One Bank
One UniCredit

2016

UniCredit Bank AG
Annual Report

Welcome to
HypoVereinsbank
Member of UniCredit

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

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Legal structure

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

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

Organisation of management and control

Leadership function and Supervisory Board

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.

Mr Lutz Diederichs resigned from the Management Board effective from the end of 5 September 2016 and Mr Francesco Giordano effective from the end of 30 September 2016. Mr Robert Schindler was appointed a new member of the Management Board effective from 6 September 2016 and has been in charge of the Commercial Banking business segment – Unternehmerbank – since that time. Mr Guglielmo Zadra was appointed to the Management Board with effect from 1 October 2016 to act as the Chief Financial Officer (CFO).

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.

Mr Federico Ghizzoni resigned from the Supervisory Board effective from the end of 10 August 2016. At the Extraordinary Shareholders' Meeting held on 30 August 2016, Mr Paolo Cornetta was elected to the Supervisory Board as a new member of the shareholder representatives for the remaining term of office of Mr Ghizzoni. With effect from 11 August 2016, Mr Gianni Franco Papa was elected the new chairman of the Supervisory Board. With effect from the end of 8 November 2016, Mr Mirko Bianchi resigned from the Supervisory Board. From the end of the Extraordinary Shareholders' Meeting on 9 November 2016, Mr Francesco Giordano was elected to the Supervisory Board as a new shareholder representative for the remaining period of the term of office of Mr Bianchi.

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

Statement pursuant to Section 289a (4) of the German Commercial Code

The Supervisory Board of HVB has adopted a target that one-third of the members of the Supervisory Board should be women. One-seventh of the members has been set by the Supervisory Board as the target for the proportion of women on the Management Board. Targets of 22 percent and 24 percent have been set for the proportion of women in the first and second management levels below the Management Board respectively. The targets are to be achieved by the end of the first compliance period (30 June 2017) specified in the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern in Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst). The targets are not less than the present status.

Overall bank management

HVB's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the principle of overall bank management based on earnings, risk, liquidity and capital aspects. This is explained in the Risk Report (please refer in particular to "Overall bank management" within the section entitled "Implementation of overall bank management" in the Risk Report). The key performance indicators (KPIs) applied within the framework of the overall bank management at HVB are stated at the relevant places in the Management Report.

Business model, main products, sales markets, competitive position and facilities in the 2016 financial year

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

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, international companies and institutional customers. HVB has a well-developed network of branches in Germany, particularly in Bavaria and the greater Hamburg area, which was modified to accommodate changed patterns of customer behaviour in recent years. In total, HVB has 368 offices around the world, including 352 HVB branches in Germany. A breakdown of the offices of HVB by region is shown in the section of the present Management Report entitled "Offices".

Transform 2019

The persistently challenging conditions for the banking sector and the huge downward pressure on profitability and costs this entails is making a further adjustment of bank structures and processes necessary. We therefore established the 2017–2019 Strategy Plan to ensure a successful future for the Bank going forward. Our now updated strategic planning is embedded in the group-wide "Transform 2019" programme. Our programme is based on proactive action which in addition to the increased realisation of cross-selling potential also focuses on a further optimisation of our cost structure by streamlining the organisation and processes. At the same time, another adjustment of our staffing levels is planned. In this context, more jobs will be shed at HVB overall by 2019. The job cuts will affect all areas of the Bank. By exploiting normal staff fluctuation and continuing existing programmes to create new employment perspectives, we are seeking to implement the job cuts in a socially responsible manner. The restructuring costs totalling €582 million contained in the income statement arose primarily in connection with the measures named above.

Business Situation and Trends (Continued)

Business segments
HVB 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. High net worth clients will be served under joint sales responsibility achieved by bundling the private banking and wealth management sales channels with corporate banking investment advisors within Commercial Banking.

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 retail customers through to business loans and foreign trade financing for corporate customers as well as investment banking products for corporate customers. For customers in the private banking and wealth management customer segments, we offer comprehensive financial and asset planning with needs-based advisory services by generalists and specialists.

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

In the Private Clients Bank business unit, in 2015 we were the first bank in Germany to complete a root-and-branch modernisation of our retail banking activities. We set ourselves up as a genuine multichannel bank and invested heavily in mobile and internet-based offerings and in the attractiveness of our branches. The path successfully taken by modernising our retail banking business is now being continued apace with our systematic digitalisation and positioning as a quality provider. 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 high net worth investment customers towards our private banking offerings. Joint specialist, staff and support units are efficiently employed. The private banking offering is managed as a part of Private Banking & Wealth Management within Commercial Banking under joint sales responsibility with the Unternehmer Bank. The core benefit of the repositioning in the retail banking business is the top-quality advisory expertise from the customer’s perspective. The 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 offering 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 and Wealth Management relationship models will also be managed within Commercial Banking. Based on a 360-degree advisory approach, high net worth customers are served by very well trained advisors and highly qualified specialists in this segment. In addition to tailored portfolio concepts and financing solutions for high net worth private customers with an entrepreneurial background, the Wealth Management approach includes the brokerage of shareholdings.

Corporate & Investment Banking business segment

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

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

The CIB business segment aims to position itself as the strategic business partner for large corporate customers as well as institutional customers in terms of advisory expertise, product and process quality, and value creation. In the process, it concentrates on creating a stable, strategic business partnership in the long term and positioning itself as the first port of call for customers in both commercial and investment banking. Its customer focus is based on professional, pro-active relationship management that works professionally, rapidly, transparently and with an advice-centred approach. In addition, it has an in-depth understanding of the customer's business model and branch of business. 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 in collaboration with representatives of the distribution channels. Furthermore, the Bard Offshore 1 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 as well as global securities services.

Business Situation and Trends (Continued)

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

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

Other business segment

The Other business segment encompasses the Global Banking Services business unit, 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 particularly covers purchasing, organisation, corporate security, logistics and facility management, cost management and production functions for credit, accounts, foreign exchange, money market and derivatives as well as in-house consulting. Payments, securities settlement, IT application development and IT operation have been outsourced. Strategic real estate management at HVB is also the responsibility of Global Banking Services and is carried out by HVB Immobilien AG and its subsidiaries. The Data Governance unit, which is tasked with the further development and operation of a data warehouse for financial and risk figures, was set up in 2016.

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

Corporate acquisitions and sales

In March 2016, we reached agreement with Bremer Kreditbank Aktiengesellschaft, Bremen, on the sale of Bankhaus Neelmeyer AG, Bremen, which had until then been a fully owned subsidiary of HVB. The closing is expected to take place in the first half of 2017. The sale of Bankhaus Neelmeyer AG is a further consistent step in streamlining HVB's investment portfolio and focusing on our core activities.

Also in March 2016, we agreed on the sale of UniCredit Global Business Services GmbH (UGBS), Unterföhring, until then a fully owned subsidiary of HVB, to UniCredit Business Solutions S.C.p.A. (UBIS), Milan. The closing took place on 1 April 2016. After the sale of UGBS to UBIS and the subsequent integration of UGBS into UBIS, only one group company will provide IT and certain back-office services to HVB in future.

Economic report

Underlying economic conditions

The first half of 2016 was characterised by major turmoil on the financial markets and geopolitical events. The focus at the start of the year was on a further decline in oil prices and concerns about a slowdown in the Chinese economy, as a result of which the survey-based economic indicators deteriorated sharply in many countries in February 2016. The official data did not follow this movement and a renewed rise in the leading indicators as of March 2016 implied an exaggerated perception of the risks in the survey results. In the second quarter, attention shifted to the Brexit referendum in the UK, in which a majority of the British electorate voted at the end of June to leave the EU, which served to briefly increase volatility on the financial markets. As the Brexit decision did not have any major impact on the real economy, share prices rose noticeably in the second half of 2016. The failed constitutional referendum in Italy also affected the financial markets for a brief period only. By contrast, share prices increasingly benefited from Donald Trump's election as US president towards the end of the year. The recovery in the oil price, which was already becoming apparent in the second quarter, continued over the year. In December, it had meanwhile risen to over US$ 55 per Brent barrel after the OPEC and non-OPEC countries agreed to reduce their oil output at the end of November.

All in all, the trend for uneven economic development around the globe has continued. The major industrialised nations went on enjoying moderate growth in the first half of 2016, while a number of oil-exporting emerging and developing countries such as Russia continued to suffer from the low price of oil. Whereas the leading indicators for the eurozone had deteriorated at the start of 2016, the GDP growth rates provided for a pleasant surprise in the first quarter of 2016, with economic output in the eurozone expanding by 0.5% during that period. The pace of growth slackened somewhat in the second quarter to 0.3% but picked up again slightly in the third quarter (up 0.4%). The unemployment rate continued to move in the right direction in the first half of the year, falling to 9.8% in November, the lowest level since 2011. Private consumption continued to recover in 2016 accordingly, which is also reflected in a positive trend in retail sales. Moreover, early indicators and hard facts also showed that the Brexit decision did not have any significant adverse effects on Europe's real economy in the second half of the year. In terms of monetary policy, the ECB responded to the persistently low inflation rate in the eurozone in the first half of the year with further expansive measures.

The picture for Germany over the year was similar to that for the eurozone as a whole. Following on from a sharp fall in February, the Ifo Business Climate Index recovered again strongly thereafter. The GDP grew a significant 0.7% in the first quarter. In the second and third quarters, the German economy then expanded by 0.4% and 0.2% respectively. At the end of the year, the early indicators continued to stand at a high level and supported our positive growth forecast. Like in previous years, the labour market continued to grow with the unemployment rate of 6.0% in December 2016 being at the lowest level for over 20 years.

Sector-specific developments

The financial markets were characterised by high volatility throughout 2016. Two topics in particular dominated the financial markets during the reporting period: the ECB's expanded programme of asset purchases and the outcome of the Brexit referendum that had not been anticipated by the markets. The US election results in November were also surprising but did not initially cause any major upheavals on the stock markets.

Business Situation and Trends (Continued)

The ECB again lowered its interest rates on 10 March 2016. The benchmark rate was reduced to zero percent for the first time in the euro's history and the interest rate on the deposit facility was lowered to minus 0.4%. Furthermore, the ECB decided to expand its purchases of assets from €60 billion to €80 billion per month and also to buy corporate bonds in future. The purchase programme will initially continue unchanged until March 2017 and will be continued as of April 2017 with a lower volume of €60 billion per month until at least the end of 2017. A second series of targeted long term refinancing operations for banks (TLTRO-II) was also set up in March 2016. The conditions for TLTRO-II are favourable and involve rates as low as minus 0.4% provided banks are willing to expand their lending beyond set thresholds.

As a result of the outcome of the Brexit referendum in June 2016, there was a large sell-off of shares and banks' subordinated debt, whereas German government bonds, gold and the Swiss franc all benefited in their role as traditional safe havens. However, the shock was followed by a rebound. The United Kingdom announced that it would officially trigger Article 50 of the EU treaty in the first quarter of 2017 which signifies the start of the two-year period for exit negotiations.

The developments described above led to a further sharp reduction in interest rates overall. The yield on ten-year German government bonds declined significantly in 2016, from 0.60% at year-end 2015 to as low as minus 0.20%. This represents a new historic low since the euro was launched. After the US election, the yield on ten-year government bonds rose to 44 basis points as a result of market expectations about an increase in the US interest rate. The 3-month Euribor continued to experience a downward trend in 2016, falling to as low as minus 0.33%, similarly an historic low since the inception of the euro. The spreads on the credit markets for non-financials with good credit ratings narrowed, which can be attributed mainly to the ECB.

The euro depreciated by as much as 4% against the US dollar at times. In the first half of 2016 the euro appreciated against the US dollar but weakened after the Brexit decision and following the outcome of the US election. The euro rose a very significant 14% against the British pound in 2016, driven primarily by the outcome of the Brexit referendum. The euro depreciated slightly against the Swiss franc and lost almost 5% of its value against the Japanese yen.

All in all, 51 European banks took part in the EBA stress test in July 2016. Compared to the last stress test in 2014, the results were more positive and illustrate the higher risk-bearing capacity of the vast majority of the banks tested.

The Italian banking sector came under greater scrutiny from investors in the wake of the Brexit referendum as it specifically has a relatively large stock of impaired loans on its books. Several banks in Italy presented plans to reduce the high level of impaired loans. This was assisted by Italy's rescue package in the amount of €20 billion that was adopted in December. It should be emphasised that our parent company, UniCredit S.p.A., presented on 13 December 2016 (Capital Markets Day) an extensive programme geared to reducing its portfolio of impaired loans. This programme does not involve any form of government aid.

The European Bank Recovery and Resolution Directive (BRRD) came into force on 1 January 2015. Alongside resolution instruments, it sets a minimum requirement for own funds and eligible liabilities that must be applied from 1 January 2016. What is known as a senior bail-in has also been possible in all EU member states since 1 January 2016. In September 2015, German lawmakers passed the German Resolution Mechanism Act (Abwicklungsmechanismusgesetz – AbwMechG), which translates the Single Resolution Mechanism (SRM) and thus the senior bail-in 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. The act enters into force on 1 January 2017 and resulted in numerous rating responses by rating agencies before that date.

The “Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP)” published by the EBA have been applicable since 1 January 2016. Under the new rules, all institutions within the EU are assigned to one of four categories depending on the size, structure, business model and complexity of the commercial activities of the institutions. In 2017, the SREP requirements for European banks were lowered as Pillar 2 requirements were divided into Pillar 2 requirements and Pillar 2 recommendations. Pillar 2 requirements are binding; any violations can have immediate legal consequences for the banks. Pillar 2 recommendations are not directly binding; non-compliance with the respective instructions will not automatically lead to legal action. However, the ECB expects banks to follow the specifications set out in the Pillar 2 recommendations.

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

As already explained in the “Transform 2019” section, in the 2016 financial year we decided to take additional measures to ensure that we can continue to operate successfully and secure the Bank’s earnings and return levels in the long term. The restructuring costs totalling €582 million reported in the 2016 financial year are largely related to the planned measures. Particularly on account of these expenses, the profit before tax of €169 million and the net income of €5 million were significantly lower than last year’s results (profit before tax: €543 million, net income: €398 million). However, adjusted for restructuring costs in both years, profit before tax would have come to €751 million and thus been €109 million higher than the year-ago figure (€642 million). Hence, HVB can generally report a satisfactory business performance in the extremely challenging market environment in the 2016 financial year thanks to its well-balanced and robust business model.

In the reporting period, the operating result fell by €456 million, or 77.3%, to €134 million. Within this total, operating income rose by €236 million, or 5.5%, to €4,528 million. Net interest income increased a slight 1.8% to €2,844 million despite the historically low interest rates. At €1,135 million, net fees and commissions remained at last year’s level. In the 2016 financial year, net income from the held-for-trading portfolio, at €572 million, was more than doubled. By contrast, other operating income less other operating expenses fell sharply to an expense of €23 million. As a result of our strict cost management and on account of the efficiency measures we have already implemented, general administrative expenses decreased by €211 million to €3,324 million adjusted for restructuring costs. The valuation result for lending operations increased against the very low year-ago figure (minus €49 million) to a moderate level of minus €464 million. The net loss from securities held for liquidity purposes amounts to €16 million (2015: net gain of €12 million). Other income less other expenses (an income of €104 million compared with an expense of €25 million in 2015) is significantly higher compared with 2015 mainly as a result of sales proceeds from our holdings as well as write-ups on bonds and notes held for investment purposes.

In our expectations concerning the development of profit before tax outlined in the outlook in last year’s Management Report, we forecast a significant increase compared with the previous year. This goal was not met in the reporting period, primarily on account of the restructuring costs. However, we almost managed to achieve our objective of generating a slight rise in operating earnings. In this context, higher than expected net interest income and the achievement of our target in net income from the held-for-trading portfolio

Business Situation and Trends (Continued)

offset the weaker than planned net fees and commissions. In addition, we managed to reduce administrative expenses, adjusted for restructuring costs, somewhat more substantially than planned thanks to our strict cost management. At year-end 2016, provisions for losses on loans and receivables were slightly higher than planned.

The profit available for distribution, which forms the basis for the appropriation of profit, amounts to €3,005 million. This figure consists of HVB's net income of €5 million generated in the reporting period and a withdrawal from other retained earnings of €3,000 million. We will propose to the Shareholders' Meeting that a dividend of €3,005 million be paid in total out of this amount to UniCredit S.p.A. (UniCredit), Rome, Italy. In view of the persistently high regulatory capital ratios even after the withdrawal, this is reasonable and appropriate.

HVB 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 20.0% at 31 December 2016 compared with 25.0% at year-end 2015 (in accordance with approved annual financial statements). The decline in the core capital ratios is largely attributable to the decrease in core capital caused by the withdrawal from HVB's other reserves (€3,000 million) as well as to an increase in risk-weighted assets, relating among other things to the expansion of operations. The total capital ratio (equity funds ratio) amounts to 20.9% at year-end 2016 after 25.9% at 31 December 2015 (in accordance with approved annual financial statements in both cases). These banking supervisory ratios are still at an excellent level by both national and international standards.

Total assets increased slightly by 1.7%, or €4.2 billion, to €250.3 billion at 31 December 2016 compared with year-end 2015. On the assets side, there was a notable rise in loans and receivables with banks and customers accompanied by a decline in cash and cash balances. On the liabilities side, there was an increase in deposits from customers in line with the assets side while debt securities in issue and liabilities held-for-trading declined. The shareholders' equity shown in the balance sheet fell a slight €0.4 billion to €18.4 billion. In this context, the withdrawal from other retained earnings does not have any effect overall because it is retained in the profit available for distribution under shareholders' equity until the dividend is paid. The slight decline is reflected in the dividend payout totalling €398 million as resolved by the Shareholders' Meeting in the second quarter of 2016, which was only not offset by the net income of €5 million generated in the 2016 financial year.

HVB enjoyed a very comfortable liquidity base and a solid funding structure at all times in the reporting period. The funding risk remained low on account of a wide funding basis 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 contains further information on the liquidity base of HVB.

With our customer-centric business model, high capital base, stable operating profitability and solid funding foundation as well as good market position in our core business areas, we are a sought-after and reliable partner for our customers and investors. As an integral part of UniCredit, HVB is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers.

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

Operating performance

The 2016 income statement and important events in the 2016 financial year

Income statement	2016 € millions	2015 € millions	CHANGE € millions	 in %
Net interest income	2,844	2,793	+ 51	+ 1.8
Net fees and commissions	1,135	1,138	(3)	(0.3)
Net income from the held-for-trading portfolio	572	284	+ 288	>+ 100.0
Other operating income less other operating expenses	(23)	77	(100)	
Operating income	**4,528**	**4,292**	**+ 236**	**+ 5.5**
General administrative expenses	(3,914)	(3,665)	(249)	+ 6.8
Payroll costs	(2,048)	(1,886)	(162)	+ 8.6
Other administrative expenses[1]	(1,866)	(1,779)	(87)	+ 4.9
Operating result before provisions for losses on loans and receivables	**614**	**627**	**(13)**	**(2.1)**
Provisions	(480)	(37)	(443)	>+ 100.0
Operating result	**134**	**590**	**(456)**	**(77.3)**
Other income less other expenses	104	(25)	+ 129	
Extraordinary expenses	(69)	(22)	(47)	>+ 100.0
Profit before tax	**169**	**543**	**(374)**	**(68.9)**
Tax	(164)	(145)	(19)	+ 13.1
Net income	**5**	**398**	**(393)**	**(98.7)**
Transfer to the reserve for shares in a controlling				
or majority interest-holding company	—	(38)	+ 38	(100.0)
Withdrawal from the reserve for shares in a controlling				
or majority interest-holding company	84	—	+ 84	
Transfer to other retained earnings	(84)	—	(84)	
Withdrawal from other retained earnings	3,000	38	+2,962	>+ 100.0
Profit available for distribution	**3,005**	**398**	**+2,607**	**>+ 100.0**

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

Net interest income

In the challenging environment of unchanged ultra-low interest rates, the net interest income generated in the reporting period – net interest income/expenses including current income from equity securities and other variable-yield securities, participating interests and shares in affiliated companies, and income from profit-pooling and profit-and-loss transfer agreements – increased by €51 million (up 1.8%) to €2,844 million. Within this total, the negative interest agreed with banks and institutional customers for the receivables and liabilities from securities repurchase transactions as well as for sight and term deposits generated income of €64 million on balance in the 2016 financial year. By contrast, the interest payable on our balances with Deutsche Bundesbank were up by €6 million to €11 million. In our real estate finance business, the year-ago figure was not matched despite a slight expansion of volumes and stable margins. However, net interest income benefited from income in connection with the sale of a credit portfolio to finance commercial properties.

Business Situation and Trends (Continued)

Current income of €140 million (2015: €193 million) includes dividends from participating interests, affiliated companies and profit pools. Both years contained an extraordinary dividend payout from our shareholding in EURO Kartensystem GmbH, Frankfurt am Main, although this was higher in the 2015 financial year than in the reporting period. Moreover, a further significant dividend income had an impact, which, however, was unable to compensate the decline because the dividend payout by our subsidiary UniCredit Luxembourg S.A., Luxembourg was not received in the year in which it arose.

Net fees and commissions
At €1,135 million, net fees and commissions were slightly lower than the previous year (€1,138 million).

All in all, fees and commissions receivable rose from €1,435 million in 2015 to €1,473 million. Pleasing developments were recorded in the income generated from dealing in fixed-income securities, the wealth management business and income generated through our new account models. A decline in income in the margin-sharing business involving our Luxembourg-based subsidiary UniCredit Luxembourg S.A. was largely offset by other commissions in the lending and credit business.

At €338 million, the fees and commissions payable were €41 million higher than the previous year's figure of €297 million. Within this total, there was an increase in the expenses for the placement of securities in particular.

Net income from the held-for-trading portfolio
The net income from the held-for-trading portfolio was more than doubled compared with the previous year (up €288 million to €572 million).

Securities activities generated €98 million in contributions to profits. At €408 million, activities involving derivatives, including currency-related transactions and other trading products, improved significantly when taken as a whole compared with 2015. In addition, positive contributions to earnings from valuation adjustments are included at an amount of €88 million.

General administrative expenses
General administrative expenses increased year-on-year by €249 million to €3,914 million.

The restructuring costs of €590 million reported in the 2016 financial year (2015: €130 million) are largely related to the measures planned as part of the "Transform 2019" Strategic Plan.

Furthermore, assets and liabilities for a further 2,910 beneficiaries who were already receiving pension benefits from the Bank as per October 2016 were transferred from HVB to HVB Trust Pensionsfonds AG, Munich, in the financial year. The additional payroll costs incurred were able to be offset based on the regulations on the discounting of pension commitments which were amended by the government in 2016.

We kept other administrative expenses of €1,703 million adjusted for restructuring costs (2015: €1,778 million) at a low level through our consistent and successful cost management over many years. At the same time, the increase in expenses for the bank levy was more than compensated by lower marketing expenses, a sharp decline in the use of external consulting services and lower travel expenses. The reduction in the number of our branches also significantly reduced costs.

Amortisation and depreciation on intangible assets and property, plant and equipment fell by €6 million to €30 million.

Other operating income less other operating expenses
The balance of other operating income and other operating expenses fell significantly to an expense of €23 million in the 2016 financial year (2015: income of €77 million). Lower provisions were unable to offset the income from the sale of receivables contained last year and the lower income from the internal charging of services to UniCredit companies.

Operating result before provisions for losses on loans and receivables
The operating result before provisions for losses on loans and receivables decreased by €13 million year-on-year to €614 million.

Provisions for losses on loans and receivables
The provisions for losses on loans and receivables amounted to €480 million in the reporting period (2015: €37 million). The net valuation expense on lending operations contained in provisions for losses on loans and receivables sharply increased to a moderate need for additions of €464 million based on an unusually low year-ago figure of €49 million. The increase in the net valuation expense on lending operations is partly attributed to the need to recognise higher provisions in the reporting period to reflect the worsening situation in the shipping industry.

The net loss from securities held for liquidity purposes fell to €16 million (2015: net gain of €12 million).

Other income less other expenses
Among other things, the net other income of €104 million (2015: net expense of €25 million) contains positive effects from the agreement of HETA ASSET RESOLUTION AG, Klagenfurt (formerly Hypo Alpe Adria AG, Klagenfurt) with its creditors as well as the gains on the disposal of our participating interests in VISA Europe Limited, London, and our Unterföhring-based subsidiary UniCredit Global Business Services GmbH.

Extraordinary expenses
When the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) was introduced in 2010, HVB made use of the option to aggregate the amount allocable to the provisions for pensions in annual instalments of at least one-fifteenth in every financial year up to 31 December 2024. The allocation of €69 million (2015: €22 million) accruing for the 2016 financial year is disclosed under extraordinary expenses. The part of the revaluation attributable to the transfer of further assets and liabilities from HVB to HVB Trust Pensionsfonds AG, Munich, was fully written up in the financial year.

Profit before tax
Profit before tax fell by €374 million year-on-year to €169 million.

Taxes
The tax payable increased by €19 million during the reporting period to €164 million. Current legislative developments are reflected in the taxes payable.

Net income for the year and appropriation of net income
The profit available for distribution, which forms the basis for the appropriation of net income, amounts to €3,005 million. This amount consists of the net income of €5 million generated in the reporting period and a withdrawal from other retained earnings of €3,000 million. We will propose to the Shareholders' Meeting that a total dividend of €3,005 million be paid to UniCredit S.p.A. (UniCredit) Rome, Italy. This represents a dividend of around €3.75 per share. The profit of €398 million available for distribution in the previous year (which is equivalent to around €0.50 per share) was paid to UniCredit in accordance with a resolution adopted by the Shareholders' Meeting on 10 May 2016.

Financial position

Total assets
HVB's total assets amounted to €250.3 billion at 31 December 2016. This represents a slight year-on-year increase of €4.2 billion.

The Bank lowered its balances with central banks contained in the cash and cash balances item (€7 billion after €10.8 billion in 2015) by €7.8 billion to €2.4 billion due to the current interest rate policy and increased our cash on hand accordingly by €4.0 billion to €4.5 billion. In addition, the loans and receivables with banks rose by €1.6 billion to €35.9 billion, primarily as a result of larger volumes of current accounts. An increase in volume was also posted in loans and receivables with customers (up €6.5 billion to €94.5 billion). Within this total, mortgage loans were again up by €1.2 billion to €40.2 billion in the financial year. There were also higher volumes of security repurchase agreements (up €1.3 billion), the syndicated loan business (up €1.4 billion) and bank loans (up €1.4 billion).

Business Situation and Trends (Continued)

The holdings disclosed under securities (without held-for-trading portfolios) amounted to €53.4 billion (up €0.9 billion). This is primarily attributable to a slight increase in the volume of bonds and notes issued by public-sector and third parties (up €0.7 billion and €0.3 billion respectively).

At €54.5 billion, assets held-for-trading almost matched the previous year's level. This figure contains fixed-income securities including changes in value of €14.9 billion, equity securities and other variable-yield securities including changes in value of €13.8 billion, receivables from securities repurchase transactions on the trading book of €10.8 billion, derivative financial instruments of €14.2 billion and other assets of €0.8 billion.

The shareholdings disclosed under participating interests and shares in affiliated companies came to €2.7 billion. In the financial year we sold our participating interest in ERGO Group AG, Munich and made initial investments in the fintech companies solarisBank AG, Berlin, FinLeap GmbH, Berlin, and MoneyMap GmbH.

In December 2016, assets and liabilities were transferred to HVB Trust Pensionsfonds AG, Munich, for a further 2,910 beneficiaries who were already receiving pension benefits as per October 2016. The effects are reflected under excess of plan assets over pension liabilities.

There was an increase in volumes on the liabilities side in line with the development on the assets side. The deposits from banks (down €0.5 billion to €51.1 billion) were almost able to fully offset the declining volumes in securities repurchase transactions (down €6.3 billion) and sight deposits (down €1.5 billion) as a result of expansions of volumes in term deposits (up €7.5 billion). Deposits from customers rose significantly by €9.7 billion to €124.1 billion. The reason for this is particularly higher volumes of securities repurchase transactions (up €4.2 billion), other liabilities (up €2.2 billion), term deposits (up €2.0 billion) and liabilities from collateral provided (up €1.7 billion).

Debt securities in issue (down €2.2 billion to €13.2 billion) and liabilities held-for-trading (down €2.3 billion to €31.9 billion) fell compared with the previous year. Subordinated liabilities came to €0.5 billion.

The shareholders' equity fell a slight €0.4 billion to €18.4 billion compared with year-end 2015. This total includes a withdrawal from retained earnings of €3.0 billion which is to be paid to UniCredit S.p.A., Rome, Italy, as a dividend. The withdrawal from the reserve does not have any effect at the balance sheet date because it is retained in recognised net income at an amount of €3,005 million under shareholders' equity until the dividend is paid. The dividend payout of €398 million for the 2015 financial year based on a resolution adopted by the Shareholders' Meeting in the second quarter of 2016 served to reduce the total accordingly. The subscribed capital and the additional paid-in capital remained unchanged compared with 2015.

The return on assets is defined in Section 26a KWG as the ratio of net profit to total assets. This amounted to 0.002% at 31 December 2016 (31 December 2015: 0.162%).

The contingent liabilities and other commitments not included in the balance sheet increased by €5.6 billion year-on-year to stand at €77.0 billion at 31 December 2016. This figure includes contingent liabilities (€36.0 billion) from general loan guarantees (€15.3 billion), transaction-related guarantees (€17.5 billion) and trading-related guarantees (€3.2 billion). Other commitments of €41.0 billion (2015: €38.6 billion) consist solely of irrevocable lending commitments, which increased by €2.4 billion year-on-year.

