolidation

None of the companies included in the consolidated financial statements using the equity method is individually significant for the consolidated financial statements of HVB Group. The following table shows in aggregate form the main items in the income statements of the companies accounted for using the equity method: (€ millions)

	2015	2014
Net interest	(8)	(9)
Net other expenses/income	137	117
Operating costs	(85)	(83)
Profit before tax	**44**	**25**
Income tax	(6)	(5)
Consolidated profit/loss from continuing operations	**38**	**20**
Consolidated profit/loss from discontinued operations	**—**	**—**
Other comprehensive income	**—**	**—**
Total comprehensive income	**38**	**20**

There were no changes in volume arising from other comprehensive income and other equity items at companies accounted for using the equity method. There was no prorated loss during the reporting period or 2014 from companies accounted for using the equity method. Furthermore, there were no prorated cumulative losses in the reporting period or 2014 from companies accounted for using the equity method.

There are no material commitments arising from contingent liabilities of associated companies.

52 Held-to-maturity investments

(€ millions)

	2015	2014
Fixed-income securities	63	66
Impaired assets	—	—
Total	**63**	**66**

The held-to-maturity investments at 31 December 2015 include no subordinated assets, as was also the case at 31 December 2014.

As in 2014, the held-to-maturity investments at 31 December 2015 included no impaired assets.

Development of held-to-maturity investments

(€ millions)

	2015	2014
Balance at 1 January	**66**	**217**
Additions		
Purchases	—	—
Write-ups	—	—
Other additions	8	46
Disposals		
Sales	—	—
Redemptions at maturity	(11)	(29)
Write-downs	—	—
Other disposals	—	(168)
Balance at 31 December	**63**	**66**

53 Loans and receivables with banks

(€ millions)

	2015	2014
Current accounts	1,355	1,345
Cash collateral and pledged credit balances	9,282	10,680
Reverse repos	14,474	7,155
Reclassified securities	523	1,255
Other loans to banks	7,198	12,219
Total	**32,832**	**32,654**

Notes to the Balance Sheet (Continued)

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

The other loans to banks consist mostly of term deposits and bonds.

The loans and receivables with banks include €5 million (31 December 2014: €24 million) in subordinated assets at 31 December 2015.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with banks involving related parties:

(€ millions)

	2015	2014
Non-consolidated affiliated companies	3,818	6,964
of which:		
UniCredit S.p.A.	1,970	4,567
Sister companies[1]	1,848	2,397
Joint ventures	260	165
Associated companies	86	110
Other participating interests	50	27
Total	**4,214**	**7,266**

1 mainly UniCredit Bank Austria AG

The figures stated for loans and receivables with banks are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

(€ millions)

	2015	2014
Properly serviced loans and receivables – carrying amount	**32,815**	**32,437**
Carrying amount before allowances	32,863	32,463
Portfolio allowances	48	26
Properly serviced loans and receivables past due – carrying amount	**2**	**170**
Carrying amount before allowances	2	170
Portfolio allowances	—	—
Non-performing loans and receivables (rating classes 8–, 9 and 10) – carrying amount	**15**	**47**
Carrying amount before allowances	72	124
Specific allowances	57	77

Properly serviced loans and receivables with banks and value of collateral, broken down by period past due (€ millions)

	2015	2014
Properly serviced loans and receivables past due – carrying amount		
1–30 days	2	170
31–60 days	—	—
61–90 days	—	—
Value of collateral		
1–30 days	—	112
31–60 days	—	—
61–90 days	—	—

Loans and receivables with banks and value of collateral, broken down by rating class (€ millions)

	2015	2014
Loans and receivables		
Not rated	704	534
Rating class 1–4	30,754	30,062
Rating class 5–8	1,359	2,011
Rating class 9–10	15	47
Collateral		
Not rated	63	7
Rating class 1–4	1,096	512
Rating class 5–8	99	169
Rating class 9–10	6	36

54 Loans and receivables with customers

(€ millions)

	2015	2014
Current accounts	7,666	7,737
Cash collateral and pledged cash balances	2,498	2,832
Reverse repos	313	708
Mortgage loans	41,720	40,663
Finance leases	2,120	2,057
Reclassified securities	1,658	2,128
Non-performing loans and receivables	3,199	3,839
Other loans and receivables	54,314	49,672
Total	**113,488**	**109,636**

Notes to the Balance Sheet (Continued)

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Other loans and receivables largely comprise miscellaneous other loans, installment loans, term deposits and refinanced special credit facilities.

Loans and receivables with customers include an amount of €2,407 million (31 December 2014: €2,171 million) funded under the fully consolidated Arabella conduit programme. This essentially involves buying short-term accounts payable and medium-term receivables under lease agreements from customers and funding them by issuing commercial paper on the capital market. The securitised loans and receivables essentially reflect loans and receivables of European borrowers, with a majority of the loans and receivables relating to German borrowers.

The loans and receivables with customers include €503 million (31 December 2014: €650 million) in subordinated assets at 31 December 2015.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with customers involving related parties: (€ millions)

	2015	2014
Non-consolidated affiliated companies	17	97
of which:		
Sister companies	—	41
Subsidiaries	17	56
Joint ventures	29	—
Associated companies	57	39
Other participating interests	448	377
Total	**551**	**513**

The figures stated for loans and receivables with customers are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows: (€ millions)

	2015	2014
Properly serviced loans and receivables – carrying amount	**109,439**	**104,509**
Carrying amount before allowances	109,823	104,847
Portfolio allowances	384	338
Properly serviced loans and receivables past due – carrying amount	**850**	**1,288**
Carrying amount before allowances	854	1,292
Portfolio allowances	4	4
Non-performing loans and receivables (rating classes 8–, 9 and 10) – carrying amount	**3,199**	**3,839**
Carrying amount before allowances	5,394	6,253
Specific allowances	2,195	2,414

Properly serviced loans and receivables with customers past due and the related value of collateral, broken down by period past due (€ millions)

	2015	2014
Properly serviced loans and receivables past due – carrying amount		
1–30 days	711	1,178
31–60 days	112	83
61–90 days	27	27
Value of collateral		
1–30 days	417	782
31–60 days	85	72
61–90 days	25	23

Loans and receivables, and related collateral, broken down by rating class (€ millions)

	2015	2014
Loans and receivables		
Not rated	10,588	8,138
Rating class 1–4	67,438	63,531
Rating class 5–8	32,263	34,163
Rating class 9–10	3,199	3,804
Collateral		
Not rated	1,713	1,646
Rating class 1–4	33,981	31,545
Rating class 5–8	19,041	21,853
Rating class 9–10	1,418	1,663

Amounts receivable from customers under lease agreements (receivables under finance leases)

The amounts receivable from customers under finance lease agreements are described in more detail in Note 76.

55 Forbearance

According to the definition of the European Banking Authority (EBA), forbearance exists when the lender grants concessions to a borrower in financial difficulties regarding the terms and conditions of the loan that it would not have been prepared to grant under other circumstances. In order to reduce the risk for the Bank, various strategies may be employed to ease the burden on borrowers that are capable of being restructured and are worth restructuring. Possible measures range from deferrals and temporary moratoriums, longer periods allowed for repayment, reduced interest rates and rescheduling, and even debt forgiveness. It should be noted, however, that not every modification of a lending agreement is due to financial difficulties on the part of the borrower and represents forbearance.

Forborne exposures may be classified as performing or non-performing under the EBA definition. The non-performing portfolio encompasses exposures for which the counterparty is listed in a default or impaired portfolio and exposures that do not yet satisfy the EBA's strict criteria for returning to the performing portfolio. The following table shows the breakdown of the forborne exposure portfolio at the reporting date:

(€ millions)

	31/12/2015			31/12/2014		
	CARRYING AMOUNT BEFORE ALLOWANCES	ALLOWANCES	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	ALLOWANCES	CARRYING AMOUNT
Performing loans	1,515	(26)	1,489	1,731	(37)	1,694
Non-performing loans	3,577	(1,319)	2,258	4,441	(1,605)	2,836
Total	**5,092**	**(1,345)**	**3,747**	**6,172**	**(1,642)**	**4,530**

Notes to the Balance Sheet (Continued)

Of the total forborne exposures, €3,659 million are carried under loans and receivables with customers (2014: €4,411 million) and €88 million (2014: €119 million) under loans and receivables with banks. As in the previous year, no securities with forbearance measures were held at the reporting date.

If allowances have not already been set up for forborne exposures, the loans involved are exposed to increased default risk as they have already become conspicuous. There is a risk that contractual servicing will fail despite the modification of the terms. Such exposures are closely tracked by the restructuring units or subject to strict monitoring by the back-office units. The accounting and valuation policies applicable to the creation of allowances for forborne exposures are explained in Note 16, "Impairment of financial assets".

56 Allowances for losses on loans and receivables with customers and banks

Analysis of loans and receivables:

(€ millions)

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2014	**2,943**	**430**	**3,373**
Changes affecting income			
Gross additions[1]	969	41	1,010
Releases	(725)	(100)	(825)
Changes not affecting income			
Changes due to make-up of group of consolidated companies			
and reclassifications of disposal groups held for sale	(10)	—	(10)
Use of existing loan-loss allowances	(665)	—	(665)
Effects of currency translation and other changes not affecting income	(21)	(3)	(24)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2014	**2,491**	**368**	**2,859**
Balance at 1 January 2015	**2,491**	**368**	**2,859**
Changes affecting income			
Gross additions[1]	897	95	992
Releases	(759)	(27)	(786)
Changes not affecting income			
Changes due to make-up of group of consolidated companies			
and reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(413)	—	(413)
Effects of currency translation and other changes not affecting income	36	—	36
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2015	**2,252**	**436**	**2,688**

1 the additions include the losses on the disposal of impaired loans and receivables

57 Hedging derivatives

(€ millions)

	2015	2014
Micro fair value hedge	—	—
Fair value hedge portfolio[1]	450	753
Total	**450**	**753**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

58 Property, plant and equipment

(€ millions)

	2015	2014
Land and buildings	930	940
Plant and office equipment	776	444
Other property, plant and equipment	1,524	1,565
Total[1]	**3,230**	**2,949**

1 including leased assets of €817 million (31 December 2014: €634 million). More information about leases is contained in Note 76.

Other property, plant and equipment mainly contains the BARD Offshore 1 wind farm which belongs to the Ocean Breeze Energy GmbH & Co. KG subsidiary.

Costs of €27 million (2014: €16 million) accrued for the elimination of defects and were capitalised during the reporting period. The measures that have been implemented served to increase the economic benefit of the wind farm, meaning that the recognition requirements defined in IAS 16.10 in conjunction with IAS 16.7 are satisfied.

This item also includes the grants of €53 million (31 December 2014: €53 million) provided by the European Union that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the initial cost of the other property, plant and equipment on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Notes to the Balance Sheet (Continued)

Development of property, plant and equipment: (€ millions)

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2014	**2,160**	**1,184**	**3,344**	**1,655**	**4,999**
Write-downs and write-ups from previous years	(1,248)	(802)	(2,050)	(36)	(2,086)
Carrying amounts at 1 January 2014	**912**	**382**	**1,294**	**1,619**	**2,913**
Additions					
Acquisition/production costs	72	182	254	12	266
Write-ups	4	1	5	—	5
Changes from currency translation	—	—	—	—	—
Other additions[2]	1	9	10	—	10
Disposals					
Sales	(6)	(31)	(37)	—	(37)
Amortisation and write-downs	(34)	(78)	(112)	(66)	(178)
Impairments	(5)	(4)	(9)	—	(9)
Changes from currency translation	—	—	—	—	—
Non-current assets or disposal groups held for sale	—	—	—	—	—
Other disposals[2]	(4)	(17)	(21)	—	(21)
Carrying amounts at 31 December 2014	**940**	**444**	**1,384**	**1,565**	**2,949**
Write-downs and write-ups from previous years plus year under review	1,240	750	1,990	102	2,092
Acquisition costs at 31 December 2014	**2,180**	**1,194**	**3,374**	**1,667**	**5,041**
Acquisition costs at 1 January 2015	**2,180**	**1,194**	**3,374**	**1,667**	**5,041**
Write-downs and write-ups from previous years	(1,240)	(750)	(1,990)	(102)	(2,092)
Carrying amounts at 1 January 2015	**940**	**444**	**1,384**	**1,565**	**2,949**
Additions					
Acquisition/production costs	84	225	309	27	336
Write-ups	12	4	16	—	16
Changes from currency translation	—	25	25	—	25
Other additions[2]	1	220	221	—	221
Disposals					
Sales	(68)	(47)	(115)	—	(115)
Amortisation and write-downs	(30)	(89)	(119)	(68)	(187)
Impairments	(4)	(4)	(8)	—	(8)
Changes from currency translation	—	—	—	—	—
Non-current assets or disposal groups held for sale	—	(1)	(1)	—	(1)
Other disposals[2]	(5)	(1)	(6)	—	(6)
Carrying amounts at 31 December 2015	**930**	**776**	**1,706**	**1,524**	**3,230**
Write-downs and write-ups from previous years plus year under review	1,186	737	1,923	174	2,097
Acquisition costs at 31 December 2015	**2,116**	**1,513**	**3,629**	**1,698**	**5,327**

1 including leased assets. More information about leases is contained in Note 76.
2 including changes in the group of companies included in consolidation

59 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €1,371 million (31 December 2014: €1,491 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. The fair values determined in this way are classified as Level 3 (please refer to Note 79 for the definition of the level hierarchy) due to the fact that each property is essentially unique and the fair value is determined using appraisals that reflect the special features of the real estate being valued. In the case of developed land, current market rents, operating costs and property yields are applied in the gross-rental method. Where necessary, property-specific considerations are also taken into account when determining the value. These property-specific factors include vacancy rates, deviations between current contractual rents and current market rents, the condition of the buildings' technical systems and so on. In the case of undeveloped land, figures for sales of nearby land that have been completed are normally taken as the basis; where these are not available, the standard land value is employed as a benchmark, with adjustments made for the individual location, size and layout of the land, among other factors.

The net carrying amount of the leased assets arising from finance leases included in investment properties amounted to €10 million (31 December 2014: €10 million) for land and buildings at the reporting date.

Development of investment properties: (€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2014	**2,311**
Write-downs and write-ups from previous years	(855)
Carrying amounts at 1 January 2014	**1,456**
Additions	
Acquisition/production costs	2
Write-ups	11
Changes from currency translation	3
Other additions[1]	5
Disposals	
Sales	(61)
Amortisation and write-downs	(34)
Impairments	(10)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(7)
Other disposals[1]	(72)
Carrying amounts at 31 December 2014	**1,293**
Write-downs and write-ups from previous years plus year under review	802
Acquisition costs at 31 December 2014	**2,095**

1 also including changes in the group of companies included in consolidation

Notes to the Balance Sheet (Continued)

Development of investment properties:

(€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2015	**2,095**
Write-downs and write-ups from previous years	(802)
Carrying amounts at 1 January 2015	**1,293**
Additions	
Acquisition/production costs	3
Write-ups	34
Changes from currency translation	4
Other additions[1]	3
Disposals	
Sales	(67)
Amortisation and write-downs	(33)
Impairments	(18)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(56)
Other disposals[1]	—
Carrying amounts at 31 December 2015	**1,163**
Write-downs and write-ups from previous years plus year under review	746
Acquisition costs at 31 December 2015	**1,909**

1 also including changes in the group of companies included in consolidation

60 Intangible assets

(€ millions)

	2015	2014
Goodwill	418	418
Other intangible assets	44	60
Internally generated intangible assets	26	39
Other intangible assets	18	21
Total	**462**	**478**

Development of intangible assets: (€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2014	**1,078**	**486**	**424**
Write-downs and write-ups from previous years	(660)	(436)	(374)
Carrying amounts at 1 January 2014	**418**	**50**	**50**
Additions			
Acquisition/production costs	—	9	15
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions	—	—	—
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(20)	(17)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	(27)
Carrying amounts at 31 December 2014	**418**	**39**	**21**
Write-downs and write-ups from previous years plus year under review	624	448	277
Acquisition costs at 31 December 2014	**1,042**	**487**	**298**
Acquisition costs at 1 January 2015	**1,042**	**487**	**298**
Write-downs and write-ups from previous years	(624)	(448)	(277)
Carrying amounts at 1 January 2015	**418**	**39**	**21**
Additions			
Acquisition/production costs	—	5	7
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions	—	—	—
Disposals			
Sales	—	(1)	—
Amortisation and write-downs	—	(12)	(9)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	(1)
Other disposals[1]	—	(5)	—
Carrying amounts at 31 December 2015	**418**	**26**	**18**
Write-downs and write-ups from previous years plus year under review	624	360	242
Acquisition costs at 31 December 2015	**1,042**	**386**	**260**

1 also including changes in the group of companies included in consolidation

HVB no longer generates any software internally. Software is provided to HVB by the UniCredit-wide service provider UBIS.

Notes to the Balance Sheet (Continued)

61 Non-current assets or disposal groups held for sale

(€ millions)

ASSETS	2015	2014
Loans and receivables with banks	3	—
Property, plant and equipment	25	26
Investment properties	57	6
Intangible assets	1	—
Tax assets	14	—
Other assets	4	—
Total	**104**	**32**

The investment properties designated as held for sale essentially relate to the disposal of non-strategic real estate. Also shown are assets relating to the planned sale of a subsidiary.

62 Other assets

Other assets include prepaid expenses of €87 million (31 December 2014: €90 million).

63 Own securitisation

The Bank has securitised its own loan receivables for the purpose of obtaining cheap funding on the capital market, generating securities for use as collateral in repurchase agreements and reducing risk-weighted assets.

This involves structuring the cash flows of the underlying loan portfolio, meaning that at least two hierarchical positions (tranches) are formed when dividing up the risks and cash flows. In the case of synthetic securitisation, the transfer of risk and the ensuing reduction in regulatory capital requirements are mainly achieved using hedges in the form of guarantees and credit derivatives. In the case of traditional securitisation (true sale), this is achieved by selling receivables to a special purpose entity which in turn issues securities.

In the case of the true sale transaction Geldilux TS 2013, the senior tranche was placed on the capital market while the junior tranche was retained by HVB.

In the case of the true sale transaction Rosenkavalier 2008 with a volume of lending of €3.1 billion, HVB retained all of the tranches issued by the special purpose entity. The securities generated in this way can, if required, be used as collateral for repurchase agreements with the European Central Bank (ECB). The underlying receivables continue to be recognised by HVB and the special purpose entities set up for this purpose are fully consolidated in accordance with IFRS 10. The risk-weighted assets have not been reduced.

Two new transactions were structured during the reporting period in line with the principle of the Rosenkavalier transaction. Geldilux 2015 with a volume of lending of €2 billion was approved for use as collateral with central banks in the second half of the year. The collateral is available to UniCredit Luxembourg. The Rosenkavalier 2015 UG transaction with a volume of lending of €2.5 billion is available for the HVB liquidity cushion with the ECB.

The last synthetic transaction of the securitisation transactions originally set up to reduce risk-weighted assets – EuroConnect Issuer SME 2007-1 – expired during the reporting period. Consequently, HVB does not have any synthetic transactions outstanding at present to reduce risk-weighted assets.

The Newstone Mortgage Securities No. 1 plc transaction was concluded with a view to obtaining funding. The underlying receivables continue to be recognised by HVB and the special purpose entity set up for this purpose is fully consolidated in accordance with IFRS 10. The volume of lending at 31 December 2015 amounted to €0.3 billion. The risk-weighted assets have not been reduced.

