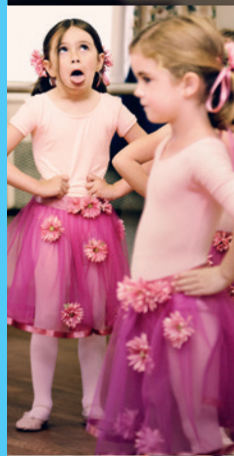




Inside real life. A 360° view.

Half-yearly Financial Report at 30 June 2016

Welcome to
HypoVereinsbank
Member of UniCredit

Contents

Financial Highlights

Key performance indicators

	1/1–30/6/2016	1/1–30/6/2015
Net operating profit	€542m	€491m
Cost-income ratio (based on operating income)	71.6%	75.2%
Profit before tax	€568m	€490m
Consolidated profit	€371m	€326m
Return on equity before tax[1]	5.7%	4.9%
Return on equity after tax[1]	3.7%	3.2%
Earnings per share	€0.46	€0.40

Balance sheet figures/Key capital ratios

	30/6/2016	31/12/2015
Total assets	€316,608m	€298,745m
Shareholders' equity	€20,376m	€20,766m
Common Equity Tier 1 capital	€19,138m	€19,564m
Core capital (Tier 1 capital)	€19,138m	€19,564m
Risk-weighted assets (including equivalents for market risk and operational risk)	€85,719m	€78,057m
Common Equity Tier 1 capital ratio[2]	22.3%	25.1%
Core capital ratio (Tier 1 ratio)[2]	22.3%	25.1%
Leverage ratio[3]	5.7%	5.9%

	30/6/2016	31/12/2015
Employees (in FTEs)	15,033	16,310
Branch offices	577	581

1 return on equity calculated on the basis of average shareholders' equity according to IFRS and projected profit before or after tax for the year as a whole at 30 June of the respective year
2 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk
3 ratio of core capital to the sum total of the exposure values of all assets and off-balance-sheet items

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	STAND-ALONE RATING	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Fitch Ratings						AAA/stable	AAA/stable	20/5/2016 9/5/2016
Issuer Default Rating	A–	F2	negative	a–	7/3/2016			
Moody's				baa2	26/1/2016	Aaa/–	Aaa/–	23/6/2015
Counterparty Risk	A1	P-1	—		26/1/2016			
Deposits	A2	P-1	stable		26/1/2016			
Senior Unsecured and Issuer Rating	Baa1	P-1	stable		26/1/2016			
Standard & Poor's						AAA/negative	—	7/7/2015
Issuer Credit Rating	BBB	A-2	negative	bbb+	10/6/2016			

Financial Review

Corporate structure

Legal corporate structure

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

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

Organisation of management and control

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

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.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given under Note 37, "Members of the Supervisory Board", and Note 38, "Members of the Management Board", in the present Half-yearly Financial Report.

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

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

In March 2016, we reached agreement with Bremer Kreditbank Aktiengesellschaft on the sale of Bankhaus Neelmeyer AG, which had until then been a fully owned subsidiary of HVB. Among other things, the closing is subject to the approval of the relevant authorities. Until deconsolidation, the assets and liabilities of the company will be shown in the consolidated balance sheet of HVB Group under non-current assets or disposal groups held for sale and liabilities of disposal groups held for sale. 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), until then a fully owned subsidiary of HVB, with UniCredit Business Solutions S.C.p.A. (UBIS). The closing took place on 1 April 2016. As a result of the closing, the company left the group of consolidated companies of HVB Group. 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.

Other changes in the group of companies included in consolidation are listed in Note 2, "Companies included in consolidation".

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. The official data did not follow this movement and a renewed rise in the leading indicators as of March 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 to leave the EU at the end of June, which served to increase greatly volatility on the financial markets yet again.

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 the year, while a number of oil-exporting emerging and developing markets such as Russia continued to suffer from the low price of oil. While gross domestic product (GDP) growth remained subdued in the United States in the first quarter of 2016 (+1.1% on an annualised basis), it is expected to have picked up again in the second quarter. Although lower energy prices depressed the oil and gas sector, private consumption gained far more traction of late and should become the main growth driver in a strong second quarter. All in all, the US economy is predicted to have expanded by 2.7% in the second quarter on an annualised basis. The current unemployment rate of around 5% is at its lowest level since 2008. There have, however, recently been signs of a softening in the labour market, with the number of monthly new hires falling sharply. This has moved the Fed to retain its cautious approach, deciding not to raise rates again at this stage.

Whereas the leading indicators for the eurozone had deteriorated at the start of the year, the GDP growth rates provided for a pleasant surprise in the first quarter, with economic output in the eurozone expanding by 0.6% during that period. The pace of growth is likely to have slackened somewhat in the second quarter to 0.3%. Following on from a strong start to the year, industrial production seems to have expanded at a slower pace of late, which is likely to have depressed aggregate growth in the second quarter. The unemployment rate continued to move in the right direction in the first half of the year, falling to 10.1%, the lowest level since 2011. This should also lead to a recovery in private consumption, with retail sales performing well in the first half of the year accordingly. In terms of monetary policy, the ECB responded to the persistently low inflation in the eurozone (consumer price index: –0.1%; core rate: 0.9%) by taking further expansionary measures in the first half of the year.

The picture for Germany in the first half of the year is 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 official data paint a positive picture for Germany overall in the first half of the year. After contracting somewhat in the final quarter of 2015, leading to weak GDP growth of 0.3% for the whole of 2015, industrial production picked up again strongly at the start of the year, with GDP growing by a strong 0.7% in the first quarter. Industrial output was more restrained in the second quarter, meaning that the economy as a whole is likely to have expanded by a moderate 0.2% during this period. The labour market has also remained robust, with the unemployment rate of 6.1% being the lowest level since reunification.

Financial Review (Continued)

Sector-specific developments

Two topics in particular have dominated the financial markets during the reporting period: the ECB's expanded programme of asset purchases and the unexpected outcome for the markets of the Brexit referendum.

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 (under the corporate sector purchase programme, CSPP). The programme is currently due to run until March 2017. A second series of targeted long term refinancing operations for banks (TLTRO-II) was also set up. By the end of June 2016, the ECB had purchased assets worth a total of €1.08 trillion. The allocation of the first tranche under TLTRO-II was announced at the end of June. A total of €399.3 billion was allocated to 514 institutions for a period of four years. The conditions for TLTRO-II are extremely favourable. Provided banks are willing to expand their lending beyond set thresholds, the interest rates for TLTRO are up to minus 0.4%. Consequently, HVB Group together with a number of other institutions participated in TLTRO-II that had not requested any funds under the first TLTRO programme.

As a result of the outcome of the Brexit referendum, 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. The shock was followed by a rebound, with credit spreads and shares in some cases returning to their pre-referendum levels while bank stocks continued to trade at large discounts. The Bank of England can be expected to take additional monetary measures.

The developments described above led to a further sharp reduction in interest rates overall, a trend exacerbated by the EU referendum in the UK. The yield on ten-year German government bonds declined significantly in the first half of 2016, from 0.60% at year-end 2015 to minus 0.20% at times. This represents a new historic low since the euro was launched. The 3-month Euribor continued to experience a downward trend, falling to minus 0.29%, similarly a historic low since the inception of the euro. The spreads on the credit markets for non-financials with good credit ratings narrowed further, from 89 basis points at the end of March 2016 to 72 basis points at the end of June 2016. The narrowing can be attributed mainly to the ECB. The spreads on senior bonds of financials narrowed slightly, from 65 basis points at the end of March 2016 to 62 basis points at the end of June 2016, with the temporary widening following the Brexit referendum reversing again. 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.

Even though the euro lost over 4% of its value against the dollar on the day after the Brexit decision, the single currency was up 1.9% compared with the year-end rate as it had gained strongly during the first quarter of the year. The euro rose by a very sharp 13.2% against the British pound in the first half of 2016, driven mainly by the outcome of the Brexit referendum in June following an appreciation in the first quarter. With a fall of 0.4%, the euro remained practically unchanged against the Swiss franc in the first half of the year, while losing heavily against the Japanese yen with a decline of 12.5%.

The oil price continued to recover in the second quarter, which helped to improve sentiment on the stockmarkets at first. However, the markets went into sharp reverse as the result of the Brexit vote became known. The DAX 30 fell by 2.4% in the second quarter of 2016 and the European market in general, as measured by the EURO STOXX 50 Index, declined by 4.7%. European banking stocks were particularly under pressure, with the EURO STOXX Index Banks losing 17.9% in the first three months of the year and 34.9% in the first half of 2016.

In December 2014, the EBA published its final "Guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP)". The SREP guidelines take effect from

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

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

HVB Group can generally report a respectable business performance for the first half of 2016 in the extremely challenging market environment of the last six months thanks to its well-balanced and robust business model. After six months of 2016, net operating profit rose to €542 million, thus surpassing the equivalent year-ago figure by €51 million or 10.4%. Within this total, operating income increased by a slight €11 million to €2,439 million. Although interest rates continued to fall in the first half of this year from what was already an ultra-low level, net interest, at €1,317 million, remained stable compared with the equivalent figure last year (€1,320 million). There was a pleasing increase in net fees and commissions, which rose a slight 1.4% to €567 million. In this context, it is important to note that the figure in the first half of 2015 still contained the commission income of PlanetHome AG and its subsidiaries that were sold in the second quarter of 2015. Dividends and other income from equity investments similarly rose, by €35 million to €48 million and net other expenses/income by €79 million to €165 million. By contrast, net trading income fell by 24%, or €108 million, to €342 million on account of the unfavourable market environment in the first half of 2016. There was a positive development in operating costs, which were reduced by €81 million to €1,746 million as a result of our strict cost management and the efficiency measures implemented. This caused the cost-income ratio to improve from 75.2% in the first half of 2015 to 71.6% in the reporting period. Net write-downs of loans and provisions for guarantees and commitments rose compared with the equivalent figure last year (€110 million) and are thus still at a low level of €151 million. Thanks in particular to the solid operating profit, the profit before tax increased by €78 million to €568 million in the first half of 2016. We also surpassed the consolidated profit which, at €371 million, was €45 million up on the corresponding figure of last year.

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

In the first half of 2016, the Commercial Banking business segment increased its profit before tax by a strong €106 million over the year-ago period to €265 million. This was generated by an increase of €21 million in operating profit to €241 million on the back of a sharp decrease in operating costs (down €58 million to €947 million) coupled with a slight decline in operating income to €1,188 million (first half of 2015: €1,225 million). In the first half of 2016, there was a net reversal of €9 million in net write-downs of loans and provisions for guarantees and commitments after a net addition of €62 million in the equivalent period last year.

The Corporate & Investment Banking (CIB) business segment generated a profit before tax of €273 million in the difficult market environment of the first half of 2016, which fell short of the equivalent year-ago figure (€301 million). Within this total, net write-downs of loans and provisions for guarantees and commitments increased to €175 million (first half of 2015: €36 million) due in part to the need to recognise higher write-downs in the second quarter of 2016 to reflect the worsening situation in the shipping industry. This development was partly offset by an increase of €94 million in operating profit resulting from a €71 million rise in operating income together with a €23 million decline in operating costs.

Financial Review (Continued)

The Other/consolidation business segment recorded a profit before tax of €30 million, equal to the year-ago figure (first half of 2015: €30 million). The business segment benefitted from a net reversal of €15 million in net write-downs of loans and provisions for guarantees and commitments in the first half of 2016 (first half of 2015: net addition of €12 million). Despite dividends and other income from equity investments of €22 million, the operating income of €54 million was €23 million below the year-ago total due to the persistently low interest rates. At €60 million, operating costs remained unchanged.

HVB Group has had an excellent capital base for years. Both the Tier 1 ratio under Basel III and the Common Equity Tier 1 (CET1) capital ratio amounted to 22.3% at 30 June 2016 compared with 25.1% at year-end 2015. The decline in the core capital ratios is attributable to both slightly lower core capital and the increase in risk-weighted assets relating among other things to the expansion of operations in the first half of 2016. The total capital ratio (equity funds ratio) fell to 23.0% at the end of June 2016 after 25.8% at 31 December 2015. This means that these banking supervisory ratios are still at an excellent level by both national and international standards. The leverage ratio defined as the ratio of core capital to the overall risk position (risk position values of all assets and off-balance-sheet items) amounted to 5.7% at the end of June 2016 compared with 5.9% at year-end 2015.

Total assets rose by 6.0%, or €17.9 billion, to €316.6 billion at 30 June 2016 compared with year-end 2015. On the assets side, there was an expansion particularly in the volume of loans and receivables with customers, financial assets held for trading and available-for-sale financial assets, while cash and cash balances fell. On the liabilities side, there was an increase in deposits from customers and, in line with the assets side, financial liabilities held for trading. The shareholders' equity shown in the balance sheet declined by €0.4 billion, or 1.9%, to €20.4 billion. This essentially stems from the dividend payout totalling €0.4 billion resolved by the Shareholders' Meeting in the second quarter of 2016 coupled with the reduction of €0.4 billion in other retained earnings in connection with the adjustment in pensions and similar obligations. These declines in shareholders' equity were already partly offset by the consolidated profit of €0.4 billion generated in the first half of 2016.

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

With our customer-centric business model, high capital base, solid funding foundation and good market position in our core business areas, we are a sought-after, reliable partner for our customers and investors. As an integral part of UniCredit, HVB Group is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers. HVB is building on these advantages through the realignment of its retail banking activities as completed in the 2015 financial year together with the implementation of the measures agreed to boost efficiency and earnings from the 2016–2018 Strategic Plan to reflect the rapidly changing social, economic and regulatory environment and push further growth through a stronger entrepreneurial focus.

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

Operating performance of HVB Group

All the statements regarding the operating performance of HVB Group in this Half-yearly Financial Report refer to the structure of our segmented income statement (see Note 4, "Income statement, broken down by business segment") which we set out below. By doing so, we are following the Management Approach incorporated into our segment reporting.

Income/Expenses	1/1–30/6/2016 € millions	1/1–30/6/2015 € millions	CHANGE € millions	in %
Net interest	1,317	1,320	(3)	(0.2)
Dividends and other income from equity investments	48	13	+ 35	>+ 100.0
Net fees and commissions	567	559	+ 8	+ 1.4
Net trading income	342	450	(108)	(24.0)
Net other expenses/income	165	86	+ 79	+ 91.9
OPERATING INCOME	**2,439**	**2,428**	**+ 11**	**+ 0.5**
Payroll costs	(861)	(924)	+ 63	(6.8)
Other administrative expenses	(762)	(803)	+ 41	(5.1)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(123)	(100)	(23)	+ 23.0
Operating costs	**(1,746)**	**(1,827)**	**+ 81**	**(4.4)**
OPERATING PROFIT	**693**	**601**	**+ 92**	**+ 15.3**
Net write-downs of loans and provisions for guarantees and commitments	(151)	(110)	(41)	+ 37.3
NET OPERATING PROFIT	**542**	**491**	**+ 51**	**+ 10.4**
Provisions for risks and charges	(9)	(59)	+ 50	(84.7)
Restructuring costs	(2)	—	(2)	—
Net income from investments	37	58	(21)	(36.2)
PROFIT BEFORE TAX	**568**	**490**	**+ 78**	**+ 15.9**
Income tax for the period	(197)	(164)	(33)	+ 20.1
PROFIT AFTER TAX	**371**	**326**	**+ 45**	**+ 13.8**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**371**	**326**	**+ 45**	**+ 13.8**

Net interest

We generated net interest of €1,317 million in the reporting period, at the same level as last year (first half of 2015: €1,320 million), in a challenging environment of ultra-low interest rates which worsened further in the first half of 2016.