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

The total risk-weighted assets of HVB (including market risk and operational risk) determined in accordance with Basel III requirements amounted to €77.0 billion at 31 December 2016 and were thus €3.6 billion higher than year-end 2015.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use increased by €2.3 billion to €57.8 billion. This increase arose particularly on account of higher exposures in the area of corporate customers of HVB and our subsidiary UniCredit Luxembourg S.A.

The risk-weighted assets for market risk rose by €1.3 billion to €10.9 billion. This is due to an increase in market risk on the part of HVB's internal market risk model.

The risk-weighted asset equivalents for operational risk came to €8.3 billion, thus remaining unchanged compared with year-end 2015.

At 31 December 2016, 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 amounted to €15.4 billion (in accordance with approved annual financial statements) and had thus significantly decreased compared with year-end 2015 (31 December 2015: €18.4 billion in accordance with approved annual financial statements). This decline is attributable to the withdrawal of €3.0 billion from other retained earnings. 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) amounted to 20.0% at 31 December 2016 (year-end 2015: 25.0% in both cases). The decline is predominantly attributable to the lower level of core capital and to a lesser extent also to the increase in risk-weighted assets. The equity capital (in accordance with approved annual financial statements) amounted to €16.1 billion at 31 December 2016 (31 December 2015: €19.0 billion). The equity funds ratio was 20.9% at year-end 2016 (31 December 2015: 25.9%).

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. A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 of the German Liquidity Regulation (Liquiditätsverordnung – 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 decreased to 1.15 by the end of December 2016 after 1.21 at year-end 2015.

In the context of the introduction of new European liquidity requirements under Basel III, the German Liquidity Regulation 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 70% valid at 31 December 2016 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. The leverage ratio of HVB in accordance with the Commission Delegated Regulation (EU) 2015/62, which came into force on 18 January 2015, amounted to 4.8% at 31 December 2016 (year-end 2015: 5.7%), taking account of the withdrawal of €3.0 billion from other retained earnings. The decline in the leverage ratio is mainly attributable to the lower core capital. Adjusted for the withdrawal from other retained earnings, the leverage ratio for December 2016 stands at 5.7% and is thus at the same level as last year.

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 unexpected losses in the confidence level (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 191.6% at year-end 2016 (year-end 2015: 181.9%). The withdrawal of €3 billion

Business Situation and Trends (Continued)

from the reserves also has an impact on this ratio. We consider this figure to be very comfortable and it is also considerably higher than the target 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. In recent years the implementation of new regulatory requirements (especially the Bank Resolution and Recovery Directive – BRRD) has resulted in an adjustment of the rating methods used by rating agencies. In response to the specification of the liability cascade in Germany (Section 46f KWG), which applies from January 2017 onwards, ratings were differentiated further in the course of 2016.

For instance, Moody's expanded its rating scale for German banks in November 2016 to include senior-senior unsecured bank debt as a rating category and assigned a rating of A2 with a stable outlook to HVB. Since January 2016, Moody's has rated HVB's senior unsecured rating at Baa1 with a stable outlook. The deposit rating is rated at A2, also with a stable outlook. The counterparty risk rating is assessed at A1.

In March 2016, Fitch Ratings confirmed the issuer default rating of HVB at A–. 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. In line with Moody's, Fitch also took account of the specification of the liability cascade in Germany and introduced a derivative counterparty rating and a deposit rating in December 2016. The rating for the two new categories has been A– since then.

S&P responded similarly to this development and thus placed the counterparty credit rating of HVB (BBB) in December 2016 on "credit watch with positive implications" and the senior unsecured debt rating of HVB (BBB) on "credit watch developing". In the first quarter of 2017, S&P will examine the rating of HVB's senior unsecured bonds pursuant to Section 46f KWG and divide these into senior and subordinate.

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 were completed in the first quarter of 2016. After the necessary planning phase and preparatory work, the Flachbau Nord building will be modernised. 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 was also applied to the various floors in the HVB Tower, taking into account feedback received from the Smart Working pilot project. The HVB Tower became the Bank's head office and seat of its Management Board when the Bank moved into the building in the first quarter of 2016.

Offices

HVB maintained 352 offices in Germany, 12 abroad and 4 representative offices at 31 December 2016.

Offices, broken down by region

		ADDITIONS	REDUCTIONS		
	1/1/2016	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	31/12/2016
Germany					
Baden-Wuerttemberg	15	—	—	—	15
Bavaria	205	—	—	2	203
Berlin	8	—	—	—	8
Brandenburg	7	—	—	—	7
Hamburg	13	—	—	—	13
Hesse	8	—	—	—	8
Lower Saxony	10	—	—	—	10
Mecklenburg-Western Pomerania	4	—	—	—	4
North Rhine-Westphalia	9	—	—	—	9
Rhineland-Palatinate	14	—	—	—	14
Saarland	4	—	—	—	4
Saxony	8	—	—	—	8
Saxony-Anhalt	9	—	—	—	9
Schleswig-Holstein	35	—	—	—	35
Thuringia	5	—	—	—	5
Subtotal	**354**	**—**	**—**	**2**	**352**
Other regions					
Africa	**1**	**—**	**—**	**—**	**1**
South Africa[1]	1	—	—	—	1
Americas	**2**	**—**	**—**	**—**	**2**
USA	2	—	—	—	2
Cayman Islands	—	—	—	—	—
Asia	**6**	**—**	**—**	**—**	**6**
Hong Kong	1	—	—	—	1
Singapore	1	—	—	—	1
Japan	1	—	—	—	1
United Arab Emirates[1]	1	—	—	—	1
South Korea[1]	1	—	—	—	1
Vietnam[1]	1	—	—	—	1
Europe	**7**	**—**	**—**	**—**	**7**
France	1	—	—	—	1
Greece	1	—	—	—	1
UK	1	—	—	—	1
Italy	1	—	—	—	1
Austria	1	—	—	—	1
Switzerland	2	—	—	—	2
Subtotal	**16**	**—**	**—**	**—**	**16**
Total	**370**	**—**	**—**	**2**	**368**

1 representative offices

Business Situation and Trends (Continued)

Relations with affiliated companies

We have prepared a separate report on our relations with affiliated companies in the 2016 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG):

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

Report on subsequent events

There were no significant events at HVB after 31 December 2016 to report.

Forecast report/Outlook

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

General economic outlook

According to projections by the IMF, the global economy is likely to grow by around 3.4% in 2017, although the prospects for the individual economies vary. Whereas growth will probably accelerate overall in the USA, the growth rate in Europe is expected to be moderate. The environment and the growth prospects for many emerging and developing countries have brightened somewhat. Initial signs of a pick-up in world trade and a recovery in commodity prices should support this development. In particular, the further increase in oil prices recently is likely to ease the situation for oil-exporting countries such as Russia. The slowdown in economic growth in China is, however, having a negative impact on global growth prospects. Although fiscal stimuli will also assist GDP growth in China in 2017, primarily through further infrastructure projects, the change in economic structures towards more private consumption and services will result in production continuing to lose momentum. In addition, there is still uncertainty about global trade and the global economy due to the yet unforeseeable consequences of the Brexit decision and the election of Donald Trump as the new US president.

The US economy will remain one of the main drivers of global growth also in 2017. We expect real GDP growth to reach 2.4% and thus be up 1.6% on last year's figure. It can be assumed that fiscal measures will support growth in 2017, even though the extent of these is difficult to foresee at present. Donald Trump's announcements before his election as the new US president that he will significantly reduce income and corporate tax and spend more on defence and infrastructure would probably increase the government deficit by at least US$ 7 trillion in total over the next ten years.

Donald Trump's election and further developments regarding the UK's withdrawal from the EU are likely to play a major role in economic policy in 2017. In both cases the impact on economic development and the trade relations of both countries with the EU in the future is currently difficult to estimate. As regards the UK's withdrawal from the EU, the effects largely depend on the negotiations on future trade relations between the UK and the EU ("hard Brexit").

GDP growth of 1.5% in the eurozone in 2017 would be slightly lower than the level achieved in the previous year (up 1.7%). The slight slowdowns compared with 2016 are primarily attributable to a stronger euro and higher oil prices. But the extent to which growth can be achieved in 2017 also largely depends on the development of world trade. There are risks to world trade as a result of increasing protectionist tendencies worldwide. Growth in the eurozone is projected to once more be driven by domestic demand in 2017, with the expansion rate of consumer spending likely to weaken from 1.7% to 1.3% compared with last year due to higher inflation rates (negative purchase power effect).

The extension of the ECB's bond-buying programme until the end of 2017 at a lower amount of €60 billion per month as announced in December 2016 will ensure favourable financing terms also this year. We expect the inflation rate in the eurozone, which is still below the ECB's target rate of 2%, to increase to 1.7% for 2017 as a whole.

At country level, we forecast a GDP growth rate in Germany of 1.5% in 2017 compared with 1.9% in 2016 (not adjusted for calendar reasons). In 2017, growth in France should stabilise at last year's level of 1.2% while we project a slight decline in Italy from 1.0% in 2016 to 0.8% in 2017. Following on from a very strong year in 2016, the recovery will probably peter out in Spain, with growth likely to slow from 3.2% to 2.4% in 2017.

Domestic consumption is expected to be the key driver of growth in the German economy in 2017. In addition to the waning fillip to growth from the influx of refugees, the main reasons for this are further increases in pay and pensions and positive stimuli from the construction industry.

Sector development in 2017

In 2017 political uncertainties will hold centre stage and be dominated by elections in the Netherlands, France and Germany, the ongoing Brexit negotiations and future US policy. The backdrop of extremely low interest rates will continue to be one of the main challenges for the financial sector. Discussions on Basel III reforms will be continued in 2017.

The Financial Stability Board (FSB) published its Total Loss-Absorbing Capacity standard for global systemically important banks (G-SIBs) in 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, the TLAC must amount to at least 6% of the denominator in the leverage ratio from 2019 onwards and at least 6.75% from 2022 onwards. 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).

Business Situation and Trends (Continued)

In November 2016, the EU Commission published a proposal for the adjustment of the BRRD and the Capital Adequacy Directive and Capital Adequacy Regulation (CRD IV and CRR). Firstly, the proposed amendments aim at achieving a harmonisation of the insolvency hierarchy of banks within the EU and thus largely also at harmonising the senior bail-in instrument. Secondly, the TLAC concept of the FSB is to be integrated into European law so that European G-SIBs are only required to meet one key ratio in future. To this end, the calculation, amount and MREL-eligible liabilities are to be adjusted to the TLAC.

In 2016, the BaFin held a public consultation on a revision of the Minimum Requirements for Risk Management (MaRisk). The draft of the fifth round of amendments to the MaRisk contains, among other things, improvements to risk data aggregation and risk reporting, and incorporates the Basel Committee's BCBS 239 standard into the MaRisk. Furthermore, the intention is to strengthen the effective management of risks by management bodies and cultivate an appropriate risk culture in banks. Last of all, the regulations on outsourcing will be specified and supplemented. The amended version of the MaRisk is scheduled to be published in the first half of 2017. Implementation of the amended version of the MaRisk will lead to significantly greater demands on reporting which, in turn, will necessitate considerable process and IT adjustments at banks in some cases.

Development of HVB

On account of the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are very unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that, in a consistently challenging environment for the financial industry, we will again be able to generate a satisfactory profit before tax in the 2017 financial year. With consideration given to the current conditions the Bank anticipates a significantly higher year-on-year result. However, it must be taken into account in this context that the previous year's figure was weighed down by restructuring costs, among other things. We expect a moderate rise in 2017 compared with the profit before tax in 2016 adjusted for restructuring costs.

We are planning operating income to almost achieve last year's level in the 2017 financial year in a persistently difficult market environment. The budgeted operating costs should remain at the same level as last year adjusted for restructuring costs based on the consistent application of our strict cost management. The cost-income ratio is thus also likely to remain at roughly last year's adjusted level. In terms of net write-downs of loans and provisions for guarantees and commitments, which in 2016 stood at a moderate level, we project the need for additions to remain virtually unchanged in 2017.

We will continue to enjoy an excellent capital base in 2017. The capital ratio for the core capital (Common Equity Tier 1 capital ratio) will be slightly lower than the level at year-end 2016. 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.

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 is an important part of one of the largest, best-positioned banking groups in Europe, UniCredit. It is one of the largest private financial institutions in Germany and has core competence for all UniCredit customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries in the world that continues to enjoy a financial rating of AAA. Hence, HVB, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers.

With a business policy geared to sustainability, an excellent capital base and the measures planned to boost efficiency and earnings in the "Transform 2019" programme, HVB stands for innovation, reliability, stability and security. This results in the opportunities described below:

The Commercial Banking business segment is notable for its universal bank offerings guaranteed to meet customers' needs to a high standard, particularly through the close cooperation between the business units in Commercial Banking and with the product specialists in Corporate & Investment Banking. The focus is placed on customers prepared to pay an appropriate price for premium services. Specifically, we see the following growth opportunities for each business unit:

Within the Commercial Banking business segment, the Unternehmer Bank business unit is seeking in its corporate customer business to position itself as a principal or core bank and to act as a strategic business partner that is heavily involved in the entrepreneurial activities of our customers. The most important strategic challenges of our customers include, among other things, foreign trade, internationalisation, digitalisation and corporate succession. The entrepreneur's private sphere is also a focal point of our comprehensive advisory services. For this reason, the growth initiatives of the Unternehmer Bank cover precisely these needs.

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 and completed this as scheduled in 2015. The path successfully taken to do so is being continued apace with systematic digitalisation and positioning as a quality provider. We are proactively focusing on discriminating customers seeking professional advice. Here we aim to actively increase our market share to improve the profitability of our retail banking operations. Among other things, this will be achieved by creating clear lines of demarcation between us and the competition, providing first-class individualised advisory expertise, offering a modern multi-channel business model, loyalty pricing and accentuating our premium market presence which includes modern branches and a network of specialists. In the Private Banking and Wealth Management customer segments we accompany customers in a spirit of trust over the long term based on our 360-degree product range analysis which includes financial/wealth planning, succession planning, foundation management, shareholdings, financing, trading in derivatives and other special issues. In addition, we offer our multiple award-winning business model including a mandated solution, a commission-based model and tailored portfolio advice in the area of securities depending on our customers' requirements. Additional growth stimuli are generated by constantly refining our business model, such as in the areas of product and service range, digitalisation and the quality of customer advice.

The strategic emphasis in the CIB business segment 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 complete with creative, solution-oriented approaches and wide-ranging financing and capital-procurement opportunities. We see further business potential in the expansion and improved use of our strong international network. To increase the efficiency of our customer-bank relations and thus enhance our cross-selling potential, we are expanding our processing and access platforms. We also wish to better exploit the opportunities afforded by digitalisation by setting up a digital client service model, for instance, or by expanding and strengthening the supply chain while optimising our approach to selling flow products.

As a universal bank, HVB has a high level of cross-selling potential not only due to the strong cooperation between the Private Clients Bank and the Unternehmer Bank but also due to the joint venture between the CIB business segment and the Unternehmer Bank business unit as a result of which Mittelstand customers in the Unternehmer Bank can benefit more from HVB's investment banking services. Furthermore, HVB generates further earnings potential by offering its customers support in markets where it is represented by the whole UniCredit branch network rather than having its own operations. HVB can respond quickly and flexibly to expansion opportunities arising on the market. On account of its excellent capital base, it is already well equipped for any tightening of regulatory requirements and will be able to actively operate on the market even in that kind of scenario.

Business Situation and Trends (Continued)

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

For years, HVB has been evolving into a bank with strong and consistent cost management. HVB is seeking to constantly enhance its operating costs over the coming years as well, partly by exploiting synergies released by the rationalisation of overlapping functions particularly in the context of its "Transform 2019" programme. In this regard, we are making use of the opportunities to cooperate with UniCredit across country and company lines and applying best practices wherever they can be found. We aim to reinforce the end-to-end process view and improve the interaction between our internal processes by optimising our handling processes.

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

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

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

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

Non-financial performance indicators

Human resources

Our employees

As a bank in a dynamic and challenging business environment, HVB depends on highly competent and motivated employees willing to embrace change. These continue to be our most important capital for long-term value creation. 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. In this context, we see living diversity and a high level of digital literacy as success factors that enable us to meet our goal of being a future-oriented and innovative financial institution.

Our Strategic Plan

The transformation process that HVB is passing through requires a high degree of flexibility coupled with a focus on efficiency and implementation speed. Human Resources (HR) sees it as its task to anticipate changes and constructively support these. In accordance with regulatory requirements, it creates a forward-looking work environment in the interests of the employees and ensures that they can develop their core expertise. In the reporting period, human resources work focused on implementing the Strategic Plan 2016 to 2018. Key aspects of this plan are cost management and job cuts as well as supporting areas of growth at the Bank.

Developing managers and talents
For an organisation to be adaptable, it requires employees who see change as an opportunity for personal development. HVB supports development steps across segments and expects potential high performers to be willing to take on a new task. This lays the foundation for building a succession for key positions and establishing forward-looking personnel planning. When selecting managers, we thus pay attention to demonstrable flexibility and experience in various specialist areas and cultural environments. A common understanding of leadership is based on uniform principles relating to expertise in all segments at the Bank, particularly the "5 Fundamentals". These encompass cooperative action, customer orientation, individual commitment, disciplined implementation and place a focus on the management of risks to contribute to the Bank's success and strengthen our common culture.

Even in times when jobs are being shed, HVB continues to invest in talented junior staff, apprentices and trainees. The task of developing and retaining talents is becoming more important in the light of demographic developments while regulatory requirements are also 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. Through the relaunch of the hvb.de/jobs website in the reporting period, we are supporting the recruitment of new talents by adopting a more appropriate approach to addressing this particular target group.

Offering equal opportunities
HVB aims to demonstrate a culture of inclusion and diversity. One of the priorities in this context is to make evident and integrate in management the specific potential of women. Through our initiatives we have established ourselves as one of the forerunners in Germany. HVB ranks third in the current Women's Career Index organised under the auspices of the German Federal Family Affairs Ministry. Our corporate Gender Equality Policy ensures that due consideration is given to equal opportunity for women and men in the hiring, career development, remuneration and work-life balance of our employees. In addition, HVB is continuing to build on mentoring initiatives, regular roundtable meetings with the Management Board, internal and external networks and support by the Shared Future Officer.

Pay
HVB's remuneration policy is based on the Group Compensation Policy of UniCredit and supports long-term strategic goals, the principles of group-wide risk management and the interests of our stakeholders. Regulatory requirements – particularly the provisions set out in the German Regulation on the Requirements for the Remuneration Systems of Institutions under Regulatory Law (Institutsvergütungsverordnung – InstitutsVergV), the Minimum Requirements for Risk Management (MaRisk) and Minimum Requirements for Compliance Functions (MaComp, Module BT8) – are taken into account, allowing especially conflicts of interest between various roles within the Bank or in relation to customers to be avoided. Every disbursement of variable remuneration is also preceded by a review of compliance-conformant behaviour to support sustained actions. 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. We disclose details on our remuneration systems in the internet under www.hvb.de (Investor Relations).

Excellent employer
HVB is regarded as one of the most attractive employers in all sectors of industry. At the beginning of 2016 for the sixth time in a row, HVB received the "Top Employer" certification from the Top Employers Institute for a company whose human resources work meets the highest standards. The factors assessed included corporate culture, training and development offerings as well as career prospects. A number of flexible working-time models, home office, mobile work equipment and the Bank's own nursery at its location in Munich enable our female and male employees to reconcile family and working life.

Business Situation and Trends (Continued)

The percentage of part-time workers rose to 26.2% in 2016 (2015: 25.3%). The Bank's health management programme, the excellence of which has for years been confirmed by the Corporate Health Award (the leading German quality initiative), creates a framework throughout Germany in which employees can remain healthy and motivated.

Outlook
The overall goal of the Bank to safeguard its competitiveness in the long term in a challenging regulatory environment also determines the personnel measures. On the one hand, this includes strengthening the position of HVB as an attractive employer both internally and externally. On the other hand, the training and development of employees as well as recruiting are dominated by the establishment of a digital corporate culture and the further development of agile work methods. The key focus for HR will, however, continue to be implementing transformation programmes. This includes comprehensive succession planning and specifically fostering internal talents. Our employees who, with so much commitment, have already taken many steps along this path with us and have thus made an important contribution to the future viability of the Bank deserve our sincere thanks.

Sustainability
Our sustainability strategy
A long-term orientation and sustainability are crucial factors for continuing success in a rapidly changing world, especially in the banking business. We are firmly committed to the global goals defined for sustainable development by the United Nations: Our strategy for sustained business success gives priority to the long-term interests of our stakeholders over short-term profits. We wish to contribute to climate protection and sustainable conduct with our products and services as well as in our own banking operations. We promote this goal in the four action areas of our core business, the environment, society and employees and thus meet the expectations and demands of our stakeholders. HVB's sustainability management is coordinated and refined by the Corporate Sustainability department.

Excellent performance
Since 2002, we have documented our ecological and social performance in a Sustainability Report – since 2008 according to the current guidelines of the Global Reporting Initiative (GRI). We have also issued statements of compliance with the German Sustainability Code since 2012. 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 other things. HVB has been regarded as Germany's most sustainable commercial bank for the last 14 years according to the sustainability rating agency oekom research AG (oekom research rating in December 2015 "Financials/ Commercial Banks & Capital Markets"). It ranks among the top ten commercial banks in a total field of 280 commercial banks worldwide.

Avoiding ecological and social risks
Adequate risk management also includes the effects of environmental, social and other reputational risks associated with our conduct and the ecological and social conduct of our customers. We have systematically expanded our reputation risk management programme over the last few years.

Sector-specific guidelines known as Sector Policies make it possible for us to operate responsibly even in sensitive industry sectors. UniCredit develops 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. Sector Policies are currently implemented for the arms and defence industry, nuclear energy, mining, water infrastructure projects and for responsibly financing coal-based power generation. They are supplemented by our self-imposed obligation to respect human rights that we updated and optimised in 2016.

We finance large-scale projects with a volume in excess of US$ 10 million and project-related corporate loans in accordance with the global industry standard of the Equator Principles (EP III) that we helped to establish in 2003. This is based on the environmental and social standards of the International Finance Corporation and makes a major contribution to ensuring greater sustainability in project finance. The implementation of these principles is ensured by an advisory team set up for this purpose.

Financing climate protection

To combat climate change, it is vital that a bridge is built between investors and projects that actively contribute to climate and environmental protection. Green bonds play an important role in this connection. In total, HVB has placed 18 green bonds with a volume in excess of €14.1 billion so far, ten of which in the reporting year (volume: €7.3 billion). In 2015, we advised on the issuance of the first green covered Pfandbrief of Berlin Hyp and at the end of March 2016, we issued the world's first green covered promissory note for the Nordex Group.

Our portfolio of sustainable investments can accommodate nearly all investment needs, whether mutual funds, asset management or retirement savings products. 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. At 31 December 2016, we had €2.6 billion in assets under sustainable management, which is equivalent to an increase of 29.5% compared with 2015.

Corporate citizenship

Integration has not only been a crucial issue of our times since the start of the refugee crisis. This is why we wish to give people opportunities to be involved in business and social life through our activities. We have geared our corporate citizenship strategy to this objective. In terms of content, the corporate citizenship of HVB focuses on three areas:

- **Financial education** and 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

Environmentally friendly banking operations

HVB is seeking to minimise its impact on the environment not only in its products and services but also within the Bank. To design banking and building operations in an environmentally responsible way, HVB is focusing on resource efficiency, renewable energies and reducing its carbon footprint. All of HVB's own locations that the Bank uses are audited in a matrix certification process based on the ISO 14001 environment standard.

HVB's banking and building operations have already been 100% CO_2-neutral since the summer of 2013. The complete ecological balance sheet of our banking operations is published on our website at www.hvb.de/nachhaltigkeit.

Outlook

In the wake of the Paris Climate Change Conference and the government regulations launched to achieve a largely decarbonised society by 2050, our task consists in understanding this incipient transformation process and in establishing our business opportunities and risks. To this end, we will set up an internal competence network in 2017 on the issues of low carbon economy/living, which will be composed of representatives from all business segments and from Risk Management. Furthermore, we will continue to expand our sustainability management programme. Since the autumn of 2016, HVB's sustainability issues have been integrated into the annual business strategy process of the Bank. The results are channelled into the decisions of the group-wide Group Environmental and Social Council (GESC) of UniCredit.

Risk Report

HVB as a risk-taking entity

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

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

Risk types

Credit risk is defined as the risk that a change in the credit rating of a contracting party (borrower, counterparty, issuer or country) induces a change in the value of the corresponding receivables. This change in value may be due to 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 understood to be the danger 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.

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

All other risk types 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 long-term losses in earnings, thereby diminishing the fair value of the company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour and changes in the underlying legal conditions.
- **Real estate risk** covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB. No land or properties are included that are held as collateral in lending transactions.
- **Financial investment risk** arises from equity interests held in companies that are not included in the trading book. Financial investment risk is measured as both an individual risk type and as a diversified risk 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 either not recognising or not correctly assessing significant developments or trends in the bank's environment. As a consequence fundamental management decisions could, in retrospect, prove to be disadvantageous in terms of the bank's long term goals. In addition, some decisions may be difficult to reverse or cannot be reversed at all. In the worst case, this can negatively impact the profitability and risk profile of HVB.
– **Pension risk** can impact both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as an increase in the obligations on the liabilities side, due for instance to a reduction in the discount rate. Furthermore, actuarial risks such as longevity risk (changes to the mortality tables) may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.

Integrated overall bank management

Risk management

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

The 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. Two adverse scenarios are separately examined to permit an assessment of the impact of a deteriorating macroeconomic business environment. Whereas the first scenario assumes a setback in growth in major EMU economies, 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 scenarios, 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 internal information system.

Functional separation

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

Risk Report (Continued)

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

Business risk is defined as losses arising from negative, unexpected changes 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, this is performed by the Real Estate (GRE) unit, HVB Immobilien AG and the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS; formerly known as UniCredit Global Business Services GmbH (UGBS)), which was engaged by HVB Immobilien AG by way of an operating contract. HVB has undertaken to provide a range of different pension plans, which are largely financed by various investment vehicles, some of which are external. Under the capital investment process, there are separate rules covering the specific risk controlling of the different pension plans in each case. Some of these are subject to supervision by the German Federal Financial Supervisory Authority (BaFin) (insurers and pension funds supervision) and therefore need to comply with external rules and regulations. Controlling of strategic risk is the shared responsibility of HVB's Management Board.

Risk monitoring
The central risk monitoring function within the CRO organisation is responsible for identifying, measuring and evaluating the risks at HVB. It is subdivided in accordance with risk types. The Market and Operational Risk unit performs the risk monitoring functions for the following risk types: market risk, liquidity risk (stress tests, calculation and monitoring of early warning indicators, calculation of the short-term concentration risk, evaluation of the funding plan), operational risk and reputational risk. In addition, the Market and Operational Risk unit also monitors the market risk component of pension risk at regular intervals using a separately developed model (aggregated view of the plan assets and liabilities). As part of the asset management of the plan assets, the options for risk positioning are limited by both external and internal regulations. Ongoing monitoring of the respective rules is performed in accordance with the specific policies of the various pension plans. With regard to the monitoring of liquidity risk, some tasks are performed by the Market and Operational 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 (CRC; until the end of January 2017 Credit Risk Control & Economic Capital – CEC) unit monitors credit risk, business risk, real estate risk and financial investment risk and consolidates these risk types with market risk and operational risk for the determination of the economic capital requirement. Monitoring of strategic risk is the shared responsibility of HVB's Management Board.

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

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

Divisions and committees

Chief Risk Officer (CRO)

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

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

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

Chief Financial Officer (CFO)

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

Asset Liability Management

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

Internal Audit

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

Risk Report (Continued)

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

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

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

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

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

Reputational Risk Council
The task of the Reputational Risk Council (RRC) is to manage HVB's reputational risks. It is the decision-making body for all business transactions and other activities that give rise to a potential reputational risk to HVB. Such activities include those relating to:
– projects and outsourcing activities
– the development of new products and the exploitation of new markets
– special purpose entities

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 includes the strategy of HVB. The HVB Group business strategy describes the strategic starting point and organisational structure, 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, financial 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 in quality terms. The risk strategy is supplemented by the Industry Credit Risk Strategy, which defines the risk appetite within the various industries.

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

Overall bank management

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

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

The value-based management of HVB Group focuses on the measurement of the business activities in accordance with return and risk considerations, with a risk-return target set for each of the business units of HVB Group. The economic yield expectations are calculated using the allocated capital principle that is applied by UniCredit group-wide. Within the scope of the principle of dual control, both regulatory capital, in the sense of used core capital, and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, the amount of which is derived from the returns expected by 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 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 of equivalent risk-weighted assets arising from credit, market and operational risks equal to an average of 11%. 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 HVB Group's risk appetite framework using internal targets, thresholds 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 on a monthly basis to provide an ongoing forecast of our capital ratios on the basis of our (multi-year) annual plan.

Risk Report (Continued)

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

In all, 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%. This agreement will remain in force until further notice. The equity funds ratio of HVB was 20.9% at the end of December 2016 (31 December 2015: 25.9%).

Economic capital adequacy

HVB determines its internal capital (IC) on a monthly basis. The IC is the sum of the aggregated economic capital (EC) for all quantified risk types (with the exception of liquidity risk) and a premium for pension risk. The EC measures the potential loss over a time horizon of one year with a confidence level of 99.90%. In comparison to the 2015 financial year, the confidence level decreased in January 2016 from 99.93% to 99.90% in line with UniCredit.

When the aggregated EC is determined, risk-reducing diversification effects are taken into account between the individual risk types. Since December 2016, HVB has been using UniCredit's groupwide model for risk aggregation that uses uniform parameters for determining interdependencies between the risk types. In terms of methodology, the new model is based on a copula approach where the parameters are estimated using the statistical Bayesian method. Additional risks that are not included in the regular calculation of EC are quantified on a quarterly basis within the scope of a monitoring run and compared with the available financial resources.