64 Deposits from banks

(€ millions)

	2015	2014
Deposits from central banks	**9,319**	**6,137**
Deposits from banks	**49,161**	**47,943**
Current accounts	2,665	2,524
Cash collateral and pledged credit balances	13,300	13,079
Repos	18,663	17,730
Term deposits	4,316	5,138
Other liabilities	10,217	9,472
Total	**58,480**	**54,080**

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Amounts owed to related parties

The following table shows the breakdown of deposits from banks involving related parties:

(€ millions)

	2015	2014
Non-consolidated affiliated companies	5,255	6,288
of which:		
UniCredit S.p.A.	1,761	2,148
Sister companies[1]	3,494	4,140
Joint ventures	28	7
Associated companies	112	144
Other participating interests	23	19
Total	**5,418**	**6,458**

1 the largest single item relates to UniCredit Bank Austria AG

65 Deposits from customers

(€ millions)

	2015	2014
Current accounts	67,850	56,335
Cash collateral and pledged credit balances	2,126	1,489
Savings deposits	13,792	14,639
Repos	4,599	7,774
Term deposits	13,679	15,142
Promissory notes	3,825	3,854
Other liabilities	1,819	1,441
Total	**107,690**	**100,674**

Notes to the Balance Sheet (Continued)

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative fair values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Amounts owed to related parties

The following table shows the breakdown of deposits from customers involving related parties: (€ millions)

	2015	2014
Non-consolidated affiliated companies	290	269
of which:		
Sister companies	271	254
Subsidiaries	19	15
Joint ventures	4	1
Associated companies	6	17
Other participating interests	375	299
Total	**675**	**586**

66 Debt securities in issue

(€ millions)

	2015	2014
Bonds	23,961	26,401
of which:		
Registered mortgage Pfandbriefs	5,731	6,562
Registered public-sector Pfandbriefs	2,811	3,093
Mortgage Pfandbriefs	8,430	8,938
Public-sector Pfandbriefs	1,437	1,989
Registered bonds	2,283	2,229
Other securities	2,041	1,848
Total	**26,002**	**28,249**

Debt securities in issue, payable to related parties

The following table shows the breakdown of debt securities in issue involving related parties: (€ millions)

	2015	2014
Non-consolidated affiliated companies	254	250
of which:		
UniCredit S.p.A.	—	—
Sister companies	254	250
Joint ventures	2	15
Associated companies	193	252
Other participating interests	—	—
Total	**449**	**517**

67 Financial liabilities held for trading

(€ millions)

	2015	2014
Negative fair values arising from derivative financial instruments	58,739	76,400
Other financial liabilities held for trading	18,409	11,570
Total	**77,148**	**87,970**

The negative fair values arising from derivative financial instruments are carried as financial liabilities held for trading purposes. Also included under other financial liabilities held for trading purposes are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities not held for trading purposes.

The cumulative valuation effects of the financial liabilities held for trading in the portfolio at 31 December 2015, which result from including the own credit spread, total €164 million (31 December 2014: €90 million). Valuation income of €74 million (31 December 2014: expense of €30 million) arising from own credit spread changes accrued for these holdings in the year under review.

68 Hedging derivatives

(€ millions)

	2015	2014
Micro fair value hedge	3	5
Fair value hedge portfolio[1]	1,046	744
Total	**1,049**	**749**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

69 Hedge adjustment of hedged items in the fair value hedge portfolio

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €2,030 million (31 December 2014: €2,430 million). The fair value of the netted fair value hedge portfolio derivatives represents an economic comparable amount. The hedge adjustments are recognised separately in the balance sheet (for hedged lending and deposit-taking activities) for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €57 million (31 December 2014: €66 million).

70 Liabilities of disposal groups held for sale

(€ millions)

LIABILITIES	2015	2014
Deposits from banks	—	—
Tax liabilities	—	—
Other liabilities	10	1
Provisions	21	—
Total	**31**	**1**

Notes to the Balance Sheet (Continued)

71 Other liabilities

This item totalling €2,572 million (31 December 2014: €2,534 million) essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

72 Provisions

(€ millions)

	2015	2014
Provisions for pensions and similar obligations	618	751
Allowances for losses on guarantees and commitments and irrevocable credit commitments	197	232
Restructuring provisions	213	267
Other provisions	1,204	1,059
Payroll provisions	318	263
Provisions related to tax disputes (without income taxes)	42	61
Provisions for rental guarantees and dismantling obligations	143	133
Other provisions	701	602
Total	**2,232**	**2,309**

The effects arising from changes in the discount rate and compounding led to an increase of €29 million (2014: €22 million) in provisions recognised in the income statement in the reporting period. The effect arising from changes in the discount rate used for pension provisions is recognised in other comprehensive income.

Provisions for pensions and similar obligations

HVB Group grants its employees post-employment benefits that are structured as defined benefit plans or defined contribution plans.

In the case of defined benefit plans, the Bank undertakes to pay a defined future pension. The financial resources required to do so in the future can be accrued within the company (internal financing) or by payment of specific amounts to external pension funds (external financing).

In the case of defined contribution plans, the Bank undertakes to pay defined contributions to external pension funds which will later make the pension payments. Apart from paying the periodic contributions, the company has de facto no further obligations.

Defined benefit plans

Characteristics of the plans

The provisions for pensions and similar obligations include the direct commitments to HVB Group employees under company pension plans. These defined benefit plans are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. Fund-linked plans with a guaranteed minimum rate of interest of 2.75% have been granted in Germany since 2003.

The obligations financed by Pensionskasse der HypoVereinsbank VVaG (HVB Pensionskasse) are included in the disclosures regarding pension obligations (the total includes the obligations of HVB Unterstützungskasse e.V. reinsured by HVB Pensionskasse). The standard HVB Group valuation parameters are used when calculating these obligations. Any plan surplus is subject to the rules governing the asset ceiling, as the assets belong to the members of HVB Pensionskasse.

HVB Group set up plan assets in the form of contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension obligations to legally independent trustees, including HVB Trust e.V., which manage the assets in line with the applicable trustee contracts.

There are no legal or regulatory minimum funding requirements in Germany.

HVB reorganised its company plans for pensioners (direct commitments) in 2009. HVB Trust Pensionsfonds AG (pension fund) was set up in this process. Both the pension obligations to pensioners who in October 2009 had already received pension benefits from the Bank and the assets required to cover these obligations were transferred to the pension fund. The pensioners' pension claims are not affected by the restructuring; HVB continues to guarantee the pension. The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

HVB Group is exposed to various risks in connection with its defined benefit plans. Potential pension risks exist with regard to both the benefit obligations (liabilities side) and the plan assets allocated to cover the beneficiaries' claims (assets side). The defined benefit obligations are exposed to actuarial risks such as interest rate risk, longevity risk, salary- and pension-adjustment risk and inflation risk. In the case of fund-linked pension obligations, there is the risk that it will prove impossible in the long run to generate the guaranteed interest rate of 2.75% from the funds allocated to the pension commitments, given persistently low interest rates. With regard to the capital investment, the assets are primarily exposed to market risk such as price risks in securities holdings or changes in the value of real estate investments.

The major pension risk is thus expressed as a deterioration in the funded status as a result of unfavourable developments of defined benefit obligations and/or plan assets, since the sponsoring companies are required to act to service the beneficiaries' claims in the event of any plan deficits. No unusual, company-specific or plan-specific risks or material risk concentrations that could affect the Group's pension plans are currently identifiable.

Reconciliations

The amounts arising from defined benefit plans for post-employment benefits recognised in the consolidated balance sheet can be derived as follows:

(€ millions)

	2015	2014
Present value of funded pension obligations	4,664	4,740
Fair value of plan assets	(4,079)	(4,022)
Funded status	**585**	**718**
Present value of unfunded pension obligations	33	33
Net liability (net asset) of defined benefit plans	**618**	**751**
Asset ceiling	—	—
Capitalised excess cover of plan assets	—	—
Recognised pension provisions	**618**	**751**

Notes to the Balance Sheet (Continued)

The following tables show the development of the present value of the total (funded and unfunded) pension obligations, the fair value of the plan assets and the net defined benefit liability (asset) from defined benefit plans resulting from the offsetting of these totals. The tables also show the changes in the effects of the asset ceiling during the reporting period and the reconciliations from the opening to the closing balance of the plan asset surplus capitalised as an asset and the recognised provisions for pensions and similar obligations:

(€ millions)

	PRESENT VALUE OF PENSION COMMITMENTS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2014	**3,785**	**(3,652)**	**133**	**—**	**13**	**146**
Service cost component						
Current service cost	56	—	56	—	—	56
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	140	(136)	4	—	—	4
Service costs and net interest						
of defined benefit plans recognised in	**196**	**(136)**	**60**	**—**	**—**	**60**
profit or loss for period						
Remeasurement component						
Gains/(losses) on plan assets excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	(48)	(48)	—	—	(48)
Actuarial gains/(losses) –						
demographic assumptions	(3)	—	(3)	—	—	(3)
Actuarial gains/(losses) –						
financial assumptions	939	—	939	—	—	939
Actuarial gains/(losses) –						
experience adjustments	(15)	—	(15)	—	—	(15)
Changes due to asset ceiling excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	—	—	—	—	—
Remeasurements component of defined						
benefit plans recognised in OCI	**921**	**(48)**	**873**	**—**	**—**	**873**
Other changes						
Excess cover of plan assets	—	—	—	—	(13)	(13)
Exchange differences	6	(8)	(2)	—	—	(2)
Contributions to the plan:						
Employer	—	(309)	(309)	—	—	(309)
Plan participants	6	(5)	1	—	—	1
Pension payments	(137)	136	(1)	—	—	(1)
Business combinations, disposals and other	(4)	—	(4)	—	—	(4)
Balance at 31 December 2014	**4,773**	**(4,022)**	**751**	**—**	**—**	**751**

(€ millions)

	PRESENT VALUE OF PENSION COMMITMENTS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2015	**4,773**	**(4,022)**	**751**	**—**	**—**	**751**
Service cost component						
Current service cost	74	—	74	—	—	74
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	112	(95)	17	—	—	17
Service costs and net interest						
of defined benefit plans recognised in	**186**	**(95)**	**91**	**—**	**—**	**91**
profit or loss for the period						
Remeasurement component						
Gains/(losses) on plan assets excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	(70)	(70)	—	—	(70)
Actuarial gains/(losses) –						
demographic assumptions	6	—	6	—	—	6
Actuarial gains/(losses) –						
financial assumptions	(73)	—	(73)	—	—	(73)
Actuarial gains/(losses) –						
experience adjustments	(25)	—	(25)	—	—	(25)
Changes due to asset ceiling excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	—	—	—	—	—
Remeasurements component of defined						
benefit plans recognised in OCI	**(92)**	**(70)**	**(162)**	**—**	**—**	**(162)**
Other changes						
Excess cover of plan assets	—	—	—	—	—	—
Exchange differences	6	(9)	(3)	—	—	(3)
Contributions to the plan:						
Employer	—	(56)	(56)	—	—	(56)
Plan participants	6	—	6	—	—	6
Pension payments	(139)	139	—	—	—	—
Business combinations, disposals and other	(43)	34	(9)	—	—	(9)
Balance at 31 December 2015	**4,697**	**(4,079)**	**618**	**—**	**—**	**618**

At the end of the reporting period, 33% (31 December 2014: 34%) of the present value of the defined benefit obligations of €4,697 million (31 December 2014: €4,773 million) was attributable to active employees, 22% (31 December 2014: 21%) to former employees with vested benefit entitlements and 45% (31 December 2014: 45%) to pensioners and surviving dependants.

Notes to the Balance Sheet (Continued)

Actuarial assumptions
The significant actuarial assumptions used to determine the present value of the defined benefit obligation are listed below. The summarised disclosure for several plans takes the form of weighted average factors:

(in %)

	2015	2014
Actuarial interest rate	2.35	2.35
Rate of increase in pension commitments	1.60	1.70
Rate of increase in future compensation and over career	2.50	3.00

The mortality rate underlying the actuarial calculation of the present value of the defined benefit obligation is based on the modified Heubeck 2005 G tables (generation tables) that allow for the probability of mortality to fall to 90% (31 December 2014: 90%) for women and 75% (31 December 2014: 75%) for men.

HVB Group similarly reduces the probability of disability based on these guidance tables to 80% (31 December 2014: 80%) for women and men equally. Since any changes in the actuarial assumptions regarding disability fundamentally only have a minor impact on the present value of the defined benefit obligation, HVB Group does not calculate any sensitivities for this valuation parameter.

In addition, the present value of the defined benefit obligation is influenced by assumptions regarding future inflation rates. Inflation effects are normally taken into account in the assumptions listed above.

Sensitivity analyses
The sensitivity analyses discussed below are intended to show how the present value of the defined benefit obligation would change given a change to an actuarial assumption in isolation with the other assumptions remaining unchanged compared with the original calculation. Possible correlation effects between the individual assumptions are not taken into account accordingly. The sensitivity analyses are based on the changes to the actuarial assumptions expected by HVB Group at the reporting date for the subsequent reporting period.

An increase or decrease in the significant actuarial assumptions in the amount of the percentage points shown in the table would have had the following impact on the present value of the defined benefit obligation at the reporting date:

Sensitivities at 31 December 2015:

	CHANGES OF THE ACTUARIAL ASSUMPTIONS	IMPACT ON THE PRESENT VALUE OF PENSION COMMITMENTS		
		PRESENT VALUE OF LIABILITY	ABSOLUTE CHANGES	RELATIVE CHANGES
		€ millions	€ millions	in %
	Basic value of the calculation of sensitivity	4,697		
Actuarial interest rate	Increase of 25 basis points	4,496	(201)	(4.3)
	Decrease of 25 basis points	4,912	215	4.6
Rate of increase in pension commitments	Increase of 25 basis points	4,843	146	3.1
	Decrease of 25 basis points	4,560	(137)	(2.9)
Rate of increase in future compensation/career trend	Increase of 25 basis points	4,706	9	0.2
	Decrease of 25 basis points	4,689	(8)	(0.2)

Sensitivities at 31 December 2014:

	CHANGES OF THE ACTUARIAL ASSUMPTIONS	IMPACT ON THE PRESENT VALUE OF PENSION COMMITMENTS		
		PRESENT VALUE OF LIABILITY	ABSOLUTE CHANGES	RELATIVE CHANGES
		€ millions	€ millions	in %
	Basic value of the calculation of sensitivity	4,773		
Actuarial interest rate	Increase of 25 basis points	4,564	(209)	(4.4)
	Decrease of 25 basis points	4,998	225	4.7
Rate of increase in pension commitments	Increase of 25 basis points	4,923	150	3.1
	Decrease of 25 basis points	4,629	(144)	(3.0)
Rate of increase in future compensation/career trend	Increase of 25 basis points	4,782	9	0.2
	Decrease of 25 basis points	4,764	(9)	(0.2)

The observable decline in mortality rates is associated with an increase in life expectancy depending on the individual age of each beneficiary. In order to determine the sensitivity of the mortality or longevity, the lifetime for all beneficiaries was increased by one year. The present value of the defined benefit obligation at 31 December 2015 would rise by €143 million (3.0%) to €4,840 million (or by €142 million (3.0%) at 31 December 2014 to €4,915 million) as a result of this change. HVB Group considers an increase in mortality or a decrease in life expectancy to be unlikely and has therefore not calculated a sensitivity for this case.

When determining the sensitivities of the defined benefit obligation for the significant actuarial assumptions, the same method has been applied (projected unit credit method) as has been used to calculate the pension provisions recognised in the consolidated balance sheet. Increases and decreases in the various valuation assumptions do not entail the same absolute amount in their impact when the defined benefit obligation is calculated, due mainly to the compound interest effect when determining the present value of the future benefit. If more than one of the assumptions are changed simultaneously, the combined effect does not necessarily correspond to the sum total of the individual effects. Furthermore, the sensitivities only reflect a change in the present value of the defined benefit obligation for the actual extent of the change in the assumptions (such as 0.25%). If the assumptions change to a different extent, this does not necessarily have a straight-line impact on the present value of the defined benefit obligation. Since the sensitivity analyses are based on the average duration of the expected pension obligation, and consequently the expected disbursement dates are not taken into account, they only result in indicative information or trends.

Asset liability management
The plan assets are managed by a trustee with a view to ensuring that the present and future pension obligations are settled by applying an adequate investment strategy, thus minimising the risk of the trustors or sponsoring companies having to provide additional capital.

Under the CTA, the capital investment decisions are taken by an institutionalised body, the Investment Committee, which defines the investment strategy and policies for the plan assets. The concept calls for the assets to be invested in line with the structure of the pension obligations in particular and an appropriate return to be generated taking into account the associated risks. In order to optimise the risk/return ratio, the Investment Committee sets strategic allocation ranges and investment limits for the asset classes in the plan assets, which can be exploited flexibly within the agreed risk budget. The bodies and processes required by law have been set up as appropriate for HVB Pensionskasse and the pension fund.

Notes to the Balance Sheet (Continued)

In order to allow for an integral view on plan assets and defined benefit obligations (asset liability management), the pension risks are monitored regularly with the aid of a specially developed risk model and included in the Bank's risk calculation. Since HVB Group employs various methods involving legally independent entities to implement the company pension plans, risk management concepts including stress tests and analysis of risk-taking capacity are also applied in specific instances.

Alongside the actuarial risks mentioned above, the risks associated with the defined benefit obligations relate primarily to financial risks in connection with the plan assets. The capital investment risk in the funding of the pension obligations encompasses notably potential liquidity, credit, concentration, market and real estate risks.

Liquidity risk can result from non-existent or limited marketability of the capital investments, which may cause losses to be realised when the assets are sold to settle payment obligations. HVB is not currently exposed to this risk as the expected incoming payments are sufficient to meet the payment obligations. In addition, an appropriate proportion of the capital investments is invested in assets classified as liquid (cash and cash equivalents/term deposits). Liquidity projections are prepared at regular intervals with a view to continue avoiding this risk.

Credit risk stems from anything from a deterioration in the solvency of individual debtors through to insolvency. This risk is mitigated by deliberately spreading the capital investments and complying with specific investment policies regarding the creditworthiness of issuers. The relevant ratings are monitored constantly.

Concentration risk arises from excessive investment in an individual asset class, individual industry, individual security or individual property. This risk is countered by means of broad diversification in line with investment policies, ongoing review of the capital investment policy and specific parameters for the asset managers. Among other things, targeted investment in mixed investment funds is used to reduce concentration risk by diversifying the composition of the fund assets.

Market risk has its roots in the risk of declining fair values caused by negative changes in market prices, equity prices and changes in interest rates. Here, too, compliance with the parameters specified for the composition and diversity of the capital investments is ensured and risk-limiting investment policies are defined for the asset managers.

Real estate risk exists with both directly held real estate and special-purpose real estate funds. It results from factors like possible unpaid rents, loss of property value, high maintenance costs and declining location attractiveness. To minimise these risks, the proportion that may be invested in real estate is constrained by a limit and the greatest possible diversification is targeted. In addition, no short-term rent contracts are concluded for directly owned real estate.

Disaggregation of plan assets

The following table shows a disaggregation of the plan assets used to fund the defined benefit obligations by asset class: (€ millions)

	2015	2014
Participating interests	43	30
Debt securities	146	156
Properties	171	112
Mixed investment funds	3,314	3,444
Property funds	215	100
Cash and cash equivalents/term deposits	49	49
Other assets	141	131
Total	**4,079**	**4,022**

Quoted market prices in an active market were observed for all fixed-income securities held directly and almost all the types of asset held in the mixed investment fund. As a general rule, the fixed-income securities have an investment grade rating.

In terms of amount, the investment in mixed investment funds represents the lion's share of the asset allocation for the plan assets. The deliberate investment in various asset classes and the general restriction to traditional investment instruments serve to ensure a risk-mitigating minimum diversification and also reflect a conservative underlying strategy. The high proportion of bonds with a long-term benchmark (such as government and corporate bonds, and Pfandbriefs) held in the fund implies low volatility with the intention of balancing the development in the value of the long-term pension commitments that follows general interest rates.