Within this total, there was a slight 1.6% decline to €789 million in net interest in the Commercial Banking business segment. Among other things, this was caused by a stable volume of real estate finance in retail banking operations at practically unchanged margins, very good new business in consumer loan operations and a slight recovery in the demand for credit on the corporate banking side at slightly contracting margins. By contrast, deposit-taking operations were still impacted by the persistently ultra-low interest rates.

At the same time, net interest in the CIB business segment rose by €43 million to €577 million. An expansion of the lending volume contributed to the total together with an improvement in the interest margin in lending operations. Besides this, net interest benefited from a gain recognised in connection with the sale of a loan portfolio serving to finance commercial property.

In the Other/consolidation business segment, there was a net interest expense of €49 million compared with a net expense of €16 million in the same period last year in an environment of ultra-low interest rates.

Financial Review (Continued)

Dividends and other income from equity investments
Income of €48 million from dividends and other income was generated from equity investments during the reporting period (first half of 2015: €13 million). This total includes an extraordinary dividend payout from our investment in EURO Kartensysteme GmbH and another significant dividend yield from our shareholdings.

Net fees and commissions
Net fees and commissions rose by €8 million, or 1.4%, in the reporting period to €567 million, even though the deconsolidation effect of PlanetHome AG and its subsidiaries sold in the second quarter of 2015 serves to reduce the total. The deconsolidation effect is shown particularly by the €22 million decrease in fees and commissions from other service operations. By contrast, net fees and commissions from lending operations rose a sharp €29 million to €178 million mainly on the back of a number of larger exposures in the CIB business segment. Fees and commissions in management, brokerage and consultancy services also increased by €4 million to €297 million primarily on account of an improved result in our securities operations. At €98 million, fees and commissions from payment services were €3 million below the year-ago total operations.

Net trading income
Net trading income fell by €108 million, or 24.0%, to €342 million in the very volatile market environment of the first half of 2016.

A significant contribution to net trading income was made by the business with equity derivatives that was up on the good year-ago figure. The earnings from interest-related operations were also higher year-on-year. By contrast, the contribution to profit from the Treasury business was below that of the equivalent period last year largely on account of the difficult market environment. In addition, funding valuation adjustments impacted the first half of 2016 as these have been recognised in profit or loss for the first time since the fourth quarter of 2015 and have thus not yet been recognised as an expense in the first half of the previous year. Furthermore, net trading income was negatively affected by changes arising from the own credit spread.

Net other expenses/income
Net other expenses/income were up by €79 million to €165 million in the first half of 2016. This can be attributed notably to higher income in connection with our Bard Offshore 1 wind farm.

Operating costs
We continued our consistent cost management in the first half of 2016, thus reducing operating costs by €81 million, or 4.4%, to €1,746 million compared with the equivalent period last year. Within this total, payroll costs fell by €63 million, or 6.8%, to €861 million mainly as a result of a lower headcount. Other administrative expenses were also down by €41 million, or 5.1%, to €762 million. This cost reduction arose from lower marketing expenses, less use of external consulting services, lower travel expenses and declining building costs. By contrast, amortisation, depreciation and impairment losses on intangible and tangible assets rose by €23 million to €123 million, largely as a result of an adjustment in the concept for scheduled depreciation in connection with our Bard Offshore 1 wind farm.

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)
The operating profit of HVB Group was up by €92 million, or 15.3%, to €693 million in the reporting period, above all on the back of savings in operating costs coupled with a slight increase in operating income. This resulted in an improvement in the cost-income ratio (ratio of operating expenses to operating income) from 75.2% in the first half of 2015 to 71.6% in the reporting period.

Net write-downs of loans and provisions for guarantees and commitments and net operating profit

At €151 million, net write-downs of loans and provisions for guarantees and commitments were higher than the low figure of €110 million recorded in the equivalent period last year. Among other things, the increase can be attributed to the need to recognise higher write-downs in the second quarter of 2016 to reflect the worsening situation in the shipping industry. This produces a still low cost-of-risk for HVB Group (ratio of net write-downs of loans and provisions for guarantees and commitments to average holdings of loans and receivables with customers) of 26 basis points in the first half of 2016 compared with the 20 basis points in the equivalent period last year.

Net operating profit rose by 10.4%, or €51 million, to €542 million.

Provisions for risks and charges

In the first half of 2016, there were expenses of €9 million for net additions/net reversals in the non-lending business compared with expenses of €59 million in the equivalent period last year. In both cases, these mostly relate to additions to provisions for legal risks. Legal risks are described in greater detail in the section of the Risk Report in this Half-yearly Financial Report entitled “Operational risk”.

Net income from investments

Net income from investments came to €37 million in the first half of 2016, resulting essentially from gains of €36 million on disposal. Of this amount, €19 million and €14 million relate to gains on the disposal of investment properties and available-for-sale financial assets respectively.

In the first six months of 2015, net income from investments amounted to €58 million resulting primarily from gains of €53 million on disposal. Among other things, this total stemmed from gains of €46 million on the disposal of available-for-sale financial assets, such as from the sale of our holding in Wüstenrot & Württembergische AG, and of €12 million on the disposal of investment properties.

Profit before tax, income tax for the period and consolidated profit

HVB Group generated a profit before tax of €568 million in the reporting period, which is €78 million or 15.9% higher than the equivalent year-ago result. Income tax in the reporting period thus rose by €33 million, or 20.1%, to €197 million, representing a tax rate of 34.7% (first half of 2015: 33.5%). After deducting income tax, the consolidated profit amounted to €371 million for the first half of 2016, which surpassed the equivalent year-ago figure by €45 million or 13.8%.

Segment results by business segment

The business segments contributed the following amounts to the profit before tax of €568 million (first half of 2015: €490 million) in the first half of 2016:

(€ millions)

	1/1–30/06/2016	1/1–30/06/2015
Commercial Banking	265	159
Corporate & Investment Banking	273	301
Other/consolidation	30	30

The income statements for each business segment and comments on the economic performance of the individual business segments are provided in Note 4, “Income statement, broken down by business segment”, in the present Half-yearly Financial Report. The tasks and objectives of each business segment are described in detail in Note 29, “Method and components of segment reporting by business segment” in our 2015 consolidated financial statements.

Financial Review (Continued)

Financial situation

Total assets

The total assets of HVB Group increased by €17.9 billion, or 6.0%, to €316.6 billion at 30 June 2016 compared with year-end 2015.

The increase in total assets is primarily due to the rise in financial assets held for trading which were up by €10.0 billion to €107.8 billion. This is attributable to the rises of €6.7 billion and €3.3 billion in the positive fair values of derivative financial instruments and equity instruments respectively. Loans and receivables with customers were also up by €5.7 billion to €119.2 billion. Volumes expanded mainly in other loans and receivables with customers (up €3.6 billion). There were also higher credit balances on current accounts (up €1.4 billion), reverse repos (up €1.1 billion) and mortgage loans (up €0.7 billion) while non-performing loans and receivables decreased (down €0.7 billion). At 30 June 2016, there was an increase in holdings on the assets side in both available-for-sale financial assets, which rose a sharp €4.2 billion to €5.6 billion mainly in fixed-income securities. In addition, there were rises of €1.9 billion to €34.7 billion in loans and receivables with banks, primarily in current accounts, cash collateral and pledged credit balances (up €2.4 billion) and other loans (up €1.0 billion) with a simultaneous reduction of €1.5 billion in reverse repos. In response to the further increase in the negative interest charged on financial investments during the course of 2016, our balances with central banks were significantly reduced by €3.1 billion to €8.3 billion in the cash and cash balances shown in the balance sheet compared with year-end 2015. The portfolio of financial assets at fair value through profit or loss assigned to the fair value option, similarly increased by €1.8 billion to €32.1 billion, mainly in fixed-income securities. The increase of €1.1 billion to €1.2 billion in non-current assets or disposal groups held for sale disclosed in the balance sheet relates primarily to assets in connection with the sale of our Bankhaus Neelmeyer AG subsidiary to Bremer Kreditbank Aktiengesellschaft. The closing is still subject to approval by the relevant authorities.

On the liabilities side, deposits from customers were notably up by €10.0 billion to €117.7 billion compared with 31 December 2015. This increase was largely due to repos (up €3.2 billion). Within this balance sheet item, there were also higher credit balances on current accounts (up €1.8 billion), term deposits (up €2.7 billion) and cash collateral and pledged credit balances (up €2.7 billion). There was also a significant increase of €8.0 billion in financial liabilities held for trading to €85.2 billion with the negative fair values of derivative financial instruments rising by €3.8 billion and other financial liabilities held for trading by €4.2 billion at the same time in line with the assets side. In addition, deposits from banks were up by €1.0 billion to €59.5 billion. Within this total, the deposits from central banks rose by €2.6 billion compared with year-end 2015 but had risen by €6.6 billion compared with 31 March 2016. The development in the second quarter of 2016 is attributable to borrowings within the framework of the ECB's TLTRO programme offered as support for the real economy. As an inexpensive targeted longer term refinancing operation, a volume of €7.0 billion was allocated to HVB Group to be used to implement our growth initiatives in lending operations with our customers. By contrast, the deposits from banks shown in the balance sheet contained decreases of €0.4 billion in credit balances on current accounts, €1.3 billion in cash collateral and pledged credit balances and €0.8 billion in repos, while term deposits rose by €0.8 billion compared with year-end 2015. The figure of €1.2 billion disclosed for the liabilities of disposal groups held for sale relates to the sale of the Bankhaus Neelmeyer AG subsidiary in line with the corresponding balance sheet item on the assets side. Compared with year-end 2015, the debt securities in issue were down by €2.3 billion to €23.8 billion on account of issues due.

The shareholders' equity shown in the balance sheet fell a slight 1.9%, or €0.4 billion, to €20.4 billion at 30 June 2016. This development compared with 31 December 2015 is due primarily to the dividend payout totalling €0.4 billion resolved by the Shareholders' Meeting in the second quarter of 2016 and the reduction of €0.4 billion in other retained earnings notably in connection with the adjustment in pensions and similar obligations (primarily on account of the lower discount rate; see Note 28, "Provisions", in the notes to the consolidated financial statements). Half of these reductions were already offset by the consolidated profit of €0.4 billion generated in the first half of 2016.

The contingent liabilities and other commitments not included in the balance sheet fell by a slight €0.2 billion to €67.9 billion at 30 June 2016 compared with the 2015 year-end total. This figure includes a decline of €0.9 billion to €47.7 billion in irrevocable credit commitments. By contrast, the contingent liabilities in the form of financial guarantees rose by €0.8 billion to €20.1 billion. These contingent liabilities are offset by contingent assets of the same amount.

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

The total risk-weighted assets of HVB Group (including market risk and operational risk) determined in accordance with Basel III requirements amounted to €85.7 billion at 30 June 2016 and are thus €7.7 billion higher than at year-end 2015.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use increased by €2.0 billion to €60.1 billion. In the process, credit risk (excluding counterparty risk) rose by €1.8 billion at HVB, particularly on account of higher exposure values in the area of corporate customers. HVB's counterparty risk fell by €0.3 billion. At subsidiaries, the risk-weighted assets for credit risk (including counterparty risk) expanded by €0.5 billion.

The risk-weighted assets for market risk rose by €5.9 billion to €15.6 billion. This is primarily 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 decreased slightly by €0.3 billion to €10.0 billion.

At 30 June 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 Group amounted to €19.1 billion and had thus fallen by €0.5 billion compared with year-end 2015 (31 December 2015: €19.6 billion in accordance with the approved annual financial statements). 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 22.3% at 30 June 2016 (year-end 2015: 25.1% in both cases). The decline in what is still an excellent core capital ratio is due to both the lower core capital and the higher risk-weighted assets. The increase in risk-weighted assets relates in part to the rise in total assets, which is partly attributable to the expansion of business in the first half of 2016. The equity capital amounted to €19.7 billion at 30 June 2016 (31 December 2015: €20.1 billion). The equity funds ratio was 23.0% at the end of June 2016 (31 December 2015: 25.8%).

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 of our 2015 consolidated financial statements and in this Half-yearly Financial Report entitled "Liquidity risk". A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure decreased to 1.16 by the end of June 2016 compared with year-end 2015 (1.21).

In the context of the introduction of new European liquidity requirements under Basel III, the German Liquidity Regulation (Liquiditätsverordnung – LiqV) will 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 30 June 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 total exposure measure. The total exposure measure is the sum total of the exposure values of all assets and off-balance sheet items. According to the regulatory report at 30 June 2016, HVB Group's leverage ratio was 5.7% compared with 5.9% at year-end 2015. The decline in the leverage ratio results from an increase in the balance sheet volume on account of an expansion of trading and derivative positions.

Financial Review (Continued)

The leverage ratio of HVB Group in accordance with the Commission Delegated Regulation (EU) 2015/62, which came into force on 18 January 2015, amounted to 6.0% at 30 June 2016 (year-end 2015: 6.2%). The difference between the regulatory percentage and the percentage according to the Delegated Regulation stems from the methods specified in the Delegated Regulation to calculate the exposure in derivative positions, the treatment of collateral received in securities financing transactions and the application to off-balance sheet items of credit conversion factors as defined in the credit risk Standard Approach.

Ratings

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

In this connection, Moody's published its revised criteria for banks in March 2015. Alongside the uncovered issuer rating, these allow for a further division into deposits and counterparty risk, taken from the potential liability cascade in accordance with the BRRD. In January 2016, Moody's reviewed its ratings for German banks in light of the amendment to German insolvency law taking effect in January 2017. In doing so, it downgraded the senior unsecured rating for HVB to Baa1 from A3 with a stable outlook. The deposit rating was left at A2, similarly with a stable outlook. The counterparty risk rating was confirmed at A1.

S&P removed potential state aid from its ratings for the major banks in Germany in June 2015, adjusting its rating for HVB from A– to BBB as a result. This rating was confirmed in June 2016. The negative outlook reflects the assumption made by S&P that the European resolution authority for banking groups could move towards a single point of entry approach under the resolution plans it is to draw up.

In March 2016, Fitch Ratings confirmed its A– rating for HVB. Since May 2015, a potential state aid for German private banks has no longer been included in the Fitch ratings in this connection. 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.

Report on subsequent events

On 26 July 2016, we announced that there would be two changes on the Management Board of HVB. Francesco Giordano is to give up his position as CFO of HVB and assume new duties within UniCredit as Co-Chief Operating Officer. Lutz Diederichs has decided to take up a new challenge outside of the Bank.

Following on from the mutual termination of his position as CEO of UniCredit S.p.A., Federico Ghizzoni is to vacate his seat on the Supervisory Board of HVB.

The nominations to succeed these people on the Management Board and Supervisory Board are currently being discussed with the regulators and relevant bodies.

Forecast report/Outlook

The following comments on the outlook are to be viewed in connection with the comments on the outlook in the Financial Review and the Risk Report in the consolidated financial statements for the 2015 financial year.

General economic outlook

According to projections by the IMF, the global economy is likely to grow by around 3.2% in 2016, although the prospects for the individual economies vary and the Brexit decision has triggered downside risks. Whereas growth is likely to remain moderate overall in the United States, the risks to growth in Europe have risen recently. At the same time, the environment and growth prospects for many emerging and developing countries look mixed. Slowing Chinese expansion and persistently low commodity prices are projected to depress the outlook for growth. The situation in countries like Brazil and Russia should, however, ease slowly during the rest of the year. In addition, the recent increase in oil prices should relieve the situation somewhat in oil-exporting countries such as Russia. The forecasts are based on the assumptions that the countries involved are not affected by any major political or economic shocks. Nonetheless, the IMF sees clear downside risks to the outlook for global growth, should the slowdown in Chinese growth accelerate, for instance. Commodity prices and the development of the Chinese economy will continue to have a global impact, although this will be overshadowed by events surrounding Brexit in the short term. Public and market attention will then turn to the elections in the United States in the autumn. The markets can be expected to remain uncertain and volatile throughout the rest of 2016.