For HVB's risk measurement purposes, those subsidiaries to which HVB has extended a letter of comfort have been treated as consolidated entities. In the 2016 financial year, this related to the following companies: Bankhaus Neelmeyer, UniCredit Luxembourg S.A., UniCredit Leasing GmbH and HypoVereinsFinance N.V., as well as their subsidiaries.

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

Internal capital after portfolio effects (confidence level 99.90% since January 2016, 99.93% up to and including 31 December 2015)

	2016		2015	
Broken down by risk type	€ millions	in %	€ millions	in %
Credit risk	2,916	34.6	4,236	40.1
Market risk	2,175	25.8	2,158	20.4
Operational risk	1,134	13.4	1,158	11.0
Business risk	318	3.8	244	2.3
Real estate risk	42	0.5	35	0.3
Financial investment risk	1,033	12.3	1,910	18.0
Aggregated economic capital	**7,618**	**90.4**	**9,741**	**92.1**
Pension risk	810	9.6	834	7.9
Internal capital of HVB	**8,428**	**100.0**	**10,575**	**100.0**
Available financial resources of HVB	**16,144**		**19,237**	
Risk-taking capacity of HVB, in %	**191.6**		**181.9**	

The IC falls by €2.1 billion overall.

More information about the individual changes is shown in the respective sections on the different risk types.

Risk appetite

HVB's risk appetite is defined as part of the annual strategy and planning process. The risk appetite ratios comprise specifications 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 excessive risk to be identified and counter-measures initiated at an early stage. The matter is escalated to the appropriate committees and the Management Board, should the defined limits be exceeded.

Gone concern/going concern

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

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

Recovery plan

The preparation of recovery plans (RPs) is intended to facilitate the restructuring of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important at a global level and at a national level, respectively. Supervision of HVB passed to the ECB when the Single Supervisory Mechanism (SSM) came into effect in November 2014. According to a decision of the Joint Supervisory Team (JST), HVB, as part of UniCredit, has not been required to prepare a HVB Group recovery plan since 2015. For this reason, HVB worked closely together with UniCredit S.p.A. to prepare a joint UniCredit Group Recovery Plan. This plan was officially submitted to the ECB on 30 September 2016 and has been in effect since then.

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 uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach. 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 funds (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 approach, under which shareholders' equity shown in the balance sheet is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects of own credit rating 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 regulatory capital for banking supervisory purposes are included. The available financial resources at HVB totalled €16.1 billion at 31 December 2016 (31 December 2015: €19.2 billion).

With internal capital of €8.4 billion, the risk-taking capacity for HVB is 191.6% (31 December 2015: 181.9%). This figure is much higher than the target we have set ourselves. The increase of 9.7 percentage points for HVB compared with 31 December 2015 can be attributed to the decline in the internal capital of €2.1 billion or 20.3%. This effect has a greater impact than the decrease in available financial resources of €3.1 billion or 16.1% in 2016. The fall in the available financial resources results from differing and, in some cases, countervailing developments in individual components primarily, however, from a reduction in the retained earnings on account of the 2016 appropriation of profit and from the development of deferred taxes and actuarial losses on defined benefit plans.

Risk Report (Continued)

Limit concept

The risk limit system is a key component of the ICAAP at HVB. 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 IC and 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.

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

Stress tests

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

Various macroeconomic downturn scenarios and an historical scenario were calculated for the cross-risk-type stress tests in 2016:
- Contagion scenario – focusing on political tensions in the EU
- 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 (until the third quarter of 2016) – impact of a slowing of the Chinese economic growth to 3% until the end of 2017
- Protectionism, China slowdown and Turkey shock (as of the fourth quarter of 2016) – introduction of a policy of protectionism in the USA that is throttling growth in China in conjunction with a growth shock in Turkey
- Interest Rate Shock scenario – rising interest rates in the eurozone

The macroeconomic downturn scenarios and the underlying baseline scenario as well as the corresponding macroeconomic parameters and market parameters are being adjusted following the referendum in Italy and the presidential elections in the US.

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

Furthermore, inverse stress tests are carried out.

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

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

Concentrations are analysed, monitored, managed, 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, real estate risk and pension risk.

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

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

Risk inventory
The scheduled comprehensive risk inventory at HVB was started in February 2016. 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 findings of the 2016 risk inventory were presented to the RC and HVB's Management Board in September 2016 and included in the calculation and planning of the risk-taking capacity following approval. The risk inventory serves to review the overall risk profile of HVB and 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 in risk management, among others.

Risk types in detail

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

1 Credit risk

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

Risk Report (Continued)

Categories

Credit default risk

Credit default risk is considered to occur with regard to a specific contracting party when one or both of the following criteria are satisfied:
– The Bank assumes the contracting party is probably not in a position to meet its contractual obligations towards HVB as whole, without having to take recourse to measures like the sale of collateral (where present).
– The contracting party 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 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 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 (cash risk): Money market risk consists in the risk that the counterparty does not repay loans (taken out in cash).

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 intervention which gives rise to various risks (such as transfer risk, expropriation risk, legal risk, tax risk, security risk). It also includes the risk of repayment of capital being prevented by a deterioration in the economic and/or political environment (such as through recession, a currency and/or banking crisis, natural disasters, war, civil war, social unrest). Country risk encompasses:
– Sovereign risk (sovereign as counterparty) is the risk of the central government or central bank (or any agency backed by the government) defaulting, irrespective of the currency in which the debt is issued.
– Transfer and conversion risk is the risk of the government taking measures aimed at limiting the transfer of capital and/or conversion of the currency due to an inability or unwillingness to pay. Armed conflict and civil war can similarly lead to a lack of solvency. 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 the risk of default on account of non-delivery caused by state intervention in the delivery contract or state-imposed delivery restrictions (in the case of project loans or commodity financing, for instance).

Strategy

A risk strategy has been approved for HVB at the higher-ranking level of 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 EC 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 EC.

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 2016. By selectively writing new business, employing active portfolio management and making effective use of professional restructuring and workout capacity, HVB has evolved into a bank that has a lower than average risk profile for the industry. The goal for 2016 was to continue applying this strategy and maintaining the overall portfolio at a sustainable level.

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

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

Limit system

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

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

The following criteria are analysed with regard to the performing portfolio: exposure, expected loss and risk density (expected loss as a proportion of the performing exposure). An overshooting 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 reference unit for setting limits on single-name concentrations are economic or legal borrower groups with an unsecured exposure of €50 million or more.
- industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB.
- concentration limits for countries and regions
  Exposures outside Germany are subject 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 (overweight, underweight or neutral) of HVB.
  In addition, a limit is set for cross-border country risk exposure.

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

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

If a limit or a threshold is exceeded, an escalation process is initiated to eliminate the overshooting or prevent an overshooting 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 Advanced Internal Ratings Based (A-IRB) approach in accordance with Basel III. 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 ratios 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 in the lending business are land charges, guarantees and pledges of financial collateral, which together account for approximately 90% 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 the 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. Collaterals from the trading business are measured on the basis of current market prices. The counterparty risk exposure is forecast using a refined internal model for predicting the amount of collateral needed and the value of the collateral provided (simulation method).

Measurement

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

Probability of default (PD)

The internal customer-segment-specific rating and scoring methods of HVB that are available for all significant credit portfolios form the basis for the measurement of credit risk. The reliable determination of our customers' PDs is critical for credit decisions, pricing and core capital backing under Basel III (A-IRB model) as well as for the 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 an 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%	100%	

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 credit 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 also 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.

Risk Report (Continued)

In terms of counterparty risk, a simulation method is used to determine future exposure figures for the pre-settlement risk within the scope of an 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 density
The risk density is another risk metric alongside the EaD and EL that is used to manage the individual HVB sub-portfolios. HVB calculates the risk density as the ratio of EL to performing exposure in basis points. It indicates the development of risk in a given portfolio.

Unexpected loss (economic capital, EC)
The EC measures the amount of capital required to cover the unexpected loss beyond the EL, which, with a probability of 99.90%, will not be exceeded over the next 12 months. This risk metric makes the risk content of the various sub-portfolios compareable, taking into account the concentration risks in the portfolio. It is also used in pricing and the Bank's risk-adjusted profitability calculations.

Internal credit risk model
Since December 2015, HVB has been using the credit portfolio model used throughout UniCredit to measure the EC of credit risk. The group model 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 credit default risk.

The credit portfolio model covers all banking book positions and counterparty risks arising from derivatives portfolios that are relevant pursuant to the definition of credit risk. Issuer risk from the trading book continues to be 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 are also defined in line with the probability of default to limit the risks entered into. Monitoring and reporting of any limit overshootings takes place on a monthly basis.

Special features of counterparty risk and issuer risk

We employ limit systems as a key element of our management and controlling of counterparty risk including settlement risk, pre-settlement risk or price risk and money market risk as well as issuer risk to prevent an increase of our risk position that does not comply with the strategy. These systems are available online at all key HVB facilities engaged in trading activities. Each new trade is entered and applied to the corresponding limit without delay (the same day). The pre-settlement risk is established on the basis of an internal model method (IMM) and is recognised by the banking supervisory authorities for calculating capital requirements. To reduce counterparty risk relating to financial institutions, HVB is making greater use of derivative exchanges in its function as a central counterparty.

Quantification and specification

The EC for credit risk at HVB, without taking account of diversification effects between the risk types, amounts to €3.3 billion, which is €1.0 billion lower than the total reported at 31 December 2015 (€4.3 billion). If the currently applicable confidence level of 99.90% were applied retrospectively to 31 December 2015, the comparative value for the EC at 31 December 2015 would be €4.0 billion. If the effect of the change in the confidence level is eliminated, there would be a decrease in the EC of €0.7 billion compared to 31 December 2015. One of the main reasons for this development is the risk mapping of liability risks that HVB assumes towards its subsidiaries. Since the first quarter of 2016, the risks have been measured according to causation based on the look-through principle on the assets side of the balance sheet which means that there is a decrease in single-name concentrations.

Credit default risk

The following tables and charts for credit default risk show among others the aggregate exposure values (total of non-performing and performing exposure) and the expected loss of HVB (in a HVB Group consolidation) including issuer risk from the trading book. Issuer risk arising from the trading book is, moreover, included in the market risk analysis by way of the incremental risk charge. The comments in this regard can be found in the section covering market risk.

The aggregate exposure to credit default risk is referred to as credit default risk exposure, or simply exposure, in the following. Account balances on the entry date are included in the calculation of exposure.

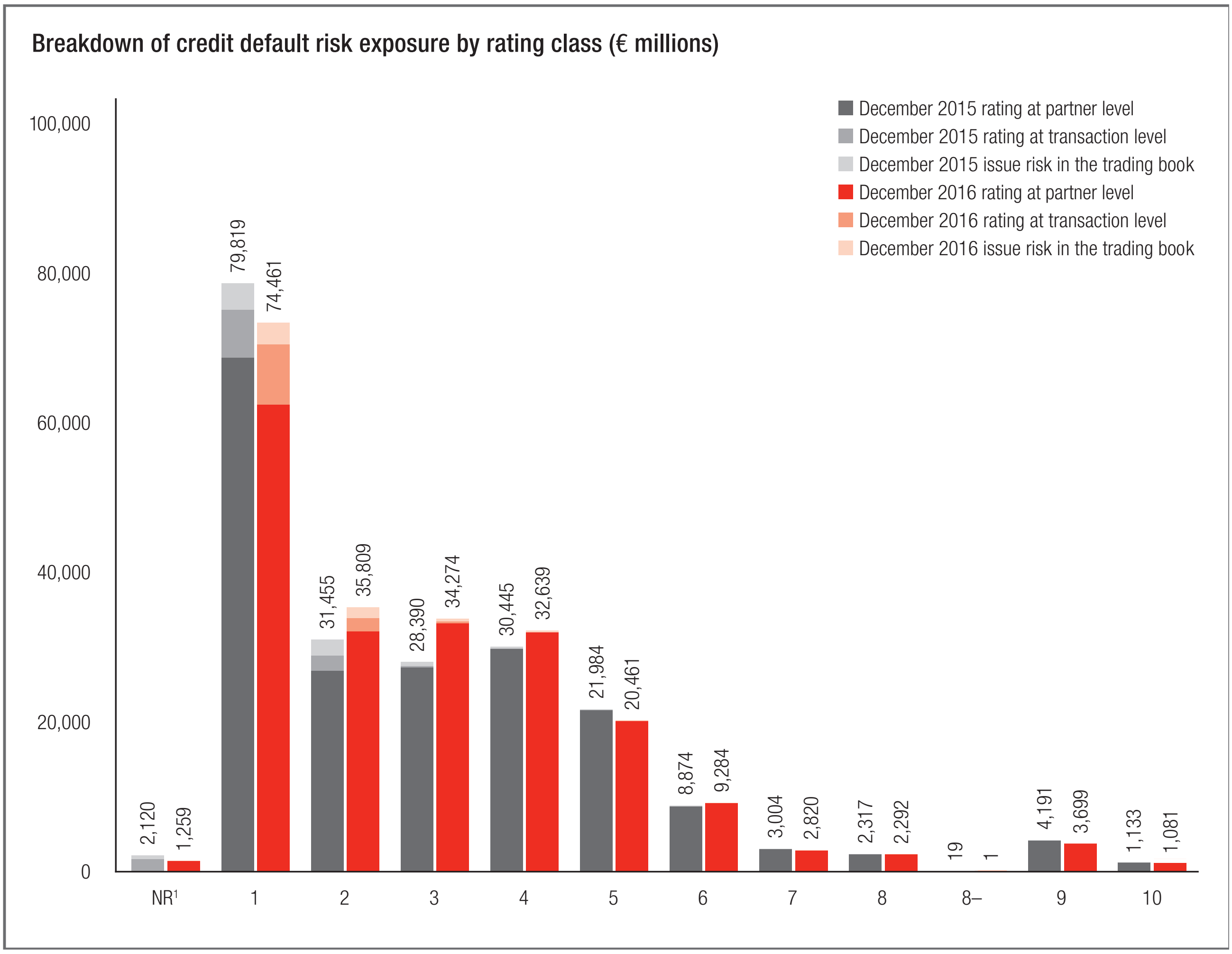
The remaining exposures assigned to the former Real Estate Restructuring business segment are excluded from the analysis because the portfolio does not include any further new business and is earmarked for elimination. The portfolio has been reduced considerably in recent years and now stands at a mere €248 million (31 December 2015: €397 million).

Breakdown of credit risk exposure by business segment and risk category (€ millions)

Breakdown of exposure by business segment	CREDIT DEFAULT RISK EXPOSURE		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		OF WHICH ISSUER RISK IN TRADING BOOK	
	2016	2015	2016	2015	2016	2015	2016	2015
Commercial Banking	90,017	86,747	3,370	3,828	—	—	—	—
Corporate & Investment Banking	127,611	126,430	19,490	18,876	44,267	42,986	5,429	7,219
Other/consolidation	450	574	131	106	35	75	—	—
HVB	**218,078**	**213,751**	**22,991**	**22,810**	**44,302**	**43,061**	**5,429**	**7,219**

The credit default risk exposure of HVB rose by €4,327 million in 2016. The Commercial Banking business segment in particular saw a build-up of risk exposure amounting to €3,270 million. This is due to how business has developed in the financial institutions (including sovereigns), energy, special products and the public sector industries.

Risk Report (Continued)



1 not rated

The HVB rating structure changed during 2016 mainly on account of the business development in the financial institutions (including sovereigns) industry group, which led to a decrease of €5,358 million in exposure in rating class 1. This was caused mainly by the reduction in HVB's liquidity investments.

Furthermore, there was an increase in exposure of €12,431 million in the higher rating classes (2 to 4) in various industries both on account of business growth and rating migrations. By contrast, a decrease in exposure of €1,322 million was achieved in the lower rating classes (5 to 8).

Development of metrics by industry group

Industry group	CREDIT DEFAULT RISK EXPOSURE € millions		OF WHICH ISSUER RISK IN TRADING BOOK € millions		EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]	
	2016	2015	2016	2015	2016	2015	2016	2015
Financial institutions (including sovereigns)	49,266	54,467	4,187	5,768	26	34	6	7
Public sector	31,281	32,535	205	441	2	2	0	1
Real estate	25,511	24,191	53	61	27	23	11	10
Special products	12,308	10,039	2	1	9	14	8	12
Energy	11,931	10,122	205	194	17	17	15	17
Chemicals, pharmaceutics, health	10,123	8,893	114	79	18	16	18	19
Food, beverages, agriculture	8,451	7,195	39	29	12	11	15	15
Automotive industry	7,073	6,970	86	79	8	8	12	13
Consumer goods, textile industry	5,792	5,228	39	31	13	12	23	25
Services	5,283	4,917	40	44	15	15	29	32
Metals	4,829	4,497	72	62	13	12	29	29
Shipping	4,579	5,086	1	4	54	76	181	200
Construction, wood	4,486	4,333	45	36	9	8	21	20
Machinery	4,423	3,445	17	25	9	8	20	24
Transport, travel	4,384	4,520	70	136	5	6	14	15
Telecoms, IT	4,219	4,212	132	157	9	5	23	12
Media, paper	2,004	1,605	20	19	3	5	17	30
Electronics	1,887	2,361	86	26	2	2	13	10
Tourism	1,873	1,422	9	8	4	3	19	22
Private customers	18,286	17,615	—	—	25	26	14	15
Others	89	98	7	19	3	3	335	375
HVB	**218,078**	**213,751**	**5,429**	**7,219**	**283**	**306**	**14**	**15**

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

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

The greatest changes over the course of 2016 were seen in the following industry groups:

Exposure in the financial institutions (including sovereigns) industry group fell by €5,201 million in 2016. This development is attributable, among other things, to the reduction in liquidity investments and lies within the volatility parameters for business in this industry. The €8 million decrease in the expected loss can be explained primarily by the result of improvements in ratings and also by reclassifications of some customers to other industries. The risk density improved slightly from 7 BPS to 6 BPS.

Exposure in the energy industry group increased by €1,809 million in 2016. The increase is mainly the result of growth in the business in line with the strategy.

Exposure in the shipping industry group was reduced by a further €507 million in 2016. The expected loss likewise fell by €22 million following loan repayments and some individual transfers to the non-performing portfolio. This led to an improvement in the risk density of 19 BPS.

Risk Report (Continued)

Details on individual selected industries relating to HVB are provided below.

Financial institutions (including sovereigns)
Rising costs from regulatory requirements and in connection with compliance (fines and investments), together with falling earnings due to modified business models and less demand for credit, are leading to strong downward pressure on margins throughout the industry.

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

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

Part of the exposure in the financial institutions (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 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 and the development banks enjoying the formers' full liability represent important counterparties for internal liquidity management, the vast majority of the exposure is caused by our own liquidity investments. A reduction in liquidity investments was performed which contributed, among other things, to the decrease in exposure of €1,254 million presented above. The exposure is fluctuating comfortably within the industry limits defined for this industry.

Real estate
The real estate market in Germany again proved very stable in 2016 thanks to historically extremely low long-term interest rates coupled with a robust labour market and persistently strong demand for residential property and now also commercial 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 and uncertainty as to developments in the situation surrounding Europe 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 industry group that has been applied for years, the portfolio of existing properties remained robust and relatively low risk in 2016 (measured by risk density). In a long-term comparison, 2016 saw the best risk result (measured in terms of actual loss) for the real estate industry group.

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 2016 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 2017 as a whole.

Energy
The energy portfolio increased in 2016 essentially on account of the expansion of business with oil trading companies in line with the strategy as well as drawings from existing lines. The quality of the portfolio, as measured in terms of the risk density, improved slightly.

In line with the defined risk strategy, we are focusing on large multinationals in the energy sector (including oil and gas). 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 2016. The freight and time charter rates for bulk carriers reached historic lows in the first quarter on account of overcapacity resulting from weaker demand; they have only recovered to a minor extent since then.

In container shipping, time charter rates persisted at an inadequate level.

Demand in the offshore industry suffered from the ongoing low price of oil. Accordingly, the demand for equipment for offshore oil exploration and extraction declined sharply.

In contrast, tankers for oil products and crude oil tankers in particular continued to benefit from the low price of oil coupled with strong demand for transport capacity. Freight rates eased in comparison to the previous year but remained at an adequate level.

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 bulk carriers saw prices beginning to rise moderately, prices for all other types of ship were in strong decline in 2016 and reached scrap price level for certain sub-segments.

HVB continues to apply a conservative strategy in its ship financing activities. The focus remains on managing the risk in the existing portfolio. After the significant reduction in the portfolio in the shipping industry over recent years, the reduction in the existing portfolio was continued as planned in 2016. At the same time, however, new business was written selectively where this helped to enhance the quality of the portfolio.

Media, paper
The media, paper portfolio increased to €2,004 million in 2016. The €399 million rise is essentially attributable to three new financing transactions (total €200 million) and increases at other existing customers. As the increases predominantly took place in customer groups in a superior rating class, the portfolio quality improved significantly in terms of risk density. All in all, exposure remained within the industry limits defined for the industry.

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

The HVB portfolio for acquisition finance increased in 2016 compared with year-end 2015, as new transactions more than offset the decline in the existing portfolio. Despite a difficult market environment, it proved possible to enhance the quality of the portfolio (measured by expected loss and risk density). The expected loss and risk density are both still at an acceptable level and comfortably within the defined limits.

Risk Report (Continued)

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

Exposure development of countries/regions by risk category
The following tables show the comprehensive concentration risk at country level. The exposure figures are shown with regard to the risk country of the partner.

Development of credit default risk exposure of eurozone countries[1]

(€ millions)

	CREDIT DEFAULT RISK EXPOSURE		OF WHICH ISSUER RISK IN TRADING BOOK	
Country	**2016**	**2015**	**2016**	**2015**
Germany	129,695	129,064	744	1,576
Italy	7,860	8,180	1,049	1,310
Luxembourg	7,712	8,602	234	589
Spain	7,281	6,876	93	137
France	7,128	6,272	317	703
Netherlands	4,806	5,606	193	220
Ireland	4,654	2,898	70	90
Austria	3,236	2,132	1,457	410
Belgium	1,120	966	152	294
Greece	275	361	1	4
Finland	230	321	27	217
Cyprus	220	148	6	7
Portugal	93	70	37	13
Slovenia	87	140	17	11
Malta	34	43	—	—
Slovakia	26	20	24	17
Latvia	14	18	—	—
Lithuania	13	4	12	4
Estonia	0	1	—	1
HVB	**174,484**	**171,722**	**4,433**	**5,603**

1 To enhance consistency, the presentation of the table “Development of credit default risk exposure of eurozone countries” has been adjusted as of the first half of 2016 to match the table “Development of credit default risk exposure by region/country outside the eurozone”.

The exposure developed within the framework set by the risk strategy for 2016. This was specifically the case against the backdrop of the stabilisation seen to date in the eurozone economy. The greater uncertainty engendered by Brexit could, however, have a negative impact on this. HVB will keep a close eye on this development and, if necessary, take suitable measures.

Italy
The size of the portfolio results from HVB’s role as group-wide centre of competence for the markets and investment banking business of UniCredit. This portfolio is being actively managed in accordance with market standards (such as collateralised derivative transactions). The exposure to Italy also includes the exposure with UniCredit S.p.A., for which a separate strategy was defined. The economy recovered on the back of the reforms enacted by the Renzi administration, with real GDP growth turning positive again in 2016. Despite the resignation of Prime Minister Matteo Renzi in December 2016, the economy has proven to be stable in recent weeks and a change of similar level to that seen in 2016 is also expected for 2017.

Luxembourg
The absolute amount of the exposure is attributable mainly to the subsidiary in Luxembourg, where some German corporate banking transactions are also booked, together with exposure to multinational organisations.

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. Spain in particular should be highlighted in this respect as this country generated strong growth once again in 2016. The portfolio in the weaker eurozone countries was again actively managed in 2016, albeit with different strategies.

The strategy of reduction continued to be applied for Greece in 2016.

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

	CREDIT DEFAULT RISK EXPOSURE		OF WHICH ISSUER RISK IN TRADING BOOK	
Region/country	2016	2015	2016	2015
UK	10,608	10,498	160	377
USA	10,238	9,678	225	275
Switzerland	4,917	4,729	84	214
Asia/Oceania (without Japan, China, Hong Kong)	3,777	2,626	25	24
Turkey	2,498	2,056	22	6
Near/Middle East/North Africa	2,216	1,097	4	4
Western Europe (without Switzerland, UK)	1,840	1,891	179	375
China (including Hong Kong)	1,791	1,330	0	0
North America (including offshore jurisdictions, without USA)	1,276	919	50	52
Eastern Europe	1,195	1,078	166	173
Russia	962	1,322	22	69
Japan	853	3,590	9	18
Southern Africa	708	595	20	5
Central and South America	595	514	30	24
Central Asia (without Russia, Turkey)	120	106	—	0
HVB	**43,594**	**42,029**	**996**	**1,616**

1 With the introduction of the 2016 risk strategy, individual limits have been defined for China (including Hong Kong) and Japan meaning they are no longer included in the Asia/Oceania region. The credit default risk exposures were calculated in accordance with the new method.

Risk Report (Continued)

In 2016, overall exposure in regions/countries outside of the eurozone rose by €1,565 million. The Asia/Oceania region (excluding Japan, China, Hong Kong) and the Near/Middle East/North Africa region in particular contributed to this development.

Brexit

HVB is taking account of the possible consequences of Brexit in terms of the future development of its exposure in the UK, among other things.

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 continuing EU and US sanctions with an impact on cross-border business involving Russia. This is reflected in the 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 Near/Middle East/North Africa region, political and economic stabilisation continues to be jeopardised by the IS terror organisation and the war in Syria. There is no end in sight to the armed conflicts in either Syria or Iraq. Furthermore, the ongoing escalation and internationalisation of the conflict has led to foreign-policy risks for Turkey. In addition, increasing terrorist activities in Turkey are damaging its tourist industry. Alongside this, the Turkish economy is coming under pressure from domestic policy developments following the failed coup d'état, which is putting a damper on demand for investment. In particular, the inflow of international portfolio investments that to date financed the country's large current account deficit has slowed. Beside 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 an oil price that has fallen to a significantly lower level since mid-2014. This is forcing Saudi Arabia and the Gulf States to adjust public spending downwards in the medium term, despite their considerable fiscal reserves, which could give rise to dissatisfaction in their respective populations and also cause payments to Egypt to dry up, a country that has to date benefited from an extensive amount of favourable loans from these countries.

Derivative transactions

Alongside the goal of generating returns, derivatives are employed to manage market risks (in particular, risks arising from interest-rate fluctuations and currency fluctuations) resulting from trading activities, and also serve to provide cover for on- and off-balance-sheet items within asset/liability management. Besides market risk, derivatives bear counterparty risk or, in the case of credit derivatives which serve to manage credit risk, also issuer risk.

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

On the basis of these replacement values and not taking into account any risk-reducing effects, the maximum counterparty risk for HVB at 31 December 2016 totalled €76.2 billion (31 December 2015: €78.6 billion).

In accordance with the regulatory provisions under Basel III and CRR as well as taking account of the internal model method (IMM) that has been approved by the regulatory authorities for use by HVB to determine counterparty risks, HVB's derivative business results in risk-weighted assets arising from counterparty risk of €5.2 billion as of 31 December 2016 (31 December 2015: €6.0 billion).

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

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2016	2015	2016	2015	2016	2015
Interest rate derivatives	**675,713**	**690,162**	**700,414**	**2,066,289**	**2,555,511**	**60,988**	**64,455**	**57,880**	**62,177**
OTC products									
Forward rate agreements	67,579	290	—	67,869	184,122	5	26	2	21
Interest rate swaps	500,254	639,066	565,978	1,705,298	1,975,043	57,257	60,965	50,012	56,350
Interest rate options									
– purchased	14,072	22,112	70,604	106,788	164,275	3,507	3,325	195	203
– written	20,919	17,426	61,468	99,813	149,155	153	125	5,736	5,259
Other interest rate derivatives	310	—	—	310	16,570	65	11	68	341
Exchange-traded products									
Interest rate futures	34,723	11,268	1,650	47,641	39,202	—	—	1,867	—
Interest rate options	37,856	—	714	38,570	27,144	1	3	—	3
Foreign exchange derivatives	**280,980**	**41,564**	**4,505**	**327,049**	**313,313**	**5,424**	**4,059**	**6,011**	**4,476**
OTC products									
Foreign exchange forwards	229,745	32,822	1,144	263,711	271,118	4,667	3,695	5,211	4,021
Foreign exchange options									
– purchased	25,364	4,605	1,811	31,780	20,792	597	237	161	153
– written	25,867	4,137	1,550	31,554	21,397	160	127	639	302
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	4	—	—	4	6	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,250**	**104,803**	**51,528**	**191,581**	**218,871**	**6,545**	**6,503**	**6,801**	**7,910**
Equity/index derivatives	**32,372**	**36,187**	**10,383**	**78,942**	**76,138**	**2,251**	**2,157**	**3,186**	**2,956**
OTC products									
Equity/index swaps	4,927	4,816	251	9,994	9,201	204	165	302	139
Equity/index options									
– purchased	2,986	1,995	357	5,338	6,739	377	483	152	66
– written	7,975	12,150	6,805	26,930	22,276	58	25	641	690
Other equity/index derivatives	183	10	1	194	320	17	3	0	3
Exchange-traded products									
Equity/index futures	5,659	8	—	5,667	6,247	5	15	5	6
Equity/index options	10,642	17,208	2,969	30,819	31,355	1,590	1,466	2,086	2,052
Credit derivatives[1]	**14,072**	**39,931**	**2,202**	**56,205**	**69,521**	**671**	**1,446**	**556**	**1,124**
Other transactions	**8,574**	**3,585**	**1,230**	**13,389**	**9,969**	**438**	**671**	**624**	**384**
HVB	**1,046,961**	**916,232**	**770,262**	**2,733,455**	**3,243,323**	**76,317**	**79,291**	**75,058**	**79,027**

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 €532,809 million at 31 December 2016 (thereof credit derivatives: €3,470 million).