The following table shows a detailed breakdown of the mixed investment fund: **(in %)**

	2015	2014
Equities	7.5	10.1
German equities	1.3	2.1
European equities	4.5	6.8
Other equities	1.7	1.2
Government bonds	27.1	26.6
Pfandbriefs	13.3	12.6
Corporate bonds	24.9	21.0
German corporate bonds	5.0	2.8
European corporate bonds	13.8	15.4
Other corporate bonds	6.1	2.8
Fund certificates	2.8	12.0
Cash and cash equivalents/term deposits	24.4	17.7
Total	**100.0**	**100.0**

The plan assets comprised own financial instruments of the Group, property occupied by and other assets used by HVB Group companies at the reporting date: **(€ millions)**

	2015	2014
Participating interests	—	—
Debt securities	16	16
Properties	7	7
Mixed investment funds	318	337
Property funds	—	—
Cash and cash equivalents/term deposits	43	48
Other assets	—	—
Total	**384**	**408**

Notes to the Balance Sheet (Continued)

Future cash flows
There are financing agreements at HVB Group that contain measures to fund defined benefit plans. The minimum funding requirements included in the agreements may have an impact on future contribution payments. In the case of HVB Trust Pensionsfonds AG, HVB Group is liable for calls for additional capital should the assets fall below the minimum cover provision. For HVB Pensionskasse, the Bank is required to make an additional contribution if the permanent financing of the obligations is no longer ensured. No such requirement for calls for additional capital exists for the CTA.

HVB Group intends to make contributions of €17 million (2015 financial year: €16 million) to defined benefit plans in the 2016 financial year.

The weighted average duration of HVB Group's defined benefit obligations at the reporting date amounted to 18.1 years (31 December 2014: 18.2 years).

Multi-employer plans
HVB Group is a member of Versorgungskasse des Bankgewerbes e.V. (BVV), which also includes other financial institutions in Germany in its membership. BVV provides company pension benefits for eligible employees of the sponsoring companies. The BVV tariffs allow for fixed pension payments with profit participation. On account of the employer's statutory subsidiary liability applicable in Germany (Section 1 (1) 3 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG)), HVB Group classifies the BVV plan as a multi-employer defined benefit plan.

Since the available information is not sufficient to allow this plan to be accounted for as a defined benefit plan by allocating to the individual member companies the assets and the pension obligations relating to active and former employees, HVB Group accounts for the plan as if it were a defined contribution plan.

In the event of a plan deficit, the Group may be exposed to investment risk and actuarial risk. HVB Group does not currently expect that the statutory subsidiary liability will be used.

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 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.

HVB Group expects to book employee contributions of €18 million for this pension plan in the 2016 financial year (2015 financial year: €18 million).

Defined contribution plans
HVB Group companies pay fixed amounts for each period to independent pension organisations for the defined contribution pension commitments. The contributions for the defined contribution plans and Pensions-Sicherungs-Verein VVaG (PSVaG) recognised as current expense under payroll costs totalled €35 million during the reporting period (31 December 2014: €33 million).

The employer contributions to the statutory pension scheme and the alternative professional pension schemes, which qualify as defined contribution state plans, are similarly included in payroll costs. Such contributions amounted to €99 million in the reporting period (31 December 2014: €100 million).

Allowances for losses on financial guarantees and irrevocable credit commitments, restructuring provisions and other provisions (€ millions)

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES AND COMMITMENTS AND IRREVOCABLE CREDIT COMMITMENTS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
Balance at 1 January 2014	**204**	**400**	**1,219**
Changes in consolidated group	—	—	(5)
Changes arising from foreign currency translation	3	—	3
Transfers to provisions	193	14[1]	288
Reversals	(168)	(30)[1]	(197)
Reclassifications	—	(92)	36
Amounts used	—	(25)	(285)
Non-current assets or disposal groups held for sale	—	—	—
Other changes	—	—	—
Balance at 31 December 2014	**232**	**267**	**1,059**
Balance at 1 January 2015	**232**	**267**	**1,059**
Changes in consolidated group	—	—	—
Changes arising from foreign currency translation	1	—	11
Transfers to provisions	99	140[1]	398
Reversals	(135)	(34)[1]	(84)
Reclassifications	—	(111)	23
Amounts used	—	(49)	(203)
Non-current assets or disposal groups held for sale	—	—	—
Other changes	—	—	—
Balance at 31 December 2015	**197**	**213**	**1,204**

1 the transfers and reversals are included in the income statement under restructuring costs together with other restructuring costs accruing during the reporting period

Restructuring provisions

The allocations to restructuring provisions in 2015 essentially relate to the measures aimed at boosting efficiency and earnings defined in the 2016–2018 Strategic Plan. The reversals, reclassifications and amounts used in the reporting period mostly relate to provisions set up in 2013 in connection with restructuring programmes for the modernisation of the retail banking business and to a lesser extent also programmes for changes to the organisational structure in years before that.

Other provisions

The payroll provisions carried under other provisions encompass long-term obligations to employees such as service anniversary awards, early retirement or partial retirement. In addition, payroll provisions cover the parts of the bonus that are disbursed on a deferred basis, or transferred in cases where the bonus is granted in the form of shares, with the waiting period exceeding one year. The disbursement of these bonuses is additionally dependent upon the achievement of pre-defined targets. The bonus commitments for the 2011, 2012, 2013, 2014 and 2015 financial years to be disbursed as of 2016 are included here accordingly. The bonus provisions included here have been taken to the income statement in both the reporting period and the previous financial years. It is considered highly probable that the bonus will be disbursed. For details of the bonus plan, please refer to Note 39.

Notes to the Balance Sheet (Continued)

The other provisions of €701 million (31 December 2014: €602 million) include provisions of €579 million (31 December 2014: €428 million) for legal risks, litigation fees and damage payments.

The amount of the respective provisions reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

With the exception of the provisions for rental guarantees and pre-emptive rights, the other provisions are normally expected to be utilised during the following financial year.

73 Shareholders' equity

The shareholders' equity of HVB Group at 31 December 2015 consisted of the following:

Subscribed capital

At 31 December 2015, the subscribed capital of HVB totalled €2,407 million (31 December 2014: €2,407 million) and consisted of 802,383,672 no par shares of common bearer stock (31 December 2014: 802,383,672 no par shares).

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share. The shares are fully paid in.

Additional paid-in capital

The additional paid-in capital results from premiums generated on the issuance of shares; the total at 31 December 2015 amounted to €9,791 million (31 December 2014: €9,791 million).

Other reserves

The other reserves of €8,125 million (31 December 2014: €7,660 million) essentially comprise retained earnings. The year-on-year increase of €465 million essentially reflects transfers of €345 million from consolidated profit and adjustments of €110 million in pensions and similar obligations.

Change in valuation of financial instruments

The reserves arising from changes in valuation of financial instruments recognised in equity totalled €41 million at 31 December 2015 (31 December 2014: €81 million). This year-on-year decline of €40 million can be attributed to the €43 million decrease in the AfS reserve to €11 million resulting essentially from the sale of our shareholding in Wüstenrot & Württembergische AG. By contrast, the hedge reserve similarly included in the reserves arising from changes in valuation of financial instruments recognised in equity increased by a slight €3 million compared with year-end 2014 to €30 million.

74 Subordinated capital

The following table shows the breakdown of subordinated capital included in deposits from banks and customers and debt securities in issue:

(€ millions)

	2015	2014
Subordinated liabilities	637	669
Hybrid capital instruments	58	53
Total	**695**	**722**

In this context, subordinated liabilities and hybrid capital instruments have been classified as Tier 2 capital for banking supervisory purposes in accordance with the provisions set forth in Articles 62, para. 1a, 63 to 65, 66 para. 1a and 67 CRR. The hybrid capital instruments are allocated to Tier 2 capital in accordance with Articles 87 and 88 CRR in conjunction with Article 480 CRR.

The following table shows the breakdown of subordinated capital by balance sheet item: (€ millions)

	2015	2014
Deposits from customers	20	57
Deposits from banks	141	142
Debt securities in issue	534	523
Total	**695**	**722**

We have incurred interest expenses of €21 million (31 December 2014: €41 million) in connection with this subordinated capital. Subordinated capital includes proportionate interest of €5 million (31 December 2014: €9 million).

Subordinated liabilities
The borrower cannot be obliged to make early repayments in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated liabilities can only be repaid after the claims of all primary creditors have been settled.

There were subordinated liabilities of €395 million payable to related parties in the reporting period (31 December 2014: €392 million).

Hybrid capital instruments
Hybrid capital instruments may include, in part, issues placed by specially created subsidiaries in the form of capital contributions from silent partners.

Our hybrid capital instruments satisfy the requirements for classification as Tier 2 capital as defined in Article 63 CRR. At 31 December 2015, HVB Group had hybrid capital of €34 million (31 December 2014: €42 million) bolstering its capital base for banking supervisory purposes.

Notes to the Cash Flow Statement

75 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the year under review. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown correspond to the "Cash and cash balances" item in the balance sheet, comprising both cash on hand and deposits with central banks repayable on demand.

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interests in net income.

Gains of €12 million were generated on the disposal of shares in fully consolidated companies in the 2015 financial year, of which €12 million was in cash. The gains on disposal generated in cash relate almost exclusively to the sale of the Bank's participating interest in PlanetHome AG.

No net cash flow relating to discontinued operations accrued in 2015. In the previous year, there were outflows of €69 million for operating activities, €10 million for investing activities and €197 million for financing activities.

The following table shows the assets and liabilities of the fully consolidated companies sold: (€ millions)

	2015		2014	
	ACQUIRED	SOLD	ACQUIRED	SOLD
Assets				
Cash and cash balances	—	—	—	8
Financial assets held for trading	—	—	—	6
Financial assets at fair value through profit or loss	—	—	—	6
Available-for-sale financial assets	—	—	—	3,363
Shares in associated companies accounted for using the equity method and joint ventures accounted for using the equity method	—	—	—	—
Held-to-maturity investments	—	—	—	133
Loans and receivables with banks	—	7	—	1,460
Loans and receivables with customers	—	—	—	329
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Property, plant and equipment	—	1	—	8
Investment properties	—	—	—	—
Intangible assets	—	5	—	34
of which: goodwill	—	—	—	6
Tax assets	—	2	—	6
Non-current assets or disposal groups held for sale	—	—	—	23
Other assets	—	11	—	20
Liabilities				
Deposits from banks	—	—	—	48
Deposits from customers	—	—	—	4,983
Debt securities in issue	—	—	—	—
Financial liabilities held for trading	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Tax liabilities	—	1	—	16
Liabilities of disposal groups held for sale	—	—	—	—
Other liabilities	—	11	—	57
Provisions	—	3	—	8

There were no significant acquisitions of subsidiaries or associated companies in the 2014 and 2015 financial years.

Other Information

76 Information regarding lease operations

HVB Group as lessor

Operating leases

HVB Group acts as a lessor under operating leases. The relevant lease agreements notably encompass real estate (land and buildings) and movable assets such as plant and office equipment, aircraft, motor vehicles and industrial machinery in the reporting period. The lease agreements for real estate are based on customary market terms and contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have generally not been agreed. The lease agreements for movable assets have generally been concluded with lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the breakdown of the minimum lease payments to be received on non-cancellable operating leases: (€ millions)

	2015	2014
up to 1 year	123	102
from 1 year to 5 years	435	340
from 5 years and over	195	179
Total	**753**	**621**

Finance leases

HVB Group leases mobile assets as a lessor under finance leases. This notably includes plant and office equipment, aircraft, motor vehicles and industrial machinery. As a general rule, the lease agreements stipulate lease periods of between four and ten years and possibly a pre-emptive right in favour of the lessor; they do not contain any extension or price adjustment clauses.

The following table shows the reconciliation from the future minimum lease payments to the gross and net investment in the lease and to the present value of the future minimum lease payments at the reporting date. The amounts receivable from lease operations (finance leases) consist of the following: (€ millions)

	2015	2014
Future minimum lease payments	2,279	2,226
+ Unguaranteed residual value	—	—
= Gross investment	**2,279**	**2,226**
– Unrealised finance income	(132)	(143)
= Net investment	**2,147**	**2,083**
– Present value of unguaranteed residual value	—	—
= Present value of future minimum lease payments	**2,147**	**2,083**

The future minimum lease payments reflect the total lease payments to be made by the lessee under the lease agreement plus the guaranteed residual value.

The unguaranteed residual value is that portion of the residual value of the leased asset which is not guaranteed to be realised by the lessor.

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment). It corresponds to the return implicit in the lease between the reporting date and the end of the lease.

The present value of the minimum lease payments is calculated as the net investment in the lease less the present value of the unguaranteed residual value.

Other Information (Continued)

The following table shows the remaining maturity of the gross investment in the leases and the present value of the minimum lease payments:

(€ millions)

	GROSS INVESTMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2015	2014	2015	2014
up to 1 year	813	868	765	812
from 1 year to 5 years	1,324	1,247	1,248	1,167
from 5 years and over	142	111	134	104
Total	**2,279**	**2,226**	**2,147**	**2,083**

The cumulative write-downs on uncollectible outstanding minimum lease payments in amounts receivable from customers under finance leases amounted to €15 million at the end of the reporting period (31 December 2014: €7 million).

The amounts receivable under finance leases included in loans and receivables with customers are shown net of allowances for losses on loans and receivables in each case (see Note 54). These break down as follows:

(€ millions)

	2015	2014
Properly serviced loans and receivables – carrying amount	**2,110**	**2,050**
Carrying amount before allowances	2,117	2,057
Portfolio allowances	7	7
Properly serviced loans and receivables past due – carrying amount	**10**	**7**
Carrying amount before allowances	10	7
Portfolio allowances	—	—
Non-performing loans and receivables – carrying amount	**27**	**26**
Carrying amount before allowances	45	40
Specific allowances	18	14

Properly serviced loans and receivables past due and associated collateral, broken down by period past due

(€ millions)

	2015	2014
Properly serviced loans and receivables past due – carrying amount		
1–30 days	9	5
31–60 days	1	2
61–90 days	—	—
Value of collateral		
1–30 days	—	4
31–60 days	—	—
61–90 days	—	—

Loans and receivables, and collateral, broken down by rating class (€ millions)

	2015	2014
Loans and receivables		
Not rated	217	286
Rating class 1–4	1,519	1,255
Rating class 5–8	384	516
Rating class 9–10	27	26
Value of collateral		
Not rated	1	—
Rating class 1–4	8	448
Rating class 5–8	2	105
Rating class 9–10	—	9

The presentation of the collateral broken down by rating class does not include the leased assets of €1,386 million (31 December 2014: €1,146 million) leased to external third parties under finance leases belonging legally to UniCredit Leasing GmbH or its subsidiaries.

HVB Group as lessee

Operating leases

HVB Group acts as lessee under operating leases. The current obligations in the reporting period relate primarily to rental and lease agreements for real estate (land and buildings) and movable assets, mainly comprising plant, office equipment and motor vehicles. The lease agreements for real estate generally contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have been agreed in some cases. The lease agreements for movable assets have been concluded at customary market terms for lease periods of between three and nine years.

In the reporting period, the commitments arising from operating leases under lease and sublease agreements resulted in minimum lease payments of €123 million (31 December 2014: €126 million) being recognised as expense in the income statement.

The following table shows the cumulative minimum lease payments arising from non-cancellable operating leases to be expected in future financial years: (€ millions)

	2015	2014
up to 1 year	119	112
from 1 year to 5 years	168	134
from 5 years and over	49	53
Total	**336**	**299**

The agreements regarding the outsourcing of information and communications technology processes to the UniCredit-wide service provider UBIS include the charged transfer of rights to use assets in the form of operating leases. The full service contracts concluded annually in this regard consist for the most part of rent payments for the provision of hardware and software that are included in the minimum lease payments of €37 million for the reporting period and €43 million for the following financial year mentioned above.

HVB Group has concluded sublease agreements for real estate at customary market terms, some of which include rent adjustment clauses and extension options. Payments of €9 million (31 December 2014: €7 million) received from subleases were recognised as income in the income statement during the reporting period.

The aggregate future minimum lease payments arising from non-cancellable subleases expected to be received in the subsequent financial years amount to €18 million (31 December 2014: €12 million).

Other Information (Continued)

Finance leases

The finance leases entered into by HVB Group as lessee relate to real estate (land and buildings). The lease agreements generally contain an option to purchase and price adjustment clauses.

The following table shows the reconciliation from the aggregate future minimum lease payments at the reporting date to their present value. This gives rise to the amounts payable to customers from lease operations (finance leases):

(€ millions)

	2015	2014
Future minimum lease payments	223	236
– Finance charge (interest included in minimum lease payments)	(23)	(27)
= Present value of future minimum lease payments	**200**	**209**

The difference between the future minimum lease payments and their present value represents unamortised interest expense.

The following table shows the remaining maturity of the future minimum lease payments and their present value at the reporting date:

(€ millions)

	FUTURE MINIMUM LEASE PAYMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2015	2014	2015	2014
up to 1 year	12	12	12	12
from 1 year to 5 years	52	52	48	47
from 5 years and over	159	172	140	150
Total	**223**	**236**	**200**	**209**

The aggregate future minimum lease payments arising from non-cancellable subleases that are expected to be received in the subsequent financial years amount to €19 million (31 December 2014: €22 million).

77 Reclassification of financial instruments in accordance with IAS 39.50 et seq. and IFRS 7

HVB reclassified certain financial assets to loans and receivables in 2008 and 2009 in accordance with the amendment to IAS 39 and IFRS 7 implemented by the International Accounting Standards Board (IASB) and Commission Regulation (EC) No 1004/2008. The intention to trade no longer exists for these reclassified holdings since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis (2008/09) through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio. No further reclassifications have been carried out since 2010.

The asset-backed securities and other debt securities reclassified in 2008 were disclosed at 31 December 2008 with a carrying amount of €13.7 billion and the holdings reclassified in 2009 were disclosed at 31 December 2009 with a carrying amount of €7.3 billion.

Analysis of the reclassified holdings for the current and previous reporting periods

(€ billions)

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2014	1.9	1.9	2.0
Balance at 31/12/2015	1.3	1.3	1.4
Reclassified in 2009			
Balance at 31/12/2014	1.6	1.9	1.8
Balance at 31/12/2015	1.1	1.3	1.2
Balance of reclassified assets at 31/12/2015[2]	**2.4**	**2.6**	**2.7**

1 before accrued interest
2 differences caused by rounding

The fair value at the date when the reclassification takes effect represents the new acquisition cost, which in some cases is considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This together with the reclassified securities that had been matured or partially repaid gives rise to an effect of €29 million in the 2015 financial year (2014 financial year: €34 million), which is recognised in net interest. The effective interest rates for the reclassified securities are in a range from 0.11% to 20.62%.

A gain of €6 million (2014 financial year: €2 million) on reclassified securities that had been sold was recognised in the income statement in the 2015 financial year.

We took write-downs of €34 million (2014 financial year: €92 million) on reclassified assets in the 2015 financial year.

If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (inclusive realised disposals) would have given rise to a net loss of €72 million (2014 financial year: net gain of €227 million) in net trading income in the 2015 financial year. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification. Accordingly, the inclusion of these effects on the income statement resulted in a profit before tax that was €73 million higher in the 2015 financial year (2014 financial year: €283 million lower). Between the date when the reclassifications took effect in 2008 and the reporting date, the cumulative net effect on the income statement from the reclassifications already carried out totalled minus €212 million before tax (31 December 2014: minus €285 million).

78 Notes to selected structured products

Additional information regarding selected structured products is given below in order to provide greater transparency. Holdings of asset-backed securities (ABS) transactions issued by third parties are shown below alongside tranches retained by HVB Group.

ABS portfolio

In a securitisation transaction, above all the originator transfers credit receivables and/or credit risks to third parties. The securitisation itself is usually performed via what are known as structured entities (formerly called special purpose vehicles or SPVs). In order to refinance the acquisition of receivables, these vehicles issue securities on the capital market that are secured by the receivables acquired. This serves to transfer the associated credit risks to investors in the form of asset-backed securities. The securities issued by vehicles are generally divided into tranches which differ above all in terms of seniority in the servicing of claims to repayment and interest payments. These tranches are generally assessed by rating agencies.

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:
– residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans)
– commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans)
– collateralised loan obligations (CLO) relating to commercial bank loans
– collateralised bond obligations (CBO) relating to securities portfolios

Besides this, consumer loans, credit card receivables and receivables under finance leases are also securitised.