The US economy is set to remain one of the main drivers of global expansion in 2016. We expect real GDP growth to total 1.9%, thus remaining somewhat below the rate seen in the last two years (2.4% in each case). Consumer spending will again make the biggest contribution to growth. The ongoing recovery on the labour market coupled with faster pay rises and a fall in the savings rate, which will partially offset the dwindling tailwind from the low energy prices, are likely to cause private consumption to expand at around 3% once more. Government spending is also likely to rise faster than in 2015, when it went up for the first time in six years. Moreover, we assume that capital spending by companies on plant and equipment will also pick up again after hardly expanding at all in 2015. In particular, we believe that the oil-related decline in structural investment, which was one of the main reasons behind the general softness in capital spending, is largely over. Finally, residential construction is likely to increase at a similar pace to 2015.

The refugee crisis in Europe and the further developments in the UK's withdrawal from the EU are again likely to play a major role in social and economic policy terms in 2016. As a first measure, the Bank of England reduced the countercyclical capital buffer for banks from 0.5% to zero. The consequences for the economy and future trade relations are hard to assess at present, as they will depend upon the negotiations regarding the future settlement between the UK and the EU. In response to the outcome of the referendum, the internal GDP growth forecast for the UK in 2016 was revised downward, from 1.9% to 1.4%. We have reduced our GDP forecasts for the eurozone for 2016 from 1.7% to 1.6%.

GDP growth of 1.6% in the eurozone would match the level achieved in the previous year. In all probability, the rebound in demand will once more be driven by domestic demand in 2016, with consumer spending again likely to expand around 2% as it did in the previous year. Moreover, public spending should also deliver a somewhat greater stimulus again. Investment is projected to expand from 2% to 3.0–3.5% in 2016. However, the risks arising from the Brexit referendum have risen tangibly and economic growth is anticipated to slow towards the end of the year in particular.

Financial Review (Continued)

Furthermore, the ECB may well implement further expansionary measures, including an extension of the QE programme, as inflation rates are still well below its target of 2%. We expect consumer price inflation to total 0.2% over the year as a whole.

At country level, we are forecasting growth in Germany of 1.7% in 2016, as was the case in 2015 (not adjusted for calendar reasons). Growth in France is predicted to accelerate from 1.2% in 2015 to 1.4% in 2016 and in Italy from 0.6% in 2015 to 0.9% in 2016. Following on from a very strong year in 2015, the recovery will probably peter out in Spain, with growth likely to slow from 3.2% to 2.7% in 2016.

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

Sector development in 2016

We expect the backdrop of extremely low interest rates to again be one of the main challenges for the financial sector in 2016. Volatility is likely to remain high in light of the persisting geopolitical risks, the threats from international terrorism, the upcoming negotiations following the Brexit referendum, the discussions surrounding further reforms in Greece, the constitutional reform referendum in Italy and the elections in the United States. In addition, the ongoing development of the regulatory frameworks may cause banks to make further adjustments with regard to their risk profile and their corporate and capital structures.

The introduction of the German Resolution Mechanism Act (Abwicklungsmechanismusgesetz – AbwMechG), which was adopted in September 2015 and comes into force on 1 January 2017, fundamentally altered the significant assumptions for bank ratings in terms of state aid. With a few minor exceptions, state aid no longer plays a significant role in a bank's rating as a result. This has already led to some banks suffering sharp downgrades, although these could often be balanced by means of better capitalisation or other factors. Statements regarding the external rating of HVB Group can be found in the section of this Interim Management Report entitled "Ratings".

Development of HVB Group

On account of the even greater uncertainty entailed in the macropolitical environment in Europe after the Brexit vote in particular and the high structural volatility of financial and capital markets, forward-looking statements on performance continue to be very unreliable. In light of the Bank's performance in the first half of 2016 and our robust, balanced business model, we still consider it possible that, in a consistently challenging environment for the financial industry, we will again be able to generate a satisfactory profit before tax in the 2016 financial year. Taking into account the current operating conditions, the Bank is planning to record a profit before tax that is higher than the year-ago total. However, the increase in profit will be more moderate than initially planned on account of the even greater challenges faced by the finance industry in particular.

We assume that the positive impact of the wide-ranging measures that we launched as part of the realignment of the Bank in 2014 and completed in 2015 will be reflected in the results for 2016. For this reason, we also expect operating income to once again slightly increase in the 2016 financial year. The persistently ultra-low interest rates will, however, contribute to a noticeable decrease in net interest. Although we anticipate a significant increase in volumes in the lending business, this is likely to only partially offset the strains from the low interest rates. Dividends and similar income from capital investments will continue to fall in the 2016 financial year. In contrast, it should be possible to generate a considerable rise in net fees and commissions. We are planning higher fee income in both the Commercial Banking business segment and the CIB business segment. The increase we expect to see in net trading income compared with 2015 will not be as strong as expected at the beginning of 2016 on account of the turmoil on the financial markets. There is likely to be a slight decrease in operating costs based on the consistent application of the strict cost management, in line with lower payroll costs notably due to the further decline in the headcount. The cost-income ratio is projected to improve slightly over last year. In terms of net write-downs of loans and provisions for guarantees and commitments and the cost of risk, which also remained at a very low level in 2015, we expect the need for additions to normalise in 2016 and thus to increase noticeably compared with the figures of the 2015 financial year; however, net write-downs of loans and provisions for guarantees and commitments are set to remain at a moderate level.

We expect the operating business segments – Commercial Banking and CIB – to contribute a profit before tax to the results of HVB Group in the 2016 financial year as a whole and to improve their profit contributions year-on-year. A small loss before tax is likely to accrue in the Other/consolidation business segment on account of the persistently low interest rates.

We will continue to enjoy an excellent capital base in 2016. The capital ratio for the core capital (Common Equity Tier 1 capital ratio) will be slightly lower than the high level of year-end 2015. 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.

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

The opportunities in terms of future business policy and corporate strategy, performance and other opportunities are described in detail in the 2015 Annual Report (starting on page 44). The statements made there remain valid.

Risk Report

HVB Group as a risk-taking entity

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

The income statements for each business segment and the comments on their economic performance are provided in the Note entitled "Income statement, broken down by business segment" in the present Half-yearly Financial Report. The tasks and objectives of each business segment were described in detail in the 2015 Annual Report in the Note entitled "Method and components of segment reporting by business segment".

The present Risk Report deals exclusively with the risks at HVB Group. The opportunities were discussed separately in the section of the Financial Review in the 2015 Annual Report entitled "Opportunities in terms of future business policy and corporate strategy, performance and other opportunities".

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

Risk types

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

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

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations on time or in full. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount.

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

All other risk types mostly accounting for a small share of the internal capital and non-quantitative risk types are grouped together under **other risks**.

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

- **Real estate risk** covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and special purpose vehicles (SPVs). No land or properties are included that are held as security in lending transactions.
- **Financial investment risk** arises from equity interests held in companies that are not consolidated by HVB Group in accordance with IFRS or included in the trading book. Financial investment risk is measured as an individual risk type in order to determine the risk associated with the corresponding equity holdings and also as a factor contributing to the internal capital.
- **Reputational risk** is defined as the risk of a negative effect on the income statement caused by adverse reactions by stakeholders due to a changed perception of the Bank. This altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk, strategic risk or other primary risks.
- **Strategic risk** results from management being slow to recognise important developments and trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that, in retrospect, may prove to be disadvantageous in terms of the Bank's long-term goals; in addition, some of them may be difficult or impossible to directly reverse. In the worst case, this may have a negative impact on the profitability and risk profile of HVB Group.
- **Pension risk** can impact both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as an increase 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 Group's risk management programme is built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk strategy. Implementation of the risk strategy is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation.

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

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

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

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

Functional separation

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

Risk Report (Continued)

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

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

Risk monitoring
The central risk monitoring function within the CRO organisation is responsible for identifying, measuring and evaluating the risks at HVB Group. It is subdivided in accordance with risk types. The Market and Operational Risk unit performs the risk monitoring functions for the following risk types: market risk, liquidity risk (stress tests, calculation and monitoring of early warning indicators, calculation of the short-term concentration risk, evaluation of the funding plan), operational risk and reputational risk. In addition, the Market and Operational Risk unit also monitors the market risk component of pension risk at regular intervals using a separately developed model (aggregated view of the plan assets and liabilities). As part of the asset management of the plan assets, the options for risk positioning are limited by both external and internal regulations. Ongoing monitoring of the respective rules is performed in accordance with the specific policies of the various pension plans. With regard to the monitoring of liquidity risk, some tasks are performed by the Market 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 & 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.

Implementation of overall bank management

Strategy

The business strategy and the risk strategy define the key pillars of business and risk policy for HVB Group. The subsidiaries, outsourcing and information and communications technology (ICT) are incorporated in both the risk strategy and the business strategy. The HVB Group business strategy describes the strategic 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 largely in quality terms. The risk strategy is supplemented by the Industry Credit Risk Strategy (ICRS), which defines the key elements of the risk policy for the different industries.

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

Overall bank management

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

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

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

Regulatory capital adequacy

Used core capital

For the purposes of planning and monitoring risk-weighted assets, the business segments are required to have core capital backing of equivalent risk-weighted assets arising from credit, market and operational risks equal to an average of 11.0%. The expected return on investment is derived from the average used core capital.

Management of regulatory capital requirements

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

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

Risk Report (Continued)

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

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

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 13.0%. This agreement will remain in force until further notice. The equity funds ratio of HVB Group was 23.0% at the end of June 2016 (31 December 2015: 25.8%).

Economic capital adequacy

HVB Group determines its internal capital on a monthly basis. The internal capital is the sum total of the aggregated economic capital for all quantified risk types (with the exception of liquidity risk), an undifferentiated premium for pension risk and the economic capital for small legal entities. The economic capital measures the potential loss over a time horizon of one year with a confidence level of 99.90%. In contrast to the 2015 financial year, the confidence level has thus been reduced as planned from 99.93% to 99.90% as of January 2016 in harmony with UniCredit.

When the aggregated economic capital is determined, risk-reducing diversification effects between the individual risk types are taken into account, with the parameters applied in the aggregation method encompassing economic downturns. On account of the low risk content, the economic capital for small legal entities of HVB Group is approximated with no differentiation by risk type.

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

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

	30/6/2016		31/12/2015	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Credit risk	3,512	43.3	3,448	39.0
Market risk	1,829	22.5	2,178	24.7
Operational risk	1,016	12.5	1,439	16.3
Business risk	349	4.3	319	3.6
Real estate risk	339	4.2	367	4.2
Financial investment risk	166	2.1	168	1.9
Aggregated economic capital	**7,211**	**88.9**	**7,919**	**89.7**
Economic capital of small legal entities	54	0.7	51	0.6
Pension risk	851	10.4	859	9.7
Internal capital of HVB Group	**8,116**	**100.0**	**8,829**	**100.0**
Available financial resources of HVB Group	**19,173**		**19,747**	
Risk-taking capacity of HVB Group, in %	**236.2**		**223.7**	

The internal capital falls by €0.7 billion overall. This can mainly be attributed to the change in the confidence level. If the currently applicable confidence level of 99.90% were applied retrospectively to 31 December 2015, the comparative value for the total internal capital at 31 December 2015 would be €0.6 billion lower at €8.2 billion. If the effect of the change in the confidence level is eliminated, there is a minor decline of €0.1 billion in the internal capital compared with year-end 2015 due solely to changes in the risk profile.

Apart from the changeover to the new model, the decline in risk is mostly attributable to the reduction in market risk and operational risk. An increase in credit risk should be noted as the main countervailing effect.

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

Aggregated economic capital[1] after diversification effects
(confidence level 99.90% since January 2016, 99.93% up to and including 31 December 2015)

	30/6/2016		31/12/2015	
Broken down by business segment	€ millions	in %	€ millions	in %
Commercial Banking	1,604	22.1	1,843	23.1
Corporate & Investment Banking	4,993	68.7	5,372	67.4
Other/consolidation	667	9.2	756	9.5
Aggregated economic capital of HVB Group	**7,264**	**100.0**	**7,971**	**100.0**

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

Risk appetite
HVB Group's risk appetite is defined as part of the annual strategy and planning process. The risk appetite ratios comprise ratios for risk responsibility and positioning, regulatory requirements, profitability and risk, and controlling of specific risks. Thresholds and limits are defined for these ratios that allow risk to be identified and 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 Group normally controls its risk-taking capacity under a gone-concern approach. In other words, the risk-taking capacity spotlights HVB Group's ability to settle its senior liabilities. At the same time, appropriate figures are also defined for the regulatory core capital backing alongside targets, triggers and limits for the risk-taking capacity.

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

Recovery and resolution plan
The preparation of a recovery and resolution plan (RRP) is intended to facilitate the restructuring and, if necessary, the orderly resolution of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important on a global level and a national level, respectively. Working closely with UniCredit S.p.A., HVB drew up a comprehensive local recovery plan for HVB Group. An updated recovery plan that is still valid was submitted to BaFin at the end of 2014. Supervision of HVB passed to the ECB when the Single Supervisory Mechanism (SSM) came into force in November 2014. According to a decision by the Joint Supervisory Team (JST), HVB, as part of UniCredit, is not required to prepare a separate recovery plan as of 2015, being adequately included in the UniCredit Recovery Plan in future instead. This plan is to be submitted to the ECB as of 30 September 2016.

Risk Report (Continued)

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

HVB Group uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach (gone concern). Under this approach, the risk-taking capacity is defined by comparing unexpected losses at the confidence level (internal capital) with the ability to absorb losses using the available equity 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 derivation, under which shareholders' equity shown in the balance sheet is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects arising from the own credit spread are deducted and minority interests are only taken into account to the extent of the risk-bearing portion. At the same time, subordinated liabilities recognised as shareholders' equity for banking supervisory purposes are included. The available financial resources at HVB Group totalled €19.2 billion at 30 June 2016 (31 December 2015: €19.7 billion).

With internal capital of €8.1 billion, the risk-taking capacity for HVB Group is 236.2% (31 December 2015: 223.7%). This figure is much higher than the target we have set ourselves. The increase of 12.5 percentage points for HVB Group compared with 31 December 2015 can be attributed to a decline of €0.7 billion, or 8.1%, in internal capital. This effect has a greater impact than the decrease of €0.6 billion, or 2.9%, in the available financial resources in the first half of 2016. The decline in the available financial resources is down to differing and at times countervailing developments in individual components, although the main factors were a reduction in the reserves shown in the balance sheet due to actuarial losses recognised in accordance with International Accounting Standard 19 (IAS 19) and the development of deferred tax assets and losses.

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

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

The IC limits are allocated at the level of HVB Group broken down by risk type, as an aggregate amount for the small legal entities and for the IC as a whole. Based on the aggregate limit set for IC, the risk-taking capacity of HVB Group is ensured at all times. The correlation effects included in the IC cannot be influenced by the business segments and relevant subsidiaries. Consequently, EC limits adjusted for these effects and the risk-type-specific limits are used for controlling purposes in the business segments and relevant subsidiaries.

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

Stress tests

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

Various macroeconomic downturn scenarios and an historical scenario were calculated for the cross-risk-type stress tests in the first half of 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 – impact of a slowing of the Chinese economic growth to 3.0% through the end of 2017.
– Interest Rate Shock scenario – rising interest rates in the eurozone.

Following the referendum in favour of the UK leaving the European Union, the macro-economic downturn scenarios and the underlying baseline scenario are currently being reviewed and the corresponding macro-economic and market parameters adjusted.

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

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

Ad hoc stress tests are carried out in response to internal and external events that might have a considerable impact on HVB Group. Examples of ad hoc stress tests include: the influx of refugees and the easing of the obligation to verify the applicant's identity when opening an account; the departure of the UK from the EU; the collapse of the Schengen area; and the default of a central counterpart.