Risk Report (Continued)

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2016	2015	2016	2015
Central governments and central banks	7,034	5,540	1,560	1,755
Banks	41,205	45,379	45,289	49,863
Financial institutions	24,589	24,923	25,945	24,880
Other companies and private individuals	3,489	3,449	2,264	2,529
HVB	**76,317**	**79,291**	**75,058**	**79,027**

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	2016	2015	2016	2015	2016	2015
Banking book	**149**	**22**	**—**	**171**	**375**	**1**	**1**	**2**	**5**
Protection buyer									
Credit default swaps	149	22	—	171	275	1	1	2	5
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	—	—	—	—	100	—	—	—	—
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Trading book	**13,923**	**39,909**	**2,202**	**56,034**	**69,146**	**670**	**1,445**	**554**	**1,119**
Protection buyer									
Credit default swaps	7,080	17,860	796	25,736	31,476	144	348	347	397
Total return swaps	—	150	—	150	—	—	—	27	—
Credit-linked notes	183	1,311	244	1,738	3,409	16	110	18	293
Protection seller									
Credit default swaps	6,549	18,405	860	25,814	32,164	360	417	160	378
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	111	2,183	302	2,596	2,097	150	570	2	51
HVB	**14,072**	**39,931**	**2,202**	**56,205**	**69,521**	**671**	**1,446**	**556**	**1,124**

Credit derivatives by reference asset

(€ millions)

	NOMINAL VOLUME				
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	TOTAL 2016	TOTAL 2015
Public sector bonds	25,642	—	254	25,896	33,535
Corporate bonds	23,184	—	2,076	25,260	30,790
Equities	—	—	—	—	—
Other assets	2,895	150	2,004	5,049	5,196
HVB	**51,721**	**150**	**4,334**	**56,205**	**69,521**

Single-name credit derivatives make up 54.6% of the total; multi-name credit derivatives, relating notably to baskets or indices, account for a share of 45.4%.

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 EC, 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. The goal is still to retain a low-risk credit portfolio within the relevant peer group.

In light of the difficult and ever-worsening market situation and tough competition, it will be even more challenging to achieve the growth targeted for 2017 than it already was in 2016.

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

2 Market risk

Definition

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 changes in credit ratings of securities (specific price risk for interest net positions).

Categories

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

Foreign currency risk arises from fluctuations in exchange rates.

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

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

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

Strategy

Our market risk is essentially managed by the CIB business segment. As was already the case in previous years, the focus in 2016 was again on customer transactions. This made it possible to avoid material losses arising from sudden, large market movements – following the Brexit referendum or the US presidential elections, for instance.

Electronic trading platforms have been further expanded in several business lines and their functionality has been extended. The liquidity reserve portfolio was further diversified with a view to addressing falling earnings in the difficult market environment with negative interest rates. A renewed emphasis was placed on the repo business alongside this. In currency trading, integration of the Asian trading centre into global processes was completed, further strengthening risk management. The range of products offered by currency trading was standardised at a global level. In commodities trading, a new focus was placed on customer finance, now also based on gas and carbon dioxide certificates. In loan trading, retailing of CLNs (credit-linked notes) was discontinued in Germany as a reaction to an initiative by the supervisory authorities. It was possible to make up for part of the decline in margins in equity derivatives trading by strengthening sales in Italy, Austria and Eastern Europe. Cooperation between equity derivatives trading and currency trading made it possible to begin marketing collateralised currency options in Germany.

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

Limit system

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

The overall VaR limit of €90 million and the trading book limit of €37 million were confirmed without change at the beginning of 2016 when the risk strategy for HVB Group was adopted.

Monitoring of the regulatory metrics stressed value-at-risk and incremental risk charge to be used additionally for the internal market risk 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 distribution of the movements in the portfolio value. It encompasses the generation of the hypothetical distribution of earnings (gains and losses) from a portfolio of financial instruments directly using the historical market price fluctuations over the last two years (observation period).

In November 2015, HVB introduced a number of method extensions for internal risk measurement made necessary by the negative interest rates implemented in the current market environment. The request for regulatory approval of the method extensions has been submitted to JST, which is responsible for UniCredit under the Single Supervisory Mechanism (SSM). After approval was received, the extensions were also implemented in regulatory risk measurement at the end of June 2016.

HVB has defined several further market risk metrics under the current CRR rules for risk management as well as the VaR:

- The stressed VaR is calculated in the same way as the VaR, although the 12-month observation period has been selected covering the most significant negative market changes for HVB's trading portfolio. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99.00%.
- The incremental risk charge (IRC) for credit-risk-sensitive positions is the internal approach used to determine the specific risks (specific price risk for net interest positions). This includes credit default risk and migration risk, meaning that both the change in ratings (migration) and the potential default on a credit product are taken into account. The calculated amount for both regulatory and internal reporting relates to a holding period of one year and a confidence level of 99.90%.
- The specific risks for 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 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 2016, 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 calculated.

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 EC 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 EC. Furthermore, market risks are also included that arise from the IRC, the market risk Standard Approach, add-ons for ABS risks and for gap option risks. All risks, with the exception of the add-ons, are scaled accordingly to obtain a confidence level of 99.90% and a holding period of one year.

The regulatory capital requirement for market risk encompasses the VaR and stressed VaR for, in each case, 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 monthly 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 employed 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 €56 million (31 December 2015, minus 100 basis points: minus €32 million), whereas a parallel interest shock of plus 100 basis points would increase net interest for the same period by €84 million (31 December 2015, plus 100 basis points: plus €133 million). A floor is employed at 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 2016 financial year.

The differing results as of year-end can be explained by the changed market conditions and the persistently low interest rates.

Risk Report (Continued)

Quantification and specification

The EC for market risk at HVB, without taking account of diversification effects between the risk types, amounts to €2.5 billion and has changed hardly at all in comparison to the figure as at 31 December 2015 (€2.6 billion). If the currently applicable confidence level of 99.90% were applied retrospectively to 31 December 2015, the comparative value for the EC at 31 December 2015 would be €2.6 billion. If the effect of the change in the confidence level is eliminated, the EC decreased by €0.1 billion compared with 31 December 2015.

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

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

	AVERAGES					PERIOD-END TOTALS	
	2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016	31/12/2016	31/12/2015
Credit spread risks	5	4	4	5	5	4	4
Interest rate positions	7	12	5	6	5	11	3
Foreign exchange positions	4	5	4	3	2	4	2
Equity/index positions[1]	4	3	3	4	4	2	4
HVB[2]	**8**	**9**	**7**	**8**	**8**	**9**	**7**

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

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

Regulatory metrics of HVB (€ millions)

	31/12/2016	30/9/2016	30/6/2016	31/3/2016	31/12/2015
Value-at-risk	198	172	562	263	75
Stressed value-at-risk	286	310	215	257	165
Incremental risk charge	168	188	195	251	227
Market risk Standard Approach	1	1	1	3	2
CVA value-at-risk	48	50	48	44	41
Stressed CVA value-at-risk	157	174	191	204	214
CVA Standard Approach	16	17	38	59	48

The temporarily increased VaR figures seen on 31 March 2016 and 30 June 2016 are a consequence of the model's weakness in taking account of negative interest rates. Once the extension of the model had been approved, the figures decreased considerably again.

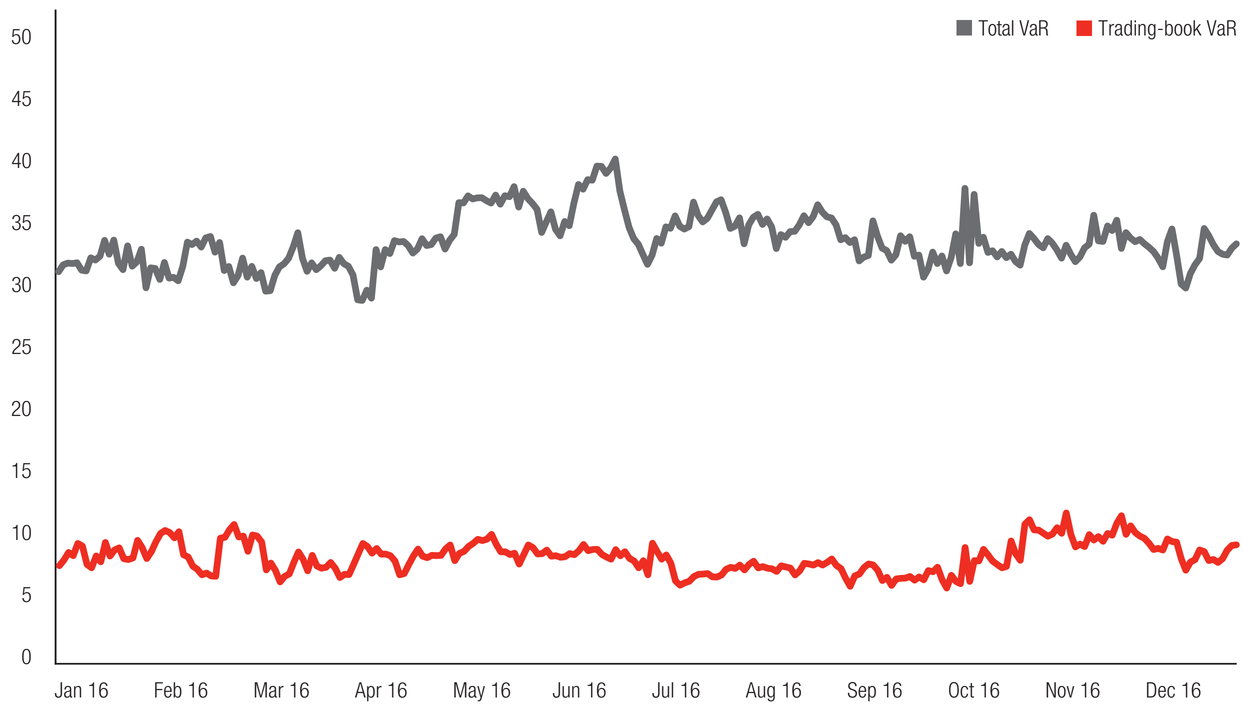
Alongside the market risk relevant for regulatory reporting, further market risk arises from positions in the banking book. All transactions exposed to market risk in the trading and banking book of HVB are consolidated for the purpose of risk controlling. Most of the market risk arises from positions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

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

	AVERAGES					PERIOD-END TOTALS	
	2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016	31/12/2016	31/12/2015
Credit spread risks	27	25	28	28	26	23	23
Interest rate positions	14	16	12	17	11	15	7
Foreign exchange positions	8	11	8	6	6	11	8
Equity/index positions[1]	4	4	4	4	5	3	4
HVB[2]	**34**	**33**	**34**	**35**	**32**	**33**	**31**

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

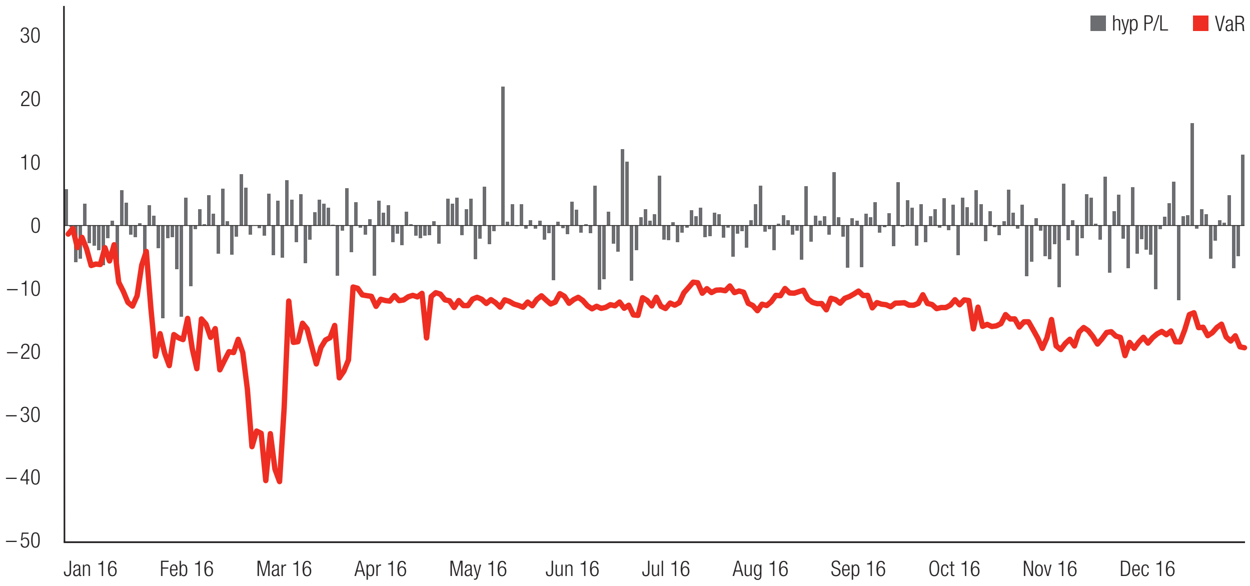
Development of trading-book and total value-at-risk at HVB (€ millions)



The total VaR at HVB shows the VaR curve for market price risk arising from trading- and banking-book positions. The trading-book VaR represents the development of the VaR in the trading book.

Both the total VaR curve and the trading-book VaR curve show a relatively stable risk development in 2016.

Regulatory back-testing of the internal model at HVB, 2016 (€ millions)



The forecasting quality of the VaR measurement method is checked by means of regular back-testing that compares the calculated regulatory VaR figures with the hypothetical fair value changes calculated from the positions. Three reportable back-testing outliers were observed in 2016, all of which were in January. 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, 2016"). These three outliers resulted from the influence of the negative euro interest rates. These outliers are not observable in the methodologically expanded internal risk measurement procedure. Likewise, the strong rise in the VaR for regulatory purposes in the first quarter of 2016 is exclusively attributable to a further fall in euro interest rates which resulted in significant overvaluation of the risk. Since the second quarter of 2016, the VaR presented in the chart has been based on the expanded model approved by the European banking supervisory authorities at the end of June 2016.

Alongside back-testing using the hypothetical change in value ("hyp P/L"), HVB also uses a back-testing method based on the economic P/L to validate the model. There were five overshootings in 2016, caused for the most part by weekly or monthly CVA P/L adjustments. The statement about the quality of the model is not affected by these special cases.

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

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

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

Stress tests

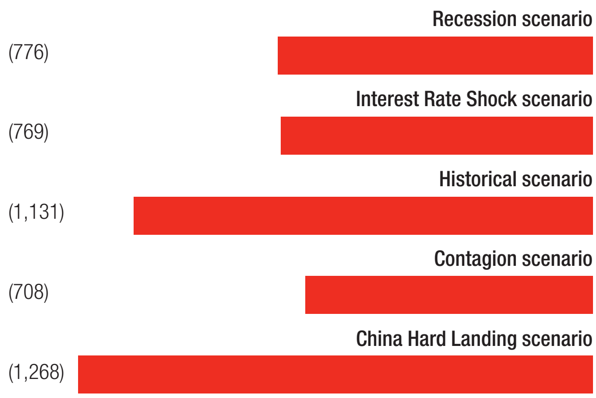
In addition to calculating the VaR and the other risk metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency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

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 and covers 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 China Hard Landing scenario simulates the effects of a slowdown in Chinese economic growth until the end of 2017. In 2017, we will compute a new scenario to replace the China Hard Landing scenario reflecting the introduction of protectionism in the US that dampens growth in China in conjunction with a growth shock in Turkey. The Interest Rate Shock scenario is used to analyse the impact of a rapid rise in interest rates in the eurozone.

At 31 December 2016, the most significant stress test results from this package of stress test scenarios and involves a potential loss of €1.3 billion from the China Hard Landing scenario (31 December 2015: loss of €1.6 billion). As of 31 December 2015, the largest loss (loss of €1.7 billion) results from the Historical scenario. The China Hard Landing scenario is also used in the cross-risk-type stress tests, where it is analysed for risk-taking capacity.

HVB stress test at 31 December 2016 (€ 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 2016. 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 rate 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 model book for equity. At 31 December 2016, the calculation of the present value from the managerial viewpoint taking into account the interest rate shocks gives rise to a capital requirement of 1.0% (31 December 2015: 0.6%). When calculated from the regulatory viewpoint, by contrast, a capital charge of 8.2% becomes apparent given an increase of 200 BPS in interest rates (31 December 2015: 7.0%). HVB is well below the 20% mark (in relation to the capital charge) specified, above which the banking supervisory authorities consider a bank to have increased interest rate risk.

Risk Report (Continued)

Summary and outlook

As was already the case in 2016, efforts will again be made in 2017 to concentrate on low market risk customer business in our trading activities on the financial markets. HVB will continue to invest in the development and implementation of electronic sales platforms.

3 Liquidity risk

Definition

Liquidity risk is understood to be the danger 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 (part of short-term liquidity risk)
– Funding risk
– 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

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

Market liquidity risk

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

Strategy

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

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 up and thresholds defined. The result is the specification of a minimum survival period that matches the risk appetite.

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

Limit system

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

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

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

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

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

Reduction

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

Measurement

Short-term liquidity risk

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

The aggregate amount for the three-month maturity bucket is published in the Risk Report for short-term liquidity risk as the relevant figure for managing the bank's liquidity risk.

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

Alongside this internal measurement methodology, HVB is subject to the regulatory standards for short-term liquidity risk defined in the German Liquidity Regulation (Liquiditätsverordnung – LiqV).

Calculating the liquidity coverage ratio (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 requirement in place as at 31 December 2016 of 70% is significantly exceeded by HVB with a figure in excess of 100%.

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.

Risk Report (Continued)

Monitoring and controlling

Short-term liquidity risk

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

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

Funding risk

The task of monitoring the structural liquidity situation at HVB has similarly been entrusted to the Finance unit in the CFO organisation. This essentially involves analysing and managing the long-term mismatches in the maturities of assets and liabilities within the scope of the defined limits and also specified funding targets. Compliance with the long-term funding ratios is monitored on a monthly basis.

The funding risk of HVB is well balanced thanks to the diversification of our funding across products, markets and investor groups. The front-office units implement the volume and product parameters derived from the funding targets cost-efficiently upon consultation with the Finance unit. This activity is similarly supported by a liquidity cost allocation mechanism – known as Funds Transfer Pricing (FTP) – for all significant business activities, the principles of which are defined in the FTP policy.

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

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.

The liquidity policy and contingency plan together with supplementary remarks are updated at regular intervals by the CRO organisation with support from the CFO organisation. The liquidity policy is implemented by the operational business units and coordinated and monitored for the relevant units of HVB by the Market and Operational Risk unit in the CRO 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 €32.8 billion in HVB for the three-month maturity bucket at the end of December 2016 (31 December 2015: €36.2 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 €29.9 billion at the end of 2016 (31 December 2015: €28.7 billion).

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB during the reporting period. The funds available exceeded its payment obligations for the following month by an average of €21.2 billion for HVB in 2016 (€23.4 billion in 2015) and €17.2 billion at 31 December 2016. This means that we are significantly above the internally defined threshold.

Funding risk

The funding risk of HVB was again low in the second half of 2016 thanks to our broad funding base in terms of 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. By the end of December 2016, HVB had obtained longer term funding with a volume of €11.5 billion (31 December 2015: €6.2 billion), including €5.0 billion under the ECB's TLTRO-II programme. At the end of December 2016, 102.7% (31 December 2015: 98.7%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Stress tests

Stress analyses are carried out at regular intervals, enabling us to make projections on the impact of sudden disruptions to 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 2016 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded.

Summary and outlook

Besides the ongoing effects of the European sovereign debt crisis, there are increasingly political and economic uncertainties relating to the future development of the European Union as a whole. Existing tensions between the European Union and not only Turkey but also Russia, as well as continuing geopolitical conflicts, in Syria in particular, and increasing numbers of terrorist attacks harbour further risks relating to the security, monetary and economic situation throughout Europe.

The impending implementation of the Brexit vote, the rejection of the referendum in Italy, the effects of the US presidential elections and the approaching elections in France and Germany over the coming twelve months are further imponderables with their potential to cause political unrest.

The measures taken by the ECB have so far contributed to calming the markets. It remains impossible to predict the extent and intensity to which the financial markets will react to all these developments seen as a whole.

HVB again put in a good performance in 2016 in this difficult market environment. Among other things, the contributory factors include our good liquidity situation, the solid financing structure and the liquidity management measures that have been taken.

In this context, we expect our liquidity situation to remain comfortable, even if Europe's economic strength does diminish slightly. Our forward-looking risk quantification and regular scenario analysis will remain important parameters in this regard going forward.

4 Operational risk

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

Strategy
The risk strategy for operational risk is 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 is part of the internal capital, with a limit set for HVB Group accordingly.

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

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

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

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

Information technology (IT)
HVB's IT services are mostly provided by UniCredit Business Integrated Services S.C.p.A. (UBIS). The ICT management processes continue to require adjustments to be made to the internal control system for IT to allow for all significant IT risks within the ICT management processes, among other things, to be monitored and managed appropriately. This also includes the processes in the field of the IT infrastructure outsourced by UBIS to Value Transformation Services (V-TS, a joint venture of IBM and UBIS) as defined for 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 2017. In addition, the control system will continue to be adjusted in line with the potential improvements identified at regular intervals and findings from audits.

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

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, labour law (only 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 an existing or future risk to income or capital as a consequence of infringements of or non-compliance with laws, regulations, statutory provisions, agreements, mandatory practices or ethical standards. This may result in fines, compensation for damages and/or contracts being rendered null and void in addition to damaging a bank's reputation.

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 Minimum Requirements for Compliance (MaComp) and MaRisk both require a compliance function to be put in place. Both also contain rules on how such compliance function should be structured. At HVB, both functions are combined in the Compliance unit in order to ensure a uniform approach. Money-laundering and fraud prevention as well as preventive measures against infringements of financial sanctions and embargos are also assigned to the Compliance unit. Comprehensive risk assessment is ensured by this approach. On account of its high degree of specialisation, the Tax Compliance unit is managed exclusively by the Tax Affairs (CFT) function and is refined on an ongoing basis.

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

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

Risk Report (Continued)

Medienfonds and other closed-ended funds legal proceedings

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 as security for the fund. The granted loans as well as the assumed payment obligations were due on 30 November 2014. The loans were paid back to HVB and the assumed payment obligations were paid to the fund by HVB.

The investors in the Medienfonds fund initially enjoyed certain tax benefits which were later revoked by the tax authorities. An outstanding final decision with respect to the question of HVB's liability for the prospectus in the proceeding pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz), which was 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 at a very high level for a liability on the part of HVB because of an allegedly incorrect prospectus. 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-end 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 HVB.

Relating to one retail fund with investment target in heating plants, a number of investors brought legal proceedings 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 an 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 the Bank. 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.

Legal proceedings 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 market 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 customer-friendly judgements with respect to derivative-related lawsuits. The German Federal Court of Justice affirmed for instance the duty to inform about an initial negative market value of an interest rate swap, unless the interest rate swap is in a certain way related to a loan agreement ("Konnex"). In this context, the German Federal Court of Justice also stated that the established obligations to provide investor-oriented and investment-specific advice have been joined by the obligation to disclose concealed conflicts of interest on the part of the advisor. Latest rulings also confirm that the characteristics of the relevant product and the individual circumstances of each case are decisive. In particular, the statute of limitations, the client's economic experience and risk tolerance, and the actual investment advice given may be relevant aspects.

Proceedings related to German tax credits
As long ago as in 2011, HVB had initiated investigations into securities transactions performed in 2005 to 2008 and around the dividend record date (with indications of previously agreed short selling) in the expectation of receiving withholding tax credits on dividends from German shares ("cum/ex trades"). HVB had brought these investigations of its own, that related both to an HVB customer's transactions and the bank's proprietary trades to a conclusion in July 2014. The results of the investigations performed by renowned international law firms show that, in some instances and to different extents, the proprietary trades that HVB was involved in from 2005 to 2008 demonstrated similarities to the cum/ex trades of a customer. According to the findings of the internal investigation, there are no indications that such cum/ex trades continued to be performed from 2009 onwards. The results of the inquiry indicate misconduct by individuals in the past. The Supervisory Board has demanded compensation for damages from individual former Management Board members. The Supervisory Board sees no reason to take action against current members of the Management Board.

With regard to the customer transactions, General Public Prosecutor (Generalstaatsanwaltschaft) Frankfurt am Main started a Preliminary Investigation (Ermittlungsverfahren) against the customer of HVB and others (including former and current employees of HVB) in 2012 in connection with the cum/ex trades carried out. The proceedings against HVB for an administrative fine initiated in this context pursuant to the German Administrative Offences Act (Ordnungswidrigkeitengesetz – OWiG) closed with administrative penalty notice dated 2 February 2016.

The above-mentioned proprietary transactions that were performed around the dividend record date and for which withholding tax was credited or for which reimbursement was applied for had been reviewed by HVB with the aid of external advisors and the relevant information was made available to the tax authorities. Furthermore, HVB informed foreign (tax) authorities to the extent that there were potential implications for transactions with domestic and foreign shares (equity derivatives).

The aforementioned proprietary transactions are subject to a regular tax audit covering 2005 to 2008, which has not yet been formally finalised. Further financial exposures on the part of HVB vis-à-vis (domestic or foreign) tax authorities in connection with these cum/ex trades are not to be expected since HVB has insofar already repaid the respective taxes (including interest thereon), withdrawn refund requests and received amended tax assessments.

The Munich tax authorities are currently performing a regular tax field audit for the years 2009 to 2012 which also covers transactions with equities. Besides proprietary transactions, the bank had entered into securities lending transactions with various domestic counterparties in the past that also included transactions with securities performed around the dividend record date. The question as to whether and under what circumstances taxes can be credited or refunded in the case of certain transactions around the dividend record date in all years still open and what further consequences may arise if the assumed tax treatment is rejected remains unanswered.

Risk Report (Continued)

The Cologne Public Prosecutor (Staatsanwaltschaft Köln) had opened a preliminary investigation against former employees of HVB in connection with the proprietary transactions and applications for refunds vis-à-vis the Central Federal Tax Authority (Bundeszentralamt für Steuern). These proceedings were concluded by a ruling by Cologne District Court dated 17 November 2015. Following the payment of an administrative fine and profit claw back, these proceedings have now been brought to a final conclusion.

The Munich Public Prosecutor (Staatsanwaltschaft München) has also opened a preliminary investigation against former and current employees of the bank in connection with the withholding tax credits and has also opened proceedings against HVB for an administrative fine pursuant to the German Administrative Offences Act. HVB is also fully cooperating with the prosecutors and competent authorities in all of these cases.

The implications of the ongoing investigations by the Munich Public Prosecutor remain largely unclear. It is conceivable that HVB will face financial penalties, fines and profit claw backs and other consequences in this connection. At this time, it is impossible to assess the timing, scope and extent or the implications of any rulings. Furthermore, it cannot be ruled out that HVB might be exposed to third-party claims under civil law.

HVB is in constant communication with the relevant authorities regarding these matters.

Legal proceedings 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 earlier such deficiencies. In 2011, the plaintiff filed an action 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. In the meantime, he has also extended his claim to the amount of €51.7 million. HVB is of the view that 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.

Proceedings in connection with financial sanctions

In the past, 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 can 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 an investigation alleging reasonable suspicion that individual employees of HVB and/or its subsidiary in Luxembourg assisted tax evasion committed from 2004 to 2010 by several of their private banking 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. The proceedings were concluded with legal effect in May 2016 with the imposition of a fine and a profit claw back.

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.

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 individual data sources are aggregated by applying the Bayesian model to the loss distribution parameters for each model risk category.

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 EC 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.

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

Quantification and specification
The EC for operational risk at HVB, without taking account of the diversification effects between the risk types, amounted to €1.4 billion as at 31 December 2016 (31 December 2015: €1.7 billion). The main reason for the decrease stems from the change in the confidence level from 99.93% to 99.90%. Retroactively applying the currently valid confidence level to the previous reporting date, the EC of HVB remains virtually unchanged. The corresponding comparative figure as at 31 December 2015 stands at €1.4 billion.

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

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

5 Other risks

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

Business risk
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 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.

Risk Report (Continued)

The strategic focus of the CIB business segment in 2016 remained on growth across all product lines. This objective was supported by our SQUARED growth strategy concept launched in 2015 on the basis of three pillars:
– making full use of the benefits of our strong customer relationships with corporate customers and financial institutions
– exploiting the international network in the best possible way
– expanding Markets within the Group

Strategic initiatives intended to counter earnings risks were targeted at achieving a significant level of exploitation of the cross-selling potential contained in customer relationships in order to boost our share of earnings but also active interest rate management and the central control of major transactions. 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 2016 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 overshooting of the limit in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

Since December 2016, HVB has been using UniCredit's group-wide model to measure the EC arising from business risk. For this purpose, earnings fluctuations are modelled with the aid of a statistical time series model on the basis of the earnings observed in the past from the income statement. The EC is calculated by means of a simulation method to determine the VaR of the statistical distribution of the forecast earnings in comparison to the earnings anticipated for the coming year.

The EC for business risk is determined by CRC and reported to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In the context of the risk strategy, the quarterly risk reporting includes in addition a comparison of the actual figures with the limits.