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by rating class (€ millions)

CARRYING AMOUNTS		31/12/2015 SENIOR	31/12/2015 MEZZANINE	31/12/2015 JUNIOR	31/12/2015 TOTAL	31/12/2014 TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**61**
Positions in third-party ABS transactions		**5,243**	**735**	**—**	**5,978**	**4,702**
Residential mortgage-backed securities (RMBS)		2,820	326	—	3,146	2,688
Commercial mortgage-backed securities (CMBS)		191	80	—	271	634
Collateralised debt obligations (CDO)		64	—	—	64	61
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		714	293	—	1,007	464
Consumer loans		1,207	29	—	1,236	647
Credit cards		166	—	—	166	98
Receivables under finance leases		43	2	—	45	101
Others		38	5	—	43	9
Total	**31/12/2015**	**5,243**	**735**	**—**	**5,978**	
	31/12/2014	**3,667**	**1,096**	**—**	**4,763**	**4,763**

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating are carried as senior tranches. Only tranches with low ratings (worse than BB- in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by region (€ millions)

CARRYING AMOUNTS		31/12/2015 EUROPE	31/12/2015 USA	31/12/2015 ASIA	31/12/2015 OTHER REGIONS	31/12/2015 TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**5,464**	**473**	**—**	**41**	**5,978**
Residential mortgage-backed securities (RMBS)		3,125	2	—	19	3,146
Commercial mortgage-backed securities (CMBS)		185	86	—	—	271
Collateralised debt obligations (CDO)		6	36	—	22	64
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		664	343	—	—	1,007
Consumer loans		1,230	6	—	—	1,236
Credit cards		166	—	—	—	166
Receivables under finance leases		45	—	—	—	45
Others		43	—	—	—	43
Total	**31/12/2015**	**5,464**	**473**	**—**	**41**	**5,978**
	31/12/2014	**4,317**	**366**	**—**	**80**	**4,763**

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (€ millions)

CARRYING AMOUNTS		31/12/2015 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**602**	**3,908**	**1,468**	**5,978**
Residential mortgage-backed securities (RMBS)		201	2,113	832	3,146
Commercial mortgage-backed securities (CMBS)		110	89	72	271
Collateralised debt obligations (CDO)		3	3	58	64
Collateralised loan obligations (CLO)/ collateralised bond obligations (CBO)		33	525	449	1,007
Consumer loans		220	989	27	1,236
Credit cards		—	166	—	166
Receivables under finance leases		35	10	—	45
Others		—	13	30	43
Total	**31/12/2015**	**602**	**3,908**	**1,468**	**5,978**
	31/12/2014	**530**	**3,219**	**1,014**	**4,763**

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by class as per IAS 39 (€ millions)

CARRYING AMOUNTS		31/12/2015 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**181**	**19**	**5,599**	**63**	**116**	**5,978**
Residential mortgage-backed securities (RMBS)		68	8	3,035	—	35	3,146
Commercial mortgage-backed securities (CMBS)		61	—	201	—	9	271
Collateralised debt obligations (CDO)		—	6	36	22	—	64
Collateralised loan obligations (CLO)/ collateralised bond obligations (CBO)		—	5	900	35	67	1,007
Consumer loans		47	—	1,183	6	—	1,236
Credit cards		—	—	166	—	—	166
Receivables under finance leases		5	—	35	—	5	45
Others		—	—	43	—	—	43
Total	**31/12/2015**	**181**	**19**	**5,599**	**63**	**116**	**5,978**
	31/12/2014	**267**	**32**	**4,161**	**66**	**237**	**4,763**

Other Information (Continued)

79 Fair value hierarchy

The development of financial instruments measured at fair value and recognised at fair value in the balance sheet are described below notably with regard to the fair value hierarchy.

This fair value hierarchy is divided into the following levels:

Level 1 contains financial instruments measured using prices of identical assets or liabilities listed on an active market. These prices are incorporated unchanged. We have assigned mostly listed equity instruments, bonds and exchange-traded derivatives to this category.

Assets and liabilities whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data are shown in Level 2. No price can be observed on an active market for the assets and liabilities concerned themselves. As a result of this, we notably show the fair values of interest rate and credit derivatives in this level together with the fair values of ABS bonds, provided a liquid market exists for the asset class in question.

Financial assets and liabilities of €2,136 million (2014: €759 million) have been transferred between Level 1 and Level 2. At the same time, financial assets or liabilities of €1,874 million (2014: €970 million) were transferred between Level 2 and Level 1. Most of the transfers relate to securities, resulting from an increase or decrease in the actual trading taking place in the securities concerned and the associated change in the bid-offer spreads.

The following table shows transfers between Level 1 and Level 2 for financial instruments whose fair value is determined on a recurring basis:

(€ millions)

		TO LEVEL 1	TO LEVEL 2
Financial assets held for trading			
	Transfer from Level 1	—	309
	Transfer from Level 2	237	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	1,680
	Transfer from Level 2	1,563	—
Available-for-sale financial assets			
	Transfer from Level 1	—	134
	Transfer from Level 2	36	—
Financial liabilities held for trading			
	Transfer from Level 1	—	13
	Transfer from Level 2	38	—

1 January is considered the transfer date for instruments transferred between the levels in the first half of the reporting period (1 January to 30 June). 1 July is considered the transfer date for transfers in the second half of the reporting period (1 July to 31 December).

Level 3 relates to assets or liabilities for which the fair value cannot be calculated exclusively on the basis of observable market data (non-observable input data). The amounts involved are stated in Level 2 if the impact of the non-observable input date on the determination of fair value is insignificant. Thus, the respective fair values also incorporate valuation parameters based on model assumptions. This includes derivatives and structured products that contain at least one “exotic” component, such as foreign currency or interest rate derivatives on illiquid currencies, derivatives without standard market terms, structured products with an illiquid underlying as reference and ABS bonds of an asset class for which no liquid market exists.

If the value of a financial instrument is based on non-observable input parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the reporting date. Appropriate values are determined for these non-observable parameters and applied for valuation purposes, when the annual financial statements are prepared, reflecting the prevailing market conditions. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

The following measurement methods are applied for each product type, broken down by the individual classes of financial instrument.
The valuations for financial instruments in fair value Level 3 depend upon the following significant parameters that cannot be observed on the market:

PRODUCT TYPE	MEASUREMENT METHOD	SIGNIFICANT NON-OBSERVABLE PARAMETERS	RANGE
Fixed-income securities and other debt instruments	Market approach	Price	0%–215%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	21BPS–20%
		Residual value	18%–80%
		Default rate	1%–3%
		Prepayment rate	0%–30%
Equity derivatives	Option price model DCF method	Equity volatility	10%–120%
		Correlation between equities	(95)%–95%
		Dividend yields	0%–15%
Interest rate derivatives	DCF method Option price model	Swap interest rate	(30)BPS–1,000BPS
		Inflation swap interest rate	100BPS–230BPS
		Inflation volatility	1%–10%
		Interest rate volatility	10%–100%
		Correlation between interest rates	0%–100%
Credit derivatives	Option price model Hazard rate model	Credit spread curves	2BPS–236%
		Credit correlation	25%–85%
		Residual value	7%–75%
		Credit volatility	54%–76%
Currency derivatives	DCF method Option price model	Yield curves	(30)%–20%
		FX volatility	1%–40%
Commodity derivatives	DCF method Option price model	Swap interest rate	10%–130%
		Correlation between commodities	(95)%–95%
		Commodity price volatility	10%–120%
Hybrid derivatives	Option price model	Parameter correlation	(80)%–80%
		Parameter volatility	10%–120%

Other Information (Continued)

The impact of changing possible appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. For portfolios at fair value through profit or loss, the positive change in fair value at 31 December 2015 resulting from the use of possible appropriate alternatives would be €148 million (2014: €171 million), and the negative change would be €61 million (2014: €81 million).

The following table shows the significant sensitivity effects, broken down by the individual classes of financial instrument for the various product types:

(€ millions)

	2015		2014	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	1	(2)	2	(2)
Equities	14	(14)	17	(17)
Asset-backed securities	1	—	1	—
Equity derivatives	89	(23)	119	(35)
Interest rate derivatives	5	(1)	8	(2)
Credit derivatives	32	(20)	22	(24)
Currency derivatives	2	(1)	1	(1)
Commodity derivatives	2	—	1	—
Hybrid derivatives	2	—	—	—
Other	—	—	—	—
Total	**148**	**(61)**	**171**	**(81)**

For fixed-income securities and other debt instruments and asset-backed securities, the credit spread curves were varied as part of the sensitivity analyses in line with rating. For shares, the spot price is varied using a relative value.

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity derivatives included in Level 3: spot prices for hedge funds, implicit volatility, dividends, implicit correlations and the assumptions regarding the interpolation between individual parameters observable on the market, such as volatilities. For interest rate products, interest rates, interest rate correlations and implicit volatilities were varied as part of the sensitivity analysis. For credit derivatives, rating-dependent shifts in the risk premium curves for credit risk were assumed together with changes in implicit correlations and increases in default rates. Foreign currency derivatives were varied in terms of interest rates and the implicit volatility.

Where trades are executed for which the transaction price deviates from the fair value at the trade date and non-observable parameters are employed to a considerable extent in valuation models, the financial instrument concerned is recognised at the trade price. This difference between the transaction price and the fair value of the valuation model is defined as the trade date gain/loss. Any gain determined at the trade date is deferred and recognised in the income statement over the term of the transaction. As soon as a reference price can be determined for the transaction on an active market, or the significant input parameters on observable market data, the deferred trade date gain is taken directly to the income statement in net trading income.

The following table shows a year-on-year comparison of changes in trade date gains that were deferred on account of the application of significant non-observable parameters for financial instruments recognised at fair value:

(€ millions)

	2015	2014
Balance at 1/1	**64**	**80**
New transactions during the period	—	—
Write-downs	13	17
Expired transactions	—	—
Retroactive change in observability	51	—
Exchange rate changes	—	—
Balance at 31/12	**—**	**64**

The following table shows the assignment of the financial assets and financial liabilities shown in the balance sheet to the respective levels of the fair value hierarchy:

(€ millions)

	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)		FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)		FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET[1] (LEVEL 3)	
	2015	2014	2015	2014	2015	2014
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	22,329	19,308	74,424	90,521	1,047	2,009
thereof: derivatives	1,617	1,703	59,095	77,087	901	1,870
Financial assets at fair value through profit or loss	17,821	14,559	15,872	16,365	130	281
Available-for-sale financial assets[1]	653	619	456	645	31	39
Hedging derivatives	—	—	450	753	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	5,934	4,462	69,591	82,493	1,623	1,015
thereof: derivatives	2,133	1,929	55,554	73,759	1,052	712
Hedging derivatives	—	—	1,049	749	—	—

1 Available-for-sale financial assets include financial instruments of €214 million (31 December 2014: €266 million) valued at historical cost that are not included in these totals at 31 December 2015.

The following table shows the development of the financial assets and financial liabilities that are assigned to Level 3 as part of the fair value hierarchy:

(€ millions)

	2015			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2015	**2,009**	**281**	**39**	**—**
Additions				
Acquisitions	611	6	—	—
Realised gains[1]	6	—	7	—
Transfer from other levels	347	114	6	—
Other additions[2]	119	—	3	—
Reductions				
Sale	(434)	—	(7)	—
Repayment	(52)	(20)	(8)	—
Realised losses[1]	(34)	—	—	—
Transfer to other levels	(1,214)	(251)	—	—
Other reductions	(311)	—	(9)	—
Balance at 31/12/2015	**1,047**	**130**	**31**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

In the case of the financial assets held for trading, the transfers to other levels are mainly attributable to parameters that can now be observed and the immateriality of the non-observable parameters of a significant interest rate swap transaction. The majority of the other transfers to and from other levels relate to securities and results from an increase or decrease in the actual trading of the securities concerned and an associated change in the bid-offer spreads. There are also transfers from other levels attributable to an increase in transactions at risk of default. All in all, the Level 3 volume of derivative contracts decreased by €962 million (2014: increase of €686 million) year-on-year on the assets side and increased by €608 million (2014: reduction of €401 million) on the liabilities side.

Other Information (Continued)

(€ millions)

	2015	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2015	**1,015**	**—**
Additions		
Sale	342	—
Issues	639	—
Realised losses[1]	122	—
Transfer from other levels	1,560	—
Other additions[2]	58	—
Reductions		
Buy-back	(461)	—
Repayment	(116)	—
Realised gains[1]	(128)	—
Transfer to other levels	(1,309)	—
Other reductions	(99)	—
Balance at 31/12/2015	**1,623**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

The transfers from other levels relate to a change in the method used to determine the fair value level for credit-linked notes in the first half of 2015. The method was refined in the second half of the year, leading to a further change in the fair value level for credit-linked notes from Level 3 to Level 2.

(€ millions)

	2014			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2014	**1,323**	**576**	**230**	**—**
Additions				
Acquisitions	538	—	15	—
Realised gains[1]	759	2	2	—
Transfer from other levels	542	286	—	—
Other additions[2]	76	1	—	—
Reductions				
Sale	(586)	(255)	(12)	—
Repayment	—	(40)	(30)	—
Realised losses[1]	(111)	(2)	(2)	—
Transfer to other levels	(407)	(286)	(151)	—
Other reductions	(125)	(1)	(13)	—
Balance at 31/12/2014	**2,009**	**281**	**39**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2014	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2014	**1,416**	**—**
Additions		
Sale	352	—
Issues	710	—
Realised losses[1]	462	—
Transfer from other levels	658	—
Other additions[2]	90	—
Reductions		
Buy-back	(421)	—
Repayment	(134)	—
Realised gains[1]	(126)	—
Transfer to other levels	(1,945)	—
Other reductions	(47)	—
Balance at 31/12/2014	**1,015**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

80 Fair values of financial instruments compliant with IFRS 7

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is assumed in this context that the transaction takes places on the principal market for the instrument or the most advantageous market to which the Bank has access.

The fair values are calculated using the market information available at the reporting date as well as individual company valuation methods.

(€ billions)

	2015		2014	
ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	11.4	11.4	5.2	5.2
Financial assets held for trading	97.8	97.8	111.8	111.8
Financial assets at fair value through profit or loss	33.8	33.8	31.2	31.2
Available-for-sale financial assets				
thereof measured:				
at cost	0.2	0.2	0.3	0.3
at fair value	1.1	1.1	1.3	1.3
Held-to-maturity investments	0.1	0.1	0.1	0.1
Loans and receivables with banks	32.8	33.4	32.7	33.1
Loans and receivables with customers	113.5	118.2	109.6	115.2
thereof: finance leases	2.1	2.1	2.1	2.1
Hedging derivatives	0.5	0.5	0.8	0.8
Total	**291.2**	**296.5**	**293.0**	**299.0**

Other Information (Continued)

(€ billions)

ASSETS	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 2015	2014	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 2015	2014	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 2015	2014
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	11.4	5.2	—	—
Held-to-maturity investments	—	—	0.1	—	—	—
Loans and receivables with banks	0.4	3.4	26.4	16.5	6.6	13.2
Loans and receivables with customers	1.2	1.8	16.4	15.8	100.6	97.6
thereof: finance leases	—	—	—	—	2.1	2.1

(€ billions)

LIABILITIES	2015 CARRYING AMOUNT	2015 FAIR VALUE	2014 CARRYING AMOUNT	2014 FAIR VALUE
Deposits from banks	58.5	59.0	54.1	54.8
Deposits from customers	107.7	107.9	100.7	101.1
Debt securities in issue	26.0	29.0	28.2	32.0
Financial liabilities held for trading	77.1	77.1	88.0	88.0
Hedging derivatives	1.0	1.0	0.7	0.7
Total	**270.3**	**274.0**	**271.7**	**276.6**

(€ billions)

LIABILITIES	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 2015	2014	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 2015	2014	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 2015	2014
Financial liabilities not carried at fair value						
in the balance sheet						
Deposits from banks	—	—	34.5	16.1	24.5	38.7
Deposits from customers	—	—	74.5	57.8	33.4	43.3
Debt securities in issue	7.2	7.4	6.6	8.1	15.2	16.5

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate. Such instruments are transferred at regular intervals at the amount repayable (such as the repayment of a deposit repayable on demand at the nominal amount), meaning that listed prices for identical and similar instruments are available on inactive markets. These instruments are allocated to Level 2 accordingly.

A new, enhanced valuation model was introduced in 2014 to determine the fair values of other loans and receivables. The fair value calculation is built around the risk-neutral credit spread, which takes account of all relevant factors on the market. Further parameters besides the risk-neutral credit spread and the risk-free return on investment are not included. Provided the markets are liquid and no relevant market disruptions are evident, as is currently the case, the arbitrage between the markets on which credit risks are traded leads to a narrowing of the credit spreads. Accordingly, the CDS market is defined as the relevant exit market for loans and receivables within the meaning of IFRS 13.

The fair value is calculated as the sum total of the discounted, risk-adjusted anticipated cash flows discounted on the basis of the swap curve (based on Libor). In this context, the anticipated, risk-adjusted cash flows are based on the survival probability and the loss given default. The survival probability is determined on the basis of the risk-neutral probability of default, while the proceeds upon realisation are determined on the basis of the internal loss given default parameters. In turn, the risk-neutral probability of default is determined on the basis of the internally calculated one-year default rate (real-world probability of default), the market risk premium and the correlation between the respective loan and the general market risk. The market risk premium represents a factor used to cover the difference between the real-world probability of default and the market's return expectations for the risk assumed.

In this context, the loan portfolio is divided into four sectors in order to take account of the specific features of each sector: sovereign loans, loans to banks, corporate loans and retail loans. For each of these sectors with exception of retail loans, first of all the market risk premium is determined on the basis of a portfolio of specific, liquid CDS prices for the respective sector. Only for retail loans is the market risk premium derived from the market risk premiums for the other sectors due to the lack of a CDS market.

Since the parameters used to determine the real-world probability of default (PD) and loss given default (LGD) are not immaterial when determining the fair value, and these are determined on the basis of internal procedures meaning they cannot be observed on the market, the other loans and receivables are allocated to Level 3.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. These instruments are allocated to Level 1. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows. The methods used to determine the fair value levels described in Note 79 are employed for this purpose.

The anticipated future cash flows of the other liabilities are discounted to the present value using current interest rates taking into account internally determined funding premiums. The funding premiums correspond to the parameters that the Bank uses when setting the prices for its own issues. These funding premiums represent internally determined parameters that are essential for the determination of the fair value; the other liabilities are allocated to Level 3 accordingly.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally accepted models used to calculate the price of options. The common Black & Scholes model and the Bachelier model are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters. The methods used to determine the fair value levels described in Note 79 are employed for this purpose.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed equity instruments cannot be reliably determined, such assets are recognised at cost.

The difference in HVB Group between the fair values and carrying amounts totals €5.3 billion (2014: €6.0 billion) for assets and €3.7 billion (2014: €4.9 billion) for liabilities. The balance of these amounts is €1.6 billion (2014: €1.1 billion). When comparing carrying amounts and fair values for the hedged items, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

Other Information (Continued)

81 Disclosures regarding the offsetting of financial assets and liabilities

The following two tables separately show the recognised financial assets and financial liabilities that have already been netted in the balance sheet in accordance with IAS 32.42 together with the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement but that do not satisfy the criteria for offsetting in the balance sheet.