Concentrations of risk and earnings

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

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

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

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

Risk Report (Continued)

Risk inventory
The scheduled comprehensive risk inventory at HVB Group 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 larger subsidiaries adapted this approach. A simplified procedure is used to determine the relevant risks for smaller subsidiaries. The results of the 2016 risk inventory will be presented to the RC of HVB Group 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 Group and various topics are identified, some of which are included in the stress test, the validation of the significant risk types and other ICAAP components.

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

Risk types in detail

We presented the management and monitoring of the individual risk types at HVB Group in detail in the 2015 Annual Report. Where minor refinements are made to the methods used to measure the individual risk types, these are described under the risk type concerned.

1 Credit risk

The economic capital for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €3.6 billion, which is €0.1 billion higher than the total reported at 31 December 2015 (€3.5 billion). If the currently applicable confidence level of 99.90% were applied retrospectively to 31 December 2015, the comparative value for the economic capital at 31 December 2015 would be €3.3 billion. If the effect of the change in the confidence level is eliminated, the economic capital increases by €0.3 billion compared with year-end 2015. This rise can be largely attributed to higher single-name concentrations mainly in the banking sector.

Credit default risk
The following tables and charts for credit default risk show the aggregate exposure values of HVB Group excluding the remaining exposures assigned to the former Real Estate Restructuring business segment. These are excluded from the analysis because the portfolio, which has already been reduced considerably in recent years to €270 million (31 December 2015: €397 million), is earmarked for elimination without any new business being written. The aggregate exposure to credit default risk is called credit default risk exposure, or simply exposure, below. Among other things, the exposure is calculated by including account balances on the posting date. Issuer risk arising from the trading book is, moreover, included in the market risk analysis by way of the incremental risk charge. The comments in this regard can be found in the section covering market risk.

Development of metrics by business segment

(€ millions)

	EXPECTED LOSS[1]		ECONOMIC CAPITAL[2]	
	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Commercial Banking	161	155	867	878
Corporate & Investment Banking	190	190	2,702	2,622
Other/consolidation	5	4	20	26
HVB Group	**356**	**349**	**3,589**	**3,526**

1 expected loss of the performing exposure
2 without taking account of diversification effects (confidence level of 99.90% since January 2016, 99.93% up to and including 31 December 2015)

The expected loss of HVB Group rose by €7 million in the first half of 2016. This development can for the most part be attributed to a slight increase in business together with individual transfers from the non-performing portfolio to the performing portfolio in the Commercial Banking business segment.

The increase in economic capital in the CIB business segment coupled with an unchanged expected loss is attributable to an expansion of single-name concentrations in the financial institutions (including sovereigns) industry group.

Breakdown of credit risk exposure by business segment and risk category

(€ billions)

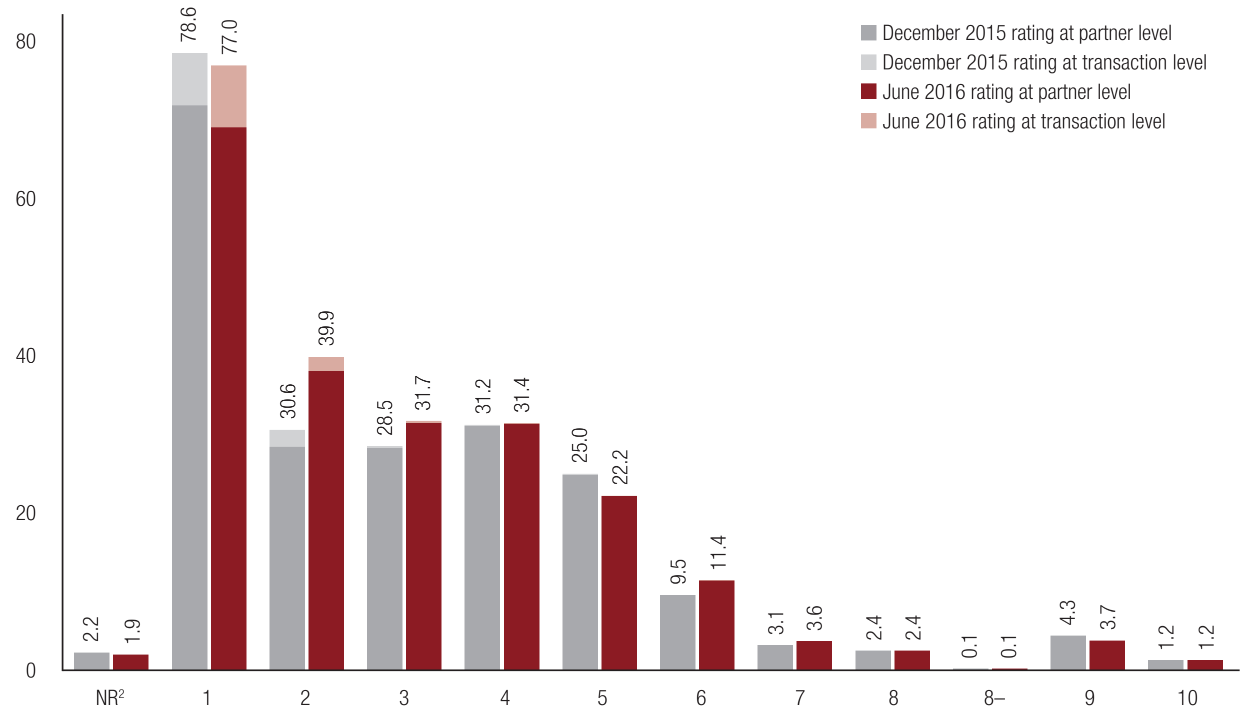
Breakdown of exposure by business segment	CREDIT DEFAULT RISK[1]		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL	
	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Commercial Banking	95.3	93.0	4.4	3.8	0.2	0.2	—	—	95.3	93.0
Corporate & Investment Banking	129.6	121.8	22.9	19.5	48.5	43.2	6.7	7.2	136.3	129.0
Other/consolidation	1.5	1.7	0.2	0.1	0.1	0.1	—	—	1.5	1.7
HVB Group	**226.4**	**216.5**	**27.5**	**23.4**	**48.8**	**43.5**	**6.7**	**7.2**	**233.1**	**223.7**

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

The credit default risk exposure of HVB Group rose by €9.9 billion. In particular, there was an increase of €7.8 billion in the credit default risk exposure in the CIB business segment. This results mainly from the business performance in the financial institutions (including sovereigns), energy, special products and public sector industry groups.

Risk Report (Continued)

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



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

The HVB Group rating structure changed during the first half of 2016 mainly on account of the business development in the financial institutions (including sovereigns) industry group, which led to a decrease of €1.6 billion in exposure in rating class 1. The main reason for this is a reduction in the liquidity placed with Deutsche Bundesbank. In contrast, the exposure rose in rating classes 2 (by €9.3 billion) and 3 (by €3.2 billion) due to both rating migrations and the expansion of business in various industries.

Development of metrics by industry group

	CREDIT DEFAULT RISK EXPOSURE[1] € billions		EXPECTED LOSS[2] € millions		RISK DENSITY in BPS[3]	
Industry group	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Financial institutions (including sovereigns)	52.5	49.8	29	34	6	7
Public sector	33.7	32.3	4	2	1	1
Real estate	24.7	24.6	32	27	13	11
Energy	13.0	10.2	41	18	32	18
Special products	11.8	12.2	14	29	12	24
Chemicals, pharmaceuticals, health	9.1	9.0	18	17	21	19
Food, beverages, agriculture	8.2	7.6	14	14	18	17
Automotive industry	7.3	6.7	8	9	11	14
Consumer goods, textile industry	6.7	6.6	14	14	22	21
Services	5.5	5.2	17	17	31	34
Metals	5.3	4.7	13	14	26	32
Transport, travel	5.2	5.1	11	11	23	25
Shipping	5.0	5.3	71	76	197	192
Construction, wood	4.9	4.6	13	10	27	22
Machinery	4.5	3.9	12	10	28	27
Telecoms, IT	4.3	4.1	7	5	16	13
Electronics	2.2	2.4	2	3	12	11
Media, paper	1.9	1.7	4	5	23	34
Tourism	1.4	1.4	4	4	27	25
Retail	19.3	19.1	28	30	15	16
HVB Group	**226.5**	**216.5**	**356**	**349**	**16**	**17**

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

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

The exposure in the financial institutions (including sovereigns) industry group increased by €2.7 billion in the first half of 2016, in keeping with the business-related volatility for this industry. Among other things, the decline of €5 million in the expected loss is attributable to a decrease in the exposure to one issuer. The risk density improved slightly, from 7 BPS to 6 BPS, as a result.

The exposure in the special products industry group fell by €0.4 billion in the first half of 2016 compared with year-end 2015, primarily on account of the reallocation of a transaction worth €1.6 billion to a different industry group. Without reallocation effects, the portfolio expanded by €1.2 billion, even though the reduction of the non-strategic portion of the portfolio was systematically continued. This resulted in a further optimisation of the portfolio.

Risk Report (Continued)

The euro-denominated exposure recorded for the shipping industry group declined in the first half of 2016. This trend is reinforced by the weaker euro against the dollar. Adjusted for exchange rate fluctuations, the exposure denominated in US dollars similarly declined due to regular instalments and repaid loans despite selective new business being written. The expected loss declined as a result of repayments of loans and individual transfers to the non-performing portfolio. The risk density deteriorated slightly due to the weakness in most sub-markets in the shipping industry group.

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

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

Part of the exposure in the 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 Group as the group-wide centre of competence for the markets and investment banking business of UniCredit and other business activities (such as export finance and guarantees).

Public sector
The public sector industry group contains private enterprises with public-sector owners as well as state entities. As the German states in particular and the development banks enjoying their full liability represent important counterparties for internal liquidity management, the vast majority of the exposure is caused by our own liquidity investments. This essentially gave rise to the €1.4 billion increase in exposure. The exposure remains comfortably within the industry limit defined for this segment.

Real estate
The real estate market in Germany again proved very stable in the first half of 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 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 the first half of 2016 (measured by risk density).

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

Special products

A strategy of growth in clearly defined asset classes with conservative credit standards was defined for sub-segments of the special products portfolio under the 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 the second half of 2016 as a whole.

Energy

The energy portfolio increased in the first half of 2016 essentially on account of the reallocation of an exposure worth €1.6 billion from a different industry group. At the same time, a larger underwriting volume and drawdowns under existing facilities served to increase the exposure. If the reallocation mentioned above is excluded, the quality of the portfolio, as measured by the risk density, is unchanged.

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 the first half of 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, while freight rates in the liner trade continued to decline. This development was caused by a persistently high number of deliveries of large container ships coupled with weaker demand.

The demand in the offshore industry suffered from a fall in oil prices to lows not seen for a number of years. Accordingly, the demand for equipment for offshore oil exploration and extraction declined sharply. The supply side was shaped by further deliveries of new vessels, meaning that freight and capacity-utilisation rates for the fleet underway remained under strong pressure. The number of idle ships and platforms in this segment has increased further.

By contrast, oil products and especially oil tankers continued to benefit from low oil prices coupled with strong demand for transport capacity. Freight rates have consolidated at an adequate level. It remains to be seen over the coming years whether the market will be able to absorb the new-builds that have been commissioned in greater numbers, notably for the transport of oil products.

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. Whereas slowly rising prices could be observed in the tanker segment, prices for all other types of ship fell heavily in the first half of 2016, although the collapse in prices for bulk carriers seems to have stopped since the end of the first quarter of 2016.

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

Risk Report (Continued)

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

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

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

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

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

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

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

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

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

Based on Section 17e of the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG), Ocean Breeze has already received compensation for some of the lost revenues from the grid operator, TenneT. A further tranche of the claims for damages asserted by Ocean Breeze accordingly remains in dispute between Ocean Breeze and TenneT with regard to fundamental questions of interpretation regarding the application of Section 17e EnWG. Legal clarification of these fundamental questions of interpretation has been sought as of spring 2016. Ocean Breeze paid back €50 million of its debt as planned in 2015. A further €100 million has been repaid in 2016 to date. The output of the wind farm has again improved greatly and stabilised in 2016. It is, however, not possible to completely exclude the risk of (unexpected) technical problems having a negative effect on performance.

Exposure development of countries/regions
The following tables show the comprehensive concentration risk at country and regional 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)

	TOTAL[2]		OF WHICH ISSUER RISK IN TRADING BOOK	
Country	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Germany	135,653	135,190	1,597	1,576
Italy	10,740	8,459	1,219	1,310
Luxembourg	10,552	10,433	667	590
Spain	7,674	6,926	119	136
France	6,882	6,277	594	703
Netherlands	4,556	5,615	314	220
Ireland	3,989	3,000	66	90
Austria	2,450	2,164	608	410
Belgium	738	966	117	294
Finland	341	321	118	217
Greece	327	361	2	4
Portugal	314	70	36	13
Cyprus	196	148	—	7
Slovenia	102	140	1	11
Malta	35	43	—	—
Latvia	15	18	—	—
Slovakia	6	20	—	17
Estonia	1	1	—	1
Lithuania	0	4	—	4
HVB Group	**184,571**	**180,156**	**5,458**	**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 of half of 2016 to match the table "Development of credit default risk exposure by region/country outside the eurozone".
2 total of non-performing and performing exposure including issuer risk in the trading book

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 Group will keep a close eye on this development and, if necessary, take suitable measures.

Italy
The relatively large portfolio results from HVB Group's role as group-wide centre of competence for the markets and investment banking business of UniCredit. This portfolio is being actively managed in accordance with market standards (such as secured derivatives activities). The exposure to Italy also includes the exposure with UniCredit S.p.A., for which a separate strategy was defined (see the comments above regarding the financial institutions (including sovereigns) industry group). The economy recovered on the back of the reforms enacted by the present administration, with real GDP growth turning positive again in 2015. Despite the anticipated burdens from Brexit, positive economic growth is predicted for 2016 as a whole.

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.

Risk Report (Continued)

Development of the weaker eurozone countries

The strict austerity measures and reforms imposed by some eurozone countries have been successful, leading to a generally better assessment by the capital markets. Worthy of special note here is Spain, which again enjoyed strong growth in the first half of 2016. The portfolio in the weaker eurozone countries was again actively managed in the first half of 2016, albeit with different strategies.

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

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

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

	TOTAL[1]		OF WHICH ISSUER RISK IN TRADING BOOK	
Region/country	**30/6/2016**	**31/12/2015**	**30/6/2016**	**31/12/2015**
UK	12,080	11,699	304	377
USA	10,041	9,897	241	275
Switzerland	5,823	4,756	131	214
Japan	4,716	3,592	9	18
Asia/Oceania (without Japan, China, Hong Kong)[2]	3,394	2,627	27	24
Turkey	2,316	2,056	20	6
China (including Hong Kong)	1,881	1,330	0	0
Western Europe (without Switzerland, UK)	1,876	1,953	245	375
Middle East/North Africa	1,795	1,097	4	4
Russia	1,158	1,322	12	69
Eastern Europe	1,140	1,086	132	173
North America (including offshore jurisdictions, without USA)	1,077	920	60	52
Central and South America	576	514	34	24
Southern Africa	575	596	4	5
Central Asia (without Russia, Turkey)	115	106	3	0
HVB Group	**48,563**	**43,551**	**1,226**	**1,616**

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

The total exposure of the regions/countries outside the eurozone rose by €5.0 billion in the first half of 2016. This development was driven notably by Switzerland, Japan and the Asia/Oceania region (excluding Japan, China and Hong Kong).

Brexit

HVB Group 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 sharp decline in exposure, as new business is not written unless all the sanctions are observed and customer interests have been taken into account on a case-by-case basis.