The EC for HVB's business risk, without taking account of diversification effects between the risk types, fell by €231 million to €442 million in 2016. Retroactively applying the currently valid confidence level and the current risk model to the previous reporting date, the comparative figure for the EC would have stood at €379 million at 31 December 2015. After eliminating the effect of the change in the confidence level, there is a slight increase in the EC from €63 million in comparison to 31 December 2015. The fully diversified EC for HVB's business risk totals €318 million at 31 December 2016 (31 December 2015: €244 million).

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

Real estate risk

Real estate risk covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB. No land or properties are included that serve as collateral 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 2016 was on measures targeting current fair value and cost optimisation. At the end of 2016, a property in Leipzig was purchased for strategic use. This property had already been used by Group units in the past. No additional purchases are planned for 2017, except where they would serve the interests of HVB (in other words, in exceptional circumstances only). The longer term orientation for strategic real estate corresponds with the Bank's strategy of preferring Bank-owned properties over rented properties for own use and making such properties available for the banking operations of HVB at market terms on a cost-optimised basis.

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

In terms of the central locations, for the first half of 2016 this relates primarily to the major renovation project aimed at turning the "HVB Tower" (formerly "Hypo-Haus") in Munich into a green building. This project was completed as planned in March 2016 and the property was reoccupied. Alongside the objective of increasing the space efficiency, the building's resource consumption was reduced. One further aspect of the "HVB Tower" project involves the renovation of another part of the building. As part of the further objective of consolidating areas at the Munich location, several projects were integrated into each other.

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. The risk drivers are the future usage by the Bank, property rents/Bank rents, market rents, rental contract periods, occupancy rate 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.

Real estate risk is managed overall on the basis of an IC limit for HVB Group. Based on this limit, early warning indicators have also been defined in the form of targets and thresholds in order to identify an overshooting 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 CRC department determines the EC 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 EC for the real estate risk at HVB, without taking account of diversification effects between the risk types, amounts to €67 million at 31 December 2016, which is €22 million higher than the reported figure at 31 December 2015 (€45 million). One significant reason for this development is the rise in the fair value of the portfolio in some instances. The counteracting effect stemming from the change in the confidence level from 99.93% to 99.90% should be mentioned. If the currently valid confidence level is applied retroactively to the previous reporting date, the comparative figure for the EC would be €43 million as at 31 December 2015. Eliminating the effect arising from the change in the confidence level, there is a rise of €24 million in the EC compared to 31 December 2015. The fully diversified EC for the real estate risk at HVB stands at €42 million (31 December 2015: €35 million).

The risk figures relate to a portfolio valued at €379 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2016	2015	2016	2015
Strategic real estate	239	144	63.1	59.1
Non-strategic real estate	140	99	36.9	40.9
HVB	**379**	**243**	**100.0**	**100.0**

The structure of HVB's real estate portfolio remained to a great extent unchanged over the course of 2016, apart from isolated transactions involving additions and disposals. From a geographical perspective, the focus is on Munich region with 28.5% of the value of the portfolio located there.

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.

For 2017, there are also plans to make further disposals from the portfolio of non-strategic real estate. The situation on the real estate markets will depend on economic developments once again in 2017. There is ongoing great demand from investors for properties in prime locations.

Financial investment risk

Financial investment risk arises from equity interests held in companies that are not included in the trading book. Financial investment risk is measured both as an individual risk type as well as a diversified risk factor contributing to the internal capital.

The investment portfolio contains mainly listed and unlisted interests and holdings in private equity funds. All the investments to be included in the financial investment risk are either considered strategic and allocated to a business segment or competence line, or deemed non-strategic and connected with the fundamental goal of reduction.

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.

CRC calculates the EC 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 EC for the financial investment risk of HVB, without taking account of diversification effects between the risk types, fell by €1.1 billion in 2016 to total €1.1 billion at 31 December 2016. One significant reason for this development is the risk mapping of liability risks that HVB assumes towards its subsidiaries. Since the first quarter of 2016, the risks have been measured according to causation based on the look-through principle on the assets side of the balance sheet, which means that major financial investment items are no longer included in the financial investment risk. The decrease in the confidence level from 99.93% to 99.90% causes an additional change. If the currently applicable confidence level is applied retroactively at the previous reporting date, the comparative figure for the EC would likewise stand at €2.2 billion as at 31 December 2015. The fully diversified EC of HVB amounts to €1.0 billion (31 December 2015: €1.9 billion).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	2016	2015	2016	2015
Private equity funds	111	107	8.5	4.0
Other holdings[1]	1,191	2,561	91.5	96.0
HVB	**1,302**	**2,668**	**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 EC.

As was the case in 2016, HVB will continue to selectively dispose of non-strategic shareholdings in 2017. It will also set up new companies and look into making fresh investments in line with its business strategy and the current market environment, provided these complement our structure and our business priorities, and generate added value for HVB.

Reputational risk

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

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

Risk Report (Continued)

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 are called in who will assess the reputational risk identified in terms of quality. The RRC will obtain a decision on the basis of the risk analysis and the qualitative assessment.

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 what are known 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. Senior management is subsequently interviewed about reputational risk. The senior manager has the opportunity to review the reputational risk identified in his unit during the interview and add further material reputational risks. Where it is possible and makes sense to do so, counter-measures are defined for the individual risks.

The Bank has decided not to directly quantify reputational risk under the "run-the-bank" process on account of the fundamental difficulty of accurately assessing the possible effects of reactions from stakeholders. Instead, the risk is classified in accordance with a three-tier system (traffic light logic) as part of the "run-the-bank" approach. This involves determining the aggregate risk across two dimensions: 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 organisation). OpRisk Control consolidates the results of the senior management interviews and prepares a RepRisk Report covering the largest reputational risks at HVB.

Strategic risk
Strategic risk results from management either not recognising or not correctly assessing significant developments or trends in the bank's environment. As a consequence fundamental management decisions could, in retrospect, prove to be disadvantageous in terms of the bank's long term goals. In addition, some decisions may be difficult to reverse or cannot be reversed at all. In the worst case, this can negatively impact profitability and risk profile of HVB.

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

Strategic risk is monitored on an ongoing basis by the Management Board and its staff offices and, if necessary, analysed in depth on an ad hoc basis. At the same time, the Management Board discusses any changes to the strategic parameters, whereby alternative courses of action are derived and implemented accordingly. This is done during the Management Board meetings as well as the Management Board offsites held at least twice a year. A dialogue with external experts (such as management consultants and independent auditors) regarding strategic issues and options at Management Board level and below ensures the involvement of external experts' know-how.

Risk arising from the overall economic environment
Based on HVB's focus with its Commercial Banking and CIB business segments and a wide variety of products and its concentration on its home market of Germany and further core countries, the overall economic developments in Germany and within the eurozone as well as developments on the international financial and capital markets are of great importance for the assets, liabilities, financial position and profit and loss of HVB. As a consequence, the regular economic analysis carried out by HVB covers macroeconomic developments in the eurozone, the monetary policy of central banks and the discussions surrounding the deleveraging of highly indebted countries.

As a sound universal bank with excellent customer relationships, HVB considers itself fundamentally in good shape to continue operating successfully in this challenging environment. Should, however, the measures taken to stabilise the eurozone fail to have the desired effect, for instance, or economic growth slow in Europe, or further turmoil roil the financial and capital markets, this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

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

HVB is a universal bank that focuses on the regional management of the German market and also acts as the centre of competence for the investment banking activities of UniCredit as a whole. As a consequence, the bank's business model is 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 business segments are impacted by the persistent low interest rate environment each in their own way.

The modernisation of the retail banking activities coupled with the related transition to a multi-channel bank with comprehensive service, information and advisory offerings is intended to enable HVB to maintain a stable and profitable retail banking business. The main strategic objectives are to implement a clearly differentiated service model aimed at upgrading the quality of the advice and service we give customers and to focus clearly on customers holding their main bank account with HVB.

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

The strategic orientation of the CIB business segment is to generate additional value for clients by offering specific advisory models and a wide variety of products geared to the clients' specific needs. Even though Investment Banking activities are client-driven, revenues are traditionally volatile as customer demand for investment products is influenced by the market environment. Whilst in a normal market environment Investment Banking is very profitable, there are increased risks to assets, liabilities, financial position, and profit or loss under difficult market conditions.

Risks arising from the consolidation of the banking market

Consolidation on the German and international banking and financial markets has been ongoing for many years. Shifting market share could arise that potentially negatively impacts the assets, liabilities, financial position, and profit or loss of HVB.

Risks arising from changing competitive conditions in the German financial sector

The German financial services market, which is HVB's core market, is subject to tough competition due in part to its three-pillar structure (public-sector savings banks and Landesbanks, cooperative banks and private banks). Despite some mergers and takeovers, there are still overcapacities on the German market, especially in the retail banking sector. In addition, more and more European and international players as well as Fintech enterprises operating in the retail and corporate banking segment are seeking to enter the German market. The result is intense competition for customers and market share, in which HVB is facing fierce trade rivalry.

It 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.

Risks arising from changes to the regulatory and statutory environment

The activities of HVB are regulated and supervised by the central banks and regulatory authorities in the countries and regions where HVB does business. The regulatory requirements in the individual countries/regions are subject to change at regular intervals. Their impact on the business activities and business models of banks needs to be tracked closely. 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 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, additional costs for the implementation of the new regulatory requirements and the necessary adjustments of the IT systems could also accrue for HVB. Differences in the regulatory requirements between countries or regions could lead to distortions in the competitive situation and therefore have a direct impact on profitability. In addition, implementation of the modified regulatory requirements and their compliance could lead to a rise in operating costs, which would similarly have a negative impact on the assets, liabilities, financial position, and profit or loss of HVB.

Should HVB not comply fully with the regulatory demands of the supervisory authorities, this could lead to sanctioning measures by those authorities that might even include the cessation of the business activities of HVB.

Risks arising from a change in HVB's rating

HVB has an 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 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 of HVB as a counterparty in the interbank market or with rating-sensitive 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 units with potentially negative consequences for the assets, liabilities, financial position, and profit or loss of HVB. The possible negative effects arising from this risk will depend notably on whether HVB's rating changes less than, the same as or more than that of its competitors.

Pension risk

HVB has undertaken to provide a range of different pension plans to current and former employees which are largely financed by various forms of investment, some of which are external. Pension risk may arise in connection with the pension plans on both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as an increase in 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 department 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 obligations side. A figure of €810 million was determined as at 31 December 2016 for the total pension risk of HVB (31 December 2015: €834 million); this figure 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 plan assets with acceptable risk. It is perfectly conceivable that, in the current low interest rate environment, the discount rate will have to be lowered further (as at the end of 2015 the discount rate stood at 2.35% and as at 31 December 2016 at 1.90%), thus causing the pension obligations to rise further. Additional adjustments to the risk model applied are still under discussion. Depending on the final structure of the model with regard to the various risk factors applied, the pension risk might again significantly increase after a further adjustment. Furthermore, uniform European rules for the measurement of pension risk do not exist at present. This gives rise to further uncertainty regarding the future development of the disclosed pension risk.

Risks arising from outsourcing activities

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

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

The respective project team and defined functional departments (including Operational Risk Management, Compliance, Legal, Corporate Affairs & Documentation, Data Protection and Business Continuity Management) use a standard procedure to classify outsourcing arrangements as “not material”, “material without significant impact” and “material with significant impact”. In accordance with the group-wide regulations regarding outsourcing management, these arrangements are also subdivided into “not relevant” and “relevant” in line with the provisions of the Bank of Italy’s Circular no. 263. An in-depth risk analysis covering the other risk types as well as operational risk is performed for the outsourcing arrangements classified as “material” or “relevant”. A retained organisation (RTO) responsible for the arrangement is set up for each material outsourcing arrangement that manages the risks identified. The identified risks are incorporated in risk management of HVB in the processes defined for the risk types concerned. The operational risk managers help the project managers 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 2016. In a significant change to the outsourcing portfolio, HVB has folded the existing outsourcing firm UniCredit Global Business Services GmbH (UGBS GmbH) into UniCredit Business Integrated Services S.C.p.A. (UBIS). This has not yielded any material change in risk.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definitions and objectives

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

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

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

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

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

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

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

ICS organisation

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

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

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

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

Organisational structure and tasks of the CFO organisation

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

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

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

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

ICS – Internal Control System (Continued)

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

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

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

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

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

The controls cover the aspects of the ICS described below:

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

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

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

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

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

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

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

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

ICS – Internal Control System (Continued)

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

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

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

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

Monitoring the effectiveness of the ICS

Internal Audit

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

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

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

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

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

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

Supervisory Board
It is the task of the Supervisory Board to advise the Management Board on the running of the Bank and monitor it as it conducts its business. Particularly with respect to the monitoring of the financial reporting process and the effectiveness of the ICS, the Supervisory Board receives support from the Audit Committee pursuant to Section 107 (3) AktG and Section 25d (9) Nos. 1 and 2 KWG. In this context, the Audit Committee also addresses the ICS in connection with the financial reporting process. Furthermore, the Supervisory Board – and, in a preparatory role, the Audit Committee – is itself integrated into the financial reporting processes through its monitoring of the financial reporting performed by reviewing and approving the financial statements and the Management Report as well as the proposal for the appropriation of profits. In addition, the Audit Committee and the Supervisory Board discuss the interim financial information with the Management Board as such information becomes available throughout the year.

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

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

Income Statement of UniCredit Bank AG

For the year ended 31 December 2016

Expenses (€ millions)

				2016	2015
1	**Interest payable**			1,658	1,781
2	**Fees and commissions payable**			338	297
3	**Net expense from the held-for-trading portfolio**			—	—
4	**General administrative expenses**				
	a) payroll costs				
	aa) wages and salaries	1,656			1,425
	ab) social security costs and expenses for				
	pensions and other employee benefits	392			461
			2,048		1,886
	including: for pensions				
	€204 million				(266)
	b) other administrative expenses		1,836		1,743
				3,884	3,629
5	**Amortisation, depreciation and impairment losses**				
	on intangible and tangible assets			30	37
6	**Other operating expenses**			305	286
7	**Write-downs and impairments for receivables and**				
	certain securities as well as additions to provisions				
	for losses on guarantees and indemnities			480	37
8	**Write-downs and impairments on participating**				
	interests, shares in affiliated companies				
	and investment securities			—	19
9	**Expenses from absorbed losses**			13	5
10	**Extraordinary expenses**			69	22
11	**Taxes on income**			130	101
12	**Other taxes, unless shown under**				
	"Other operating expenses"			34	44
13	**Net income**			**5**	**398**
	Total expenses			**6,946**	**6,656**

Income

(€ millions)

			2016	2015
1	**Interest income from**			
	a) loans and money market operations	3,559		3,565
	b) fixed-income securities and government-inscribed debt	473		570
			4,032	4,135
2	**Current income from**			
	a) equity securities and other variable-yield securities	339		246
	b) participating interests	45		46
	c) shares in affiliated companies	25		85
			409	377
3	**Income earned under profit-pooling**			
	and profit-and-loss transfer agreements		61	62
4	**Fees and commissions receivable**		1,473	1,435
5	**Net income from the held-for-trading portfolio**		572	284
	including: transfer as per Section 340e (4) HGB			
	€16 million			(32)
6	**Write-ups on bad and doubtful debts and on certain**			
	securities as well as release of provisions for losses on			
	guarantees and indemnities		—	—
7	**Write-ups on participating interests,**			
	shares in affiliated companies and investment securities		117	—
8	**Other operating income**		282	363
9	**Net loss**		—	—
	Total income		**6,946**	**6,656**
1	**Net income**		5	398
2	**Withdrawal from retained earnings**			
	a) from the reserve for shares in a controlling			
	or majority interest-holding company	84		—
	b) from other retained earnings	3,000		38
			3,084	38
3	**Transfer to retained earnings**			
	a) to the reserve for shares in a controlling			
	or majority interest-holding company	—		38
	b) to other retained earnings	84		—
			84	38
4	**Profit available for distribution**		**3,005**	**398**

Balance Sheet of UniCredit Bank AG

at 31 December 2016

Assets (€ millions)

		31/12/2016	31/12/2015
1 Cash and cash balances			
a) cash on hand	4,518		527
b) balances with central banks	2,445		10,271
including: with Deutsche Bundesbank			
€745 million			(5,824)
		6,963	10,798
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
b) bills of exchange	—		—
		—	—
3 Loans and receivables with banks			
a) repayable on demand	6,461		3,937
b) other loans and receivables	29,410		30,309
		35,871	34,246
including: mortgage loans			
€— million			(—)
municipal loans			
€50 million			(65)
against pledged securities			
€— million			(—)
4 Loans and receivables with customers		94,489	88,036
including: mortgage loans			
€40,165 million			(38,995)
municipal loans			
€9,618 million			(9,757)
against pledged securities			
€349 million			(455)
Amount carried forward:		137,323	133,080

Liabilities

(€ millions)

			31/12/2016	31/12/2015
1 Deposits from banks				
a) repayable on demand		7,591		9,148
b) with agreed maturity dates or periods of notice		43,474		42,392
			51,065	51,540
including: registered mortgage bonds in issue				
€478 million				(451)
registered public-sector bonds in issue				
€189 million				(232)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€— million				(—)
and registered public-sector bonds				
€— million				(—)
2 Deposits from customers				
a) savings deposits				
aa) with agreed period of notice of three months	13,724			13,708
ab) with agreed period of notice				
of more than three months	56			84
		13,780		13,792
b) registered mortgage bonds in issue		5,021		5,282
c) registered public-sector bonds in issue		2,338		2,579
d) other debts				
da) repayable on demand	71,180			67,816
db) with agreed maturity dates or periods of notice	31,830			24,971
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€3 million				(4)
and registered public-sector bonds				
€— million				(—)
		103,010		92,787
			124,149	114,440
Amount carried forward:			175,214	165,980

Balance Sheet of UniCredit Bank AG (Continued)

Assets (€ millions)

			31/12/2016	31/12/2015
Amount brought forward:			137,323	133,080
5 Bonds and other				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	4			3
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(—)
ab) issued by other borrowers	1,549			1,628
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€60 million				(—)
		1,553		1,631
b) bonds and notes				
ba) issued by public authorities	21,541			20,860
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€20,971 million				(20,491)
bb) issued by other borrowers	27,840			27,508
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€18,765 million				(17,054)
		49,381		48,368
c) own bonds		2,513		2,509
nominal value €2,500 million				(2,500)
			53,447	52,508
6 Equity securities and other variable-yield securities			801	961
6a) Held-for-trading portfolio			54,505	55,027
7 Participating interests			174	164
including: in banks				
€13 million				(8)
in financial service institutions				
€7 million				(7)
8 Shares in affiliated companies			2,484	2,487
including: in banks				
€878 million				(878)
in financial service institutions				
€488 million				(557)
Amount carried forward:			248,734	244,227

Liabilities

(€ millions)

			31/12/2016	31/12/2015
Amount brought forward:			175,214	165,980
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	9,689			10,311
ab) public-sector bonds	1,417			2,595
ac) other bonds	2,114			2,502
		13,220		15,408
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			13,220	15,408
3a) Held-for-trading portfolio			31,900	34,242
4 Trust liabilities			3	4
including: loans taken out on a trust basis				
€3 million				(4)
5 Other liabilities			6,719	7,170
6 Deferred income				
a) from issuing and lending operations		30		32
b) other		145		137
			175	169
6a) Deferred tax liabilities			—	—
7 Provisions				
a) provisions for pensions				
and similar commitments		—		—
b) tax provisions		662		627
c) other provisions		2,939		2,591
			3,601	3,218
8 Subordinated liabilities			500	554
9 Participating certificates outstanding			—	—
including: those due in less than two years				
€— million				(—)
10 Fund for general banking risks			638	622
thereof: special items as per Section 340e (4) HGB				
€347 million				(331)
Amount carried forward:			231,970	227,367

Assets (€ millions)

			31/12/2016	31/12/2015
	Amount brought forward:		248,734	244,227
9	**Trust assets**		3	4
	including: loans granted on a trust basis			
	€3 million			(4)
10	**Intangible assets**			
	a) internally generated intellectual property rights			
	and similar rights and assets,	—		—
	b) purchased franchises, intellectual property rights,			
	and similar rights and assets,			
	as well as licences to such rights and assets	13		21
	c) goodwill	—		—
	d) advance payments	3		3
			16	24
11	**Property, plant and equipment**		160	170
12	**Other assets**		771	883
13	**Prepaid expenses**			
	a) from issuing and lending operations	32		39
	b) other	84		74
			116	113
14	**Deferred tax assets**		—	—
15	**Excess of plan assets over pension liabilities**		528	697
	Total assets		**250,328**	**246,118**

Liabilities

(€ millions)

			31/12/2016	31/12/2015
Amount brought forward:			231,970	227,367
11 Shareholders' equity				
a) called-up capital				
subscribed capital		2,407		2,407
divided into:				
802,383,672 shares of common				
bearer stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for shares in a controlling				
or majority interest-holding company	8			92
cc) statutory reserve	—			—
cd) other retained earnings	3,147			6,063
		3,155		6,155
d) profit available for distribution		3,005		398
			18,358	18,751
Total liabilities and shareholders' equity			**250,328**	**246,118**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		36,018		32,798
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			36,018	32,798
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		40,966		38,578
			40,966	38,578

Notes to the Annual Financial Statements

Legal basis

UniCredit Bank AG (HVB) is a universal bank with its registered office and principal place of business in Arabellastrasse 12, Munich, Germany. It is entered under HRB 42148 in the B section of the Commercial Register maintained by Munich Local Court. HVB is an affiliated company of UniCredit S.p.A., Rome, Italy (ultimate parent company).

The annual financial statements of UniCredit Bank AG for the 2016 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

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

Accounting, valuation and disclosure

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

The German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) came into force on 23 July 2015 and transposes the EU Accounting Directive 2013/34/EU into national law. The BilRUG basically consists of simplifications for small and medium-sized enterprises and aims at increasing transparency and EU-wide harmonisation of separate and consolidated financial statements. This means that the authors of the directive/legislation were not targeting capital-market-oriented companies.

The disclosure, valuation and recognition provisions of the German Commercial Code amended by the BilRUG are generally of minor importance for HVB's separate financial statements as banks primarily have to apply the provisions of the RechKredV, which have not been amended.

In contrast, the newly introduced or amended disclosure requirements of the HGB also have to be implemented by banks. The amendments relevant for HVB have been taken into consideration in the Notes to these financial statements.

The provisions of the BilRUG are mandatorily applicable for HVB for the first time in the 2016 financial year.

1 Consistency

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

2 Cash and cash balances

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

3 Treasury bills and bills of exchange

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

4 Loans and receivables with banks and customers

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

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

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements (Continued)

The Bank sets up portfolio and micro-valuation units documented in advance for certain interest-bearing securities, promissory notes (with a carrying amount of €34,115 million (2015: €35,015 million)) and certain interest rate derivatives hedged against interest rate risk by equivalent hedging derivatives (notably interest rate swaps). The hedge of the dynamic portfolio within the framework of the valuation unit is of unlimited duration; the hedging period of the individual hedging derivatives is always related to the residual maturity of the respective hedged items in the portfolio. The offset changes in the value of the interest-bearing securities amount to an increase of €344 million (2015: €299 million) for the portfolios whose hedged items encompass securities and promissory notes. The requirements of Section 254 HGB regarding valuation units have been met. The prospective hedging efficiency is documented using the interest rate risk sensitivity analysis based on basis point values (BPV). The changes in value arising from the hedged items and hedges induced from the hedged risk are set against each other and offset within the individual valuation units. Under the net hedge presentation method, no net valuation gain is taken to the income statement; provisions are set up to cover any net loss on the ineffective portion of the changes in the value of the hedge. Any valuation loss arising from the unhedged risk is included in the respective hedged items and hedging derivatives in accordance with the imparity principle.

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

6 Held-for-trading portfolio

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

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements (Continued)

The Bank takes out the credit derivatives not held for trading exclusively as a protection buyer. In this context, the credit derivatives serve to hedge the risk of default of other transactions entered into by the Bank. The credit derivatives not held for trading are therefore accounted for according to the principles relating to loan collateral.

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

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

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

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

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

7 Participating interests and shares in affiliated companies

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

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

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

8 Intangible assets

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

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

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

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

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

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

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

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

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

The German Act Implementing the Directive on Credit Agreements Relating to Residential Immovable Property and Amending Provisions of Commercial Law enacted in 2016 changed the specified discount rate used in discounting provisions for pension obligations from a seven-year average to a ten-year average. The difference occurring in every financial year between the valuation of the provision applying the corresponding market rate from the previous ten financial years and applying the corresponding average market rate from the previous seven financial years is subject to a ban on distribution.

Notes to the Annual Financial Statements (Continued)

(in %)

	2016	2015
Discount rate (10-year annual average)	4.01	—
Discount rate (7-year annual average)	3.24	3.89
Pension trend	1.50	1.60
Anticipated wage and salary increases	1.50	2.00
Career trend	0.50	0.50
Probabilities (based on the modified Heubeck 2005 G tables)		
Reduction to:		
Mortality		
Men	75	75
Women	90	90
Probability of disability		
Men	80	80
Women	80	80

Income and expenses arising from the compounding and discounting of provisions for pensions are included in other operating income less other operating expenses. However, the current service cost accruing during the period and the effects arising from changed assumptions regarding the wage, salary and pension trend and biometric probabilities are disclosed under payroll costs. The same principles apply for the impact on earnings arising from the change in the group of beneficiaries and the change in provisions for pension in connection with company restructuring activities. Similarly, the impact on earnings of the change in the discount rate arising during the course of the 2016 financial year is allocated to payroll costs.

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

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

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

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

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

Income and expenses arising from plan assets are shown in other operating income less other operating expenses.

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

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

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

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

15 Breakdown of income by region

The following table shows a breakdown by region of:
– interest income
– current income from equity securities and other variable-yield securities, participating interests and shares in affiliated companies
– fees and commissions receivable
– net income from the held-for-trading portfolio and
– other operating income

(€ millions)

	2016	2015
Total income	**6,768**	**6,595**
Germany	5,491	5,567
Italy	434	441
UK	446	330
Rest of Europe	54	40
Americas	259	144
Asia	84	73

16 Net interest income

The following table shows the breakdown of net interest:

(€ millions)

	2016	2015
Net interest income	**2,844**	**2,793**
Interest income from		
lending and money market transactions	3,559	3,565
fixed-income securities and government-inscribed debt	473	570
Current income from equity securities and other variable-yield securities, participating		
interests and shares in affiliated companies	409	377
Income from profit-pooling and profit-and-loss-transfer agreements	61	62
Interest expenses	1,658	1,781

Interest income from lending and money market operations contains trading-induced interest of €85 million from interest rate derivatives erroneously omitted in previous years.

Negative interest that the Bank is required to pay for assets (such as interest for average reserve assets exceeding the required minimum reserves and for other deposits at the ECB) is reported under interest income with a negative sign (€99 million); where negative interest is received on the liabilities side, this is entered as interest expenses with a positive sign (€153 million). This mainly relates to securities repurchase agreements, overnight deposits and forward transactions with banks and institutional investors.

The interest expense arising from the compounding of provisions amounts to €3 million (2015: €4 million).

17 Services performed for third parties

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

18 Net income from the held-for-trading portfolio

The net income from the held-for-trading portfolio (net trading income) of €572 million (2015: €284 million) includes the offset income and expenses arising from transactions involving financial instruments held for trading purposes, complete with the full net income from FX operations. Also carried here are certain fees and commissions in connection with transactions involving financial instruments held for proprietary trading purposes and trading with precious metals. We carry the current interest income/expense resulting from held-for-trading portfolios (so-called trading-induced interest) as well as dividend income in net interest income and in current income rather than in net trading income in accordance with our internal management.

19 Breakdown of other operating income and expenses

This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€142 million (2015: €154 million)), payroll costs and cost of materials passed on (€65 million (2015: €67 million)) and the recognition of income from services performed in earlier years (€7 million (2015: €8 million)).

Other operating expenses include the following:

– compensation and ex gratia payments (€32 million (2015: €21 million))
– additions to provisions other than provisions for lending and securities operations (€200 million (2015: €218 million))
– expenses of €56 million (2015: €58 million) arising from the compounding and discounting of provisions for pensions and similar provisions
– expenses of €24 million (2015: €35 million) arising from the compounding and discounting of other provisions in the non-lending business as well as
– expenses of €1 million (2015: €3 million) related to other periods

20 Expenses from absorbed losses

There was no expense from an absorbed loss in other accounting periods in the 2016 financial year (2015: €110,000).

21 Extraordinary income/expenses

The initial application of the new provisions set forth in the BilMoG at 1 January 2010 resulted in expenses of €69 million in 2016 (2015: €22 million) arising from the revaluation of provisions for pensions to be disclosed under extraordinary income/expenses. The part of the revaluation attributable to the transfer of further assets and liabilties from HVB to HVB Trust Pensionsfonds AG, Munich was fully written up in the financial year.

22 Net profit

The profit available for distribution amounts to €3,005 million. This consists of the net income of €5 million generated in the reporting period and a withdrawal of €3,000 million from other retained earnings. We will propose to the Shareholders' Meeting that a dividend of €3,005 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.75 per share after around €0.50 in 2015. In accordance with a resolution adopted by the Shareholders' Meeting on 10 May 2016, the profit available for distribution of €398 million generated in 2015 was distributed to UniCredit.