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2015
Derivatives[1]	81,114	(19,051)	62,063	(40,957)	(478)	(9,513)	11,115
Reverse repos[2]	30,107	(3,366)	26,741	—	(14,931)	—	11,810
Loans and receivables[3]	83,735	(1,422)	82,313	—	—	—	82,313
Total at 31/12/2015	**194,956**	**(23,839)**	**171,117**	**(40,957)**	**(15,409)**	**(9,513)**	**105,238**

1 Derivatives are covered in the notes regarding financial assets held for trading and hedging derivatives.
2 Reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €11,954 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables, as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2015
Derivatives[1]	77,406	(17,618)	59,788	(40,957)	(1,711)	(9,901)	7,219
Repos[2]	34,076	(3,366)	30,710	—	(23,185)	—	7,525
Liabilities[3]	100,832	(2,855)	97,977	—	—	—	97,977
Total at 31/12/2015	**212,314**	**(23,839)**	**188,475**	**(40,957)**	**(24,896)**	**(9,901)**	**112,721**

1 Derivatives are covered in the notes regarding financial liabilities held for trading and hedging derivatives.
2 Repos are covered in the notes covering deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €7,448 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities, as covered in the notes covering deposits from banks and deposits from customers

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	AMOUNTS NOT RECOGNISED			NET AMOUNT 31/12/2014
				EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	
Derivatives[1]	104,061	(22,648)	81,413	(55,825)	(3,134)	(11,550)	10,904
Reverse repos[2]	19,144	(1,412)	17,732	—	(17,489)	—	243
Loans and receivables[3]	86,585	(2,100)	84,485	—	—	—	84,485
Total at 31/12/2014	**209,790**	**(26,160)**	**183,630**	**(55,825)**	**(20,623)**	**(11,550)**	**95,632**

1 Derivatives are covered in the notes regarding financial assets held for trading and hedging derivatives.
2 Reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €9,869 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables, as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	AMOUNTS NOT RECOGNISED			NET AMOUNT 31/12/2014
				EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	
Derivatives[1]	100,203	(23,054)	77,149	(55,825)	(311)	(13,025)	7,988
Repos[2]	28,900	(1,412)	27,488	—	(24,116)	—	3,372
Liabilities[3]	86,034	(1,694)	84,340	—	—	—	84,340
Total at 31/12/2014	**215,137**	**(26,160)**	**188,977**	**(55,825)**	**(24,427)**	**(13,025)**	**95,700**

1 Derivatives are covered in the notes regarding financial liabilities held for trading and hedging derivatives.
2 Repos are covered in the notes regarding deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €1,984 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities, as covered in the notes covering deposits from banks and deposits from customers

Other Information (Continued)

We adjusted the presentation of the variation margin in the table at 30 June 2015: The receivables and liabilities from variation margins are no longer shown under derivatives as a gross sum or set off in the line for derivatives but disclosed and offset in the lines containing receivables and liabilities. For the sake of transparency, we have increased the book receivables/liabilities by other loans and receivables and by other liabilities not included therein to date to which the receivables or the liabilities from variation margins would be attributable. We have adjusted the year-ago figures accordingly.

Compliant with IAS 32.42, financial assets and liabilities with the same counterparty are to be offset and recognised in the balance sheet at the net amount if such offsetting of the amounts recognised at the present date is legally enforceable and the intention is to settle on a net basis during the normal course of business or to realise the asset and settle the liability simultaneously. The tables show a reconciliation from the gross amounts prior to netting and the set-off amounts to the net amounts after offsetting for these set-offs in the balance sheet. At HVB Group, the set-offs in the balance sheet relate to transactions with central counterparties (CCPs), being OTC derivatives (set-off of the balancing positive and negative fair values at currency level) and the receivables and liabilities arising from reverse repos and repos concluded with the same central counterparty. At the same time, listed future-styled derivatives and nettable receivables and liabilities repayable on demand with the same counterparty in the banking business are also offset in the balance sheet.

The column "Effects of master netting arrangements" shows the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement, but which are not netted in the balance sheet as they do not satisfy the IAS 32.42 offsetting requirements as described above. At HVB Group, this includes OTC derivatives and repo transactions with individual counterparties with which legally enforceable master netting arrangements have been concluded allowing netting in the event of default.

In addition, the tables contain the financial instruments received or pledged as collateral in this context and cash collateral. Please refer to Notes 90 and 91 for more information on securities received or pledged as collateral for securities lending transactions without cash collateral not recognised in the balance sheet.

82 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39 (c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €48,683 million (2014: €38,821 million). This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket

(€ millions)

	2015						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	439	3,174	3,345	7,833	7,828	10,591	12,093
Derivatives on financial assets held for trading	61,613	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	178	2,038	6,409	22,174	3,521	—
Available-for-sale financial assets	—	35	113	340	678	1,836	1,097
Held-to-maturity investments	—	—	—	1	37	33	—
Loans and receivables with banks	11,835	7,579	3,877	6,548	3,517	483	5,827
Loans and receivables with customers	12,000	8,440	5,553	9,800	37,961	52,472	438
thereof: finance leases	23	75	161	681	1,900	283	132
Hedging derivatives	—	115	230	1,036	1,620	1,566	—

(€ millions)

	2014						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	115	6,219	1,710	6,137	4,813	3,207	11,386
Derivatives on financial assets held for trading	80,660	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	221	876	3,523	24,404	2,628	62
Available-for-sale financial assets	—	3	12	199	726	1,581	237
Held-to-maturity investments	—	—	—	—	42	29	—
Loans and receivables with banks	12,402	3,434	2,116	11,399	3,055	464	2,188
Loans and receivables with customers	12,302	9,040	5,106	11,111	37,315	50,412	524
thereof: finance leases	246	82	154	678	1,787	260	—
Hedging derivatives	—	134	269	1,210	2,115	1,345	—

Breakdown of non-derivative and derivative financial liabilities by maturity bucket

(€ millions)

	2015						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	15,888	9,001	17,027	6,632	5,580	4,452	—
Deposits from customers	71,111	8,801	15,858	7,517	2,633	1,771	—
Debt securities in issue	22	1,284	1,031	4,747	10,176	14,636	—
Financial liabilities held for trading	141	6,235	1,507	1,444	4,935	8,141	3,689
Derivatives on financial liabilities held for trading	58,739	—	—	—	—	—	—
Hedging derivatives	—	103	207	930	1,114	485	—
Credit commitments and financial guarantees	68,233	—	—	—	—	—	—

(€ millions)

	2014						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	16,320	3,439	8,708	15,319	6,310	4,315	—
Deposits from customers	59,361	11,908	16,997	7,870	2,804	1,862	—
Debt securities in issue	27	2,454	2,635	2,797	12,793	14,031	—
Financial liabilities held for trading	77	8,720	5,180	2,259	2,964	1,707	2,830
Derivatives on financial liabilities held for trading	76,400	—	—	—	—	—	—
Hedging derivatives	—	78	155	695	1,297	755	—
Credit commitments and financial guarantees	61,585	—	—	—	—	—	—

Other Information (Continued)

83 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 Regulatory disclosure requirements 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.

84 Key capital ratios (based on IFRS)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. The yield expectations are calculated in accordance with the allocated capital principle that UniCredit employs across its entire organisation. Under 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, which is derived from the expectations of the capital market. Please refer to the Risk Report for more information about overall bank management.

The supervisory ratios are discussed below.

The legal basis is provided by the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (CRR), which came into force on 1 January 2014. The supervisory total capital ratio prescribed in the CRR represents the ratio of the equity determined in accordance with Part Two CRR to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted asset equivalent of these risk positions). Under Article 92 CRR, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 6.0%.

The eligible equity underlying the calculation of the total capital ratio in accordance with CRR consists of Tier 1 and Tier 2 capital. HVB Group uses internal models in particular to measure market risk positions.

The following table shows equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2015:

Equity funds[1] (€ millions)

	2015	2014
Tier 1 – Total core capital for solvency purposes	**19,564**	**18,993**
Shares of common stock	2,407	2,407
Additional paid-in capital, retained earnings, minority interest, own shares	18,662	18,557
Hybrid capital instruments (silent partnership certificates) without prorated interest	—	—
Other	(707)	(886)
Capital deductions	(798)	(1,085)
Tier 2 – Total supplementary capital for solvency purposes	**538**	**650**
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	—	—
Cumulative shares of preferred stock	—	—
Participating certificates outstanding	—	—
Subordinated liabilities	340	412
Value adjustment excess for A-IRB positions	198	241
Other	—	—
Capital deductions	—	(3)
Total equity funds	**20,102**	**19,643**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

The equity funds of HVB Group in accordance with Part Two CRR amounted to €20,102 million at 31 December 2015 (2014: €19,643 million). As in the previous year, we have not included in Tier 2 capital any unrealised reserves in accordance with Section 10 (2b) 1 No. 6 and 7 KWG in the version applicable until 31 December 2013.

The equity funds are determined on the basis of IFRS figures determined in accordance with CRR/CRD IV using the consolidated accounting method.

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS: (€ millions)

	COMMON EQUITY TIER 1 CAPITAL	ADDITIONAL TIER 1 CAPITAL	TIER 2 CAPITAL	TOTAL OWN FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	20,766	—	—	20,766
Reconciliation to the equity funds compliant with the Capital Requirements Regulation				
Cumulative shares of preferred stock	—	—	—	—
Ineligible profit components	(398)	—	—	(398)
Ineligible minority interests under banking supervisory regulations	(4)	—	—	(4)
Diverging consolidation perimeters	(1)	—	—	(1)
Deduction of intangible assets	(461)	—	—	(461)
Hybrid capital recognised under banking supervisory regulations	—	—	35	35
Eligible portion of subordinated liabilities	—	—	305	305
Value adjustment excess (+) or shortfall (–) for A-IRB positions	—	—	198	198
Adjustments to CET1 due to prudential filters	(318)	—	—	(318)
Deductible deferred tax assets	(222)	—	—	(222)
Capital deductions which can alternatively be subject to a 1,250% risk weight	(66)	—	—	(66)
Transitional adjustments	546	(277)	—	269
Other effects	(278)	277	—	(1)
Equity funds compliant with the Capital Requirements Regulation (CRR)	**19,564**	**—**	**538**	**20,102**

(€ millions)

	2015 BASEL III	2014 BASEL III
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	40,524	45,752
off-balance-sheet counterparty risk positions	10,572	9,517
other counterparty risk positions[1]	904	571
derivative counterparty risk positions	6,073	6,097
Total credit risk-weighted assets	**58,073**	**61,937**
Risk-weighted asset equivalent for market risk positions	**9,705**	**12,830**
Risk-weighted asset equivalent for operational risk	**10,279**	**11,001**
Total risk-weighted assets	**78,057**	**85,768**

1 primarily including repos and securities lending transactions

Other Information (Continued)

At 31 December 2015, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows: (in %)

	2015 BASEL III	2014 BASEL III
Tier 1 Capital ratio		
[Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	25.1	22.1
CET1 capital ratio		
[Common Equity Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	25.1	22.1
Total capital ratio		
[own funds/(credit risk-weighted assets +12.5x market risk positions + 12.5x operational risk)]	25.8	22.9

85 Contingent liabilities and other commitments

(€ millions)

	2015	2014
Contingent liabilities[1]	**19,353**	**22,527**
Guarantees and indemnities	19,353	22,527
Other commitments	**48,731**	**38,927**
Irrevocable credit commitments	48,683	38,821
Other commitments[2]	48	106
Total	**68,084**	**61,454**

1 Contingent liabilities are offset by contingent assets to the same amount.
2 Not included in other commitments are the future payment commitments arising from non-cancellable operation leases. These are covered in Note 76.

Financial guarantees and irrevocable credit commitments are shown at their nominal amount (maximum outflow) less provisions set up for this purpose. Neither contingent liabilities nor irrevocable credit commitments contain any significant items. The guarantees and indemnities listed here essentially reflect guarantees and indemnities that the Bank has granted on behalf of customers. Consequently, the Bank has a right of recourse against the customer (contracting party) should the guarantee or indemnity in question be used. An appropriate provision is set up where such a customer's creditworthiness is doubtful. This takes account of the loss suffered by the Bank, as the recourse claim against the contracting party is not considered fully realisable on account of the party's doubtful creditworthiness.

It is hard to anticipate the date at which the contingent liabilities and other commitments mentioned here will result in an outflow of funds. Credit commitments frequently serve as liquidity reserve for the beneficiary in particular, meaning that the amounts are not necessarily utilised at all and hence an outflow of funds is not certain. In terms of financial guarantees, it is important to note that these are conditional payment commitments, meaning that the condition must be met before utilisation becomes possible (such as default on the guaranteed credit in the case of a credit guarantee or non-compliant delivery in the case of a delivery guarantee). Here, too, it is hard to assess whether and when this will be the case, as financial guarantees in particular are only ever utilised in exceptional circumstances entailing an outflow of funds.

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 accordingly and adjusted the year-ago totals by €1,847 million.

Securities lending transactions are not recognised, as economic ownership remains with the lender. The Bank only becomes the legal owner of the borrowed securities which are returned to the lender when the lending transaction falls due. Obligations of €12,593 million (2014: €20,181 million) to return securities arising from securities lending transactions are thus offset by borrowed securities of the same amount, which are not carried as assets on the assets side of the balance sheet.

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.

Legal risks can give rise to losses for HVB Group, the occurrence of which is greater than improbable but less than probable, and for which no provisions have been set up. Such legal risks may result from negative developments in proceedings under civil law and the tendency for rulings to be made in favour of consumers or customers. The assessment of the risk of loss may prove to be too low or too high, depending on the outcome of the proceedings. We assume that it will not be necessary to utilise the vast majority of the contingent liabilities arising from legal risks, meaning that the amounts are not representative of actual future losses. Such contingent liabilities arising from significant legal risks for which an estimate is possible amounted to €84 million at year-end 2015 after €100 million at year-end 2014.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees to make fund constructions more marketable – in particular for lease funds and (closed-end) KG real estate funds. Identifiable risks arising from such guarantees have been incorporated by setting up provisions.

Commitments for uncalled payments on shares not fully paid up amounted to €44 million at year-end 2015 (year-end 2014: €45 million), and similar obligations for shares in cooperatives totalled €1 thousand (year-end 2014: €1 thousand). We were not liable for any defaults on such calls under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG).

At the reporting date, we had unlimited personal liability arising from shares in 67 partnerships (2014: 71).

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.

In the same way as HVB and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related parties (€ millions)

	2015	2014
Non-consolidated affiliated companies	1,388	1,309
of which:		
UniCredit S.p.A.	642	644
Sister companies	687	665
Subsidiaries	59	—
Joint ventures	62	156
Associated companies	1	—
Other participating interests	84	91
Total	**1,535**	**1,556**

86 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

Other Information (Continued)

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 provided before the reduction or cessation of the shareholding in each case.

87 Disclosures regarding structured entities

A structured entity as defined in IFRS 12 is an enterprise (or an economically separate entity) that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are frequently characterised by restricted activities, a narrow, well-defined objective, insufficient equity or financing in tranches.

Structured entities may be consolidated or not consolidated, depending on whether HVB Group has control over the entity or not. Transactions involving structured entities can be divided into the following categories using the business model applied by HVB Group:
– ABS vehicles
– Repackaging vehicles
– Funding vehicles for customers
– Some investment funds
– Other structured entities

Financial instruments with unconsolidated structured entities

Financial instruments with unconsolidated structured entities encompass all contractual relationships from which HVB Group obtains variable earnings and exposure to loss from the structured entities, but without gaining control over the structured entity. These might be equity and debt instruments, derivatives, liquidity facilities or guarantees.

ABS vehicles

HVB Group invests in ABS vehicles and uses ABS vehicles for its own securitisations. These vehicles buy loans or receivables and refinance themselves by issuing securities on the money or capital market. The securities are backed by the assets purchased. HVB Group can also provide finance for these vehicles in the form of liquidity facilities.

ABS vehicles used for own securitisations are fully consolidated in the consolidated financial statements and are not included in the unconsolidated structured entities shown here. This means that only such ABS vehicles in which HVB Group solely has an interest as an investor are classified as unconsolidated structured entities.

	2015	2014
Number of unconsolidated ABS vehicles (investor positions only)	302	335

For more information on the exposure to unconsolidated ABS investor positions, please refer to Note 78.

Repackaging vehicles
Repackaging vehicles are used to offer customers specific securities and derivatives solutions. These vehicles buy assets (such as securities, loans and receivables, and derivatives) and restructure the cash flows from these assets by incorporating other instruments or securities. The vehicles refinance themselves by issuing custom-packaged securities or derivatives that meet the customer's demands. The funding is normally secured by the acquired assets.

	2015	2014
Number of unconsolidated repackaging vehicles	6	6
Aggregate total assets of unconsolidated repackaging vehicles (€ millions)	109	222
Nominal value of the securities issued by unconsolidated repackaging vehicles (€ millions)	109	222

Funding vehicles for customers
Customers use these vehicles as a source of funding. These funding vehicles buy current receivables or leasing receivables from customers and refinance themselves mostly by issuing securities on the capital and money market (mostly commercial paper conduits). HVB Group can also provide financing for these vehicles in the form of liquidity facilities or other lending products.

The majority of the vehicles listed below were set up by the customer or by HVB Group on behalf of the customer. These vehicles are not consolidated as HVB Group is not exposed to a majority of the variable income from the vehicles and has no possibility of influencing them.

	2015	2014
Number of unconsolidated funding vehicles for customers	25	23
Aggregate total assets of unconsolidated funding vehicles for customers (€ millions)	3,489	3,342
Nominal value of the securities issued by unconsolidated funding vehicles		
for customers (€ millions)	3,242	3,167

Some investment funds
Investment funds are classified as structured entities if they are not controlled by means of voting or similar rights. Investment funds invest in a range of assets and can also finance themselves with debt within the framework of their investment policies alongside the moneys provided by investors. Investment funds serve to achieve specifically defined investment goals.

HVB Group offers its customers investment funds under own and third party management and also itself invests in investment funds. We are also mandated by customers to keep shares in investment funds in securities accounts for third party account. Furthermore, HVB Group holds shares in investment funds in its own portfolio. These are mostly held in the held-for-trading portfolio and to a much smaller extent also in the AfS portfolio. In addition, we offer typical banking services to investment funds, including derivative and financing solutions and deposit-taking operations.

The European-Office-Fonds investment fund controlled by HVB Group is fully consolidated in the consolidated financial statements and is not one of the unconsolidated structured entities shown here.

	2015	2014
Number of unconsolidated investment funds classified as structured entities	1,200	1,258
thereof: managed by HVB Group	32	26
Aggregate net asset value (including minority interests) of the investment funds classified as		
structured entities (€ millions)	646,276	641,446
thereof: managed by HVB Group	907	583

With regard to the aggregate net asset value, it should be noted that our risk is only calculated in terms of the participating interest held, loans extended or derivatives issued as a proportion of the aggregate fund volume. A risk analysis is provided in the table under "Risks in connection with unconsolidated structured entities" below.

Other Information (Continued)

Other structured entities

This category covers structured entities that cannot be assigned to any of the other categories. For the most part, HVB Group mainly performs lending activities under this category with structured entities set up by customers or by HVB Group on behalf of customers.

These entities are mostly leasing vehicles that have only insufficient equity and are controlled economically by the lessee. Some of the leasing vehicles were financed through syndicated loans.

In addition, other structured entities include borrowers over which HVB Group gained control during the course of restructuring and/or resolution but which have not been consolidated for materiality reasons (see Note 7, "Companies included in consolidation").

	2015	2014
Number of other structured entities	52	76
Aggregate total assets (€ millions)	889	3,327

Risks in connection with unconsolidated structured entities

The following tables show the carrying amounts of the assets and liabilities together with the off-balance-sheet risk positions of HVB Group in connection with unconsolidated structured entities:

(€ millions)

	31/12/2015				
	ABS VEHICLES (INVESTOR POSITIONS)	REPACKAGING VEHICLES	FUNDING VEHICLES FOR CUSTOMERS	SOME INVESTMENT FUNDS	OTHER STRUCTURED ENTITIES
Assets	**6,262**	**11**	**2,649**	**3,636**	**594**
Financial assets held for trading	269	11	—	1,798	38
Financial assets at fair value through profit or loss	9	—	—	—	—
Available-for-sale financial instruments	89	—	—	966	—
Held-to-maturity investments	28	—	—	—	—
Loans and receivables with customers	5,867	—	2,649	872	556
Liabilities	**25**	**7**	**56**	**3,630**	**105**
Deposits from customers	21	—	54	3,057	83
Debt securities in issue	—	—	—	6	—
Financial liabilities held for trading	4	7	—	567	2
Other liabilities	—	—	—	—	1
Provisions	—	—	2	—	19
Off-balance-sheet positions	**400**	**—**	**1,125**	**37**	**87**
Irrevocable credit commitments and other commitments	400	—	941	37	7
Guarantees	—	—	184	—	80
Maximum exposure to loss	**6,662**	**11**	**3,774**	**3,673**	**681**

(€ millions)

	31/12/2014				
	ABS VEHICLES (INVESTOR POSITIONS)	REPACKAGING VEHICLES	FUNDING VEHICLES FOR CUSTOMERS	SOME INVESTMENT FUNDS	OTHER STRUCTURED ENTITIES
Assets	**5,223**	**20**	**2,522**	**2,877**	**946**
Financial assets held for trading	358	20	—	2,042	43
Financial assets at fair value through profit or loss	24	—	—	—	—
Available-for-sale financial instruments	204	—	—	80	—
Held-to-maturity investments	26	—	—	—	—
Loans and receivables with customers	4,611	—	2,522	755	903
Liabilities	**159**	**—**	**50**	**3,081**	**88**
Deposits from customers	156	—	49	2,130	68
Debt securities in issue	—	—	—	8	—
Financial liabilities held for trading	2	—	—	943	3
Other liabilities	1	—	—	—	2
Provisions	—	—	1	—	15
Off-balance-sheet positions	**1**	**—**	**745**	**286**	**71**
Irrevocable credit commitments and other commitments	—	—	745	42	12
Guarantees	1	—	—	244	59
Maximum exposure to loss	**5,224**	**20**	**3,267**	**3,163**	**1,017**

The maximum exposure to loss from unconsolidated structured entities arises from the assets and off-balance-sheet risk positions relating to structured entities. This view does not, however, reflect the economic risk, as security received and hedging instruments are not included.