In the Middle East region, the political and economic stability of the region is endangered by the growing strength of the IS terror organisation. There is no end in sight to the armed conflicts in either Syria or Iraq. Furthermore, the sustained escalation and internationalisation of the conflict is leading to foreign-policy risks for Turkey. In addition, increasing terrorist activities in Turkey are damaging the country's tourist industry. Besides the terrorist threat and the civil war in Syria, the region is also suffering from the increasing tensions between Saudi Arabia and Iran together with a lasting decline in the price of oil to a much lower level, even if this has risen again somewhat over recent months. This is forcing Saudi Arabia and the Gulf states to reduce their state spending in the medium term despite their large fiscal reserves, which could give rise to discontent in the respective populations and an ebbing of payments to Egypt, which is largely dependent upon large-scale, cheap loans from these states.

Derivative transactions

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

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

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB Group at 30 June 2016 totalled €91.9 billion (31 December 2015: €78.6 billion).

The regulatory provisions under Basel III and the Capital Requirements Directive IV (CRD IV)/CRR are employed to determine counterparty risk taking into account the internal model method (IMM) approved by the regulatory authorities for use by HVB. Based on individual risk weightings and applying existing, legally enforceable, bilateral netting agreements as well as the collateral provided by borrowers for HVB Group, risk-weighted assets arising from counterparty risk amounted to €5.9 billion at 30 June 2016 (31 December 2015: €6.0 billion) for the derivatives business.

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

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	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Interest rate derivatives	884,146	730,055	689,951	2,304,152	2,556,410	78,049	64,452	73,739	62,123
Foreign exchange derivatives	283,102	34,327	1,009	318,438	310,378	4,240	4,028	4,778	4,464
Cross-currency swaps	41,555	99,430	53,722	194,707	218,769	6,164	6,502	7,031	7,906
Equity/index derivatives	32,106	36,830	8,821	77,757	76,138	2,524	2,158	2,838	2,955
Credit derivatives	13,011	44,589	3,184	60,784	69,521	1,292	1,446	1,093	1,124
– purchased	6,391	22,720	1,648	30,759	35,160	343	459	787	695
– written	6,620	21,869	1,536	30,025	34,361	949	987	306	429
Other transactions	7,461	3,175	864	11,500	9,969	424	671	407	384
HVB Group	**1,261,381**	**948,406**	**757,551**	**2,967,338**	**3,241,185**	**92,693**	**79,257**	**89,886**	**78,956**

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €631,079 million at 30 June 2016 (thereof credit derivatives: €1,957 million).

Risk Report (Continued)

Derivative transactions by counterparty type (€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Central governments and central banks	8,243	5,541	1,979	1,754
Banks	48,310	45,348	53,016	49,735
Financial institutions	32,512	24,921	32,605	24,939
Other companies and private individuals	3,628	3,447	2,286	2,528
HVB Group	**92,693**	**79,257**	**89,886**	**78,956**

Summary and outlook

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

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

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

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

2 Market risk

The value-at-risk (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 Group introduced a number of method extensions for business risk measurement made necessary by the heavily negative interest rates implemented in the current market environment. The request for regulatory approval of the method extensions has been submitted to 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 Group has defined several further market risk metrics under the current CRR rules for risk management as well as the VaR:
- The stressed VaR is calculated in the same way as the VaR, although the 12-month observation period has been selected covering the most significant negative market changes for HVB's trading portfolio. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99.00%.

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

The economic capital for market risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €2.2 billion, which is lower than the total at 31 December 2015 (€2.7 billion). If the currently applicable confidence level of 99.90% were applied retrospectively to 31 December 2015, the comparative value for the economic capital at 31 December 2015 would be €2.6 billion. If the effect of the change in the confidence level is eliminated, the economic capital decreased by €0.4 billion compared with year-end 2015. This decline is essentially attributable to the improved parameterisation of the CVA model and greater diversification between the VaR and CVA VaR.

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

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

	AVERAGES					PERIOD-END TOTALS	
	2016[3]	Q2 2016	Q1 2016	Q4 2015	Q3 2015	30/6/2016	31/12/2015
Credit spread risks	5	5	5	3	4	5	4
Interest rate positions	6	6	5	3	4	6	3
Foreign exchange positions	2	3	2	2	1	4	2
Equity/index positions[1]	4	4	4	3	2	4	4
HVB Group[2]	**8**	**8**	**8**	**5**	**5**	**7**	**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.
3 arithmetic mean of the last two quarter-end figures

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

Risk Report (Continued)

Regulatory metrics of HVB Group (€ millions)

	30/6/2016	31/3/2016	31/12/2015	30/9/2015	30/6/2015
Value-at-risk	562	263	75	102	81
Stressed value-at-risk	215	257	165	245	321
Incremental risk charge	195	251	227	237	243
Market risk Standard Approach	2	5	5	3	3
CVA value-at-risk	48	44	41	32	36
Stressed CVA value-at-risk	191	204	214	183	191
CVA Standard Approach	38	59	48	82	103

Due to the use of aggregated averages encompassing 60 days, the influence on the capital requirement at 30 June 2016 of the model extension to remedy the weaknesses when incorporating negative interest rates is still insignificant. In connection with interest rates moving even further into negative territory, this led to a sharp increase in the VaR during the first half of 2016.

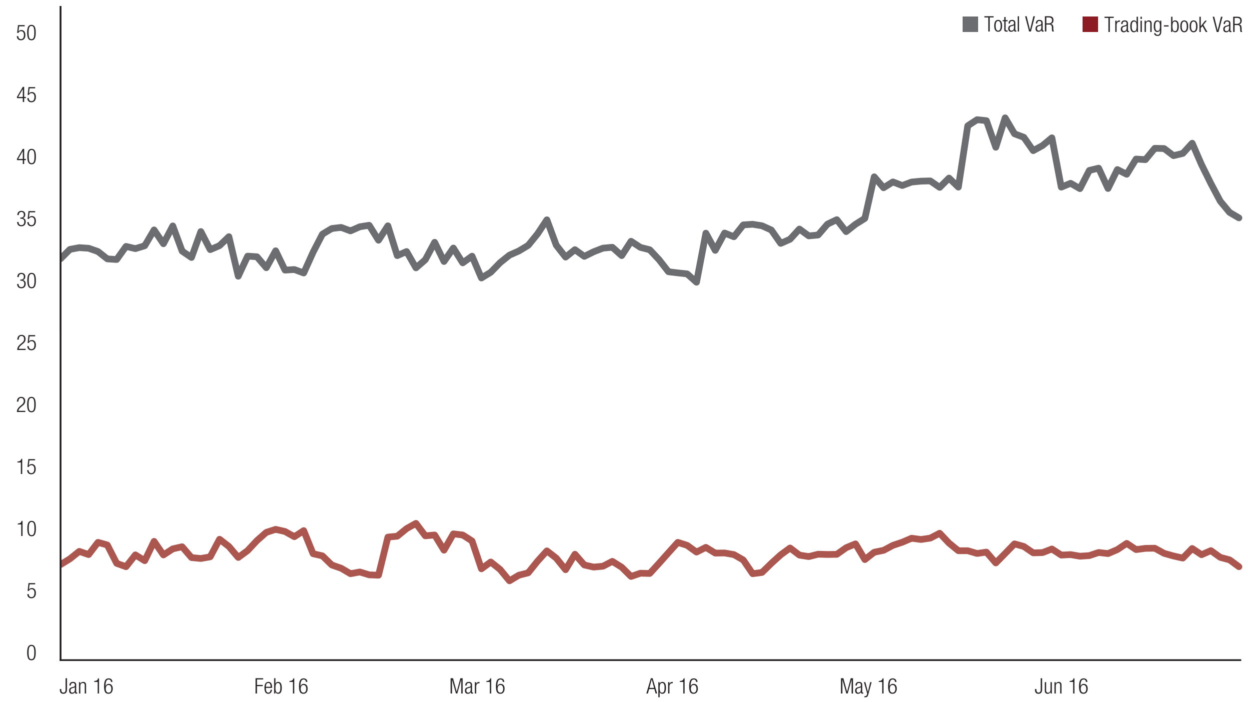
Alongside the market risk arising that is relevant for regulatory reporting, further market risk arises from positions in the banking book. All transactions exposed to market risk in the trading and banking books of HVB Group are consolidated for the purpose of risk controlling. Most of the market risk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

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

	AVERAGES					PERIOD-END FIGURES	
	2016[3]	Q2 2016	Q1 2016	Q4 2015	Q3 2015	30/6/2016	31/12/2015
Credit spread risks	27	29	26	24	24	30	23
Interest rate positions	15	19	12	8	8	11	8
Foreign exchange positions	6	6	6	9	7	9	8
Equity/index positions[1]	4	4	5	3	3	5	4
HVB Group[2]	**34**	**37**	**32**	**29**	**30**	**35**	**31**

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.
3 arithmetic mean of the last two quarter-end figures

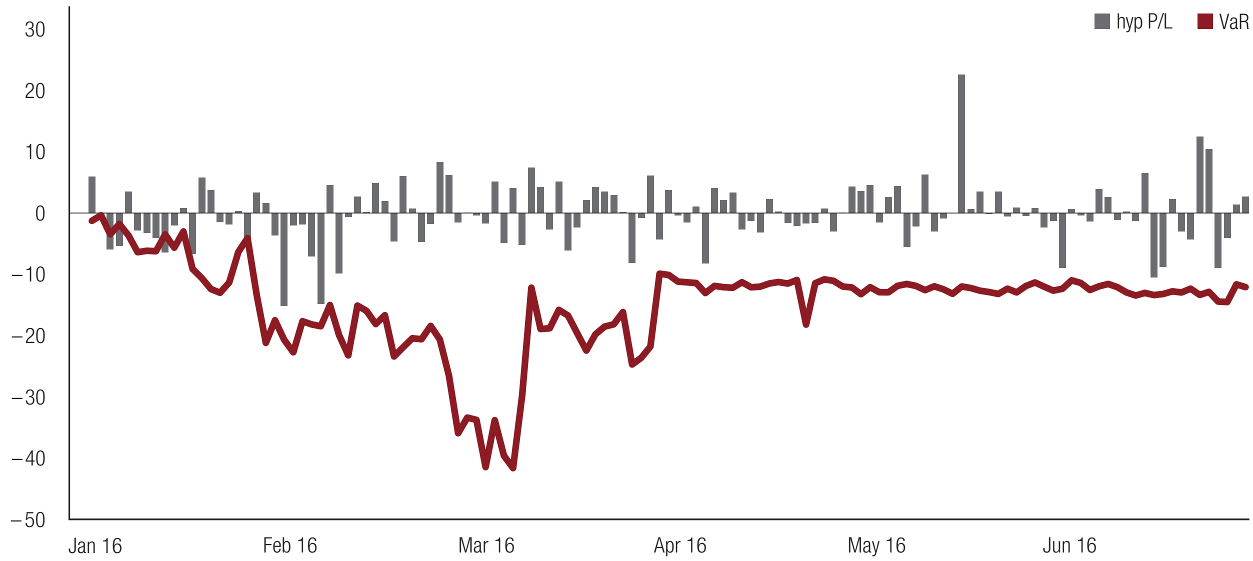
Development of trading-book and total value-at-risk at HVB Group (€ millions)



The total VaR at HVB Group shows the VaR curve for market price risk arising from trading- and banking-book positions. The trading-book VaR represents the development of the VaR in the trading book. Both the total VaR curve and the trading-book VaR curve show a relatively stable risk development in the first half of 2016.

Risk Report (Continued)

Regulatory back-testing of the internal model at HVB, first half of 2016 (in € 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 the first half of 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, first half of 2016"). These three outliers were caused by the negative euro interest rates. These outliers cannot be observed in the extended business-related risk measurement model that is used for internal management purposes. The strong rise in the regulatory VaR in the first quarter of 2016 can be attributed solely to even more heavily negative euro interest rates, which led to a significant overvaluation of the risk. The VaR shown for the second quarter of 2016 in the chart is based on the extended model that was approved by the European banking regulator 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 three overshoots in the first half of 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.

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

One scenario calls for a parallel interest shock of minus 100 basis points. Assuming that the expiring contracts were reinvested within the next twelve months with the same product features, this would serve to reduce net interest by €63 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 €111 million (31 December 2015, plus 100 basis points: plus €133 million). A floor is employed at 0.0%, meaning that the interest shock of minus 100 basis points is not fully applied.

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

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

In compliance with the regulatory rules published by BaFin on 9 November 2011, the change in the fair value of the banking book in case of a sudden and unexpected interest shock of +/–200 basis points is compared with the Bank's eligible equity funds on a monthly basis. This analysis is carried out both with and without the hedging effect from the equity capital model book. At 30 June 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 0.8% (31 December 2015: 0.8%). When calculated from the regulatory viewpoint, by contrast, a capital charge of 8.1% becomes apparent given an increase of 200 BPS in interest rates (31 December 2015: 7.3%). HVB Group is well below the 20.0% mark specified, above which the banking supervisory authorities consider a bank to have increased interest rate risk. These figures include the positions of HVB as well as the positions of the material Group companies.

Market liquidity risk

Market liquidity risk relates to the risk that the Bank will suffer losses due to the disposal of assets that can only be liquidated on the market at a discount. In the extreme case, HVB Group may not be able to sell such 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 Group to value some of its assets and exposures. Significant changes to the fair values of such assets and exposures that might prove to be much lower than the present or estimated fair values could be a further consequence. All of these factors could force HVB Group to recognise amortisation charges or impairment losses, which would have a negative effect on its financial position and operating result.

Summary and outlook

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

Risk Report (Continued)

3 Liquidity risk

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €37.6 billion in HVB Group for the three-month maturity bucket at the end of June 2016 (30 June 2015: €34.0 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 €30.1 billion at the end of the second quarter of 2016 (30 June 2015: €30.3 billion).

We include Bank-specific, market-wide and combined scenarios when conducting our stress tests. The calculations at the end of second quarter of 2016 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded in each case.

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB Group during the reporting period. The funds available exceeded its payment obligations for the following month by an average of €19.6 billion for HVB Group in the second quarter of 2016 (€26.8 billion for the second quarter of 2015) and €20.6 billion at 30 June 2016. This means that we are significantly above the internally defined threshold.

Funding risk

The funding risk of HVB Group was again low in the second quarter 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 June 2016, HVB Group had obtained longer term funding with a volume of €11.3 billion (30 June 2015: €2.7 billion), including €7.0 billion under the ECB's TLTRO-II programme. At the end of June 2016, 105.1% (30 June 2015: 95.8%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Summary and outlook

Alongside the persisting European sovereign debt crisis and the as-yet unforeseeable consequences of the refugee movements, greater uncertainty has arisen in connection with the announced implementation of the Brexit vote and the further development of the European Union as a whole. The increasing number of terrorist attacks, the attempted coup in Turkey and ongoing tensions with Russia contain further potential for uncertainty regarding the security, monetary and economic-policy situation throughout Europe going forward. The measures taken to date by the ECB are helping to calm the markets at present. It is not yet possible to predict for how long and to what extent the financial markets will react further to the developments listed.

HVB Group again put in a good performance in the past quarter in this difficult market environment. Among other things, the contributory factors include our good liquidity situation, a 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

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

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

The economic capital for operational risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €1.4 billion at 30 June 2016 (31 December 2015: €1.9 billion). One key reason for this is the change in the confidence level from 99.93% to 99.90%. If the currently applicable confidence level were applied retrospectively to 31 December 2015, the comparative value for the economic capital at 31 December 2015 would be €1.6 billion. If the effect of the change in the confidence level is eliminated, the economic capital decreased by €0.2 billion compared with year-end 2015. This decline is attributable to the roll-out of a new model version at 30 June 2016.

Information technology (IT)

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

Business continuity management, IT service continuity management and crisis management

The business continuity, IT service continuity and crisis management function demonstrated its effectiveness and appropriateness by successfully mastering critical situations so as to minimise their impact on HVB. Several successfully completed contingency tests showed that the handling of the 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.