Notes to the Balance Sheet

23 Breakdown by maturity of selected asset items

The following table shows the breakdown by maturity of selected asset items: (€ millions)

		2016	2015
A 3 b)	Other loans and receivables with banks		
	with residual maturity of less than 3 months	12,030	15,248
	at least 3 months but less than 1 year	10,495	9,021
	at least 1 year but less than 5 years	6,153	5,242
	5 years or more	732	798
A 4	Loans and receivables with customers		
	with residual maturity of less than 3 months	10,157	7,028
	at least 3 months but less than 1 year	7,111	7,074
	at least 1 year but less than 5 years	30,014	28,658
	5 years or more	38,002	36,222
	No fixed maturity	9,205	9,054
A 5	Bonds and other fixed-income securities, amounts due in the following year	12,073	10,932

24 Breakdown by maturity of selected liability items

The following table shows the breakdown by maturity of selected liability items: (€ millions)

		2016	2015
L 1	Deposits from banks		
L 1b)	with agreed maturity dates or periods of notice		
	with residual maturity of less than 3 months	21,614	24,621
	at least 3 months but less than 1 year	6,350	6,813
	at least 1 year but less than 5 years	10,309	6,297
	5 years or more	5,201	4,661
L 2	Deposits from customers		
L 2 ab)	savings deposits with agreed maturity dates or periods of notice		
	with residual maturity of less than 3 months	11	12
	at least 3 months but less than 1 year	16	20
	at least 1 year but less than 5 years	28	50
	5 years or more	1	2
L 2 b)	registered Mortgage Pfandbriefs in issue		
L 2 c)	registered Public Pfandbriefs in issue		
L 2 db)	other debts with agreed maturity dates or periods of notice		
	with residual maturity of less than 3 months	16,349	11,331
	at least 3 months but less than 1 year	9,529	8,042
	at least 1 year but less than 5 years	4,721	4,843
	5 years or more	8,590	8,616
L 3	Debt securities in issue		
L 3 a)	Bonds, amounts due in following year	3,549	4,218
L 3 b)	other debt securities in issue		
	with residual maturity of less than 3 months	—	—
	at least 3 months but less than 1 year	—	—
	at least 1 year but less than 5 years	—	—
	5 years or more	—	—

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

(€ millions)

	2016		2015	
	AFFILIATES	PARTICIPATING INTERESTS	AFFILIATES	PARTICIPATING INTERESTS
Loans and receivables with banks	14,903	169	15,428	221
of which: UniCredit S.p.A.	1,777	—	1,830	—
Loans and receivables with customers	3,438	599	3,066	716
Bonds and other fixed-income securities	3	5,669	43	5,669
of which: UniCredit S.p.A.	—	—	39	—
Deposits from banks	5,089	138	5,403	165
of which: UniCredit S.p.A.	929	—	961	—
Deposits from customers	938	583	1,120	542
Debt securities in issue	321	—	321	—
of which: UniCredit S.p.A.	—	—	—	—
Subordinated liabilities	264	—	308	—

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

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

26 Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2016	2015
Trust assets	**3**	**4**
Loans and receivables with banks	—	—
Loans and receivables with customers	3	4
Equity securities and other variable-yield securities	—	—
Participating interests	—	—
Other assets	—	—
Trust liabilities	**3**	**4**
Deposits from banks	3	4
Deposits from customers	—	—
Debt securities in issue	—	—
Other liabilities	—	—

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

Notes to the Balance Sheet (Continued)

27 Foreign-currency assets and liabilities

(€ millions)

	2016	2015
Assets	**44,609**	**46,672**
Cash and cash balances	1,700	4,447
Treasury bills and other bills eligible for refinancing with central banks	—	—
Loans and receivables with banks	3,152	3,511
Loans and receivables with customers	16,030	14,657
Bonds and other fixed-income securities	3,386	3,151
Equity securities and other variable-yield securities	—	—
Held-for-trading portfolio (assets held for trading purposes)	20,150	20,710
Participating interests	8	8
Shares in affiliated companies	85	86
Trust assets	—	—
Intangible assets	—	—
Property, plant and equipment	5	5
Other assets	88	91
Prepaid expenses	5	6
Liabilities	**41,342**	**40,890**
Deposits from banks	13,504	13,013
Deposits from customers	7,634	6,463
Debt securities in issue	12	10
Held-for-trading portfolio (liabilities held for trading purposes)	19,362	20,720
Trust liabilities	—	—
Other liabilities	177	147
Deferred income	57	52
Provisions[1]	428	318
Subordinated liabilities	168	167

1 A provision translated into USD in the 2015 financial year was not contained in the foreign-currency assets and liabilities. The year-ago figure was therefore adjusted.

The amounts shown represent the euro equivalents of all currencies.

28 Subordinated asset items

The following balance sheet items contain subordinated assets:

(€ millions)

	2016	2015
Subordinated asset items	**2,568**	**2,839**
Loans and receivables with banks	321	322
Loans and receivables with customers	39	68
Bonds and other fixed-income securities	2,007	2,174
Equity securities and other variable-yield securities	—	—
Held-for-trading portfolio	201	275

29 Marketable debt and investments

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

	2016			2015		
	TOTAL MARKETABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED	TOTAL MARKETABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED
Bonds and other fixed-income securities	53,447	43,089	10,358	52,508	41,781	10,727
Equity securities and other						
variable-yield securities	76	—	76	76	—	76
Held-for-trading portfolio	27,132	20,587	6,545	27,248	22,209	5,039
Participating interests	2	—	2	—	—	—
Shares in affiliated companies	—	—	—	—	—	—

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

	2016		2015	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Non-current securities	**2,472**	**2,365**	**4,652**	**4,530**
Bonds and other fixed-income securities	2,472	2,365	4,652	4,530
Equity securities and other variable-yield securities	—	—	—	—

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

30 Held-for-trading portfolio

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

	2016	2015
Assets held for trading	**54,505**	**55,027**
Derivative financial instruments (positive fair values)	14,245	13,679
Loans and receivables	10,788	12,204
Bonds and other fixed-income securities	14,891	14,766
Equity securities and other variable-yield securities	13,845	13,624
Other assets	764	777
Less risk discount (for entire portfolio of assets held for trading purposes)	(28)	(23)

Notes to the Balance Sheet (Continued)

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

	2016	2015
Liabilities held for trading	**31,900**	**34,242**
Derivative financial instruments (negative fair values)	10,799	11,618
Liabilities (including delivery obligations arising from short sales of securities)	21,101	22,624

Derivatives held for trading purposes that were concluded under master agreements together with a credit support annex allowing for daily exchange of collateral were netted for each counterparty in the balance sheet. The netting for each counterparty encompasses both the carrying amount of the derivatives and the collateral provided. This involved netting positive fair values of €44.6 billion with negative fair values of €46.1 billion on derivatives held for trading with the associated receivables (€9.2 billion) and liabilities (€7.7 billion) from collateral provided.

In June 2016, the German Federal Court of Justice passed a ruling (file no. IX ZR 314/14 of 9 June 2016) on the partial invalidity of netting arrangements under the German Master Agreement for Derivatives in insolvency law. This will not have any effect on the accounting treatment of these netting agreements on account of a general administrative act of the German Federal Financial Supervisory Authority (BaFin) that has meanwhile been issued and due to the adjustment to the Insolvency Code announced.

31 Investment funds

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

	2016				2015			
	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE CARRYING AMOUNT/ FAIR VALUE	DIVIDEND PAYMENTS	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE CARRYING AMOUNT/ FAIR VALUE	DIVIDEND PAYMENTS
Total investment funds	**934**	**938**	**4**	**1.7**	**840**	**844**	**4**	**2.7**
Equity funds	156	156	—	0.1	256	256	—	1.7
Money market funds and								
near-money market funds	20	20	—	0.1	32	32	—	—
Mixed funds	308	312	4	0.5	188	192	4	0.2
Index funds	163	163	—	—	241	241	—	0.2
Bond funds	130	130	—	0.2	66	66	—	0.3
Funds of funds	157	157	—	0.8	57	57	—	0.3

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

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

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

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

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

32 Analysis of non-current assets

(€ millions)

	INTANGIBLE ASSETS				PROPERTY, PLANT AND EQUIPMENT			
	SOFTWARE	DOWN-PAYMENTS	OTHER INTANGIBLE ASSETS	TOTAL	LAND AND BUILDINGS USED BY HVB IN ITS OPERATIONS	FURNITURE AND OFFICE EQUIPMENT	TOTAL	OTHER NON-CURRENT ASSETS
Acquisition/Production costs								
Balance at 1/1	576	3	—	579	200	251	451	21
Additions	1	3	—	4	—	7	7	—
Disposals	75	—	—	75	—	36	36	—
Reclassifications[1]	4	(3)	—	1	—	2	2	—
Post-capitalization	—	—	—	—	—	—	—	—
Balance at 31/12	506	3	—	509	200	224	424	21
Depreciation/Amortisation								
Balance at 1/1	555	—	—	555	104	177	281	—
Additions	12	—	—	12	6	12	18	—
thereof non-scheduled	—	—	—	—	1	—	1	—
Disposals	74	—	—	74	—	36	36	—
Reclassifications[1]	—	—	—	—	—	2	2	—
Write-ups	—	—	—	—	(1)	—	(1)	—
Balance at 31/12	493	—	—	493	109	155	264	—
Net Book Value								
Balance at 1/1	21	3	—	24	96	74	170	21
Balance at 31/12	13	3	—	16	91	69	160	21

1 including changes in value due to currency translation

(€ millions)

	ACQUISITION COST	CHANGES +/–[1]	NET BOOK VALUE 31/12/2016	NET BOOK VALUE 31/12/2015
Participating interests	275	(101)	174	164
Shares in affiliated companies	2,667	(183)	2,484	2,487
Investment securities	9,485	1,284	10,769	9,485

1 use has been made of the possibility of combining amounts allowed by Section 34 (3) RechKredV

33 Other assets

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

(€ millions)

	2016	2015
Claims to tax reimbursements	414	526
Claims to dividends from affiliated companies	84	138
Proportion of income from commission/interest not yet received	64	57
Trade debtors	34	35
Proportion of income from portfolio fees	29	30
Capital investments with life insurers	27	24
Works of art	21	21

The claims to tax reimbursements consist of claims of €332 million (2015: €346 million) arising from income tax and of €82 million (2015: €180 million) arising from non-income taxes.

Notes to the Balance Sheet (Continued)

34 Prepaid expenses

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

(€ millions)

	2016	2015
Discounts on funds borrowed	31	39
Premiums on amounts receivable	1	—

35 Excess of plan assets over pension liabilities

An amount payable of €1,201 million arising from liabilities due to pension and similar commitments was set against offsetting plan assets with a fair value of €1,599 million. Under the initial application provisions of the BilMoG, use was made of the option to spread the amount allocable to pension provisions equally over a period of 15 years. An amount of €69 million was allocated to the provision for pensions in the 2016 financial year. This amount includes the write-up of the part of the transitional allocation attributable to the transfer of further assets and liabilities to HVB Trust Pensionsfonds AG, Munich. The omitted transitional allocation in the reporting period totalled €130 million. The excess of assets over commitments, taking into account the omitted transitional allocation, is disclosed in the balance sheet as the excess of plan assets over pension liabilities (€528 million). The acquisition cost of the offsetting plan assets totalled €1,420 million. The assets involved are essentially fund shares, subordinated bonds, investments, and cash and cash equivalents.

(€ millions)

	2016	2015
Amount payable for offset pension and similar commitments (average interest rate 7 years)	1,374	1,543
Amount payable for offset pension and similar commitments (average interest rate 10 years)[1]	1,201	—
Fair value of the offsetting plan assets	1,599	2,041
Omitted transitional allocation	130	199
Excess of plan assets over the commitments, including the shortfall	528	697
Acquisition cost of the offsetting plan assets	1,420	1,814

1 no data available for years prior to 2016

The following table shows the surplus from pension commitments contained in other operating expenses:

(€ millions)

	2016	2015
Surplus from pension commitments	**(11)**	**—**
Income from plan assets used to offset pension and similar commitments	94	58
Expense component of the change in provisions for pensions and similar commitments	56	58
Expenses from plan assets used to offset pension and similar commitments	49	—

36 Assets assigned or pledged as security for own liabilities

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

(€ millions)

	2016	2015
Assets assigned or pledged as security for own liabilities	**43,044**	**43,306**
Deposits from banks	28,041	31,018
Deposits from customers	15,003	12,288

In addition, collateral is pledged to the ECB, irrespective of whether this is actually used to borrow funds or not. At 31 December 2016, the volume of pledged collateral amounted to €23.0 billion (2015: €13.5 billion).

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

As a seller under repurchase agreements, HVB has transferred securities with a book value of €33.4 billion (2015: €34.0 billion) to its funding partners. The total includes €6.4 billion (2015: €7.0 billion) relating to own securities holdings. These securities continue to be shown under HVB's assets. The consideration received in return is stated under liabilities. They comprise mainly international money market transactions.

At the same time, further assets totalling €13.6 billion (2015: €16.1 billion) were pledged as security for securities lending transactions and exchange-traded derivatives.

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

37 Other liabilities

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

(€ millions)

	2016	2015
Amounts owed to special purpose entities	5,657	5,657
Obligations arising from debts assumed	332	846
Taxes payable	110	173
Other amounts owed to employees	100	122
Liabilities from losses absorbed from subsidiaries	13	4
Trading book valuation reserves	11	13
Amounts yet to be distributed from outplacements, etc.	3	6

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

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

The taxes payable mainly include liabilities from non-income taxes of €110 million.

Notes to the Balance Sheet (Continued)

38 Deferred income

Discounts on amounts receivable shown at nominal value totalled €12 million (2015: €13 million). Furthermore, other deferred income includes accrued commissions of €24 million (2015: €23 million), processing fees of €66 million (2015: €55 million) and interest of €53 million (2015: €58 million) collected in advance.

39 Provisions

Other provisions include the following items:

(€ millions)

	2016	2015
Total other provisions	**2,939**	**2,591**
Provisions for losses on guarantees and indemnities	218	224
Anticipated losses on pending transactions	—	—
Provisions for uncertain liabilities	2,721	2,367
thereof:		
Legal risks	676	548
Restructuring	574	204
Valuation units	418	482
Payments to employees	279	319
Payments for early retirement, semi-retirement, etc.	102	91
Anniversary bonus payments	38	41
Bonuses on saving plans	18	23
Other	616	659

The provisions for legal risks shown under provisions for uncertain liabilities contain provisions for litigation fees and damage payments. The other provisions include provisions for pre-emptive rights and dismantling obligations, among other things.

40 Subordinated liabilities

This item includes accrued interest of €3 million (2015: €4 million). HVB incurred interest expenses of €27 million on subordinated liabilities as at 31 December 2016 (2015: €29 million).

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

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

Shareholders’ Equity

41 Analysis of shareholders’ equity shown in the balance sheet

(€ millions)

a) Called-up capital		
Subscribed capital		
Balance at 1 January 2016	2,407	
Balance at 31 December 2016		2,407
b) Additional paid-in capital		
Balance at 1 January 2016	9,791	
Balance at 31 December 2016		9,791
c) Retained earnings		
ca) Legal reserve		
Balance at 1 January 2016	—	
Balance at 31 December 2016		—
cb) Reserve for shares in a controlling or majority interest-holding company		
Balance at 1 January 2016	92	
Withdrawal from the reserve for shares in a controlling or		
majority interest-holding company	(84)	
Balance at 31 December 2016		8
cc) Reserve set up under the Articles of Association		
Balance at 1 January 2016	—	
Balance at 31 December 2016		—
cd) Other retained earnings		
Balance at 1 January 2016	6,063	
Transfer from the reversal of the reserve for shares in a		
controlling or majority interest-holding company	84	
Withdrawal from retained earnings	(3,000)	
Balance at 31 December 2016		3,147
d) Profit available for distribution		
Balance at 1 January 2016	398	
Dividend payout of HVB for 2015	(398)	
Withdrawal from retained earnings	3,000	
Net profit 2016	5	
Balance at 31 December 2016		3,005
Shareholders’ equity		
Balance at 31 December 2016		18,358

Shareholders' Equity (Continued)

42 Holdings of HVB stock in excess of 5%

(in %)

	2016	2015
UniCredit S.p.A.	100.0	100.0

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

43 Amounts not available for distribution

The measurement at fair value of offsetting plan assets in connection with pension commitments and semi-retirement agreements gives rise to an amount of €179 million (2015: €228 million). The amount not available for distribution arising from the difference between the valuation of the provisions for pension commitments based on the respective average market rate of the past ten financial years and their valuation based on the respective average market rate of the past seven financial years totalled €173 million at year-end 2016. Freely disposable provisions have been set up to cover the amount not available for distribution.

44 List of shareholdings pursuant to Section 285 No. 11, 11a and 11b HGB

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

45 Report on subsequent events (events after the end of the reporting period)

There were no significant events at HVB after 31 December 2016.

46 Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €36,018 million:

(€ millions)

	2016	2015
Guarantees and indemnities	17,526	16,554
Loan guarantees	15,290	14,264
Documentary credits	3,202	1,980
Total	**36,018**	**32,798**
thereof to:		
affiliated companies	16,713	15,940
associated companies	—	—

Irrevocable lending commitments totalling €40,966 million break down as follows:

(€ millions)

	2016	2015
Book credits	34,889	33,544
Mortgage and municipal loans	2,866	2,319
Guarantees	3,211	2,715
Bills of exchange	—	—
Total	**40,966**	**38,578**
thereof to:		
affiliated companies	673	944
associated companies	—	—

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

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

HVB has made use of the option to provide up to 15% (2015: 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 €34 million at year-end 2016 (2015: €22 million).

Other Information (Continued)

HVB has made use of the option to provide up to 30% of the annual contribution to the compensation scheme of German banks in the form of fully secured payment claims (irrevocable payment commitments) in accordance with Section 19 of the Regulation on the Financing of the Compensation Scheme of German Banks (Entschädigungseinrichtungs-Finanzierungsverordnung – EntschFinV). The financial security provided in this regard amounted to €7 million at year-end 2016.

Legal risks can give rise to losses for HVB, 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 two 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 €162 million at year-end 2016 after €84 million at year-end 2015.

Other financial commitments arising from real estate and IT operations total €263 million (2015: €293 million). A large part of the total relates to contracts with subsidiaries (€144 million (2015: €149 million)). The contracts run for standard market periods, and no charges have been put off to future years.

At the reporting date on 31 December 2016, HVB had pledged securities worth €1,590 million (2015: €1,885 million) as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main.

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

Commitments for uncalled payments on shares not fully paid up amounted to €50 million at year-end 2016 (2015: €44 million), and similar obligations for shares in cooperatives totalled €1 thousand (2015: €1 thousand). HVB was not liable for any defaults on such calls under Section 22 (3) and Section 24 GmbHG.

Where employees are granted a bonus that is disbursed over a period of several years under their variable compensation arrangements, the expense is to be taken to the income statement over the period on a pro rata basis accordingly. Hence, an expense accrued for the bonus commitments for the years 2012 to 2016 in the reporting period. Especially in the case of the group of employees identified as “risk-takers”, the German regulations governing institutions’ remuneration systems (Instituts-Vergütungsverordnung) requires the bonus in a financial year to be disbursed over a period of several years. The bonus is granted subject to the proviso that the beneficiaries satisfy specific criteria (in the case of bonuses granted in the form of shares, stock options or deferred cash payments) that comply with both the regulatory requirements and the Bank’s own rules. In addition, the bonus is linked to further conditions such as a malus arrangement that ensures that negative contributions to earnings and any compliance violations are taken into account when determining the deferred variable compensation components or when determining the bonus. Provisions totalling €116 million were set aside in the income statement at 31 December 2016 in connection with bonus commitments. The final amount disbursed may be higher, should the plan conditions be met.

In its function as personally liable shareholder, HVB had unlimited liability arising from shares in two partnerships at the reporting date (2015: two).

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

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

47 Statement of Responsibility

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

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

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

HVB no longer provides a Statement of Responsibility for companies for which a Statement of Responsibility had been provided in earlier annual reports but which no longer appear in the above list. Liabilities of these companies arising before the reduction or cessation of the shareholding are only covered by such Statements of Responsibility that were provided before the reduction or cessation of the shareholding in each case.

48 Auditor's fees

We have made use of the option provided by Section 285 No. 17 HGB and refer to the disclosures regarding the fees paid to the independent auditors in the section of the consolidated financial statements at 31 December 2016 entitled "Other Information".

49 Off-balance-sheet transactions

Special purpose entities

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

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

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

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

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

Other Information (Continued)

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

Outsourcing of activities
Like other affiliated companies, HVB has outsourced IT activities and activities relating to the settlement of transactions to UniCredit Business Integrated Solutions S.C.p.A., Milan. The goal is to exploit synergies and make it possible to provide fast, high-quality IT services and to make settlement services available in line with a standard business and operating model.

HVB has outsourced activities in the fields of payments, document management and archiving in Germany and the settlement of securities transactions in Germany and at its Milan branch to external service providers. The purpose of this for HVB is to permanently reduce its operating costs.

50 Regulatory disclosure requirements (Disclosure Report)
HVB has been classified as a significant subsidiary of UniCredit within the meaning of Article 13 (1) of the Capital Requirements Regulation (CRR), making it subject to the scope of the CRR (Article 13 (1) and Part 8 CRR) and certain extended 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. This report is produced on an annual basis at 31 December and in addition at each quarter-end during the year and published on the Bank's website under About us > Investor Relations > Reports. The publication for the reporting date at 31 December appears shortly after publication of the Annual Report. The interim reports are published shortly after submission of the regulatory COREP report to the supervisory authorities responsible.

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

51 Own funds
Pursuant to Article 72 CRR, for regulatory purposes own funds consists of Tier 1 capital and Tier 2 capital; they amounted to €16,073 million (year-end 2015: €19,007 million) at year-end 2016 based on annual financial statements approved by the Supervisory Board. We have not allocated any unrealised reserves to Tier 2 capital compliant with Section 10 (2b) KWG as applicable until 31 December 2013.

The eligible capital calculated in accordance with Article 4 (1) (71)(b) in conjunction with Article 494 CRR are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits. It amounted to €16,073 million (year-end 2015: €19,007 million) at year-end 2016.

52 Derivative financial instruments

The following table provides detailed information about the nominal amount and fair values of all derivative transactions and credit derivative transactions of HVB:

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2016	2015	2016	2015	2016	2015
Interest rate derivatives	**675,713**	**690,162**	**700,414**	**2,066,289**	**2,555,511**	**60,988**	**64,455**	**57,880**	**62,177**
OTC products									
Forward rate agreements	67,579	290	—	67,869	184,122	5	26	2	21
Interest rate swaps	500,254	639,066	565,978	1,705,298	1,975,043	57,257	60,965	50,012	56,350
Interest rate options									
– purchased	14,072	22,112	70,604	106,788	164,275	3,507	3,325	195	203
– written	20,919	17,426	61,468	99,813	149,155	153	125	5,736	5,259
Other interest									
rate derivatives	310	—	—	310	16,570	65	11	68	341
Exchange-traded products									
Interest rate futures	34,723	11,268	1,650	47,641	39,202	—	—	1,867	—
Interest rate options	37,856	—	714	38,570	27,144	1	3	—	3
Foreign exchange derivatives	**280,980**	**41,564**	**4,505**	**327,049**	**313,313**	**5,424**	**4,059**	**6,011**	**4,476**
OTC products									
Foreign exchange forwards	229,745	32,822	1,144	263,711	271,118	4,667	3,695	5,211	4,021
Foreign exchange options									
– purchased	25,364	4,605	1,811	31,780	20,792	597	237	161	153
– written	25,867	4,137	1,550	31,554	21,397	160	127	639	302
Other foreign									
exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	4	—	—	4	6	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,250**	**104,803**	**51,528**	**191,581**	**218,871**	**6,545**	**6,503**	**6,801**	**7,910**
Equity/index derivatives	**32,372**	**36,187**	**10,383**	**78,942**	**76,138**	**2,251**	**2,157**	**3,186**	**2,956**
OTC products									
Equity/index swaps	4,927	4,816	251	9,994	9,201	204	165	302	139
Equity/index options									
– purchased	2,986	1,995	357	5,338	6,739	377	483	152	66
– written	7,975	12,150	6,805	26,930	22,276	58	25	641	690
Other equity/index									
derivatives	183	10	1	194	320	17	3	—	3
Exchange-traded products									
Equity/index futures	5,659	8	—	5,667	6,247	5	15	5	6
Equity/index options	10,642	17,208	2,969	30,819	31,355	1,590	1,466	2,086	2,052
Credit derivatives	**14,072**	**39,931**	**2,202**	**56,205**	**69,521**	**671**	**1,446**	**556**	**1,124**
Other transactions	**8,574**	**3,585**	**1,230**	**13,389**	**9,969**	**438**	**671**	**624**	**384**
HVB	**1,046,961**	**916,232**	**770,262**	**2,733,455**	**3,243,323**	**76,317**	**79,291**	**75,058**	**79,027**

Most of the derivatives are held for trading purposes.

The banking book contains derivatives with positive fair values of €1.7 billion (2015: €1.7 billion) and negative fair values of €0.9 billion (2015: €0.9 billion).

Other Information (Continued)

53 Employees

The average number of staff employed was as follows:

	2016	2015
Staff (excluding apprentices)	13,745	14,485
of whom:		
full-time	10,231	10,840
part-time	3,514	3,645
Apprentices	425	616

The staff's length of service was as follows: (in %)

	WOMEN	MEN	2016	2015
STAFF'S LENGTH OF SERVICE	(EXCLUDING TRAINEES)		TOTAL	
25 years or more	26.0	22.5	24.3	22.2
15 to 25 years	30.6	21.7	26.4	27.5
10 to 15 years	18.2	17.8	18.0	18.2
5 to 10 years	13.6	19.4	16.4	15.0
less than 5 years	11.6	18.6	14.9	17.1

54 Emoluments

(€ thousands)

	2016						
	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	5,910	916	998	1,600	1,597	—	11,021
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	831	—	—	—	—	—	831
Members of the Supervisory Board of UniCredit Bank AG for activities as employee representatives	386	27	—	—	25	—	438
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	337	136	307	537	1,382	—	2,699

(€ 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

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 cash and in shares, with disbursement dependent upon defined corporate targets being achieved in the subsequent years.

Pension commitments for nine members of the Management Board are shown in the table alongside the direct emoluments. Six members of the Management Board took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2016. The Bank will provide/has provided 35% of the fixed salary contributions (2016: €1,243 thousand; 2015: €1,368 thousand). It has been agreed with the members of the Management Board that this amount of their pay would be converted which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

Other Information (Continued)

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed remuneration shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to HVB.

At 31 December 2016, there were provisions in the amount of €17.8 million (2015: €43.6 million) for pensions payable to former members of the Management Board and retired members of the Management Board of HVB and their surviving dependents, as calculated in accordance with actuarial principles using the projected unit credit method, taking into account anticipated future rises in pensions. The decrease in the settlement amount of around €25.8 million in comparison to the previous year is mainly attributable to a transfer of the current pension obligations for six UniCredit Bank AG executive board members to HVB Trust Pensionsfonds AG.

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	2016	2015
Number of shares granted	372,176	468,856
Fair value on grant date (€)	3.462	6.190

55 Loans to executive board members

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: (€ thousands)

	2016			2015		
	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES
Members of the Management Board						
and their related parties	1,416	—	7,896	1,761	—	7,058
Members of the Supervisory Board						
and their related parties	340	—	4,260	337	—	3,461

Members of the Supervisory Board and Management Board at HVB and their respective immediate family members are considered related parties.

Loans and advances were granted to members of the Management Board and their immediate family members in the form of overdraft facilities with an interest rate of 10.63% and mortgage loans with interest rates of between 1.36% and 5.13% falling due in the period from 2022 to 2025.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of planned overdraft facilities with interest rates of 6.00%, unplanned overdraft facilities with an interest rate of 10.63% and no fixed maturities, and mortgage loans with interest rates of between 1.92% and 3.33% falling due in the period from 2017 to 2035.

All banking transactions involving the group of people listed were conducted at customary market terms with the usual collateral.