No financial or other support ("implicit support") was provided to unconsolidated structured entities during the reporting period without having a contractual obligation to do so. Neither are there any concrete plans to provide support to unconsolidated structured entities in future.

Sponsored unconsolidated structured entities
Structured entities are classified as sponsored by HVB Group if HVB Group was materially involved in setting up the entities. HVB Group has sponsored structured entities without having a participating interest in these entities through financial instruments. Thus, HVB Group is not exposed to the economic risks arising from these structured entities.

We only generate income from structured entities without participating interests to a limited extent through financial instruments. Fee and commission income of €9 million (2014: €9 million) from charges and management fees was generated during the reporting period on investment funds managed by the Bank, of which €5 million (2014: €7 million) was passed on to third parties in trailer fees.

Consolidated structured entities
The biggest consolidated structured entity is the multi-seller conduit programme Arabella Finance. Securities with a nominal value of €2,404 million (2014: €2,169 million) were outstanding at 31 December 2015. The total assets of the multi-seller conduit Arabella Finance Ltd. at the reporting date amounted to €2,409 million (2014: €2,172 million).

Other Information (Continued)

Contractual arrangements that oblige HVB Group to provide financial assistance to consolidated structured entities exist notably in the form of liquidity facilities. These may be drawn by the vehicles to bridge maturity mismatches between the assets acquired and the securities issued.

Financial or other support was provided to consolidated structured entities without a contractual obligation to do so ("implicit support"):

Where the market conditions prevented the securities issued by the consolidated multi-seller conduit Arabella Finance Ltd. being placed, HVB has acquired such issues. Without the purchases of the securities, HVB would have been required to provide liquidity facilities in the same amount to individual Elektra Purchase companies. At the reporting date, HVB held securities issued by Arabella Finance Ltd. with a nominal value of €627 million (2014: €571 million) in its portfolio.

Future support arrangements are planned as follows: HVB will continue to decide on a case-by-case basis whether to buy temporarily non-placeable securities issued by the consolidated multi-seller conduit Arabella Finance Ltd. or utilise the liquidity lines. Accordingly, the volume of securities to be acquired depends on the funding required, the prevailing market conditions and the above decision in each case.

Both contractual financial and other support provided to consolidated structured entities without a contractual obligation to do so are not material for the consolidated financial statements, as these represent intra-group transactions.

88 Trust business

(€ millions)

	2015	2014
Trust assets	**2,429**	**3,262**
Loans and receivables with banks	—	618
Loans and receivables with customers	151	161
Equity securities and other variable-yield securities	—	1
Debt securities and other fixed-income securities	—	—
Participating interests	—	—
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	2,277	2,481
Remaining trust assets	1	1
Trust liabilities	**2,429**	**3,262**
Deposits from banks	151	779
Deposits from customers	2,277	2,481
Debt certificates including bonds	—	—
Other liabilities	1	2

89 Transfer of financial assets

Transferred financial assets are derecognised in accordance with the derecognition criteria set forth in IAS 39 when substantially all the risks and rewards incident to ownership of the asset are transferred.

HVB Group has no continuing involvement in transferred and derecognised financial assets for which substantially the risks and rewards are neither retained nor transferred.

Transferred, non-derecognised financial assets

However, HVB Group conducts business transactions under which it transfers previously recognised financial assets in accordance with IAS 39, but substantially retains all the risks and rewards associated with these assets, meaning that such assets are not derecognised. The recognised asset is simultaneously offset by an associated liability for the consideration received, which corresponds to recognition as a secured loan. HVB Group may not use these transferred, non-derecognised assets for other purposes.

Transactions of this type conducted by the Group relate primarily to securities repurchase agreements (repos) and securities lending transactions.

The securities (transferred) under repo transactions (cash sale) continue to be carried and measured in the consolidated balance sheet, as the Group as seller retains all the credit, share price, interest rate and currency risks associated with the assets and their results. The payment received by the buyer for whom the transferred security acts as security is recognised as a repo liability payable to banks or customers, depending on the counterparty. With delivery of the securities, the unrestricted power of disposal passes to the buyer.

Where the corporate group acts as a lender of securities in securities lending transactions, the securities lent to the counterparty continue to be carried in the balance sheet of the lender.

The transactions are conducted under the customary market terms for securities lending and repurchasing agreements, under which the counterparty holds a contractual or customary right to sell on or pledge on the securities received.

At the same time, these transaction types also encompass such examples as the true sale securitisation transactions Rosenkavalier 2008 and Rosenkavalier 2015 (see Note 63, "Own securitisation") carried out by HVB Group, under which non-derecognised securitised customer receivables indirectly serve as security for repurchase agreements with the ECB.

The following Note 90, "Assets assigned or pledged as security for own liabilities", contains details of repo transactions, securities lending transactions and other transactions under which the financial assets transferred as security for own liabilities are not derecognised.

90 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €47.4 billion (2014: €42.9 billion) or transferred them to a collateral pool with the European Central Bank or GC Pooling. It is not always necessary for liabilities to exist in the latter instance. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

Other Information (Continued)

The following table shows the breakdown of assets that we provide as collateral for own liabilities:

(€ millions)

	2015	2014
Financial assets held for trading	19,313	20,792
Financial assets at fair value through profit or loss	15,514	19,380
Available-for-sale financial assets	1,320	934
Held-to-maturity investments	—	—
Loans and receivables with banks	75	47
Loans and receivables with customers	9,436	10,831
Property, plant and equipment	—	—
Non-recognised received securities pledged on:		
Pledged securities from non-capitalised securities lending transactions	11,162	13,690
Received collateral pledged	16,291	5,579
Total	**73,111**	**71,253**

The collateral pledged from loans and receivables with customers relates to special credit facilities provided by KfW and similar institutions.

The assets pledged by HVB Group as security relate to the following liabilities:

(€ millions)

	2015	2014
Deposits from banks	42,421	38,221
Deposits from customers	5,233	7,947
Debt securities in issue	36	36
Financial liabilities held for trading	14,749	11,487
Contingent liabilities	—	—
Obligations to return non-expensed, borrowed securities	10,672	13,562
Total	**73,111**	**71,253**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, figures are disclosed showing the extent to which the security provided may be pledged or sold on by the borrower.

(€ millions)

	2015	2014
Aggregate carrying amount of assets pledged as security	73,111	71,253
of which: may be pledged/sold on	38,563	39,600

91 Collateral received that HVB Group may pledge or sell on

As part of repurchase agreements and collateral agreements for OTC derivatives, HVB Group has received security that it may pledge or sell on at any time without the security provider having to be in arrears. The fair value of this security is €32.0 billion (2014: €18.5 billion).

HVB Group has actually pledged or sold on €16.0 billion (2014: €5.6 billion) of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

The transactions that make it possible to use this collateral were conducted under the customary market terms for repurchase agreements and securities lending transactions.

92 Information on relationships with related parties

Besides the relationships with consolidated, affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies. The quantitative information in this regard can be found in the notes to the balance sheet and the income statement.

HVB has been assigned the role of centre of competence for the markets and investment banking activities of the entire UniCredit corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB. Furthermore, HVB places excess liquidity efficiently with other UniCredit group companies. The section of the Risk Report in Management's Discussion and Analysis entitled "Credit risk" under "Risk types in detail" contains further information regarding the exposure to UniCredit and its subsidiaries.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services by means of a service level agreement. HVB incurred expenses of €538.6 million (2014: €495.3 million) for these services during 2015. This was offset by income of €11.4 million (2014: €11.8 million) from services rendered and internal charges. Moreover, software products worth €3.2 million (2014: €6.2 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €67.5 million (2014: €64.5 million) for these services during 2015.

Transactions involving related parties are always conducted on an arm's length basis.

Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to the members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Management Board and Supervisory Board (€ 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

Other Information (Continued)

(€ 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.

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.

Provisions for pensions totalling €2,487 thousand were reversed in the 2015 financial year (2014: addition of €16,694 thousand) with regard to the commitments (for death benefits) made to the members of the Management Board.

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €138,477 thousand (2014: €146,268 thousand).

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1,993 thousand in 2015 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2014: €1,945 thousand).

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 per share on grant date	6.190	6.115

For details of share-based compensation, please refer to the disclosures in Note 39, where the underlying UniCredit programmes are described.

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee and their respective immediate family members are considered related parties.

(€ thousands)

	2015			2014		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	1,758	—	7,058	2,791	3	7,620
Members of the Supervisory Board of UniCredit Bank AG	337	—	3,461	522	—	3,498
Members of the Executive Management Committee[1]	—	—	1,370	—	—	1,282

1 excluding members of the Management Board and Supervisory Board of UniCredit Bank AG

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.

Other Information (Continued)

93 Fees paid to the independent auditors

The following table shows the breakdown of fees (excluding value-added tax) of €12 million (2014: €12 million) recorded as expense in the year under review, as paid to the independent auditors Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2015	2014
Fee for	**12**	**12**
Auditing of the financial statements	8	7
Other auditing services	3	5
Tax consulting services	—	—
Other services	1	—

94 Employees

Average number of people employed by us

	2015	2014
Employees (excluding apprentices)	17,994	19,768
Full-time	12,934	14,523
Part-time	5,060	5,245
Apprentices	657	836

The staff's length of service was as follows:

(in %)

	WOMEN	MEN	2015	2014
	(EXCLUDING APPRENTICES)		TOTAL	TOTAL
Staff's length of service				
31 years or more	12.1	12.0	12.1	11.2
from 21 years to less than 31 years	32.9	23.4	28.4	25.0
from 11 years to less than 21 years	29.1	24.4	26.8	24.8
less than 11 years	25.9	40.2	32.7	39.0

95 Offices

Offices, broken down by region

	1/1/2015	ADDITIONS	REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	31/12/2015
		NEW OPENINGS	CLOSURES	CONSOLIDATIONS		
Germany						
Baden-Wuerttemberg	28	—	9	1	(1)	17
Bavaria	423	2	68	33	1	325
Berlin	14	—	3	1	—	10
Brandenburg	9	—	2	—	—	7
Bremen	8	—	1	—	—	7
Hamburg	25	—	2	2	(1)	20
Hesse	17	—	5	—	—	12
Lower Saxony	37	—	13	1	—	23
Mecklenburg-Western Pomerania	6	—	1	—	(1)	4
North Rhine-Westphalia	24	—	12	—	(1)	11
Rhineland-Palatinate	24	1	10	1	—	14
Saarland	7	—	3	—	—	4
Saxony	15	1	8	—	—	8
Saxony-Anhalt	13	—	3	1	—	9
Schleswig-Holstein	67	—	30	2	—	35
Thuringia	12	—	7	—	—	5
Subtotal	**729**	**4**	**177**	**42**	**(3)**	**511**
Other regions						
Africa	1	—	—	—	—	1
Americas	17	—	1	—	(1)	15
Asia	9	—	—	—	—	9
Europe	40	1	1	—	5	45
Subtotal	**67**	**1**	**2**	**—**	**4**	**70**
Total	**796**	**5**	**179**	**42**	**1**	**581**

Other Information (Continued)

96 List of holdings

The separate list of holdings drawn up in compliance with Section 313 (2) HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings of less than 20% and structured entities included in the consolidated financial statements, with and without an HVB shareholding.

		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

Other Information (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

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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

Other Information (Continued)

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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			

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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			

Other Information (Continued)

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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 % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT 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				

Other Information (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
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

Other Information (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.

Other Information (Continued)

97 Members of the 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	**Members**

98 Members of the 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**

Munich, 8 March 2016

UniCredit Bank AG
The Management Board

Buschbeck Dr Diederich Diederichs Giordano

Laber Varese Dr Weimer

Declaration by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and Management's Discussion and Analysis includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 8 March 2016

UniCredit Bank AG
The Management Board

Buschbeck	Dr Diederich	Diederichs	Giordano
Laber	Varese	Dr Weimer	

Independent Auditors’ Report

We have audited the consolidated financial statements prepared by UniCredit Bank AG, Munich, – comprising the income statement, statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements – and the group management report for the business year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (“German Commercial Code”) are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group 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 consolidated financial statements of UniCredit Bank AG, Munich, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’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

Ok guys, where's the stage?

Let's talk about getting the goods on time.

Every summer, major music festivals are held in the countryside. The line-ups are announced months in advance, and thousands of people buy tickets to see their favorite bands live. But sometimes … things can go wrong.

Tens of thousands of goods pass through the customs every day. It's so ordinary that you never even think about it. Until one day, when goods vital to your business operation absolutely must arrive in time.

From concert equipment to spare parts, it can take up to three working days to get your customs payments processed. That is why in Russia we introduced the PayHD card. It speeds up import/export operations and helps our customers avoid bad surprises. With PayHD, goods are always processed quickly, with no extra paper work required.

Now entrepreneurs in Russia can concentrate on their own business and stop worrying about import/export timings.

Corporate Governance

List of Executives and Outside Directorships

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 of 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 Hizmetzler 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		
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 Holding 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		

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
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		

Supervisory Board committees[2]

Audit Committee
Dr Lothar Meyer, Chairman, until 20 May 2015
Dr Wolfgang Sprissler, Chairman, since 20 May 2015
Mirko Davide Georg Bianchi
Aldo Bulgarelli, until 20 May 2015
Prof Dr Annette G. Köhler, since 20 May 2015
Peter König, until 20 May 2015
Florian Schwarz, since 20 May 2015

Nomination Committee
Federico Ghizzoni, Chairman
Peter König, until 20 May 2015
Dr Wolfgang Sprissler
Jens-Uwe Wächter, since 20 May 2015

Remuneration Control Committee
Federico Ghizzoni, Chairman
Peter König, until 20 May 2015
Dr Wolfgang Sprissler
Jens-Uwe Wächter, since 20 May 2015

Risk Committee
Dr Wolfgang Sprissler, Chairman, until 20 May 2015
Peter König, until 20 May 2015
Dr Lothar Meyer, until 20 May 2015
Dr Marita Kraemer, Chairman, since 20 May 2015
Gianni Franco Papa, since 20 May 2015
Florian Schwarz, since 20 May 2015

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Bernd Schreiber
President of the Bavarian Department of State-owned Palaces, Gardens and Lakes, Markt Schwaben

Deputies

Dr Josef Bayer
Ministerialdirigent in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Landsberg am Lech

Stefan Höck
Ministerialrat in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Hohenschäftlarn

1 as of 31 December 2015
2 see also the Report of the Supervisory Board

List of Executives and Outside Directorships (Continued)

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 Aktiengesellschaft, 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

HVB Women's Council

Patrons:
Dr Theodor Weimer, Spokesman of the Bank's Management Board, Country Chairman Germany and member of the Executive Management Committee of UniCredit S.p.A.
Dr Susanne Weiss, attorney, member of the Bank's Supervisory Board until 31 December 2013 and founding president of the HVB Women's Council

President:
Gabriele Zedlmayer, Vice President & Chief Progress Officer Corporate Affairs of Hewlett Packard Company

In December 2009, HVB became the first Bank in Germany to form its own Women's Council, with which it has set a new tone in the German banking world ever since. Besides dealing with feedback and comments, and regularly discussing economic and social issues, the Council looks at ways of improving the position of women in the financial industry. The Council aims to reflect the constantly rising importance of women in financial and purchasing decisions. It helps the Bank to make specific provision for the needs of female customers and employees. The Council accompanies the Bank, launches initiatives and devises new measures. The Bank benefits from the valuable advisory skills of experienced entrepreneurs and is helping to reinforce the role of women in German industry. The Council is specifically empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so outstanding entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in workgroups when drawing the initiatives. For current information about HVB's Women's Council, visit www.hvb-frauenbeirat.de.

Professor Dr Dadja Altenburg-Kohl
Director of the Museum Montanelli, DrAK Foundation, Prague, Czech Republic

Sigrid Bauschert
Member of the Management Board of Management Circle AG, Eschborn/Ts.

Dr Christine Bortenlänger
Member of the Management Board of Deutsches Aktieninstitut e. V., Frankfurt am Main

Stephanie Czerny
Managing director of DLD Media GmbH/Hubert Burda Media, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Controlling Group Functions of F. Hoffmann La Roche, Basel

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
Member of the Management Board of SKW Stahl-Metallurgie Holding AG, Munich

Ines Kolmsee
Member of the Management Board of EWE AG, Oldenburg

Dr Marita Kraemer
Member of the Holding Board of the Zurich Group in Germany,
CEO of the European Centre of Excellence Credit & Surety, Frankfurt am Main

Anja Krusel
Vice President Group Controlling of Borealis AG, Vienna

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Frfr. von Münchhausen
Independent corporate consultant, business mediator
Consulting, training, coaching & mediation, Munich

Andrea Neuroth
Former managing director of KION Financial Services GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, senior partner of Pilati + Partner Rechtsanwälte Notar, Frankfurt am Main

Professor Susanne Porsche
Managing director of summerset GmbH,
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Alexandra Schöneck
Owner of Alexandra Schöneck Schatzmeisterei, Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board and Chairwoman of the Management Board of the Schörghuber Group, Munich

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Founder and managing director of S&L Medien Gruppe GmbH, Munich

Claudia Strittmatter
Senior manager of Wacker Chemie AG, Munich

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Dr Susanne Weiss
Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich

Gabriele Zedlmayer
Vice President & Chief Progress Officer Corporate Affairs of Hewlett Packard Company, Zurich

Report of the Supervisory Board

In the year under review, the Supervisory Board discharged the responsibilities incumbent on it by law, the Articles of Association and its By-Laws and within that framework advised the Management Board on the running of the company and monitored its management activities. As in previous years, the Supervisory Board focused on the economic and financial performance of HVB Group in a persistently challenging environment. In the 2015 financial year, we again dealt with numerous legal and regulatory changes that had immediate effects on our work, particularly the more stringent requirements relating to the Supervisory Board under Section 25d of the German Banking Act (Kreditwesengesetz – KWG). The Management Board kept us informed regularly, promptly and comprehensively about the current development of the business situation, business policies and fundamental issues concerning corporate management and planning, about the financial development of UniCredit Bank AG (hereinafter referred to as "HVB" or "Bank") and HVB Group, the earnings situation as well as risk, liquidity and capital management, about significant transactions and legal disputes as well as events of considerable importance to the Bank. This happened primarily during the meetings of the Supervisory Board and its committees, but also outside meetings in written form. We extensively discussed the strategic orientation and further development of individual business units and the Bank in general with the Management Board. In addition, we regularly obtained information on internal and government investigations of the Bank both in Germany and abroad. Important topics and pending decisions were also discussed at regular meetings between the Spokesman of the Management Board and the Chairman of the Supervisory Board. The chairmen of the Supervisory Board committees also coordinated inter-committee issues in order to strengthen cooperation in the committees as a whole. We were directly consulted at an early stage on decisions of fundamental importance for the Bank, engaged in comprehensive consultations on the matters at hand and decided after a thorough review, insofar as this was indicated under our Corporate Governance. Resolutions were also passed outside meetings in written form, as required.