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

Risk Report (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Report (Continued)

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

Furthermore, there are a number of separate lawsuits from investors pending regarding other closed-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 the Bank.

Relating to one retail fund with investment target in heating plants, a number of investors brought legal proceedings against HVB pursuant to the Capital Markets Test Case Act. Munich Higher Regional Court has ordered several court expert opinions to be obtained in order to assess the question of 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 HVB. Based on the experience gained to date, HVB can assume that noteworthy legal risks will not arise from these cases.

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

Lawsuits related to financial instruments

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

Proceedings related to derivative transactions

The number of complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative 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

The General Public Prosecutor (Generalstaatsanwaltschaft) Frankfurt am Main started a Preliminary Investigation (Ermittlungsverfahren) against a customer of HVB and others (including former and current employees of HVB) in 2012 regarding securities transactions performed in 2006 to 2008 and around the dividend record date in the expectation of receiving withholding tax credits on dividends from German shares. In this context, the General Public Prosecutor also initiated proceedings against HVB for an administrative fine according to the German Administrative Offences Act (OWiG). These proceedings have been concluded by a penalty notice as of 2 February 2016.

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

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

HVB examined the above-mentioned proprietary transactions close to dividend dates, in which withholding tax credits were claimed or applications for refund of related taxes have been made, with the support of external advisors and rendered the correspondent information to the relevant tax authorities. In addition, HVB has notified foreign (tax) authorities insofar as potential consequences of transactions in domestic and foreign equities and equity derivatives are concerned. The above-mentioned proprietary transactions are subject to a regular tax audit covering 2005 to 2008, which is not yet formally finalized. However further financial exposures for HVB vis-à-vis (foreign or domestic) tax authorities in this respect are not to be expected since HVB has insofar already repaid respective taxes (including interest thereon), withdrawn refund requests and received amended tax assessments. Moreover, the Munich tax authorities are currently carrying out the regular tax audit for 2009 to 2012, which inter alia comprise securities transactions around the dividend record date.

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

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

Risk Report (Continued)

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

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

Lawsuits in connection with Primeo-linked notes

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

Lawsuit for consequential damages

A customer filed an action against HVB with Frankfurt Regional Court (Landgericht) for consequential damages of €51.7 million for the following reasons: In 2010, HVB was ordered by Frankfurt Higher Regional Court (Oberlandesgericht) to pay damages in the amount of €4.8 million to the plaintiff due to the faulty handling of a bill of exchange and in addition to compensate further damages suffered by the plaintiff as a result of 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. He 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.

Legal proceedings relating to the restructuring of HVB

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

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

Proceedings in connection with financial sanctions

Recently, violations of US sanctions have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the US Treasury Department's Office of Foreign Assets Control (OFAC), the US Department of Justice (DOJ), the New York State District Attorney (NYDA), the US Federal Reserve (Fed) and the New York Department of Financial Services (DFS) depending on the individual circumstances of each case.

In March 2011, HVB received a subpoena from the NYDA relating to historic transactions involving certain Iranian entities, designated by OFAC, and their affiliates. In June 2012, the DOJ opened an investigation of OFAC-related compliance by HVB and its subsidiaries more generally. HVB Group is cooperating with various US authorities and is updating other relevant non-US authorities as appropriate. Although we cannot at this time determine the form, extent or timing of any resolution with any relevant authorities, the investigation costs, remediation required and/or payment or other legal liability incurred 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.

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

5 Other risks

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

Business risk
Business risk is based on the medium-term business orientation and is included in the business plan. As part of its cost and income responsibility, each business unit is responsible for the operational management of business risk. HVB has defined appropriate measures to counter earnings risk.

The economic capital for business risk at HVB Group, without taking account of diversification effects between the risk types, increased by €40 million to €843 million in the first half of 2016. If the currently applicable confidence level were applied retrospectively to 31 December 2015, the comparative value for the economic capital at 31 December 2015 would be €777 million. If the effect of the change in the confidence level is eliminated, the economic capital increases by €66 million compared with year-end 2015. The increased capital requirements are driven mainly by the lower cost of equity. The fully diversified economic capital for the business risk of HVB Group at 30 June 2016 amounts to €349 million (31 December 2015: €319 million).

Risk Report (Continued)

Real estate risk

A fundamental distinction is made in real estate risk between (strategic) real estate required for operations and (non-strategic) real estate not required for operations. The general focus for the existing real estate portfolio in the first half of 2016 was on measures targeting current fair value and cost optimisation. No additional purchases are planned for the second half of 2016, except where they would serve the interests of HVB Group (in other words, in exceptional circumstances only). The longer term orientation for strategic real estate corresponds with the Bank's strategy of preferring Bank-owned properties over rented properties for own use and making such properties available for the banking operations of HVB Group at market terms on a cost-optimised basis. As a result, around one-third of the properties currently used by the Bank are owned by HVB Immobilien Group, including almost all of the buildings housing central functions.

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

In terms of the central locations in the first half of 2016, this relates primarily to the major renovation project aimed at turning the HVB Tower (Z2) in Munich into a green building. Following the completion of the HVB Tower as planned in the first quarter of 2016, other blocks are now also being renovated.

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

The economic capital for real estate risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €442 million at 30 June 2016, which is €40 million lower than the total reported at 31 December 2015 (€482 million). One key reason for this is the change in the confidence level from 99.93% to 99.90%. If the currently applicable confidence level were applied retrospectively to 31 December 2015, the comparative value for the economic capital at 31 December 2015 would be €466 million. If the effect of the change in the confidence level is eliminated, the economic capital decreased by €24 million compared with year-end 2015. Apart from the change in the confidence level, the main reason for the slight decline in risk is the selective sale of individual properties. The risk figures are based on a portfolio worth €2,894 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Strategic real estate	1,166	1,728	40.3	56.7
Non-strategic real estate	1,728	1,319	59.7	43.3
HVB Group	**2,894**	**3,047**	**100.0**	**100.0**

The fully diversified economic capital for real estate risk at HVB Group amounted to €339 million (31 December 2015: €367 million). Apart from a few transactions involving additions and disposals, the structure of the real estate portfolio of HVB Group remained largely unchanged in the first half of 2016. The main geographical focus is on the Munich area, which accounts for 46.2% of the total portfolio value.

Again for the second half of 2016, it is planned to further reduce the holding of non-strategic real estate by selling properties. The situation on the real estate markets will again depend on economic developments in the second half of 2016. The demand from investors for core real estate continues to increase.

Financial investment risk

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.

The economic capital for financial investment risk at HVB Group, without taking account of diversification effects between the risk types, fell by €6 million in the first half of 2016 to total €210 million at 30 June 2016. One key reason for this is the change in the confidence level from 99.93% to 99.90%. If the currently applicable confidence level were applied retrospectively to 31 December 2015, the comparative value for the economic capital at 31 December 2015 would be €210 million. If the effect of the change in the confidence level is eliminated, the financial investment risk is unchanged compared with year-end 2015. The fully diversified economic capital of HVB Group totals €166 million (31 December 2015: €168 million).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Private equity funds	127	124	48.3	45.6
Private equity investments	29	30	11.0	11.0
Other holdings[1]	107	118	40.7	43.4
HVB Group	**263**	**272**	**100.0**	**100.0**

1 listed and unlisted investments

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

Reputational risk

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

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

Risk Report (Continued)

Under the "run-the-bank" approach, the individual units of the Bank are examined at regular intervals with regard to existing and/or latent reputational risk. The process starts with risk self-assessments by important function owners (risk managers) together with the operational risk managers. A list of questions is used to carry out the risk self-assessments. Building on this, senior management is interviewed about reputational risk. During the interview, the senior manager has the opportunity to review the reputational risk identified in his unit 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 unit). OpRisk Control consolidates the results of the risk self-assessments and interviews and prepares a RepRisk Report covering the largest reputational risks at HVB.

Strategic risk

The statements made in the 2015 Annual Report regarding strategic risk remain basically valid. Changes in general economic trends and information regarding the development of HVB's ratings are shown in the Financial Review in the section entitled "Economic report".

Pension risk

HVB Group has undertaken to provide a range of different pension plans to current and former employees which are largely financed by various forms of investment, some of which are external. Pension risk may arise in connection with the pension plans on both the assets side and the liabilities side (pension commitments). This may be caused by a decline in the fair value of plan assets on the assets side due to disadvantageous changes in market prices as well as by 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 programme using a model devised specifically for pension risk. A risk figure is determined periodically using calculations based on changes in key risk parameters for both the various capital investments and the cash flows on the obligation side. A figure of €851 million at 30 June 2016 (31 December 2015: €859 million) was determined for the total pension risk of HVB Group; this is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the internal capital. In addition, the impact on pension risk is analysed at regular intervals as part of the cross-risk-type stress tests. Calculating the economic capital at 31 December 2015 using a confidence level of 99.90% yields a figure of €832 million. If the effect of the change in the confidence level is eliminated, the economic capital rose by €19 million compared with year-end 2015.

Low interest rates continue to be seen as the main negative factor for both the amount of the pension commitments disclosed and the amount of the income that can be generated from the capital investment with acceptable risk. It is perfectly conceivable that the discount rate will have to be lowered again in light of the ongoing low interest rates (the discount rate of 2.35% at year-end 2015 was lowered to 1.70% at 30 June 2016), 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 significantly increase after a further adjustment. Furthermore, uniform European rules for the measurement of pension risk do not exist at present. This gives rise to further uncertainty regarding the future development of the disclosed pension risk.

Risks arising from outsourcing activities

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

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

The respective project team and defined functional departments (including Operational Risk Management, Compliance, Legal, Corporate Affairs & Documentation, Data Protection and Business Continuity Management) use a standard procedure to classify outsourcing arrangements as “not material”, “material without considerable significance” and “material with considerable significance”. In accordance with the Group-wide regulations regarding outsourcing management, 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 Group in the processes defined for the risk types concerned. The operational risk managers help the project manager and the heads of the RTOs to prepare and/or update the related risk analysis.

No further material new outsourcing arrangements were set up by HVB or HVB Group in the first half of 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.

Consolidated Income Statement

INCOME/EXPENSES	NOTES	1/1–30/6/2016 € millions	1/1–30/6/2015 € millions	CHANGE € millions	CHANGE in %
Interest income		2,118	2,241	(123)	(5.5)
Interest expense		(801)	(921)	+ 120	(13.0)
Net interest	6	1,317	1,320	(3)	(0.2)
Dividends and other income from equity investments	7	48	13	+ 35	>+ 100.0
Net fees and commissions	8	567	559	+ 8	+ 1.4
Net trading income	9	342	450	(108)	(24.0)
Net other expenses/income	10	165	86	+ 79	+ 91.9
Payroll costs		(861)	(924)	+ 63	(6.8)
Other administrative expenses		(762)	(803)	+ 41	(5.1)
Amortisation, depreciation and impairment losses on intangible and tangible assets		(123)	(100)	(23)	+ 23.0
Operating costs	11	(1,746)	(1,827)	+ 81	(4.4)
Net write-downs of loans and provisions for guarantees and commitments	12	(151)	(110)	(41)	+ 37.3
Provisions for risks and charges		(9)	(59)	+ 50	(84.7)
Restructuring costs	13	(2)	—	(2)	—
Net income from investments	14	37	58	(21)	(36.2)
PROFIT BEFORE TAX		**568**	**490**	**+ 78**	**+ 15.9**
Income tax for the period		(197)	(164)	(33)	+ 20.1
PROFIT AFTER TAX		**371**	**326**	**+ 45**	**+ 13.8**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT		**371**	**326**	**+ 45**	**+ 13.8**
attributable to the shareholder of UniCredit Bank AG		369	321	+ 48	+ 15.0
attributable to minorities		2	5	(3)	(60.0)

Earnings per share

(in €)

	NOTES	1/1–30/6/2016	1/1–30/6/2015
Earnings per share (undiluted and diluted)	15	0.46	0.40

Consolidated statement of total comprehensive income for the period from 1 January to 30 June 2016

(€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Consolidated profit recognised in the income statement	**371**	**326**
Income and expenses recognised in other comprehensive income		
Income and expenses not to be reclassified to the income statement in future periods		
Actuarial profit/(loss) on defined benefit plans (pension commitments)	(546)	139
Non-current assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	171	(44)
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	(8)	14
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	9	(46)
Unrealised gains/(losses)	19	(7)
Gains/(losses) reclassified to the income statement	(10)	(39)
Changes in valuation of financial instruments (hedge reserve)	2	7
Unrealised gains/(losses)	7	—
Gains/(losses) reclassified to the income statement	(5)	7
Other changes	—	—
Taxes on income and expenses to be reclassified to the income statement in future periods	(5)	(2)
Total income and expenses recognised in equity under other comprehensive income	**(377)**	**68**
Total comprehensive income	**(6)**	**394**
of which:		
attributable to the shareholder of UniCredit Bank AG	(8)	389
attributable to minorities	2	5

Consolidated Income Statement (Continued)

INCOME/EXPENSES	1/4–30/6/2016 € millions	1/4–30/6/2015 € millions	CHANGE € millions	CHANGE in %
Interest income	1,073	1,099	(26)	(2.4)
Interest expense	(398)	(431)	+ 33	(7.7)
Net interest	675	668	+ 7	+ 1.0
Dividends and other income from equity investments	7	7	—	—
Net fees and commissions	276	257	+ 19	+ 7.4
Net trading income	238	270	(32)	(11.9)
Net other expenses/income	103	65	+ 38	+ 58.5
Payroll costs	(421)	(460)	+ 39	(8.5)
Other administrative expenses	(389)	(400)	+ 11	(2.8)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(61)	(50)	(11)	+ 22.0
Operating costs	(871)	(910)	+ 39	(4.3)
Net write-downs of loans and provisions for guarantees and commitments	(101)	(48)	(53)	>+ 100.0
Provisions for risks and charges	(3)	(57)	+ 54	(94.7)
Restructuring costs	(2)	—	(2)	
Net income from investments	36	41	(5)	(12.2)
PROFIT BEFORE TAX	**358**	**293**	**+ 65**	**+ 22.2**
Income tax for the period	(125)	(98)	(27)	+ 27.6
PROFIT AFTER TAX	**233**	**195**	**+ 38**	**+ 19.5**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**233**	**195**	**+ 38**	**+ 19.5**
attributable to the shareholder of UniCredit Bank AG	232	192	+ 40	+ 20.8
attributable to minorities	1	3	(2)	(66.7)

Earnings per share

(in €)

	1/4–30/6/2016	1/4–30/6/2015
Earnings per share (undiluted and diluted)	0.29	0.24

Consolidated statement of total comprehensive income for the period from 1 April to 30 June 2016

(€ millions)

	1/4–30/6/2016	1/4–30/6/2015
Consolidated profit recognised in the income statement	**233**	**195**
Income and expenses recognised in other comprehensive income		
Income and expenses not to be reclassified to the income statement in future periods		
Actuarial profit/(loss) on defined benefit plans (pension commitments)	(546)	139
Non-current assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	171	(44)
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	—	6
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	(3)	(41)
Unrealised gains/(losses)	7	(9)
Gains/(losses) reclassified to the income statement	(10)	(32)
Changes in valuation of financial instruments (hedge reserve)	6	2
Unrealised gains/(losses)	7	—
Gains/(losses) reclassified to the income statement	(1)	2
Other changes	—	—
Taxes on income and expenses to be reclassified to the income statement in future periods	(3)	(1)
Total income and expenses recognised in equity under other comprehensive income	**(375)**	**61**
Total comprehensive income	**(142)**	**256**
of which:		
attributable to the shareholder of UniCredit Bank AG	(143)	253
attributable to minorities	1	3