56 Supervisory Board

Chairman
Gianni Franco Papa
since 11 August 2016 Chairman
Federico Ghizzoni
until 10 August 2016

Deputy Chairmen
Florian Schwarz
Dr Wolfgang Sprissler

Members
Mirko Davide Georg Bianchi
until 8 November 2016
Paolo Cornetta
since 30 August 2016
Beate Dura-Kempf
Francesco Giordano
since 9 November 2016
Klaus Grünewald
Werner Habich
Prof Dr Annette G. Köhler
Dr Marita Kraemer
Klaus-Peter Prinz
Jens-Uwe Wächter

57 Management Board

Peter Buschbeck	**Commercial Banking – Private Clients Bank**
Dr Michael Diederich	**Corporate & Investment Banking** **Human Resources Management (only Corporate & Investment Banking)**
Lutz Diederichs until 5 September 2016	**Commercial Banking – Unternehmer Bank**
Francesco Giordano until 30 September 2016	**Chief Financial Officer (CFO)**
Heinz Laber	**Chief Operating Officer (COO)** **Human Resources Management (excluding Corporate & Investment Banking)** **Global Banking Services**
Robert Schindler since 6 September 2016	**Commercial Banking – Unternehmer Bank**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**
Guglielmo Zadra since 1 October 2016	**Chief Financial Officer (CFO)**

List of Executives and Outside Directorships

58 Supervisory Board

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Federico Ghizzoni until 10 August 2016 Chairman Chief Executive Officer of UniCredit S.p.A. until 11 July 2016, Milan		
Gianni Franco Papa since 11 August 2016 Chairman General Manager of UniCredit S.p.A., Vienna		Koç Finansal Hizmetler A.S., Istanbul (Deputy Chairman), until 12 October 2016, Yapi ve Kredi Bankasi A.S., Istanbul, until 12 October 2016, UniCredit Bank Austria AG, Vienna, since 15 January 2016, Bank Polska Kasa Opieki Spółka Akcyjna (BANK PEKAO SA), Warsaw, since 16 June 2016
Florian Schwarz Employee of UniCredit Bank AG, Munich Deputy Chairman		
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft i.L., Hamburg (Chairman), until 30 June 2016	Dr. R. Pfleger Chemische Fabrik Gesellschaft mit beschränkter Haftung, Bamberg (Deputy Chairman)
Mirko Davide Georg Bianchi until 8 November 2016 Chief Financial Officer of UniCredit Bank Austria AG until 30 September 2016, Group CFO of UniCredit S.p.A., Lugano-Castagnola		UniCredit Bank Czech Republic and Slovakia, a.s., Prague (Chairman), Zagrebačka banka d.d., Zagreb, UniCredit Bank SA, Bucharest, Koç Finansal Hizmetler A.S., Istanbul, Yapi ve Kredi Bankasi A.S., Istanbul, Schoellerbank Aktiengesellschaft, Vienna (Deputy Chairman), since 6 June 2016
Paolo Cornetta since 30 August 2016 Head of Group Human Resources of UniCredit S.p.A., Milan		ES Shared Service Center S.p.A., Cernusco sul Naviglio/Milan
Beate Dura-Kempf Employee of UniCredit Bank AG, Litzendorf		

1 as of 31 December 2016

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Francesco Giordano since 9 November 2016 Co-Chief Operating Officer of UniCredit S.p.A., Milan		UniCredit Business Integrated Solutions S.C.p.A., Milan, since 20 October 2016, Pioneer Asset Global Management S.p.A., Milan, since 8 November 2016
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia & GAD IT AG, Frankfurt am Main	
Werner Habich Employee of UniCredit Bank AG, Mindelheim		
Prof Dr Annette G. Köhler University professor and Chair of Accounting, Auditing and Controlling, University of Duisburg-Essen Faculty of Business Administration – Mercator School of Management, Düsseldorf	Value-Holdings Capital Partners AG, Gersthofen	
Dr Marita Kraemer Former member of the Management Board of Zurich GI Management Aktiengesellschaft (Deutschland) and former member of the Management Board of Zurich Service GmbH, Frankfurt am Main		EULER HERMES GROUP S.A., Paris, since 25 May 2016, Allianz France S.A., Paris, since 29 June 2016
Klaus-Peter Prinz Employee of UniCredit Luxembourg S.A., Trier		
Jens-Uwe Wächter Employee of UniCredit Bank AG, Himmelpforten		

1 as at 31 December 2016

List of Executives and Outside Directorships (Continued)

59 Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Peter Buschbeck born 1961 Commercial Banking – Private Clients Bank	Bankhaus Neelmeyer Aktiengesellschaft, Bremen (Chairman)[2], WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Chairman until 17 October 2016)[2], Wüstenrot & Württembergische AG, Stuttgart	Wealth Management Capital Holding GmbH, Munich (Chairman until 17 October 2016)[2]
Dr Michael Diederich born 1965 Corporate & Investment Banking, Human Resources Management (only Corporate & Investment Banking)	Bayerische Börse Aktiengesellschaft, Munich (Deputy Chairman since 25 November 2016), since 13 May 2016	PORR AG, Wien, ESMT European School of Management and Technology GmbH, Berlin, since 5 October 2016
Lutz Diederichs born 1962 until 5 September 2016 Commercial Banking – Unternehmer Bank	Bayerische Börse Aktiengesellschaft, Munich, until 13 May 2016	UniCredit Luxembourg S.A., Luxembourg (Chairman)[2], until 30 September 2016, UniCredit Leasing GmbH, Hamburg (Chairman)[2], until 20 September 2016, UniCredit Leasing Finance GmbH, Hamburg (Chairman)[2], until 20 September 2016, ESMT European School of Management and Technology GmbH, Berlin, until 19 September 2016
Francesco Giordano born 1966 until 30 September 2016 Chief Financial Officer (CFO)	HVB Trust Pensionsfonds AG, Munich (Deputy Chairman), until 31 October 2016, UniCredit Global Business Services GmbH, Unterföhring[2], until 1 April 2016, WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Deputy Chairman)[2], until 16 October 2016	Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2], until 16 October 2016
Heinz Laber born 1953 Chief Operating Officer (COO) Human Resources Management (excluding Corporate & Investment Banking) Global Banking Services	HVB Immobilien AG, Munich (Chairman)[2], HVB Trust Pensionsfonds AG, Munich (Chairman), UniCredit Global Business Services GmbH, Unterföhring (Chairman)[2], until 1 April 2016	BVV Versorgungskasse des Bankgewerbes e.V., Berlin (Chairman), BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Chairman), UniCredit Business Integrated Solutions S.C.p.A., Milan, since 12 April 2016
Robert Schindler born 1964 since 6 September 2016 Commercial Banking – Unternehmer Bank		UniCredit Leasing GmbH, Hamburg (Chairman)[2], since 21 September 2016, UniCredit Leasing Finance GmbH, Hamburg (Chairman)[2], since 21 September 2016
Andrea Umberto Varese born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2], UniCredit Global Business Services GmbH, Unterföhring[2], until 1 April 2016, WealthCap Kapitalverwaltungsgesellschaft mbH, Munich[2]	UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman until 30 September 2016, Chairman since 1 October 2016)[2] Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer born 1959 Board Spokesman	ERGO Group AG (formerly operating under the name of ERGO Versicherungsgruppe Aktiengesellschaft), Düsseldorf, until 15 June 2016, FC Bayern München AG, Munich	
Guglielmo Zadra born 1972 since 1 October 2016 Chief Financial Officer (CFO)		

1 as of 31 December 2016
2 Group directorship

60 List of employees and outside directorships

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Thomas Breiner	AGROB Immobilien AG, Ismaning[2]
Dr Bernhard Brinker	UniCredit Luxembourg S.A., Luxembourg[2]
Matthias Brückl	M&M Militzer & Münch International Holding GmbH, St. Gallen
Dr Emanuele Butta	UniCredit Direct Services GmbH, Munich[2]
Joachim Dobrikat	VALOVIS BANK AG, Essen
Dr Jochen Fischer	Bankhaus Neelmeyer AG, Bremen[2]
Matthias Glückert	OECHSLER AG, Ansbach
Christian Klatt	Bankhaus Neelmeyer AG, Bremen[2]
Stephanie Kraus	UniCredit Luxembourg S.A., Luxembourg[2]
Dr Andreas Mayer	UniCredit Luxembourg S.A., Luxembourg[2]
Ansgar Oberreuter	Bankhaus Neelmeyer AG, Bremen[2]
Jörg Pietzner	Bankhaus Neelmeyer AG, Bremen[2]
Gabriele Rauer	UniCredit Direct Services GmbH, Munich[2]
Dr Richard Wegener	UniCredit Direct Services GmbH, Munich[2]
Peter Weidenhöfer	AGROB Immobilien AG, Ismaning[2]
Karoline Würtz	Saarländische Investitionskreditbank Aktiengesellschaft, Saarbrücken

1 as of 31 December 2016
2 Group directorship

List of Holdings

61 List of Holdings

Compliant with Section 313 (2) German Commercial Code for the consolidated financial statements and Section 285 No. 11, 11a and 11b German Commercial Code for the annual financial statements of UniCredit Bank AG

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
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	63,973	573
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	160,013	[2]
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,349,710	34,822
1.1.1.2 Other consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	31	581
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	34	(46)
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	40	512
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	23,985	1,271
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	(41,576)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(38,262)	950
A&T-Projektentwicklungs GmbH & Co.						
Potsdamer Platz Berlin KG[3]	Munich	100.0	100.0	EUR	(37,240)	(31)
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	8,331	662
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	94	2
Bayerische Wohnungsgesellschaft für Handel und Industrie,						
Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	294	[2]
Bertram Projekt Unodecima Technikzentrum GmbH & Co. KG	Hanover	94.0	94.0	EUR	(2,597)	(2,597)
B.I. International Limited	George Town	100.0	100.0	EUR	(785)	426
BIL Leasing-Fonds GmbH & Co VELUM KG						
(share of voting rights: 66.7%, of which 33.3% held indirectly)	Grünwald	100.0		EUR	(2)	0
BIL Leasing-Fonds Verwaltungs-GmbH	Grünwald	100.0	100.0	EUR	32	0
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	611	100
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 Beteiligungs gesellschaft mbH & Co.						
Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	1,044	(45)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	1,394	2
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	1,270	(12)
Food & more GmbH[3]	Munich	100.0		EUR	235	[1.1]
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[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
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	1,194
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	812
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	449
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	26	[2]
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG (Immobilienleasing)[4]	Munich	99.4	99.4	EUR	33,247	8,584
HJS 12 Beteiligungsgesellschaft mbH[3]	Munich	100.0		EUR	278	[1.2]
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	[1.3]
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	29	0
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	22,887
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,617	(14)
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1.4]
HVB Investments (UK) Limited	George Town	100.0		GBP	0	0
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	1,025	(10)
HVB London Investments (AVON) Limited	London	100.0		GBP	0	0
HVB Profil Gesellschaft für Personalmanagement mbH[3]	Munich	100.0		EUR	28	[1.5]
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	[2]
HVB Secur GmbH	Munich	100.0		EUR	127	[1.6]
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 1 GmbH[3]	Munich	100.0		EUR	41	[1.7]
HVB Verwa 4 GmbH[3]	Munich	100.0		EUR	10,132	[1.8]
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	280	0
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	7	(1)
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	35	(2)
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	687
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	16	2
Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(2,460)
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	2,286	208
Interra Gesellschaft für Immobilienverwaltung mbH3[3]	Munich	100.0	93.9	EUR	51	[2]
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	[2]
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung[3]	Munich	100.0		EUR	16,692	[1.9]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	12,359	7,936
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	15	0
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	[2]

List of Holdings (Continued)

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
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	(8)
Ocean Breeze Energy GmbH & Co. KG[3]	Bremen	100.0	100.0	EUR	(58,208)	(764)
Ocean Breeze GmbH	Bremen	100.0	100.0	EUR	13	(9)
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	(90)
Omnia Grundstücks-GmbH & Co. Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	3,565	491
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	21	(2)
Portia Grundstücks-Verwaltungs gesellschaft mbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	15,319
"Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	31	0
Redstone Mortgages Limited	London	100.0		GBP	56,515	10,601
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	43	5
Roncasa Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	(37,120)	950
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Saarland[3]	Munich	100.0	100.0	EUR	1,534	340
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	9,662
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	3,070	(14)
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	(32,873)	950
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Structured Invest Société Anonyme	Luxembourg	100.0		EUR	7,020	20
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)	1
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,484)	6
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	(377)	0
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	11,791	4,275
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	9,534	777
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	22,004	713
Trinitrade Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0		EUR	816	(3)
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,175	[1.10]
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	119,056	15,840
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	1,318	(992)
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	937	[1.11]
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	27,088	(477)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	452,026	[1.12]
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	114,722	34
Verba Verwaltungsgesellschaft mit beschränkter Haftung	Munich	100.0		EUR	740	(8)

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Vermietungsgesellschaft mbH & Co. Objekt MOC KG[3]	Munich	89.3	89.3	EUR	(100,316)	1,767
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.13]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,591	[1.14]
WealthCap Aircraft 27 GmbH & Co. geschlossene Investment KG	Grünwald	100.0	100.0	EUR	2	0
WealthCap Aircraft 27 Komplementär GmbH	Grünwald	100.0	100.0	EUR	25	0
WealthCap Entity Service GmbH	Munich	100.0	100.0	EUR	500	1
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	1,320	820
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	1,192	1,167
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	5,261	5,653
WealthCap Immobilien 1 GmbH & Co. KG	Munich	100.0	100.0	EUR	2	(2)
WealthCap Immobilien 2 GmbH & Co. KG	Munich	100.0	100.0	EUR	46	(34)
WealthCap Initiatoren GmbH	Munich	100.0	100.0	EUR	5,617	5,342
WealthCap Investment Services GmbH	Munich	100.0	90.0	EUR	5,101	[2]
WealthCap Investments, Inc.	Wilmington	100.0	100.0	EUR	1,365	(20)
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	163	138
WealthCap Los Gatos 131 Albright Way L.P.	Wilmington	100.0	100.0	EUR	(1,016)	(670)
WealthCap Management Services GmbH	Grünwald	100.0	100.0	EUR	36	(174)
WealthCap Objekt-Vorrat 19 GmbH & Co. KG	Munich	100.0	100.0	EUR	(81)	(91)
WealthCap Objekt-Vorrat 20 GmbH & Co. KG	Munich	100.0	100.0	EUR	(38)	(48)
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	53	7
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	2,861	1,815
WealthCap Portland Park Square, L.P.	Wilmington	100.0	100.0	EUR	(162)	(163)
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Spezial-AIF 5 GmbH & Co. KG	Munich	100.0	100.0	EUR	(981)	(991)
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	43	0
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	203	153
WealthCap Vorrats-2 GmbH	Grünwald	100.0	100.0	EUR	34	8
WMC Aircraft 27 Leasing Limited	Dublin	100.0	100.0	EUR	(11,112)	(6,427)
1.1.2 Non-consolidated subsidiaries[5]						
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 i.L.	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	(26,600)	950
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	100.0	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]
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
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			

List of Holdings (Continued)

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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	(49,321)	(29)
HVB Life Science GmbH	Munich	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			
HVBFF Produktionshalle GmbH i.L.	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	GBP	267	437
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			
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-GbR Kronstadter Straße München	Munich	75.0	75.0			
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
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%, of which 7.1% held indirectly)	Munich	97.1	5.9			

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UniCredit CAIB Securities UK Ltd.	London	100.0				
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(22,997)	950
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
WealthCap Canadian Management Inc.	Toronto	100.0	100.0			
WealthCap Dritte Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
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 Komplementär GmbH	Grünwald	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 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 131 Albright Way GP, Inc.	Wilmington	100.0	100.0	USD	(562)	(572)
WealthCap Management, Inc.	Wilmington	100.0	100.0	USD	86	(176)
WealthCap Mountain View GP, Inc.	Georgia	100.0	100.0			
WealthCap Objekt Frankfurt GmbH & Co. KG	Munich	100.0	100.0	EUR	0	(218)
WealthCap Objekt Sendling GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Stuttgart II GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 9 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 13 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 15 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 16 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 17 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 19 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 20 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 21 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 21 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Portfolio 3 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Portland Park Square GP Inc.	Atlanta	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			
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 SachWerte Portfolio 3 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Spezial 3 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 4 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial 5 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 6 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial-AIF 1 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial-AIF 4 GmbH & Co. KG	Munich	100.0	100.0			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Spezial-AIF 6 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Vorrats-1 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			
WealthCap ZweitmarktWerte 5 GP S.à r.l.	Senningerberg	100.0	100.0			
WealthCap 39 Komplementär GmbH	Grünwald	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 DAC	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 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 31 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 32 S.A.	Luxembourg	0	EUR	31
Elektra Purchase No. 33 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 34 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 35 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 36 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 37 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 38 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 39 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 40 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 41 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 42 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 43 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 46 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 47 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 48 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 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
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

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
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
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Rosenkavalier 2015 UG	Frankfurt am Main	0	EUR	8

		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
2 Joint ventures						
Minor joint ventures[5]						
Heizkraftwerk Cottbus Verwaltungs GmbH i.L.	Cottbus	33.3		EUR	354	245
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	147	846
MoneyMap GmbH	Berlin	46.4				
WealthCap Portfolio Finanzierungs GmbH & Co. KG						
(share of voting rights: 50.0%)	Grünwald	0.0	0.0	EUR	71,215	2,049
3 Associated companies						
3.1 Associated companies valued at equity						
Adler Funding LLC[4]	Dover	32.8		USD	10,590	(437)
Bulkmax Holding Ltd.[4]	Valletta	45.0	45.0	USD	28,121	(4,631)
Comtrade Group B.V.[4]	Rotterdam	21.1	21.1	EUR	40,824	8,215
Nautilus Tankers Limited[4]	Valletta	45.0	45.0	USD	43,396	11,972
paydirekt Beteiligungsgesellschaft privater Banken mbH	Berlin	24.0		EUR	7,863	9
SwanCap Partners GmbH (share of voting rights: 49.0%)[4]	Munich	75.3		EUR	7,509	3,945
3.2 Minor associated companies[5]						
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg	23.5				
CMP Fonds I GmbH (share of voting rights: 25.0%)	Berlin	32.7				
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	111	7,776
MOC Verwaltungs GmbH	Munich	23.0	23.0			
4 Further Holdings according to						
Section 271 (1) German Commercial Code[5]						
4.1 Banks and financial institutions						
AKA Ausfuhrkredit-Gesellschaft mbH	Frankfurt am Main	15.4		EUR	212,967	16,035
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH	Berlin	4.3		EUR	10,798	554
BGG Bayerische Garantiegesellschaft mbH						
für mittelständische Beteiligungen	Munich	10.5		EUR	46,377	2,325
Bürgschaftsbank Brandenburg GmbH	Potsdam	7.8		EUR	26,328	1,340
Bürgschaftsbank Bremen GmbH	Bremen	2.2	2.2	EUR	6,290	371
Bürgschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	9.1		EUR	16,150	194
Bürgschaftsbank Nordrhein-Westfalen GmbH						
– Kreditgarantiegemeinschaft –	Düsseldorf	0.6		EUR	33,043	1,419
Bürgschaftsbank Rheinland-Pfalz GmbH	Mainz	1.4		EUR	16,380	65
Bürgschaftsbank Saarland Gesellschaft mit beschränkter						
Haftung, Kreditgarantiegemeinschaft für den Handel,						
Handwerk und Gewerbe	Saarbrücken	1.3		EUR	4,252	46
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	8.9		EUR	14,949	93

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Bürgschaftsbank Sachsen GmbH (share voting rights: 5.4%)	Dresden	4.8		EUR	38,150	2,300
Bürgschaftsbank Schleswig-Holstein GmbH	Kiel	5.4		EUR	38,646	217
Bürgschaftsbank Thüringen GmbH	Erfurt	8.7		EUR	24,604	1,208
Bürgschaftsgemeinschaft Hamburg GmbH	Hamburg	10.5		EUR	23,964	965
Niedersächsische Bürgschaftsbank GmbH	Hanover	3.3	0.3	EUR	23,190	1,182
Saarländische Investitionskreditbank AG	Saarbrücken	3.3		EUR	64,189	2,953
solarisBank AG	Berlin	14.2		EUR	(1,197)	(1,247)
4.2 Other companies						
Acton GmbH & Co. Heureka II KG	Munich	8.9		EUR	18,964	1,929
Advent Vision S.a.r.l. (share voting rights: 0.0%)	Luxembourg	1.1	1.1			
Advent Vision Two S.à.r.l.	Luxembourg	1.1	1.1	EUR	467	180
Allianz Private Equity Partners Europa I						
(share voting rights: 0.0%)	Milan	2.2		EUR	15,002	849
Amstar Liquidating Trust (share voting rights: 0.0%)	New York	>0.0	>0.0			
Avio S.p.A.	Turin	1.1	1.1	EUR	308,828	4,570
Babcock & Brown Limited	Sydney	3.2				
BayBG Bayerische Beteiligungsgesellschaft mbH[7]	Munich	22.5		EUR	214,026	13,695
Bayerische Immobilien-Leasing GmbH & Co. Verwaltungs-KG	Pullach	6.0		EUR	88,000	3,446
Bayerischer BankenFonds GbR	Munich	25.6				
BCV Investment SCA (share voting rights: 0.0%)	Luxembourg	1.1	1.1	EUR	373	241
BIL Leasing-Fonds GmbH & Co. Altstadtsanierung Freiberg KG						
(share voting rights: 0.3%)	Grünwald	0.0	0.0	EUR	459	886
BIL Leasing-Fonds GmbH & Co. Bankgebäude Leipzig KG						
(share voting rights: 0.3%)	Grünwald	0.0	0.0	EUR	(597)	720
BIL Leasing-Fonds GmbH & Co HONOR KG i.L.						
(share voting rights: 0.1%)	Grünwald	0.0	0.0	EUR	5,945	4,037
Bil Leasing-Fonds GmbH & Co Objekt Verwaltungssitz						
Bankenverband KG (share voting rights: 0.2%)	Grünwald	0.0	0.0	EUR	824	1,184
BIL Leasing-Fonds GmbH & Co. Stadtsanierung Freiberg KG						
(share voting rights: 0.2%)	Grünwald	0.0	0.0	EUR	11,077	7,561
BIL Leasing GmbH & Co Objekte Freiberg KG	Grünwald	6.0	6.0			
BIL Leasing GmbH & Co Objekt Verwaltungsgebäude Halle KG						
(share voting rights: 0.1%)	Grünwald	0.0	0.0			
BioM Aktiengesellschaft Munich Bio Tech Development	Planegg	8.5		EUR	2,252	(690)
Blacksmith Holding S.A.	Luxembourg	8.9	8.9			
Blue Capital Equity I GmbH & Co. KG i.L.	Munich	>0.0	>0.0			
Blue Capital Equity II GmbH & Co. KG i.L.	Munich	>0.0	>0.0	EUR	1,856	(49)
Blue Capital Equity III GmbH & Co. KG						
(share voting rights: >0.0%)	Munich	0.8	0.8	EUR	9,389	960
Blue Capital Equity IV GmbH & Co. KG	Munich	>0.0	>0.0	EUR	15,301	2,496
Blue Capital Equity V GmbH & Co. KG						
(share voting rights: >0.0%)	Munich	0.1	0.1	EUR	1,961	548
Blue Capital Equity VI GmbH & Co. KG	Munich	>0.0	>0.0	EUR	41,195	7,783
Blue Capital Equity VII GmbH & Co. KG	Munich	>0.0	>0.0	EUR	21,278	4,468
Blue Capital Equity VIII GmbH & Co. KG						
(share voting rights: 0.0%)	Munich	0.7	0.7	EUR	23,151	658
Blue Capital Equity IX GmbH & Co. KG						
(share voting rights: 0.6%)	Munich	0.7	0.7	EUR	10,983	528
Blue Capital Europa Immobilien GmbH & Co.						
Fünfte Objekte Österreich KG	Munich	>0.0	>0.0	EUR	15,353	(758)
Blue Capital Europa Immobilien GmbH & Co.						
Sechste Objekte Großbritannien KG i.L.	Munich	>0.0	>0.0	EUR	41,576	17,071
Blue Capital Europa Immobilien GmbH & Co.						
Siebte Objekte Österreich KG (share voting rights: >0.0%)	Munich	0.1	0.1	EUR	23,381	801

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Blue Capital Europa Immobilien GmbH & Co.						
Zweite Objekte Niederlande KG i.L.	Munich	>0.0	>0.0	EUR	18,836	4,366
Blue Capital Metro Amerika Fund, L.P.	Wilmington	0.1	0.1	USD	174,120	6,362
Blue Capital Metropolitan Amerika GmbH & Co. KG	Munich	>0.0	>0.0	EUR	100,920	7,494
Börse Düsseldorf AG (share voting rights: 3.1%)	Düsseldorf	3.0		EUR	52,747	473
Boston Capital Partners V, L.L.C.	Wilmington	10.0	10.0			
Boston Capital Ventures V, L.P. (share voting rights: 0.0%)	Wilmington	20.0		USD	15,170	7,543
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	13.6		EUR	3,574	236
BV Capital GmbH & Co. Beteiligungs KG Nr. 1	Hamburg	16.8	16.8	EUR	2,522	28,588
Carlyle Partners V, L.P. (share voting rights: 0.0%)	Wilmington	>0.0	>0.0	USD	8,939,035	355,884
Carlyle U.S. Equity Opportunity Fund, L.P.						
(share voting rights: 0.0%)	Wilmington	0.9	0.9	USD	1,106,723	(8,327)
Charme II (share voting rights: 0.0%)	Milan	7.7		EUR	42,015	(906)
CHARME INVESTMENTS S.C.A. (share voting rights: 0.0%)	Luxembourg	13.4		EUR	23,616	0
China International Packaging Leasing Co., Ltd.	Beijing	17.5		CNY	(101,056)	553
China Investment Incorporations (BVI) Ltd.	Tortola	10.8	10.8	USD	43,914	2,439
Circle 1 Luxembourg Holdings S.C.A.	Luxembourg	0.6	0.6			
CLS Group Holdings AG	Zurich	1.2		GBP	330,880	28,975
CMC-Hertz Partners, L.P. (share voting rights: 0.0%)	Wilmington	7.1	7.1			
CME Group Inc.	Wilmington	>0.0		USD	20,551,800	1,956,800
Concardis GmbH	Eschborn	6.0		EUR	74,914	24,202
Düsseldorfer Börsenhaus GmbH	Düsseldorf	5.5				
Earlybird GmbH & Co. Beteiligungskommanditgesellschaft III i.L.	Munich	9.7	9.7	EUR	14,029	424
Easdaq NV	Leuven	>0.0		EUR	(737)	(1,121)
East Capital Financials Fund AB (share voting rights: 0.0%)	Stockholm	0.2		EUR	41,972	(40,080)
Einkaufsgalerie Roter Turm						
Beteiligungs GmbH & Co. KG	Munich	>0.0	>0.0	EUR	7,157	745
Einkaufsgalerie Roter Turm Chemnitz GmbH & Co. KG	Munich	>0.0	>0.0	EUR	57,857	3,584
Eurex Bonds GmbH	Frankfurt am Main	2.5		EUR	10,440	905
EURO Kartensysteme GmbH	Frankfurt am Main	6.0		EUR	329,788	66
EUTEX European TelCo Exchange AG i.I.	Düsseldorf	9.7		EUR	(4,308)	(9,958)
F2i – Fondo Italiano per le Infrastrutture						
(share voting rights: 0.0%)	Milan	8.1		EUR	1,399,398	232,002
FBEM Gesellschaft mit beschränkter Haftung[8]	Berlin	3.0		EUR	7,838	(75)
Felicitas GmbH i.L.	Munich	20.8		EUR	144	(284)
Film & Entertainment VIP Medienfonds 4 GmbH & Co. KG	Grünwald	8.1	8.1	EUR	26,371	(1,132)
FinLeap GmbH	Berlin	4.1		EUR	(439)	(464)
GermanIncubator Erste Beteiligungs GmbH						
(share voting rights: 9.9%)	Munich	39.6		EUR	205	(371)
Gesellschaft des bürgerlichen Rechts						
Industrie- und Handelskammer/Rheinisch-Westfälische Börse	Düsseldorf	5.5		EUR	(5,105)	(1,958)
Gut Waldhof GmbH & Co. Golfplatz Betriebs KG	Hamburg	0.7				
H.F.S. Immobilienfonds Bahnhofspassagen						
Potsdam GmbH & Co. KG	Munich	5.9	5.9	EUR	26,553	3,146
H.F.S. Immobilienfonds "Das Schloss"						
Berlin-Steglitz GmbH & Co. KG	Munich	6.0	6.0	EUR	34,301	7,945
H.F.S. Immobilienfonds Deutschland 1 GmbH & Co. KG	Munich	0.6	0.6	EUR	743	321
H.F.S. Immobilienfonds Deutschland 3 GmbH & Co. KG	Munich	0.2	0.2	EUR	1,705	1,008
H.F.S. Immobilienfonds Deutschland 4 GmbH & Co. KG	Munich	0.2	0.2	EUR	(1,525)	(2,203)
H.F.S. Immobilienfonds Deutschland 6 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	48,120	63,872
H.F.S. Immobilienfonds Deutschland 7 GmbH & Co. KG	Munich	0.1	0.1	EUR	6,224	1,101
H.F.S. Immobilienfonds Deutschland 8 GmbH & Co. KG	Munich	0.1	0.1	EUR	12,727	12,883
H.F.S. Immobilienfonds Deutschland 9 GmbH & Co. KG	Munich	0.1	0.1	EUR	6,211	(1,293)
H.F.S. Immobilienfonds Deutschland 10 GmbH & Co. KG	Munich	1.4	1.4	EUR	140,062	5,579
H.F.S. Immobilienfonds Deutschland 11 GmbH & Co. KG i.L.	Munich	>0.0	>0.0	EUR	11,481	(427)