Meetings of the Supervisory Board

The Supervisory Board held seven meetings in the 2015 financial year, including one extraordinary meeting and the constituent meeting of the newly elected Supervisory Board immediately after the Annual Shareholders' Meeting of HVB. In addition, the prospects and future-orientation of Commercial Banking and Corporate & Investment Banking were discussed together with the IT strategy and risk strategies in a separate strategy workshop. At these meetings, we addressed the following subjects in particular:

At the first meeting of the year, on **26 February 2015**, we discussed the multi-year business strategy, the IT strategy and the risk strategies as well as the Multi-Year Plan of HVB Group for 2015–2019, particularly with regard to the completed adjustment to the Bank's business model and the economic and regulatory environment that continues to undergo rapid change, and also examined the budget for 2015. At the additional strategy workshop on 24 February 2015, we had the opportunity to discuss and consider questions regarding the business strategy, IT strategy and risk strategies with the Management Board in advance. In addition, the Management Board reported on the Recovery and Resolution Plan of HVB Group at the meeting on 26 February 2015. As regards the investigations into cum/ex trades and the measures initiated by the Supervisory Board in 2014 following its own investigation, the law offices engaged by the Bank and the ad-hoc Supervisory Board committee reported on the current developments in civil, penal and tax proceedings and disputes. Moreover, we determined the total amount of variable remuneration for the Management Board members and employees ("bonus-pool") for the 2014 financial year and approved the 2015 goals set for the Management Board, taking into account the recommendation of the Remuneration Control Committee and the Remuneration Officer including external consultants. At this meeting, the Supervisory Board also considered the Bank's diversity strategy and the targets for the share of women on the Management Board and the Supervisory Board (the targets are stated in the Management Report).

At the Supervisory Board meeting held on **10 March 2015** devoted to the annual financial statements, we discussed the annual and consolidated financial statements for 2014 including the Management's Reports with the independent auditor, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft (hereinafter referred to as "Deloitte"), which we subsequently approved at the recommendation of the Audit Committee following our own in-depth review. We also dealt with the report on relations with affiliated companies (Dependency Report) and approved the proposed dividend payment. At this meeting, the Chief Risk Officer (CRO) presented a comprehensive risk report to us, enabling us to gain an overview of the development of credit risk, market risk, operational risk, reputational risk and strategic risk. We also received a detailed report on the current status of the North Sea wind farm project financed by the Bank.

At the meeting on **16 April 2015**, we addressed the evaluation of the 2014 Performance Screens and goal achievement by the Management Board members. Related resolutions were passed, taking into account the recommendations of the Remuneration Control Committee. The implementation of the UniCredit S.p.A. policy on 2015 Group Incentive System at HVB for the remuneration of the Management Board was also approved. In addition, we discussed the 2014 Personnel Report with the Management Board. At this meeting, we also adopted the proposed resolutions for the Bank's Annual Shareholders' Meeting on 20 May 2015, particularly after discussing succession planning, proposed resolutions on the regular election of members to the Supervisory Board, the adjustment of the Supervisory Board's remuneration, and a revision of HVB's Articles of Association.

At an extraordinary meeting on **8 May 2015**, we approved the amicable termination of the term of office of Mr Peter Hofbauer as a Management Board member effective 31 May 2015 and the appointment of two new Management Board members. Mr Francesco Giordano and Dr Michael Diederich were both appointed to the Management Board until the end of 2018 with effect from 1 June 2015 and 1 September 2015 respectively.

Immediately following the Annual Shareholders' Meeting on **20 May 2015**, the constituent meeting of the Supervisory Board was held at which the chairman and the deputy chairmen of the Supervisory Board and the members of the committees were elected.

On **29 May 2015** outside of a meeting, the Supervisory Board also approved the appointment of the independent auditor based on the recommendation given by the Audit Committee.

At the meeting on **30 July 2015**, the Management Board explained the performance of the Bank and the results for the first half of 2015 (Half-yearly Financial Report) on the basis of detailed documents. We also examined further developments in the civil, penal and tax proceedings and disputes in connection with cum/ex trades. The implementation of the Group Compensation Policy of UniCredit S.p.A. at HVB for the Management Board was approved. At this meeting, we also approved the amicable termination of the term of office of Dr Andreas Bohn as a Management Board member effective 30 September 2015.

At the meeting on **29 October 2015**, the Management Board provided an overview of the performance and the results for the first nine months of 2015 (Interim Report at 30 September 2015) on the basis of detailed documents. The Management Board also reported on the HVB Digitalisation Program. This meeting concentrated on the Multi-Year Plan, the HVB Programme "16/18" and the related job cuts in the Bank, which were discussed in detail. At this meeting, we again addressed the cum/ex trades issue and afterwards decided upon the next steps in the civil proceedings outside a meeting on 4 November

Report of the Supervisory Board (Continued)

2015. The Management Board also reported on the monitoring of compliance with banking supervisory regulations. In addition, we discussed the 2015 Remuneration Report with the Management Board. We also considered the review of the appropriateness of the remuneration systems for the Management Board and discussed succession planning for the Management Board and the Supervisory Board. Furthermore, the results were presented of the annual evaluation for the Management Board and the Supervisory Board, which was carried out with the aid of an external, independent consultant (auditing company). Based on the preliminary discussion in the Nomination Committee at the meeting on 29 October 2015, these results were discussed by the Supervisory Board as a whole and measures and recommendations for improvement were examined. The auditing company arrived at the result that, in its opinion, the size, composition, structure and performance of the Supervisory Board complies with the legal requirements of Section 25d KWG and that the performance of this body should be rated efficient and in compliance with legal requirements on the whole. At this meeting, we also approved the only resolution proposed, the conclusion of a profit and loss transfer agreement with HJS 12 Beteiligungsgesellschaft mbH, for an Extraordinary Shareholders' Meeting of the Bank on 30 November 2015.

In 2015, we dealt with the material audit results and reports from the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and the European Central Bank (ECB) on an ongoing basis and monitored the appropriate implementation of the audit findings. At our meetings in 2015, we also regularly discussed the status of remediation of various findings, which are collated in the Management Board's Findings-Programme. Key findings arising from audits of the annual financial statements and material findings from audits by the supervisory authority are collated in this programme, and the remediation of the documented findings in compliance with the timetables are subject to close scrutiny and progress monitoring by both the Management Board and the Supervisory Board. The Management Board informed us about the progress achieved in implementing the strategic orientation of Commercial Banking (KOMPASS Project) at regular intervals. In addition, we considered the development of the upstream exposure last year, which is HVB Group's exposure to UniCredit S.p.A. and affiliated companies of UniCredit S.p.A. Based on BaFin Circular No. 6/2013, the Management Board also informed the Supervisory Board about the Bank's algorithmic trading strategy and corresponding risks in its Algorithmic Trading Report 2015.

We obtained information and deliberated on important legal disputes on a regular basis last year. As in previous years, these included the proceedings in connection with trades around the dividend ex-date (cum/ex trades) in particular. After the audit by external consultants (highly respected law firms and an auditing company experienced in forensic investigations) of the matters pursuant to Section 111 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) commissioned by the Supervisory Board in October 2011 and largely completed in July 2014, the Supervisory Board filed claims for damages on behalf of the Bank. We received regular reports at Supervisory Board meetings in 2015 regarding the subsequent civil-law negotiations conducted with the opponents and the leading D&O insurance company by the law firm engaged for this purpose. We also received reports on the public prosecutor's preliminary investigations in this connection which, in relation to HVB, were partly terminated. The consultants made recommendations for further actions, which we examined and regarding which we passed appropriate resolutions. In addition, we were informed over the course of the year 2015 about the status and further development of the various investigations being conducted by US authorities in connection with past transactions pertaining to certain Iranian individuals and/or legal entities. We also obtained reports on further investigations conducted in this context by HVB. Moreover, we were briefed at regular intervals on the preliminary investigations initiated in March 2015 by the public prosecution in Cologne in connection with transactions involving UniCredit Luxembourg S.A.

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. No member of the Supervisory Board attended fewer than half of the meetings held in 2015. Prior to every Supervisory Board meeting, the Supervisory Board members representing both the employees and the shareholders had the opportunity to address the topics of the meeting in question in preliminary discussions with the Management Board. When required, meetings were also held without the participation of the Management Board. Conflicts of interests of individual Supervisory Board members were disclosed and taken into account; the Supervisory Board members concerned did not take part in the respective deliberations or in meetings.

Supervisory Board committees
The Bank's Supervisory Board set up a Risk Committee, an Audit Committee, a Nomination Committee and a Remuneration Control Committee. Members of the committees were newly elected at the constituent meeting of the Supervisory Board on 20 May 2015. Each committee elected a chairman. The composition of the committees is shown in the Supervisory Board list in this Annual Report. The responsibilities of each of the committees are defined in the By-Laws of the Supervisory Board.

Remuneration Control Committee
The Remuneration Control Committee met six times in 2015, and also met once in a joint meeting with the Risk Committee. This committee performed the tasks set forth in Section 25d (12) KWG and in the Regulation on the Requirements for the Remuneration Systems of Institutions under Regulatory Law (Institutsvergütungsverordnung – InstitutsVergV) of 16 December 2013, which particularly include supporting the Supervisory Board in the appropriate design of the remuneration systems for the Management Board and in monitoring the appropriate design of the remuneration systems for the employees. In the 2015 financial year, the Remuneration Control Committee thus discussed the appropriate design of the remuneration systems for the employees in the 2014 financial year on the basis of the Remuneration Control Report 2014 of the Bank's Remuneration Officer. Based on this report of the Remuneration Officer, it held a joint meeting with the Risk Committee to review relevant interfaces between the remuneration system and the risk management system in order to analyse the effects of the remuneration systems on the risk, capital and liquidity situation of the institution or the corporate group and to ensure that the remuneration systems are oriented towards the business strategy focused on sustainable development at the institution and on the risk strategies derived from it, as well as on the remuneration strategy at institutional and corporate levels. Furthermore, the committee discussed the resolution on the appropriateness of the total amount of variable remuneration for the Management Board and employees ("bonus-pool") for the 2014 financial year and prepared it for the Supervisory Board. The evaluation of Management Board members' performance and the determination of the respective variable remuneration for the 2014 financial year were discussed and appropriate recommendations given to the Supervisory Board. The Remuneration Control Committee prepared the resolutions of the Supervisory Board regarding the setting of goals for the individual Management Board members in the 2015 financial year. The committee also considered and acknowledged the 2015 Group Compensation Policy for HVB Group employees and recommended the implementation of this policy for the members of the Management Board. It discussed the appropriateness of the 2015 Group Incentive System for the Management Board, the Senior and Executive Vice Presidents and Risk Takers and the implementations of this system for the Management Board members. The Supervisory Board was also assisted by the Remuneration Control Committee in reviewing the appropriateness and compatibility of the compensation packages for Management Board members in 2015 based on a benchmark analysis carried out by an external consultant and in monitoring the appropriate design of remuneration for the heads of the Risk Control function and the Compliance function as well as the Risk Takers.The Remuneration Control Committee monitored the properly involvement

Report of the Supervisory Board (Continued)

of the internal control functions and all other relevant areas in the design of the remuneration systems. Moreover, the committee discussed the contracts in connection with the changes in the Management Board in advance. The arrangements were individually discussed by the Remuneration Control Committee and recommendations were provided to the full Supervisory Board. External consultants who are independent from the management were consulted in individual cases. The Remuneration Officer assisted the Remuneration Control Committee in its monitoring and design duties with respect to all remuneration systems.

Nomination Committee

The Nomination Committee met four times in the past year and in particular performed its duties as defined in Section 25d (11) KWG. The committee discussed the succession planning for Supervisory Board members in advance and prepared the Supervisory Board's proposal for the election of new shareholder representatives to the Supervisory Board by the Annual Shareholders' Meeting on 20 May 2015, guided by the criteria specified by the Supervisory Board for the composition of the Supervisory Board. In addition, topics of the meetings included preparing the re-appointment and new appointment of Management Board members and succession planning to identify candidates to replace members on the Bank's Management Board. The Nomination Committee also discussed in advance setting a target for the share of women on the Management Board and in particular establishing a strategy to achieve the goal of promoting women on the Management Board. In the course of preparing the succession planning for the Supervisory Board, the strategy on achieving the target of women accounting for one-third of the Supervisory Board members by 30 July 2017 was also discussed. With the support of an external, independent consultant (auditing company), moreover, the Nomination Committee prepared the annual evaluation of the Management Board and Supervisory Board according to Section 25d (11) KWG by the Supervisory Board and issued corresponding recommendations for action to the Supervisory Board. The Nomination Committee reviewed the Management Board's principles for selecting and appointing individuals to the senior management level and supported the Supervisory Board in making corresponding recommendations to the Management Board. The Nomination Committee consented to Management Board members accepting secondary employment outside of HVB Group that must be taken into account as offices held within the meaning of Section 25c (2) KWG. The Nomination Committee was briefed on the acceptance of additional secondary employment. Finally, the Nomination Committee granted its consent to personal loans and loans to bodies of a company pursuant to Section 15 KWG following an appropriate review.

Audit Committee

The Audit Committee held six meetings last year. The lead auditors of the independent auditor, the head of the Internal Audit and the Compliance Officer (Chief Compliance Officer) attended all of the committee meetings to provide information. The meetings looked at the audit of the annual and consolidated financial statements and the report on relations with affiliated companies as well as the Half-yearly Financial Report and the Interim Reports at 31 March and 30 September 2015.
The committee considered the proposal on the election of the independent auditor for the 2015 financial year and assessed the qualification and independence of the auditor based on the Statement of Independence and the quality of the audit. It prepared the granting of the audit engagement by the Supervisory Board including the specification of audit focus areas and a recommendation on the amount of remuneration for the independent auditor. In addition, it gave its consent to additional services being placed with the independent auditor.
Other topics discussed at length were the efficiency of the risk management system, and particularly of the internal control system and the Internal Audit. The efficiency of the individual systems was discussed with the Management Board, the Internal Audit and the independent auditor. Measures aimed at refining the systems were stipulated; reports on this were provided to the committee on a regular basis. In addition, the Risk Committee of the Supervisory Board

submitted reports to the Audit Committee on the efficiency of risk management. The Audit Committee also satisfied itself of the efficiency of the Internal Audit. The committee was also informed at regular intervals about the work and findings of the Internal Audit, the Compliance function, special audits and material objections by the supervisory authorities. The committee was briefed on the status of remediation of the relevant audit findings of the independent auditor on the annual and consolidated financial statements. The Compliance Officer (Chief Compliance Officer) reported to the committee on the annual compliance report on the securities business and on money laundering prevention and also submitted reports on compliance-related issues on a regular basis which the Audit Committee especially discussed at length and followed up. Among other things, Compliance reported on the expansion of the Compliance function during its quarterly reports. In addition, the committee examined the auditor's report on the annual audit of the securities account business according to Section 36 of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the report by the Management Board on the Bank's outsourcing arrangements, the report of the Data Protection Officer and the adequacy of staffing levels at the Bank. The Audit Committee requested quarterly reports on the liquidity situation. It was informed several times about the implementation status of new accounting provisions, and was also provided with the annual plan of the Internal Audit.

Risk Committee

The Risk Committee met five times in the past year and also held a joint meeting with the Remuneration Control Committee. The lead auditors of the independent auditor, the head of the Internal Audit and the head of CRO Central Functions attended the committee meetings to provide information. The Risk Committee advised the Supervisory Board in particular on the Bank's current and future overall risk appetite and risk strategy and helped it to monitor the implementation of that strategy. The deviations from the overall risk appetite and risk strategy were discussed by the Risk Committee on a regular basis. In compliance with the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement der Kreditinstitute – MaRisk), the Risk Committee received monthly risk reports. The CRO used the quarterly risk reports in the meetings to explain the development of the risk taking capacity and of the credit risk, market risk, operational risk, reputational risk and liquidity risk. The Risk Committee was briefed on a regular basis on the topic of risk and strategy. Key information from the risk point of view was also passed on to the Risk Committee in a timely manner outside of meetings. The findings of the Internal Audit and the measures taken were also discussed regularly. In two meetings, the Risk Committee discussed at length with the Management Board, the Internal Audit and the independent auditor whether the terms in the customer business were in harmony with the business model and the risk structure of the Bank. In a joint meeting with the Remuneration Control Committee, the Risk Committee used the Remuneration Control Report 2014 of the Remuneration Officer to analyse whether the incentives set by the remuneration system take the risk, capital and liquidity structure of the institution into account, as well as the probability and due dates of revenues. In addition, the Risk Committee received regular reports at its meetings on the North Sea wind farm project financed by the Bank and on potential risks. Moreover, it received several reports on the implementation of the new Forbearance reporting requirements. The Risk Committee also obtained information on the Bank's business continuity management (BCM), and particularly on the Disaster Recovery Programme (DR). BCM protects crucial business processes in the event of malfunctions and in emergencies; in the process, DR focuses on IT or technology systems with the aim of ensuring the performance of business functions in the event of major loss events. Further topics considered by the Risk Committee were cybercrime and the Bank's IT security management. Requirements of the Capital Requirements Regulation (CRR) assigned to the committee, an analysis of the Bank's legal risks and individual credit exposures were also discussed.

Report of the Supervisory Board (Continued)

The cooperation and sharing of content among the individual committees is ensured by the composition of the committees. In particular, the chairmen of the Audit Committee and the Risk Committee share information at regular intervals between meetings. The chairmen of all the committees reported in detail at the next respective meeting of the Supervisory Board on the topics of the committees' discussions, the results and the resolutions passed by their respective committees.

Corporate Governance

The Supervisory Board and the Audit, Risk, Nomination and Remuneration Control Committee again intensively examined the implementation of the governance requirements set forth in Sections 25c and 25d KWG in the past year. A key aspect of this examination was the legally prescribed responsibilities of these Supervisory Board committees. As already mentioned, the Nomination Committee and the Supervisory Board discussed the results of the annual evaluation of the Management Board and the Supervisory Board. We believe that the Supervisory Board and the Management Board work efficiently and that a good standard has been achieved. The audit indicated individual areas for improvement that will be taken into account in future.

Training and education

The members of the Supervisory Board took part in the training and educational programmes required for their tasks on their own initiative. In the process, they were appropriately supported by HVB. An internal induction programme was offered particularly to new Supervisory Board members and individual written information was provided. Dr Marita Kraemer, who took over the chair of the Risk Committee, also attended further internal information events. The Bank offered all Supervisory Board members internal training and educational measures on the rating systems in the Bank, on the capital adequacy requirements for banks, the company pension plans, the valuation of financial products and the effects of valuation adjustments as well as an event held by KPMG on banking supervisory law and on the ECB's operations. In addition, Supervisory Board members received information from the Bank on the new corporate governance requirements relating to supervisory board members of banks.

Annual financial statements for 2015

The annual financial statements and Management Report of UniCredit Bank AG prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the consolidated financial statements and Group Management Report prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, for the 2015 financial year were audited by Deloitte. The independent auditor issued an unqualified opinion in each case.

The financial statements listed above were forwarded to us, together with the Management Board's proposal for the appropriation of profits and the independent auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The lead auditor of the independent auditor reported on the key findings of the audit, in particular on the internal control system and the risk management system relating to the financial reporting process compliant with Section 171 (1) AktG and provided detailed answers to our questions at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also reported on the work performed by the independent auditor in addition to the audit of the financial statements and stated that there were no circumstances giving rise to concerns about its partiality. The Chairman of the Audit Committee reported to us in the full Supervisory Board on the results of the review by this committee. Upon recommendation by the Audit Committee, we concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. We determined that, on the basis of our own examination of the annual financial statements, the consolidated financial statements, the Management Report and Group Management Report as well as the proposal for the appropriation of profits, no objections were to be raised. We have therefore approved the annual financial statements and the consolidated financial statements prepared by the Management Board. Consequently, the annual financial statements are adopted. We have also approved the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB with affiliated companies for the 2015 financial year in accordance with Section 312 AktG. The report contains the following concluding statement by the Management Board:

"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."