Consolidated Balance Sheet

ASSETS	NOTES	30/6/2016 € millions	31/12/2015 € millions	CHANGE € millions	CHANGE in %
Cash and cash balances		8,338	11,443	(3,105)	(27.1)
Financial assets held for trading	16	107,847	97,800	+ 10,047	+ 10.3
Financial assets at fair value through profit or loss	17	32,054	33,823	(1,769)	(5.2)
Available-for-sale financial assets	18	5,597	1,354	+ 4,243	>+ 100.0
Investments in associates and joint ventures	19	50	56	(6)	(10.7)
Held-to-maturity investments	20	52	63	(11)	(17.5)
Loans and receivables with banks	21	34,731	32,832	+ 1,899	+ 5.8
Loans and receivables with customers	22	119,191	113,488	+ 5,703	+ 5.0
Hedging derivatives		480	450	+ 30	+ 6.7
Hedge adjustment of hedged items					
in the fair value hedge portfolio		12	57	(45)	(78.9)
Property, plant and equipment		2,924	3,230	(306)	(9.5)
Investment properties		1,068	1,163	(95)	(8.2)
Intangible assets		457	462	(5)	(1.1)
of which: goodwill		418	418	—	—
Tax assets		1,590	1,631	(41)	(2.5)
Current tax assets		232	347	(115)	(33.1)
Deferred tax assets		1,358	1,284	+ 74	+ 5.8
Non-current assets or disposal groups held for sale		1,235	104	+ 1,131	>+ 100.0
Other assets		982	789	+ 193	+ 24.5
Total assets		**316,608**	**298,745**	**+ 17,863**	**+ 6.0**

LIABILITIES	NOTES	30/6/2016 € millions	31/12/2015 € millions	CHANGE € millions	in %
Deposits from banks	24	59,496	58,480	+ 1,016	+ 1.7
Deposits from customers	25	117,661	107,690	+ 9,971	+ 9.3
Debt securities in issue	26	23,750	26,002	(2,252)	(8.7)
Financial liabilities held for trading	27	85,166	77,148	+ 8,018	+ 10.4
Hedging derivatives		1,021	1,049	(28)	(2.7)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		2,406	2,030	+ 376	+ 18.5
Tax liabilities		718	745	(27)	(3.6)
Current tax liabilities		608	646	(38)	(5.9)
Deferred tax liabilities		110	99	+ 11	+ 11.1
Liabilities of disposal groups held for sale		1,218	31	+ 1,187	>+ 100.0
Other liabilities		2,159	2,572	(413)	(16.1)
Provisions	28	2,637	2,232	+ 405	+ 18.1
Shareholders' equity		20,376	20,766	(390)	(1.9)
Shareholders' equity attributable to the shareholder					
of UniCredit Bank AG		20,371	20,762	(391)	(1.9)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		7,757	8,125	(368)	(4.5)
Changes in valuation of financial instruments		47	41	+ 6	+ 14.6
AfS reserve		16	11	+ 5	+ 45.5
Hedge reserve		31	30	+ 1	+ 3.3
Consolidated profit 2015		—	398	(398)	(100.0)
Net profit 1/1–30/6/2016[1]		369	—	+ 369	
Minority interest		5	4	+ 1	+ 25.0
Total shareholders' equity and liabilities		**316,608**	**298,745**	**+ 17,863**	**+ 6.0**

1 attributable to the shareholder of UniCredit Bank AG

The 2015 profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (corresponding to the consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €398 million. On 10 May 2016, the Shareholders' Meeting adopted a resolution to pay a dividend of €398 million to UniCredit S.p.A. (UniCredit), Rome, Italy, out of the consolidated profit. This represents a dividend of around €0.50 per share after around €0.78 in 2014.

Statement of Changes in Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	
			TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2015	**2,407**	**9,791**	**7,660**	**(1,245)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**109**	**95**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	95	95
Reserve arising from foreign currency translation	—	—	14	—
Other changes	—	—	—	—
Total other changes in equity	**—**	**—**	**—**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	—	—
Capital decreases	—	—	—	—
Shareholders' equity at 30/6/2015	**2,407**	**9,791**	**7,769**	**(1,150)**
Shareholders' equity at 1/1/2016	**2,407**	**9,791**	**8,125**	**(1,135)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**(383)**	**(375)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	(375)	(375)
Reserve arising from foreign currency translation	—	—	(8)	—
Other changes	—	—	—	—
Total other changes in equity	**—**	**—**	**15**	**13**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	15	13
Capital decreases	—	—	—	—
Shareholders' equity at 30/6/2016	**2,407**	**9,791**	**7,757**	**(1,497)**

1 The Shareholders' Meeting of 20 May 2015 resolved to distribute the 2014 consolidated profit in the amount of €627 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.78 per share. The Shareholders' Meeting of 10 May 2016 resolved to distribute the 2015 consolidated profit in the amount of €398 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.50 per share.
2 attributable to the shareholder of UniCredit Bank AG
3 UniCredit Bank AG (HVB)
4 see Consolidated statement of total comprehensive income

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS: AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	PROFIT 1/1–30/6[2]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[3]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
54	**27**	**627**	**—**	**20,566**	**31**	**20,597**
—	**—**	**—**	**321**	**321**	**5**	**326**
(46)	**5**	**—**	**—**	**68**	**—**	**68**
(9)	—	—	—	(9)	—	(9)
(37)	5	—	—	(32)	—	(32)
—	—	—	—	95	—	95
—	—	—	—	14	—	14
—	—	—	—	—	—	—
—	**—**	**(627)**	**—**	**(627)**	**(29)**	**(656)**
—	—	(627)	—	(627)	(1)	(628)
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	(28)	(28)
8	**32**	**—**	**321**	**20,328**	**7**	**20,335**
11	**30**	**398**	**—**	**20,762**	**4**	**20,766**
—	**—**	**—**	**369**	**369**	**2**	**371**
5	**1**	**—**	**—**	**(377)**	**—**	**(377)**
14	5	—	—	19	—	19
(9)	(4)	—	—	(13)	—	(13)
—	—	—	—	(375)	—	(375)
—	—	—	—	(8)	—	(8)
—	—	—	—	—	—	—
—	**—**	**(398)**	**—**	**(383)**	**(1)**	**(384)**
—	—	(398)	—	(398)	(3)	(401)
—	—	—	—	—	—	—
—	—	—	—	15	2	17
—	—	—	—	—	—	—
16	**31**	**—**	**369**	**20,371**	**5**	**20,376**

Consolidated Cash Flow Statement (abridged version)

(€ millions)

	2016	2015
Cash and cash equivalents at 1 January	11,443	5,173
Net cash provided/used by operating activities	1,850	5,596
Net cash provided/used by investing activities	(4,138)	272
Net cash provided/used by financing activities	(817)	(1,862)
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at 30 June	8,338	9,179

Accounting and Valuation

1 Accounting and valuation principles

The present Half-yearly Financial Report has been prepared in accordance with the regulations defined in the International Financial Reporting Standards (IFRS) and complies with IAS 34, which covers interim reporting. Thus, the present Half-yearly Financial Report meets the requirements of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) for the half-yearly financial reporting of capital-market-oriented companies.

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

We did not avail ourselves of the possibility of reviewing the present Half-yearly Financial Report of HVB Group compliant with Section 37w (5) WpHG.

The amounts shown in the tables and texts below relate to the reporting date of 30 June 2016 for disclosures regarding balance sheet items, or 31 December 2015 in the case of figures for the previous year, and totals for the period from 1 January to 30 June of the respective year for disclosures regarding the income statement.

HVB Group reviews the depreciation method and estimated useful lives applied to its property, plant and equipment on an annual basis, modifying them accordingly when material changes occur in the anticipated economic usage of the assets or the expectations differ from earlier assessments. At the beginning of 2016, we modified both the depreciation concept and the useful life of our Bard Offshore 1 wind farm. The adjustment to the anticipated development results from the accounting-related change in the estimated consumption of the potential economic benefits and an extension of the depreciation period to 28 years (up 3 years). This reflects the actual wear and tear on the plant more accurately, leading overall to additional depreciation of €21 million being recognised in the consolidated income statement in the reporting period (first half of 2016). In the subsequent periods, the modified depreciation concept will entail higher annual depreciation amounts in relative terms at first, despite the longer useful life.

We designated two new hedging relationships in hedge accounting in the first half of 2016:
– We set up a micro fair value hedge separately for each transaction for purchases of fixed-income European government bonds made in the available-for-sale portfolio, for which the interest rate risk is hedged individually and in full using interest rate swaps.
– At the same time, within the framework of our participation in the targeted longer term refinancing operations (TLTRO-II) of the European Central Bank at our UniCredit Luxembourg S.A. subsidiary, the pre-hedging of the planned borrowing using a forward interest rate swap was accounted in the form of a micro cash flow hedge for forecast transactions. This hedge was terminated when the funds involved were received from the ECB at 30 June. The cash flow hedge reserve existing when the hedge was terminated and the contrary opening fair value of the interest rate swap of the same amount are reversed in the income statement so as to offset each other in each period over the term of the hedged borrowing. The borrowing conducted at 30 June and the hedging interest rate swap are included in the general portfolio fair value hedge for interest rate risks.

We terminated the fair value hedge accounting applied until now for credit risks (micro fair value hedge) at 30 June. The scope at the end was very small.

We have applied the same accounting, valuation and disclosure principles in 2016 as in the consolidated financial statements for 2015 (please refer to the HVB Group Annual Report for 2015, starting on page 124).

Accounting and Valuation (Continued)

The changes in the following standards newly published or revised by the IASB are mandatorily applicable in the EU for the first time in the 2016 financial year:
– Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"
– Amendments to IAS 1 "Presentation of Financial Statements – Disclosure Initiative"
– Amendments to IAS 16 and IAS 38 – "Clarification of Acceptable Methods of Depreciation and Amortisation"
– Amendments to IAS 19 "Employee Benefits – Defined Benefit Plans: Employee Contributions"
– Amendments to IAS 27 "Equity Method in Separate Financial Statements"
– "Annual Improvements to IFRSs 2010–2012 Cycle"
– "Annual Improvements to IFRSs 2012–2014 Cycle"

Implementation of these amendments will have no material effect on the consolidated financial statements of HVB Group.

2 Companies included in consolidation

The following companies were added to the group of companies included in consolidation in the first half of 2016:
– Elektra Purchase No. 42 DAC, Dublin
– Elektra Purchase No. 43 DAC, Dublin
– Elektra Purchase No. 47 DAC, Dublin
– Elektra Purchase No. 48 DAC, Dublin
– WealthCap Aircraft 27 Komplementär GmbH, Grünwald
– WealthCap Entity Service GmbH, Munich

The following companies left the group of companies included in consolidation in the first half of 2016 due to sale, imminent or completed liquidation:
– HVB Realty Capital Inc., New York
– HVBFF Produktionshalle GmbH i.L., Munich
– UniCredit Global Business Services GmbH, Unterföhring
– VuWB Investments Inc., Atlanta

Segment Reporting

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

Method of segment reporting
The same principles are being applied in the 2016 financial year as were used at year-end 2015. We use risk-weighted assets compliant with Basel III as the criterion for allocating tied equity capital. The core capital allocated to the business segments of HVB as a proportion of risk-weighted assets compliant with Basel III was raised from 10% to 11% at the beginning of 2016. The interest rate used to assess the equity capital allocated to companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) was 2.38% in the 2015 financial year. This interest rate was redetermined for the 2016 financial year and has been 1.88% since 1 January 2016.

There were shifts in the income and expenses between the Commercial Banking and Corporate & Investment Banking business segments in the first quarter of 2016. These changes are mainly attributable to the formation of a joint venture connecting these two business segments.

Shifts between all the business segments were essentially carried out in net interest during the second quarter of 2016, attributable mainly to a new allocation plan in connection with regulatory requirements.

The figures in previous periods affected by this reorganisation have been adjusted accordingly.

Segment Reporting (Continued)

4 Income statement, broken down by business segment

Income statement, broken down by business segment for the period from 1 January to 30 June 2016 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	789	577	(49)	1,317
Dividends and other income from equity investments	22	4	22	48
Net fees and commissions	379	196	(8)	567
Net trading income	(7)	349	—	342
Net other expenses/income	5	71	89	165
OPERATING INCOME	**1,188**	**1,197**	**54**	**2,439**
Payroll costs	(337)	(236)	(288)	(861)
Other administrative expenses	(604)	(445)	287	(762)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(6)	(58)	(59)	(123)
Operating costs	**(947)**	**(739)**	**(60)**	**(1,746)**
OPERATING PROFIT/(LOSS)	**241**	**458**	**(6)**	**693**
Net write-downs of loans and provisions				
for guarantees and commitments	9	(175)	15	(151)
NET OPERATING PROFIT	**250**	**283**	**9**	**542**
Provisions for risks and charges	1	(11)	1	(9)
Restructuring costs	—	(2)	—	(2)
Net income from investments	14	3	20	37
PROFIT BEFORE TAX	**265**	**273**	**30**	**568**

Income statement, broken down by business segment for the period from 1 January to 30 June 2015 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	802	534	(16)	1,320
Dividends and other income from equity investments	1	8	4	13
Net fees and commissions	395	171	(7)	559
Net trading income	38	405	7	450
Net other expenses/income	(11)	8	89	86
OPERATING INCOME	**1,225**	**1,126**	**77**	**2,428**
Payroll costs	(370)	(246)	(308)	(924)
Other administrative expenses	(630)	(481)	308	(803)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(5)	(35)	(60)	(100)
Operating costs	**(1,005)**	**(762)**	**(60)**	**(1,827)**
OPERATING PROFIT	**220**	**364**	**17**	**601**
Net write-downs of loans and provisions				
for guarantees and commitments	(62)	(36)	(12)	(110)
NET OPERATING PROFIT	**158**	**328**	**5**	**491**
Provisions for risks and charges	(35)	(29)	5	(59)
Restructuring costs	—	—	—	—
Net income from investments	36	2	20	58
PROFIT BEFORE TAX	**159**	**301**	**30**	**490**

Development of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	1/1–30/6/ 2016	1/1–30/6/ 2015	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net interest	789	802	405	384	397	403	410
Dividends and other income from equity investments	22	1	2	20	5	42	—
Net fees and commissions	379	395	187	192	161	182	187
Net trading income	(7)	38	5	(12)	26	6	36
Net other expenses/income	5	(11)	14	(8)	14	7	6
OPERATING INCOME	**1,188**	**1,225**	**613**	**576**	**603**	**640**	**639**
Payroll costs	(337)	(370)	(168)	(170)	(170)	(178)	(182)
Other administrative expenses	(604)	(630)	(301)	(303)	(290)	(306)	(313)
Amortisation, depreciation and impairment losses							
on intangible and tangible assets	(6)	(5)	(2)	(3)	(3)	(3)	(3)
Operating costs	**(947)**	**(1,005)**	**(471)**	**(476)**	**(463)**	**(487)**	**(498)**
OPERATING PROFIT	**241**	**220**	**142**	**100**	**140**	**153**	**141**
Net write-downs of loans and provisions							
for guarantees and commitments	9	(62)	1	8	(22)	4	(29)
NET OPERATING PROFIT	**250**	**158**	**143**	**108**	**118**	**157**	**112**
Provisions for risks and charges	1	(35)	3	(2)	(43)	(40)	(33)
Restructuring costs	—	—	—	—	14	—	—
Net income from investments	14	36	13	—	4	—	36
PROFIT BEFORE TAX	**265**	**159**	**159**	**106**	**93**	**117**	**115**
Cost-income ratio in %	79.7	82.0	76.8	82.6	76.8	76.1	77.9

The Commercial Banking business segment increased its operating profit by 9.5%, or €21 million, in the first half of 2016 to reach €241 million.