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
H.F.S. Immobilienfonds Deutschland 12 GmbH & Co. KG	Munich	3.9	3.9	EUR	76,459	1,947
H.F.S. Immobilienfonds Deutschland 15 GmbH & Co. KG	Munich	0.1	0.1	EUR	21,924	(1,400)
H.F.S. Immobilienfonds Deutschland 16 GmbH & Co. KG	Munich	0.1	0.1	EUR	66,598	6,196
H.F.S. Immobilienfonds Deutschland 18 GmbH & Co. KG	Munich	6.1	6.1	EUR	36,279	522
H.F.S. Immobilienfonds GmbH & Co. Europa 3 KG	Munich	0.1	0.1	EUR	17,840	(9,194)
H.F.S. Immobilienfonds Köln GmbH & Co. KG	Munich	>0.0	>0.0	EUR	70,911	3,591
H.F.S. Immobilienfonds Köln Supplier-Park GmbH & Co. KG	Munich	>0.0	>0.0	EUR	24,650	2,860
H.F.S. Immobilienfonds Schweinfurt GmbH & Co. KG	Munich	>0.0	>0.0	EUR	7,325	421
H.F.S. Zweitmarktfonds Deutschland 1 GmbH & Co. KG	Ebersberg	0.1	0.1	EUR	13,822	4,568
H.F.S. Zweitmarktfonds Deutschland 2 GmbH & Co. KG	Ebersberg	>0.0	>0.0	EUR	84,332	10,782
HVBFF Life Britannia GmbH & Co Erste KG	Grünwald	>0.0	>0.0	EUR	23,940	(560)
HVB Trust Pensionsfonds AG (share voting rights: 0.0%)[9]	Munich	100.0				
IGEPA Gewerbepark GmbH & Co Vermietungs KG	Fürstenfeldbruck	2.0	2.0	EUR	(9,704)	9,650
IGN-Gesellschaft für integriertes Güterverkehrsmanagement						
Nordbayern mbH & Co.	Nuremberg	0.7				
Industriepalast in Leipzig Verwaltungs-GmbH & Co. KG i.L.	Berlin	6.3				
Interbanking Systems S.A. (Dias S.A.)	Maroussi	0.9		EUR	26,734	6,392
IPE Tank and Rail Investment 1 S.C.A.	Luxembourg	7.8	7.8			
JBG/BC Investor, L.P.	Chevy Chase	0.5	0.5	USD	85,910	4,042
Kepler Cheuvreux S.A. (share voting rights: 5.0%)	Paris	5.2		EUR	56,676	3,313
Kreditgarantiegemeinschaft der freien Berufe						
Baden-Württemberg Verwaltungs-GmbH	Stuttgart	1.3				
Kreditgarantiegemeinschaft der Industrie,						
des Verkehrsgewerbes und des Gastgewerbes						
Baden-Württemberg Verwaltungs-GmbH	Stuttgart	2.6				
Kreditgarantiegemeinschaft des bayerischen Gartenbaues GmbH	Munich	8.1				
Kreditgarantiegemeinschaft des bayerischen Handwerks GmbH	Munich	7.2		EUR	4,846	0
Kreditgarantiegemeinschaft des Handels Baden-Württemberg						
Verwaltungs-GmbH	Stuttgart	2.3				
Kreditgarantiegemeinschaft des Handwerks						
Baden-Württemberg Verwaltungsgesellschaft mbH	Stuttgart	2.5				
Kreditgarantiegemeinschaft des Hotel- und						
Gaststättengewerbes in Bayern GmbH	Munich	9.7		EUR	4,359	0
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH	Munich	2.2		EUR	6,317	0
Kreditgarantiegemeinschaft in						
Baden-Württemberg Verwaltungs-GmbH	Stuttgart	5.1				
Lauro Ventidue S.p.A. (share voting rights: 0.0%)	Milan	24.2	24.2	EUR	24	(174)
Life Britannia First LP (share voting rights: 1.0%)	Uxbridge	0.0	0.0	GBP	24,895	2,159
Life Britannia Second LP (share voting rights: 1.0%)	Uxbridge	0.0	0.0	GBP	29,557	1,074
Life GmbH & Co Erste KG	Munich	>0.0	>0.0	EUR	89,579	1,391
Life GmbH & Co. Zweite KG (share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	75,117	5,893
Lion Capital Fund I, L.P. (share voting rights: 0.0%)	London	0.9		EUR	2,839	70,065
Liquiditäts-Konsortialbank GmbH i.L.	Frankfurt am Main	5.8	0.1	EUR	230,536	(5,996)
Martin Schmälzle Grundstücksgesellschaft Objekt Wolfsburg						
GmbH & Co. KG	Munich	>0.0	>0.0	EUR	15,727	830
MBG Mittelständische Beteiligungsgesellschaft						
Baden-Württemberg GmbH	Stuttgart	5.0		EUR	60,881	4,452
MBG Mittelständische Beteiligungsgesellschaft						
Rheinland-Pfalz mbH (share voting rights: 11.1%)	Mainz	9.8		EUR	12,376	1,708
MBG Mittelständische Beteiligungsgesellschaft						
Schleswig-Holstein mbH	Kiel	3.7		EUR	33,438	2,316
MFG Flughafen-Grundstücksverwaltungs-						
gesellschaft mbH & Co Beta KG i.L.	Grünwald	10.6				
Mittelständische Beteiligungsgesellschaft						
Berlin-Brandenburg GmbH	Potsdam	11.6		EUR	16,323	1,329

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
Mittelständische Beteiligungsgesellschaft						
Mecklenburg-Vorpommern mbH	Schwerin	15.4		EUR	13,485	880
Mittelständische Beteiligungsgesellschaft						
Niedersachsen (MBG) mbH	Hanover	8.2		EUR	12,236	759
Mittelständische Beteiligungsgesellschaft						
Sachsen-Anhalt mit beschränkter Haftung	Magdeburg	12.7		EUR	22,716	816
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	11.8		EUR	42,265	2,949
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	13.4		EUR	22,517	997
Motion Picture Production GmbH & Co. Erste KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	(28,171)	1,461
MPM Equity II LLC (share voting rights: 0.0%)	Wilmington	4.0	4.0			
Mühoga Münchner Hochgaragen Gesellschaft						
mit beschränkter Haftung	Munich	25.0	25.0	EUR	4,463	2,111
Natural Stone Investments S.A.	Luxembourg	6.1	6.1	EUR	(175,926)	(14,052)
Neumayer Tekfor Verwaltungs GmbH i.L.						
(share voting rights: 0.0%)	Offenburg	4.0	4.0			
Osca Grundstücksverwaltungsgesellschaft mbH & Co. KG i.L.	Grünwald	18.0				
PICIC Insurance Ltd.	Karachi	0.1		PKR	69,711	(34,786)
PRINCIPIA FUND (share voting rights: 0.0%)	Milan	10.0		EUR	4,279	747
ProAreal GmbH i. I.	Wiesbaden	10.0		EUR	(93,513)	(26)
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share voting rights: 0.0%)	Luxembourg	38.3	38.3			
Rocket Internet Capital Partners (Euro) SCS						
(share voting rights: 0.0%)	Luxembourg	4.9				
Roomstore Inc.	Richmond	7.8	7.8			
Saarländische Kapitalbeteiligungsgesellschaft						
mit beschränkter Haftung (share voting rights: 8.8%)	Saarbrücken	8.7		EUR	7,440	271
Social Venture Fund GmbH & Co. KG						
(share voting rights: 0.0%)	Munich	9.6		EUR	3,992	(413)
Social Venture Fund II GmbH & Co. KG						
(share voting rights: 0.0%)	Munich	4.5		EUR	6,619	(1,069)
Stahl Group S.A.	Luxembourg	0.5	0.5	EUR	127,600	(428)
SwanCap FLP II SCSp (share voting rights: 37.5%)[10]	Senningerberg	0.0				
SwanCap FLP SCS (Stimmrechtsanteil: 37,5%)[10]	Senningerberg	0.0				
SwanCap TB II SCSp (share voting rights: 0.0%)[11]	Senningerberg	>0.0				
SwanCap Blocker GmbH & Co. KG[11]	Munich	0.0				
S.W.I.F.T., (Co-operative 'Society for Worldwide						
Interbank Financial Telecommunication')	Brussels	0.3		EUR	387,876	19,498
Texas Energy Future Holdings L.P. (share voting rights: 0.0%)	Fort Worth	1.5	1.5	USD	(1,706)	(2,034)
True Sale International GmbH	Frankfurt am Main	7.7		EUR	4,763	71
UniCredit Business Integrated Solutions						
Società Consortile per Azioni	Milan	>0.0		EUR	373,395	239
VBW Bauen und Wohnen GmbH	Bochum	10.1		EUR	92,730	6,361
Victor Luxembourg S.a.r.l. (share voting rights: 0.0%)	Luxembourg	2.5	2.5	EUR	(1,269,014)	(165,719)
VISA Inc. (share voting rights: 0.0%)	Wilmington	>0.0		USD	29,842,000	6,328,000
VV Immobilien GmbH & Co. United States KG i.L.						
(share voting rights: 9.2%)	Munich	9.3				
VV Immobilien GmbH & Co. US City KG i.L.	Munich	0.9		EUR	9	1,059
WealthCap Aircraft 1 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	15,737	(114)
WealthCap Aircraft 25 GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	26,667	(8,540)
WealthCap Aircraft 26 GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	37,159	(8,787)
WealthCap Immobilien Deutschland 38 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	EUR	72,537	(2,385)
WealthCap Immobilien Deutschland 39 GmbH & Co.						
geschlossene Investment KG	Munich	0.6	0.6			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Immobilienfonds Deutschland 30 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	41,734	1,524
WealthCap Immobilienfonds Deutschland 31 GmbH & Co. KG (share voting rights: 0.1%)	Munich	>0.0	>0.0	EUR	36,311	1,753
WealthCap Immobilienfonds Deutschland 32 GmbH & Co. KG (share voting rights: 0.1%)	Munich	>0.0	>0.0	EUR	51,545	3,369
WealthCap Immobilienfonds Deutschland 33 GmbH & Co. KG (share voting rights: 0.1%)	Munich	>0.0	>0.0	EUR	60,420	2,503
WealthCap Immobilienfonds Deutschland 34 GmbH & Co. KG (share voting rights: 0.1%)	Munich	>0.0	>0.0	EUR	38,987	2,456
WealthCap Immobilienfonds Deutschland 35 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	123,306	5,037
WealthCap Immobilienfonds Deutschland 37 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	64,555	(1,508)
WealthCap Immobilienfonds Donauwörth 1 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	21,870	1,590
WealthCap Immobilienfonds Donauwörth 2 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	5,896	597
WealthCap Immobilien Nordamerika 16 GmbH & Co. geschlossene Investment KG	Munich	>0.0	>0.0	EUR	9,562	1,215
WealthCap Immobilien Nordamerika 17 GmbH & Co. geschlossene Investment KG	Munich	0.1	0.1			
WealthCap Infrastructure Fund I GmbH & Co. KG (share voting rights: 0.0%)	Munich	>0.0	>0.0	EUR	8,763	664
WealthCap Infrastruktur Amerika GmbH & Co. KG (share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	9,811	323
WealthCap Leasing 1 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	34,769	1,351
WealthCap Leasing 2 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	34,360	1,277
WealthCap Leasing 3 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	33,514	1,248
WealthCap Leasing 4 GmbH & Co. KG	Grünwald	5.5	5.5	EUR	32,649	1,063
WealthCap LebensWert 1 GmbH & Co. KG (share voting rights: 0.3%)	Grünwald	>0.0	>0.0	EUR	1,781	41
WealthCap LebensWert 2. GmbH & Co. KG (share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	7,484	(163)
WealthCap Life Britannia 2. GmbH & Co KG	Munich	>0.0	>0.0	EUR	28,157	(272)
WealthCap Life USA 4. GmbH & Co. KG	Grünwald	>0.0	>0.0	EUR	50,972	(1,460)
WealthCap Los Gatos 121 Albright Way L.P.	Wilmington	>0.0	>0.0	USD	287	286
WealthCap Mountain View I L.P. (share voting rights: 0.1%)	Georgia	0.0	0.0	USD	37,009	2,800
WealthCap Objekt Berg-am-Laim GmbH & Co. KG	Munich	5.2	5.2	EUR	114,954	6,919
WealthCap Objekt Essen GmbH & Co. KG	Munich	5.2	5.2	EUR	100	(609)
WealthCap Objekt Hackerbrücke GmbH & Co. KG	Munich	5.2	5.2	EUR	31,634	1,508
WealthCap Objekt Hannover Ia GmbH & Co. KG	Munich	5.2	5.2	EUR	3,936	267
WealthCap Objekt Hannover Ib GmbH & Co. KG	Munich	5.2	5.2	EUR	1,202	466
WealthCap Objekt Hannover II GmbH & Co. KG	Munich	5.2	5.2	EUR	3,693	(240)
WealthCap Objekt Hufelandstraße GmbH & Co. KG	Munich	5.2	5.2	EUR	11,137	898
WealthCap Objekt Riem GmbH & Co. KG	Munich	5.2	5.2	EUR	29,040	1,337
WealthCap Objekt Riem II GmbH & Co. KG	Munich	5.2	5.2	EUR	151	(759)
WealthCap Objekt Schwabing GmbH & Co. KG	Munich	5.2	5.2	EUR	6,565	(480)
WealthCap Objekt Stuttgart Ib GmbH & Co. KG	Munich	>0.0	>0.0			
WealthCap Objekt Theresienhöhe GmbH & Co. KG (share voting rights: 5.2%)	Munich	5.2	5.2	EUR	93,905	3,192
WealthCap Photovoltaik 1 GmbH & Co. KG (share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	28,876	3,146
WealthCap Private Equity 10 GmbH & Co. KG (share voting rights: 0.0%)	Munich	>0.0	>0.0	EUR	16,834	4,102
WealthCap Private Equity 11 GmbH & Co. KG (share voting rights: 0.0%)	Munich	>0.0	>0.0	EUR	6,583	1,762
WealthCap Private Equity 12 GmbH & Co. KG (share voting rights: 0.0%)	Grünwald	>0.0	>0.0	EUR	60,740	4,300

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
WealthCap Private Equity 13 GmbH & Co. KG						
(share voting rights: 0.0%)	Grünwald	>0.0	>0.0	EUR	48,505	4,518
WealthCap Private Equity 14 GmbH & Co. KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	29,687	2,742
WealthCap Private Equity 15 GmbH & Co. KG						
(share voting rights: 0.1%)	Grünwald	>0.0	>0.0	EUR	16,031	1,985
WealthCap Private Equity 16 GmbH & Co. KG						
(share voting rights: 0.3%)	Grünwald	>0.0	>0.0	EUR	3,496	442
WealthCap Private Equity 17 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	12,563	988
WealthCap Private Equity 18 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	9,053	722
WealthCap Private Equity 19 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	2,143	(2,116)
WealthCap Private Equity 20 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	729	(568)
WealthCap SachWerte Portfolio 1 GmbH & Co. KG						
(share voting rights: 0.0%)	Grünwald	>0.0	>0.0	EUR	44,831	4,712
WealthCap SachWerte Portfolio 2 GmbH & Co.						
geschlossene Investment KG	Grünwald	>0.0	>0.0	EUR	34,864	(5,804)
WealthCap Spezial-AIF 1 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	EUR	150,416	17,273
WealthCap Spezial-AIF 2 GmbH & Co.						
geschlossene Investment KG	Munich	5.2	5.2	EUR	58,833	(1,286)
WealthCap Spezial-AIF 3 GmbH & Co.						
geschlossene Investment KG	Munich	>0.0	>0.0	EUR	8,289	8,279
WealthCap US Life Dritte GmbH & Co. KG						
(share voting rights: 0.0%)	Grünwald	>0.0	>0.0	EUR	(2,788)	(12,188)
WealthCap Zweitmarkt 3 BASIS GmbH & Co. KG						
(share voting rights: 0.0%)	Grünwald	>0.0	>0.0	EUR	40,693	2,262
WealthCap Zweitmarkt 3 PLUS GmbH & Co. KG						
(share voting rights: 0.0%)	Grünwald	>0.0	>0.0	EUR	13,501	(349)
WealthCap ZweitmarktWerte Immobilien 4 GmbH & Co. KG	Munich	>0.0	>0.0	EUR	9,143	(38)
WH – Erste Grundstücks GmbH & Co. KG	Schönefeld	6.0		EUR	82,478	799
Wohnungsbaugesellschaft der Stadt Röthenbach a. d. Pegnitz						
mit beschränkter Haftung	Röthenbach a. d. Pegnitz	5.2		EUR	3,142	115

List of Holdings (Continued)

Exchanges rates for 1 euro at 31 December 2016
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

China	1 euro =	7.3202	CNY
UK	1 euro =	0.85618	GBP
Pakistan	1 euro =	109.790	PKR
USA	1 euro =	1.0541	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	Food & more GmbH, Munich	(524)
1.2	HJS 12 Beteiligungsgesellschaft mbH, Munich	1
1.3	HVB Capital Partners AG, Munich	10,295
1.4	HVB Immobilien AG, Munich	(7,243)
1.5	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	(2,475)
1.6	HVB Secur GmbH, Munich	234
1.7	HVB Verwa 1 GmbH, Munich	(1)
1.8	HVB Verwa 4 GmbH, Munich	965
1.9	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	(2,241)
1.10	UniCredit Beteiligungs GmbH, Munich	1,610
1.11	UniCredit Direct Services GmbH, Munich	1,948
1.12	UniCredit Leasing GmbH, Hamburg	20,240
1.13	Verwaltungsgesellschaft Katharinenhof mbH, Munich	(232)
1.14	Wealth Management Capital Holding GmbH, Munich	25,983

2 Profit and loss transfer to shareholders and partners.

3 The exemption under Section 264b, German Commercial Code and under Section 264 (3), German Commercial Code applies to the company.

4 Figures of the 2015 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.

6 Equity capital amounts to minus €61,000 and the net loss €84,000.

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 has been in liquidation since 1 January 2017.

9 The company is held by a trustee for UniCredit Bank AG.

10 UniCredit Bank AG has the position of a limited partner under company law and participates in the profit of the company.

11 UniCredit Bank AG has the position of a limited partner under company law but does not participate in the profit of the company.

Mortgage Banking

62 Coverage

The statement of coverage is as follows:

(€ millions)

	2016	2015
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks	—	—
Mortgage loans	—	—
2. Loans and receivables with customers	24,545	23,815
Mortgage loans	24,545	23,815
Other eligible cover[1]		
1. Other lending to banks	—	—
2. Bonds and other fixed-income securities	760	763
3. Equalisation claims on government authorities	—	—
Subtotal	**25,305**	**24,578**
Total mortgage bonds requiring cover	15,057	15,870
Excess coverage	**10,248**	**8,708**
B. Public-sector bonds		
Standard cover		
1. Loans and receivables with banks	34	49
Mortgage loans	—	—
Municipal loans	34	49
2. Loans and receivables with customers	5,834	6,198
Mortgage loans	4	15
Municipal loans	5,830	6,183
3. Bonds and other fixed-income securities	269	1,039
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**6,137**	**7,286**
Total public-sector bonds requiring cover	3,887	5,324
Excess coverage	**2,250**	**1,962**

1 compliant with Section 19 (1) of the German Pfandbrief Act
2 compliant with Section 20 (2) of the German Pfandbrief Act

63 Pfandbriefs outstanding and cover assets used

The following table shows Pfandbriefs outstanding and cover assets, broken down by Mortgage Pfandbriefs and Public Pfandbriefs: (€ millions)

	2016			2015		
	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE[1]	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE[1]
1. Mortgage bonds						
Mortgage bonds	15,057	16,441	15,523	15,870	17,325	16,526
thereof: derivatives	—	—	—	—	—	—
Covering assets[2]	25,305	27,718	26,208	24,578	26,816	25,762
thereof: derivatives	—	—	—	—	—	—
Excess coverage	**10,248**	**11,277**	**10,685**	**8,708**	**9,491**	**9,236**
2. Public-sector bonds						
Public-sector bonds	3,887	4,456	4,214	5,324	5,953	5,703
thereof: derivatives	—	—	—	—	—	—
Covering assets[3]	6,137	7,045	6,600	7,286	8,127	7,701
thereof: derivatives	—	—	—	—	—	—
Excess coverage	**2,250**	**2,589**	**2,386**	**1,962**	**2,174**	**1,998**

1 dynamic procedure compliant with Section 5 (1) No. 2 of the German Pfandbrief Net Present Value Regulation
2 including further cover assets compliant with Section 19 (1) of the German Pfandbrief Act with a nominal amount of €760 million at 31 December 2016 and €763 million at 31 December 2015
3 including further cover assets compliant with Section 20 (2) of the German Pfandbrief Act with a nominal amount of €— million at 31 December 2016 and €— million at 31 December 2015

64 Maturity structure of Pfandbriefs outstanding and fixed-interest periods of respective cover assets

The following table shows the maturity structure of Pfandbriefs outstanding and fixed-interest periods of cover assets: (€ millions)

	2016		2015	
	MORTGAGE BONDS	COVERING ASSETS	MORTGAGE BONDS	COVERING ASSETS
1. Mortgage bonds[1]	**15,057**	**25,305**	**15,870**	**24,578**
up to 0.5 years	1,508	2,309	1,822	2,633
at least 0.5 years but less than 1 year	1,154	1,591	457	1,689
at least 1 year but less than 1.5 years	429	1,522	1,515	1,575
at least 1.5 years but less than 2 years	1,089	1,133	1,179	2,040
at least 2 years but less than 3 years	1,609	2,505	1,429	2,829
at least 3 years but less than 4 years	1,350	2,569	1,605	2,365
at least 4 years but less than 5 years	1,154	2,394	1,360	2,202
at least 5 years but less than 10 years	4,844	8,507	4,457	7,549
10 years or more	1,920	2,775	2,046	1,696
2. Public-sector bonds[2]	**3,887**	**6,137**	**5,324**	**7,286**
up to 0.5 years	341	440	1,321	868
at least 0.5 years but less than 1 year	118	516	122	603
at least 1 year but less than 1.5 years	635	454	336	366
at least 1.5 years but less than 2 years	81	238	118	590
at least 2 years but less than 3 years	451	667	716	752
at least 3 years but less than 4 years	774	849	451	704
at least 4 years but less than 5 years	106	428	773	888
at least 5 years but less than 10 years	866	1,366	896	1,372
10 years or more	515	1,179	591	1,143

1 including further cover assets in accordance with Section 19 (1) of the German Pfandbrief Act; broken down by fixed-interest period and maturity of Pfandbriefs respectively
2 including further cover assets in accordance with Section 20 (2) of the German Pfandbrief Act; broken down by fixed-interest period and maturity of Pfandbriefs respectively

Mortgage Banking (Continued)

65 Volume of claims used as cover for Pfandbriefs, broken down by size class

The following table shows volume of claims used as cover for Pfandbriefs:

(€ millions)

	2016	2015
Mortgage covering assets	**24,545**	**23,815**
up to and including €300,000	10,613	10,688
over €300,000 up to and including €1,000,000	3,713	3,423
over €1,000,000 up to and including €10,000,000	5,690	5,236
more than €10,000,000	4,529	4,468
Public-sector bonds[1]	**6,137**	**7,286**
up to and including €10,000,000	1,588	1,682
over €10,000,000 up to and including €100,000,000	2,004	2,028
more than €100,000,000	2,545	3,576

1 volume of claims used as cover for public Pfandbriefs according to size classes, in each case with respect to a debtor or a guaranteeing entity

66 Volume of claims used as cover for Mortgage Pfandbriefs, broken down by state in which the real property collateral is located and property type

The following table shows the volume of claims used as cover for Mortgage Pfandbriefs, broken down by state in which the real property collateral is located and property type:

(€ millions)

	2016		2015	
	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY
1. Germany	**16,568**	**7,976**	**16,082**	**7,731**
Condominiums	4,167	—	4,083	—
Single-family and two-family houses	6,614	—	6,229	—
Multiple-family houses	5,639	—	5,487	—
Office buildings	—	3,806	—	3,688
Retail buildings	—	2,609	—	2,492
Industrial buildings	—	478	—	480
Other commercially used buildings	—	815	—	776
New buildings under construction, not yet profitable	128	200	266	246
Building land	20	68	17	49
2. France	**1**	**—**	**2**	**—**
Single-family and two-family houses	1	—	2	—
New buildings under construction, not yet profitable	—	—	—	—
3. Italy	**—**	**—**	**—**	**—**
Single-family and two-family houses	—	—	—	—
Multiple-family houses	—	—	—	—
Total	**16,569**	**7,976**	**16,084**	**7,731**

67 Volume of claims used as cover for Public Pfandbriefs, broken down by type of debtor or guaranteeing entity and its home country

The following table shows the volume of claims used as cover for Public Pfandbriefs broken down by type of borrower or guaranteeing entity (in case of a full guarantee) and head office (state) as well as by whether or not the guarantee was granted for reasons of promoting exports:

(€ millions)

	2016	2015
1. Germany		
Central government	459	573
Regional authorities	2,155	2,940
Local authorities	3,192	3,369
Other	81	54
Total Germany	**5,887**	**6,936**
Guarantees for reasons of promoting exports	458	573
2. Austria	**250**	**350**
Central government	250	350
Total	**6,137**	**7,286**
Guarantees for reasons of promoting exports	458	573

68 Other eligible cover

The following table shows the breakdown of other eligible cover for Pfandbriefs:

(€ millions)

	2016	2015
1. Mortgage bonds	**760**	**763**
Equalization claims according to Section 19 (1) No. 1 PfandBG	—	—
All states	—	—
Money claims according to Section 19 (1) No. 2 PfandBG[1]	—	—
All states	—	—
thereof: covered bonds according to Article 129 of Regulation (EU) No. 575/2013	—	—
Bonds according to Section 19 (1) No. 3 PfandBG[2]	760	763
Germany	760	763
Italy	—	—
Austria	—	—
2. Public-sector bonds	**—**	**—**
Equalization claims according to Section 20 (2) No. 1 PfandBG	—	—
All states	—	—
Money claims according to Section 20 (2) No. 2 PfandBG	—	—
All states	—	—
thereof: covered bonds according to Article 129 of Regulation (EU) No. 575/2013	—	—

1 without cover assets according to Section 4 (1) sentence 2 No. 1 and 2 German Pfandbrief Act
2 including cover assets according to Section 19 (1) No. 2 German Pfandbrief Act in conjunction with Section 4 (1) sentence 2 No. 1 and 2 German Pfandbrief Act

Mortgage Banking (Continued)

69 Key figures for Pfandbriefs outstanding and associated cover assets

The following table shows the breakdown of key figures for Pfandbriefs outstanding and their respective cover assets:

		2016	2015
1. Mortgage bonds			
Mortgage bonds outstanding	€ millions	15,057	15,870
thereof: share of fixed-interest Pfandbriefs (Section 28 (1) No. 9 PfandBG)	%	84.76	85.26
Eligible cover[1]	€ millions	25,305	24,578
thereof: total amount of loans and receivables exceeding the thresholds			
according to Section 13 (1) PfandBG (Section 28 (1) No. 7 PfandBG)	€ millions	—	—
thereof: total amount of loans and receivables exceeding the thresholds			
stated in Section 19 (1) No. 2 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: total amount of loans and receivables exceeding the thresholds			
stated in Section 19 (1) No. 3 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: share of fixed-interest cover (Section 28 (1) No. 9 PfandBG)	%	76.80	73.61
Net present value according to Section 6 Pfandbrief			
Net Present Value Regulation for each foreign currency, in euros			
(Section 28 (1) No. 10 PfandBG – balance of asset/liability sides)	€ millions	—	—
Volume-weighted average age of the loans and receivables			
(period passed since loan granting – seasoning) (Section 28 (1) No. 11 PfandBG)	years	8.1	8.5
Average weighted loan-to-value ratio (Section 28 (2) No. 3 PfandBG)	%	40.45	40.38
2. Public-sector bonds			
Public-sector bonds outstanding	€ millions	3,887	5,324
thereof: share of fixed-income Pfandbriefs (Section 28 (1) No. 9 PfandBG)	%	78.26	83.94
Eligible cover[2]	€ millions	6,137	7,286
thereof: total amount of loans and receivables exceeding the thresholds			
stated in Section 20 (2) No. 2 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: share of fixed-income cover (Section 28 (1) No. 9 PfandBG)	%	82.82	78.24
Net present value according to Section 6 Pfandbrief			
Net Present Value Regulation for each foreign currency in euros			
(Section 28 (1) No. 10 PfandBG – balance of asset/liability sides)	€ millions	—	—

1 including further cover assets according to Section 19 (1) German Pfandbrief Act
2 including further cover assets according to Section 20 (2) German Pfandbrief Act

70 Payments in arrears

Total amount of payments in arrears for at least 90 days in respect of the claims used as cover for Pfandbriefs and breakdown by states in which the real property collateral is located:

(€ millions)

	2016	2015
1. Mortgage bonds		
Payments in arrears of at least 90 days	(1)	(1)
Germany	(1)	(1)
Payments in arrears of at least 90 days, arrears equal at least 5% of the loan	—	—
Germany	—	—
2. Public-sector bonds		
Payments in arrears of at least 90 days	—	—
All states	—	—
Payments in arrears of at least 90 days, arrears equal at least 5% of the loan	—	—
All states	—	—

71 Foreclosures and sequestrations

The following table shows the breakdown of foreclosures and sequestrations carried out in 2016:

		OF WHICH IN 2016	
	NUMBER OF PROCEEDINGS	COMMERCIAL PROPERTY	RESIDENTIAL PROPERTY
1. Foreclosures and sequestrations			
a) Pending at 31 December 2016			
Foreclosure proceedings	303	50	253
Sequestration proceedings	15	3	12
Foreclosure and sequestration proceedings	240	50	190
	558	**103**	**455**
(comparative figures from 2015	596	107	489)
b) Foreclosures finalised in 2016	**39**	**2**	**37**
(comparative figures from 2015	48	1	47)
2. Properties repossessed			
As in the previous year, the Pfandbrief bank did not have to repossess any properties during the year under review to prevent losses on mortgage loans.			

72 Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2015 and 30 September 2016 breaks down as follows:

(€ millions)

	2016	2015
Interest in arrears	—	—
Commercial property	—	—
Residential property	—	—

The present annual financial statements were prepared on 7 March 2017.

UniCredit Bank AG
The Management Board

Buschbeck Dr Diederich Laber Schindler

Varese Dr Weimer Zadra

Declaration by the Management

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of HVB, and the Management Report includes a fair review of the development and performance of the business and the position of HVB, together with a description of the principal opportunities and risks associated with the expected development of HVB.

Munich, 7 March 2017

UniCredit Bank AG
The Management Board

Buschbeck | Dr Diederich | Laber | Schindler

Varese | Dr Weimer | Zadra

Auditors’ Report

Independent Auditors’ Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of UniCredit Bank AG, Munich, for the business year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (“German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of UniCredit Bank AG, Munich, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Munich, 9 March 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Prof Dr Leuschner	Kopatschek
German Public Auditor	German Public Auditor

Financial Calendar

Important Dates 2017

Publication of the Annual Report for 2016	23 March 2017
Half-yearly Financial Report at 30 June 2017	by 30 August 2017[1]

1 planned

Contacts
Should you have any questions about the annual report or our half-yearly financial report, please contact Media Relations by
calling +49 (0)89 378-25263,
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