Deloitte audited this report and issued the following opinion:

"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relations with affiliated companies and the related audit report by Deloitte were also forwarded to us. In the course of the preliminary audit, the Audit Committee and then the full Supervisory Board considered these documents in depth. We checked the information for plausibility and consistency, and carefully examined individual legal transactions between HVB and UniCredit S.p.A. and its affiliated companies together with other cost-generating measures initiated by UniCredit S.p.A. The lead auditors of the independent auditor took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. Based on the final outcome of our own examination of the report on relations of HVB with affiliated companies in the 2015 financial year prepared by the Management Board compliant with Section 312 AktG, which did not identify any deficiencies, no objections are to be raised about the final declaration of the Management Board in this report.

Personnel

Mr Peter Hofbauer resigned from the Management Board effective 31 May 2015 and Dr Andreas Bohn effective 30 September 2015 by mutual consent. Mr Francesco Giordano and Dr Michael Diederich were appointed as full members of the Management Board by the Supervisory Board with effect from 1 June 2015 and 1 September 2015 respectively. The regular elections to the Supervisory Board were held at the Annual Shareholders' Meeting on 20 May 2015. Professor Dr Annette G. Köhler, Mr Gianni Franco Papa and Mr Florian Schwarz joined the Supervisory Board as new members. Mr Aldo Bulgarelli, Mr Peter König and Dr Lothar Meyer left the Supervisory Board.
The Supervisory Board would like to thank Mr Aldo Bulgarelli, Mr Peter König and Dr Lothar Meyer for their long-term, committed and valuable service on this board.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work and their services in the 2015 financial year.

Munich, 17 March 2016

The Supervisory Board

Federico Ghizzoni

Chairman

Look, I just made a mess!

Let's talk about everyday challenges.

Who said that everyday life is boring? It certainly isn't if you're dealing with a rascal like Agata. Around her, simple things like getting to school on time, managing the family budget or walking the puppy become far more complicated. Agata's mom and dad – and countless other parents – face more complications every day. Clearly they could use our help.

For Agata's parents we have designed dozens of new services that simplify life. Take, for example, what Zagrebačka banka is doing in Croatia. Its two-in-one web token enables customers to not only to do their banking online, but also have access to their public administration documents.

This means you can check your account balance or transfer funds online in the same place where you can get your child's school grades, see an electronic copy of your birth or marriage certificate or order your European Health Insurance card.

Now with a bit more time for cleaning up her messes, maybe Agata's parents can laugh a little more too.

Additional Information

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

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You can call up important company announcements as soon as they have been published by visiting our website at www.hvb.de

Internet

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Annual Report (English/German)
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for the first, second and third quarters
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Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest	764	644	668	652
Dividends and other income from equity investments	8	48	7	6
Net fees and commissions	230	246	257	302
Net trading income	33	42	270	180
Net other expenses/income	126	106	65	21
OPERATING INCOME	**1,161**	**1,086**	**1,267**	**1,161**
Operating costs	(869)	(883)	(910)	(917)
OPERATING PROFIT	**292**	**203**	**357**	**244**
Net write-downs of loans and provisions				
for guarantees and commitments	(46)	43	(48)	(62)
NET OPERATING PROFIT	**246**	**246**	**309**	**182**
Provisions for risks and charges	(91)	(44)	(57)	(2)
Restructuring costs	(112)	—	—	—
Net income from investments	36	5	41	17
PROFIT BEFORE TAX	**79**	**207**	**293**	**197**
Income tax for the period	210	(72)	(98)	(66)
PROFIT AFTER TAX	**289**	**135**	**195**	**131**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**289**	**135**	**195**	**131**
Profit before tax from discontinued operations	—	—	—	—
Income tax from discontinued operations	—	—	—	—
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**—**	**—**	**—**	**—**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**289**	**135**	**195**	**131**
attributable to the shareholder of UniCredit Bank AG	289	133	192	129
attributable to minorities	—	2	3	2
Earnings per share from continuing operations (€)				
(undiluted and diluted)	**0.36**	**0.17**	**0.24**	**0.16**
Earnings per share of full HVB Group (€)				
(undiluted and diluted)	**0.36**	**0.17**	**0.24**	**0.16**

Summary of Annual Financial Data

(€ millions)

OPERATING PERFORMANCE	2015	2014	2013	2012	2011
Net interest	2,728	2,643	2,873	3,464	4,073
Dividends and other income from equity investments	69	92	117	147	150
Net fees and commissions	1,035	1,082	1,102	1,108	1,308
Net trading income	525	483	1,095	1,190	190
Net other expenses/income	318	302	328	141	91
OPERATING INCOME	**4,675**	**4,602**	**5,515**	**6,050**	**5,812**
Payroll costs	(1,821)	(1,782)	(1,770)	(1,839)	(1,819)
Other administrative expenses	(1,560)	(1,532)	(1,509)	(1,499)	(1,593)
Amortisation, depreciation and impairment losses					
on intangible and tangible assets	(198)	(245)	(199)	(178)	(199)
Operating costs	**(3,579)**	**(3,559)**	**(3,478)**	**(3,516)**	**(3,611)**
OPERATING PROFIT	**1,096**	**1,043**	**2,037**	**2,534**	**2,201**
Net write-downs of loans and provisions for guarantees and commitments	(113)	(151)	(214)	(727)	(266)
NET OPERATING PROFIT	**983**	**892**	**1,823**	**1,807**	**1,935**
Provisions for risks and charges	(194)	25	(220)	195	(251)
Restructuring costs	(112)	18	(362)	(102)	(108)
Net income from investments	99	148	198	158	39
PROFIT BEFORE TAX	**776**	**1,083**	**1,439**	**2,058**	**1,615**
Income tax for the period	(26)	(298)	(377)	(771)	(640)
PROFIT AFTER TAX	**750**	**785**	**1,062**	**1,287**	**975**
Impairment on goodwill	—	—	—	—	(4)
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**750**	**785**	**1,062**	**1,287**	**971**
Profit before tax from discontinued operations[1]		185	19		
Income tax from discontinued operations[1]		(12)	(7)		
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS[1]		**173**	**12**		
CONSOLIDATED PROFIT OF FULL HVB GROUP	**750**	**958**	**1,074**	**1,287**	**971**
attributable to the shareholder of UniCredit Bank AG	743	947	1,033	1,246	931
attributable to minorities	7	11	41	41	40
Cost-income ratio in % (based on total revenues)	76.6	77.3	63.1	58.1	62.1
Earnings per share from continuing operations (€)	0.93	0.96	1.27		
Earnings per share of full HVB Group (€)	0.93	1.18	1.29	1.55	1.16

	2015	2014	2013	2012	2011
Balance sheet figures (€ billions)					
Total assets	298.7	300.3	290.0	347.3	372.3
Shareholders' equity	20.8	20.6	21.0	23.3	23.3
Key capital ratios	**Compliant with Basel III**	**Compliant with Basel III**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**
Core capital (€ billions)	19.6	19.0	18.5	19.5	20.6
Risk-weighted assets (€ billions)					
(including equivalents for market risk and operational risk)	78.1	85.7	85.5	109.8	127.4
Core capital ratio (%)					
(calculated based on risk-weighted assets including equivalents					
for market risk and operational risk)	25.1	22.1	21.6	17.8	16.2
Employees[2]	16,310	17,980	19,092	19,247	19,442
Branch offices	581	796	933	941	934

1 Contains the contribution to profits of DAB Bank AG and its direktanlage.at AG subsidiary. In the years 2011 and 2012, this contribution to profits was included in the consolidated profit from continuing operations.

2 in full-time equivalents

Daddy, are you done working yet?

Let’s talk about lending a hand to entrepreneurs.

Being an entrepreneur often means that the line between work and private life is very thin. Sometimes it just does not exist, as is the case with Matteo and Giacomo’s father: He wants to balance everything by himself, but often he just can’t make that happen.

But help is closer than it looks. When you think about the ways banks can support private businesses, you probably think about financing, or special current accounts for small enterprises.

Our Italian colleagues were able to look beyond that when they created My Business Manager. To help small entrepreneurs in their everyday lives, My Business Manager is an online report that enables them to continuously monitor and forecast flows, transactions, payments, receipts, invoices and credit.

It’s just like having a personal manager who handles the administration while you take care of your business. Easy, isn’t it?

Thanks to this simple interface, entrepreneurs like Matteo and Giacomo’s dad can check their business at a glance and be faster in all of their transactions and, above all, spend more time with their families.

Annex

UniCredit Profile

Highlights

UniCredit is a leading European commercial bank operating in **17** countries with more than **144,000** employees, over **7,900** branches and with an international network spanning in about **50** markets.
UniCredit benefits from a strong European identity, extensive international presence and broad customer base.
Our strategic position in Western and Eastern Europe gives us one of the region's highest market shares.

Over
144,000
EMPLOYEES[1]

Over
7,900
BRANCHES[2]

Financial Highlights (€ mln)

Operating income
22,405

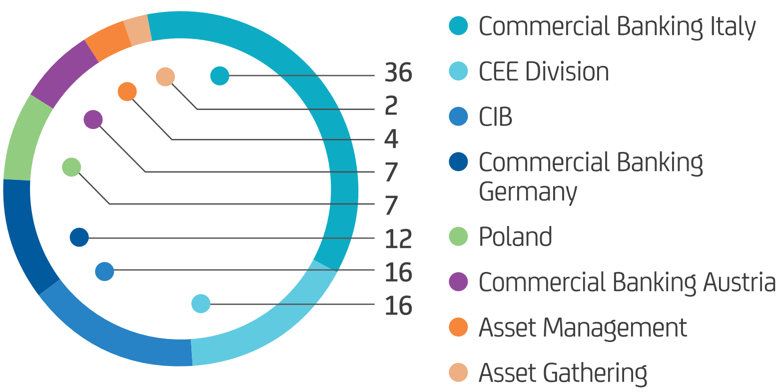
Net profit
1,694

Shareholder's equity
50,087

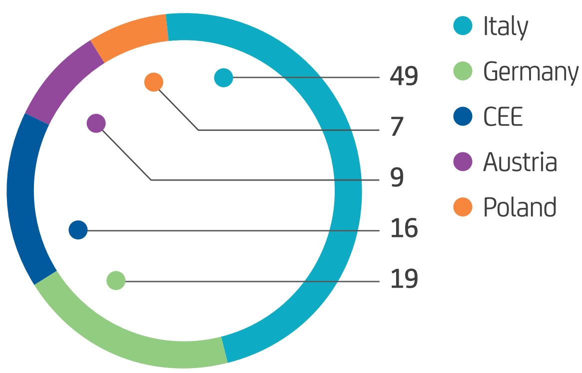
Total assets
860,433

Common Equity Tier 1 ratio*
10.73%

Revenues by Business Lines** (%)



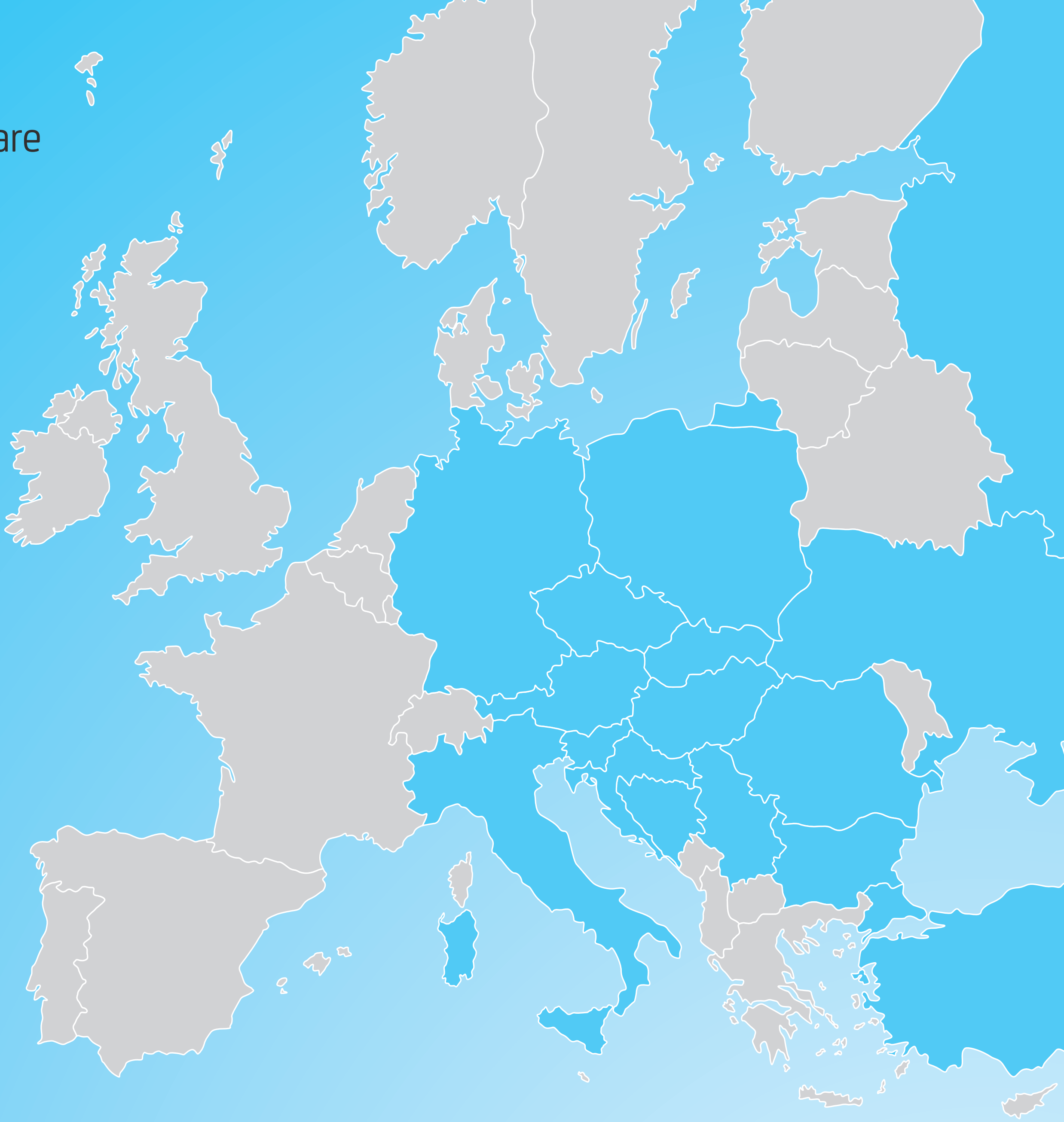
Revenues by Region** (%)



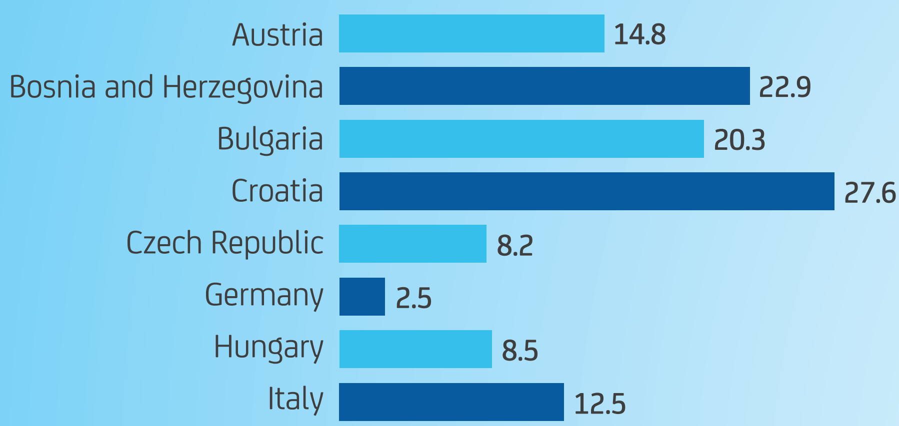
1 Data as at 31 December 2015. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of Yapi Kredi Group (Turkey).
2 Data as at 31 December 2015. Figures include all branches of Yapi Kredi Group (Turkey).
* CET 1 transitional pro-forma for 2015 scrip dividend of 12 €cents per share assuming 75%–25% shares-cash acceptance.
** Data as at 31 December 2015.

Where we are

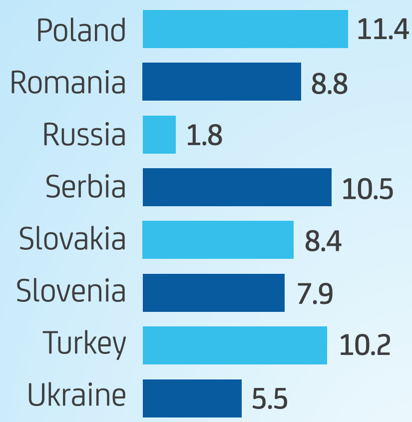
Austria
Azerbaijan
Bosnia
and Herzegovina
Bulgaria
Croatia
Czech republic
Germany
Hungary
Italy
Poland
Romania
Russia
Serbia
Slovakia
Slovenia
Turkey
Ukraine



Market Shares[3] (%)



Market Shares[3] (%)



3 Market Shares in terms of Total Loans as at 31 December 2015.
Source: Company data, National Central Banks.
Total Loans definition includes corporate, household, self-employed, non-profit institutions serving household, insurances, pension funds, other financial intermediaries, local government, central government. For Poland and Romania central government is not included.

Industrial Plan

UniCredit intends to reaffirm its standing as a **rock-solid European commercial bank**, backed by a well-diversified presence in 17 countries and an international network that spans in 50 markets.

Due to the challenging and rapidly changing business environment, UniCredit has elected to accelerate its transformation by adopting **a strategy that aims to achieve growth and development through increased efficiency and simplification.** This is the direction outlined in the Strategic Plan approved by UniCredit's Board of Directors on November 11, 2015.

First and foremost, UniCredit will be **a bank that is efficient, integrated and easy to deal with.** The Group is working to reduce its cost base and streamline its structure. This will enable it to be more responsive and more effectively allocate resources by leveraging its pan-European profile.

UniCredit will also **invest in the growth** of traditional businesses by providing credit to the real economy, and in areas with significant growth potential such as corporate & investment banking, asset management, asset gathering and, in general, in Central and Eastern Europe.

The result will be a rock-solid, profitable bank that is able to generate sustainable value, maintain a strong balance sheet and transform challenges into opportunities.

Accelerating implementation of our Strategic Plan

- Leading Pan-European corporate and retail bank
- Efficient, effective and innovative
- Simpler and more integrated
- Investing in digital, high growth, capital light businesses

Sustainable profitability and organic capital generation

2018 TARGET

RoTE TARGET 11%	CET1 RATIO AT 12.6% PRE DIVIDEND DISTRIBUTION	POTENTIAL UPSIDE FROM DISCONTINUITY ACTIONS

Digital Strategy

Digitization is essential to successfully addressing ongoing changes and sustain growth.

UniCredit has decided to invest heavily in this area to make the Group highly competitive in the new digital arena.

The first order of work will be to **accelerate the Group's digital transformation.** This will improve the speed and quality of our services, as well as the experiences of our customers. We will do this with a full commitment to creating an excellent and engaging digital user experience through better accessibility and instant feedback from our clients. In short: Providing a complete, multi-channel service.

Second, we will develop our future digital business model, which will be based on a new IT infrastructure. This model will meet customers' basic needs, reducing our cost-to-serve. The **buddybank** initiative will be key to the success of this endeavor. A clear discontinuity from traditional banking, buddybank will absorb less capital and be accessible solely via mobile devices, with customer service available 24/7.

Digital strategy to accelerate retail multichannel transformation

Supported by EUR 1.2 bn Investments (2016–2018)

ACCELERATE THE DIGITAL TRANSFORMATION

DELIVERY MODEL UPDATE	**Continue transaction migration** to remote channels **Right-sizing footprint** with new and flexible formats
SIMPLIFICATION AND PROCESS DIGITALIZATION	Digitalize and simplify **back-end processes** **Fully-digitalized** document management **Credit Revolution** program aiding real time automatic credit decisions
INCREASE SALES	Extend end-to-end

BUILD A FUTURE DIGITAL BUSINESS MODEL

A NEW DIGITAL CORE BANKING SYSTEM	New cheaper **IT infrastructure** to serve customers' basis purchase behaviors, **reducing cost-to-serve**
buddybank	**1st molecular bank** offering a **pure mobile customer experience with a 24/7 live-caring concierge** **Plug-and-play platform to facilitate new markets entrance** Implementation started, launch early 2017

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