At €1,188 million, operating income failed to fully match the equivalent year-ago total of €1,225 million. Despite a further reduction in what were already ultra-low interest rates, net interest of €789 million was generated, down only a slight 1.6%. Among other things, this is attributable on the retail banking side to stable real estate finance coupled with practically unchanged margins, strong new business written in consumer lending activities (+35%) and a slight recovery in demand for credit on the corporate banking side (+2.2%) coupled with slightly declining margins compared with last year. Set against this, deposit-taking operations continue to be impacted by the persistently ultra-low interest rates. At €379 million, net fees and commissions also failed to match the year-ago total of €395 million. For the most part, however, this can be attributed to the deconsolidation effect arising from the sale of PlanetHome AG and its subsidiaries in the second quarter of 2015. In addition, net trading income fell by a sharp €45 million to a loss of €7 million as a result of the credit valuation adjustments recognised on our holdings of derivatives. By contrast, dividends and other income from equity investments increased by a sharp €21 million to €22 million on account of an extraordinary dividend payout received from our investment in EURO Kartensysteme GmbH. There was also an improvement in net other expenses/income, from a net expense of €11 million in the first half of 2015 to net income of €5 million in the reporting period.

There was a pleasing decline of 5.8%, or €58 million, in operating costs to €947 million, with the business segment continuing to benefit from positive cost effects arising from the repositioning of the retail banking activity. Payroll costs fell by 8.9%, or €33 million, to €337 million, partly due to the smaller workforce. There was also a reduction in other administrative expenses, down 4.1%, or €26 million, to €604 million, attributable among other things to reduced marketing expenditures and lower other project-related modernisation costs.

Segment Reporting (Continued)

The cost-income ratio improved from 82.0% in the first half of 2015 to 79.7% in the reporting period, due exclusively to the fall in costs.

There was a very pleasing development in net write-downs of loans and provisions for guarantees and commitments in the first half of 2016 with a net reversal of €9 million, following a net addition of €62 million in the equivalent period last year. Taken together with the improved operating profit, this €71 million decline in net write-downs of loans and provisions for guarantees and commitments led to a sharp rise of 58.2%, or €92 million, in net operating profit to €250 million.

After net reversals of €1 million of provisions and risks and charges in the reporting period (first half of 2015: net addition of €35 million), the business segment generated a profit before tax of €265 million on the back of a €22 million decline in net income from investments. This total is around two-thirds, or €106 million, higher than in the equivalent period last year.

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

INCOME/EXPENSES	1/1–30/6/ 2016	1/1–30/6/ 2015	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net interest	577	534	318	259	350	238	268
Dividends and other income from equity investments	4	8	3	—	3	7	3
Net fees and commissions	196	171	94	102	72	70	72
Net trading income	349	405	230	119	14	41	225
Net other expenses/income	71	8	47	24	64	57	16
OPERATING INCOME	**1,197**	**1,126**	**692**	**504**	**503**	**413**	**584**
Payroll costs	(236)	(246)	(119)	(117)	(116)	(126)	(124)
Other administrative expenses	(445)	(481)	(220)	(225)	(207)	(222)	(241)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(58)	(35)	(29)	(29)	(19)	(18)	(17)
Operating costs	**(739)**	**(762)**	**(368)**	**(371)**	**(342)**	**(366)**	**(382)**
OPERATING PROFIT	**458**	**364**	**324**	**133**	**161**	**47**	**202**
Net write-downs of loans and provisions for guarantees and commitments	(175)	(36)	(105)	(70)	(43)	24	(1)
NET OPERATING PROFIT	**283**	**328**	**219**	**63**	**118**	**71**	**201**
Provisions for risks and charges	(11)	(29)	(6)	(5)	(36)	(4)	(29)
Restructuring costs	(2)	—	(1)	—	(30)	—	—
Net income from investments	3	2	3	—	1	—	(5)
PROFIT BEFORE TAX	**273**	**301**	**215**	**58**	**53**	**67**	**167**
Cost-income ratio in %	61.7	67.7	53.2	73.6	68.0	88.6	65.4

The Corporate & Investment Banking business segment generated an operating profit of €1,197 million in the first half of 2016 (first half of 2015: €1,126 million), up €71 million or 6.3% on the total recorded for the equivalent period last year.

Within this total, net interest increased by €43 million to €577 million despite the ultra-low interest rates. This pleasing performance benefited from both an expansion of the lending volume and improved margins in the lending business. At the same time, the total was boosted by a gain on the sale of a loan portfolio used to finance commercial property. Net fees and commissions also improved sharply, rising €25 million to €196 million (first half of 2015: €171 million). This change can be attributed among other things to an increase in the demand from companies for capital market products such as bond and stock issues with a view to raising capital or debt. A number of larger fee and commission items were booked from lending activities. A large improvement was similarly achieved in net other expenses/income, which increased by €63 million to €71 million. The total includes higher income recorded in connection with our Bard Offshore 1 wind farm.

Net trading income decreased by €56 million, or 13.8%, compared with the equivalent period last year to total €349 million (first half of 2015: €405 million) in the extremely volatile market environment experienced in the first half of 2016. Activities involving equity derivatives yielded a substantial contribution to a total that was higher than even the good year-ago level. The profits from interest-related activities were also up year-on-year. By contrast, the contribution to profits from treasury operations was well below the total for the equivalent period last year due mainly to the difficult market environment at the start of the year. In addition, funding value adjustments had a negative effect in the first half of 2016 as these have been recognised in the income statement as of the fourth quarter of 2015 and are consequently not yet reflected in the profit reported for the first half of last year. Furthermore, net trading income was depressed by negative effects of changes in the own credit spread.

Operating costs fell by €23 million to €739 million compared with the first half of 2015. Within this total, payroll costs decreased by €10 million to €236 million and other administrative expenses by €36 million to €445 million. By contrast, amortisation, depreciation and impairment losses on intangible and tangible assets increased by €23 million to €58 million, attributable notably to an adjustment to the concept applied for amortisation and depreciation recognised on our Bard Offshore 1 wind farm. The cost-income ratio improved by 6.0 percentage points to 61.7%.

Net write-downs of loans and provisions for guarantees and commitments amounted to €175 million, which is €139 million higher than the year-ago figure of €36 million. Among other things, this increase results from the need to recognise higher net write-downs due to the deteriorating conditions throughout the shipping industry. An amount of €11 million was recorded for provisions for risks and charges in the first half of 2016 (first half of 2015: €29 million).

The business segment recorded a profit before tax of €273 million in the first half of 2016. This is €28 million below the total of €301 million recorded in the first half of 2015, due notably to the higher net write-downs of loans and provisions for guarantees and commitments.

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

INCOME/EXPENSES	1/1–30/6/ 2016	1/1–30/6/ 2015	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net interest	(49)	(16)	(48)	(1)	17	3	(10)
Dividends and other income from equity investments	22	4	2	21	—	(1)	4
Net fees and commissions	(8)	(7)	(5)	(3)	(3)	(6)	(2)
Net trading income	—	7	3	(3)	(7)	(5)	9
Net other expenses/income	89	89	42	46	48	42	43
OPERATING INCOME	**54**	**77**	**(6)**	**60**	**55**	**33**	**44**
Payroll costs	(288)	(308)	(134)	(153)	(154)	(153)	(154)
Other administrative expenses	287	308	132	155	116	152	154
Amortisation, depreciation and impairment losses on intangible and tangible assets	(59)	(60)	(30)	(30)	(26)	(29)	(30)
Operating costs	**(60)**	**(60)**	**(32)**	**(28)**	**(64)**	**(30)**	**(30)**
OPERATING PROFIT/(LOSS)	**(6)**	**17**	**(38)**	**32**	**(9)**	**3**	**14**
Net write-downs of loans and provisions for guarantees and commitments	15	(12)	3	12	19	15	(18)
NET OPERATING PROFIT/(LOSS)	**9**	**5**	**(35)**	**44**	**10**	**18**	**(4)**
Provisions for risks and charges	1	5	—	1	(12)	—	5
Restructuring costs	—	—	(1)	—	(96)	—	—
Net income from investments	20	20	20	1	31	5	10
PROFIT/(LOSS) BEFORE TAX	**30**	**30**	**(16)**	**46**	**(67)**	**23**	**11**
Cost-income ratio in %	111.1	77.9	(533.3)	46.7	116.4	90.9	68.2

Segment Reporting (Continued)

The operating income of the Other/consolidation business segment amounted to €54 million in the first half of 2016, which is €23 million below the figure recorded in the year-ago period. This development is largely attributable to the sharp decline of €33 million in net interest to minus €49 million in an environment of persistently low interest rates that fell even further during the first half of 2016. This was partly offset by an increase of €4 million in dividends and other income from equity investments to €22 million in the first half of 2016.

With operating costs remaining unchanged at €60 million, the operating loss amounted to €6 million compared with an operating profit of €17 million in the equivalent period last year.

There was a net reversal of €15 million in net write-downs of loans and provisions for guarantees and commitments compared with a net addition of €12 million in the previous year. This caused the net operating profit to rise from €5 million in the first half of 2015 to €9 million in the reporting period. The net reversal of €1 million recorded for provisions for risks and charges was less than the amount reported after six months of last year (first half of 2015: net reversal of €5 million). The net income from investments of €20 million matched the level of the previous year, generated in both cases primarily from the disposal of investment properties. At €30 million, the profit before tax equalled the year-ago total (€30 million).

5 Balance sheet figures, broken down by business segment (€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Loans and receivables with banks				
30/6/2016	1,072	33,879	(220)	34,731
31/12/2015	985	32,925	(1,078)	32,832
Loans and receivables with customers				
30/6/2016	77,834	41,534	(177)	119,191
31/12/2015	77,154	37,344	(1,010)	113,488
Goodwill				
30/6/2016	130	288	—	418
31/12/2015	130	288	—	418
Deposits from banks				
30/6/2016	3,274	49,803	6,419	59,496
31/12/2015	3,442	48,190	6,848	58,480
Deposits from customers				
30/6/2016	80,822	31,634	5,205	117,661
31/12/2015	75,401	27,632	4,657	107,690
Debt securities in issue				
30/6/2016	1,194	2,433	20,123	23,750
31/12/2015	1,411	2,469	22,122	26,002
Risk-weighted assets compliant with Basel III				
(including equivalents for market risk and operational risk)				
30/6/2016	29,508	49,414	6,797	85,719
31/12/2015	28,171	42,327	7,559	78,057

Notes to the Income Statement

6 Net interest

(€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Interest income	2,118	2,241
Lending and money market transactions	1,471	1,574
Other interest income	647	667
Interest expense	(801)	(921)
Deposits	(101)	(182)
Debt securities in issue and other interest expenses	(700)	(739)
Total	**1,317**	**1,320**

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

Net interest attributable to related parties

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

(€ millions)

	1/1-30/6/2016	1/1-30/6/2015
Non-consolidated affiliated companies	25	55
of which:		
UniCredit S.p.A.	6	15
Sister companies	19	40
Joint ventures	2	2
Associated companies	1	6
Other participating interests	—	—
Total	**28**	**63**

7 Dividends and other income from equity investments

(€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Dividends and other similar income	48	8
Companies accounted for using the equity method	—	5
Total	**48**	**13**

8 Net fees and commissions

(€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Fee and commission income	777	713
Fee and commission expense	(210)	(154)
Net fees and commissions	**567**	**559**
thereof:		
Management, brokerage and consultancy services	297	293
Collection and payment services	98	101
Lending operations	178	149
Other service operations	(6)	16

Notes to the Income Statement (Continued)

Net fees and commissions from related parties

The following table shows the net fees and commissions attributable to related parties:

(€ millions)

	1/1-30/6/2016	1/1-30/6/2015
Non-consolidated affiliated companies	(8)	42
of which:		
UniCredit S.p.A.	(57)	2
Sister companies	45	40
Subsidiaries	4	—
Joint ventures	—	—
Associated companies	9	7
Other participating interests	—	—
Total	**1**	**49**

9 Net trading income

(€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Net gains on financial assets held for trading[1]	409	397
Effects arising from hedge accounting	(39)	30
Changes in fair value of hedged items	(494)	413
Changes in fair value of hedging derivatives	455	(383)
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	(28)	29
Other net trading income	—	(6)
Total	**342**	**450**

1 including dividends on financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets through fair value at profit or loss (effect in the first half of 2016: minus €236 million; effect in the equivalent period last year: €208 million)

The figures at 30 June 2016 include expenses of €46 million for funding valuation adjustments. These are recognised upon 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 net trading income figures for the first half of 2015 did not include any funding valuation adjustments, as these were still carried as deductible items in shareholders' equity for regulatory purposes. Expenses of €94 million for funding valuation adjustments were recognised under net trading income in the income statement for the first time at 31 December 2015.

The effects arising from hedge accounting include the hedge results of the fair value hedge portfolio and the individual micro fair value hedges as a net aggregate total.

The net hedge accounting expense of €39 million (first half of 2015: €30 million) arises from the decrease of €494 million (first half of 2015: increase of €413 million) in fair value relating to the secured risk of the hedged items and the increase of €455 million in the fair value of hedging derivatives (first half of 2015: decrease of €383 million).

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

10 Net other expenses/income

(€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Other income	306	251
Other expenses	(141)	(165)
Total	**165**	**86**

Net other expenses/income attributable to related parties

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

(€ millions)

	1/1-30/6/2016	1/1-30/6/2015
Non-consolidated affiliated companies	39	50
of which:		
UniCredit S.p.A.	7	17
Sister companies	32	33
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**39**	**50**

11 Operating costs

Operating costs of related parties

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

(€ millions)

	1/1-30/6/2016	1/1-30/6/2015
Non-consolidated affiliated companies	(351)	(335)
of which:		
UniCredit S.p.A.	(7)	(9)
Sister companies	(344)	(326)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(351)**	**(335)**

Notes to the Income Statement (Continued)

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

(€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Additions/releases	(181)	(134)
Allowances for losses on loans and receivables	(196)	(172)
Allowances for losses on guarantees and indemnities	15	38
Recoveries from write-offs of loans and receivables	30	25
Gains/(losses) on the disposal of impaired loans and receivables	—	(1)
Total	**(151)**	**(110)**

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

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

(€ millions)

	1/1-30/6/2016	1/1-30/6/2015
Non-consolidated affiliated companies	—	—
of which:		
UniCredit S.p.A.	—	—
Sister companies	—	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	(1)	—
Total	**(1)**	**—**

13 Provisions for risks and charges

In the first half of 2016, there were expenses of €9 million for net additions/net reversals in the non-lending business compared with expenses of €59 million in the equivalent period last year. In both cases, these mostly relate to additions to provisions for legal risks. Legal risks are described in greater detail in the section of the Risk Report in this Half-yearly Financial Report entitled "Operational risk".

14 Net income from investments

Net income from investments (€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Available-for-sale financial assets	13	44
Shares in affiliated companies	—	5
Companies accounted for using the equity method	—	(10)
Held-to-maturity investments	—	—
Land and buildings	—	—
Investment properties[1]	24	19
Other	—	—
Total	**37**	**58**

1 gains on disposal, impairments and write-ups

Net income from investments breaks down as follows: (€ millions)

	1/1–30/6/2016	1/1–30/6/2015
Gains on the disposal of	36	53
available-for-sale financial assets	14	46
shares in affiliated companies	—	5
companies accounted for using the equity method	—	(10)
held-to-maturity investments	—	—
land and buildings	—	—
investment properties	22	12
other	—	—
Write-downs, value adjustments and write-ups on	1	5
available-for-sale financial assets	(1)	(2)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
investment properties	2	7
Total	**37**	**58**

15 Earnings per share

	1/1–30/6/2016	1/1–30/6/2015
Consolidated profit attributable to the shareholder (€ millions)	369	321
Average number of shares	802,383,672	802,383,672
Earnings per share (€) (undiluted and diluted)	0.46	0.40

Notes to the Balance Sheet

16 Financial assets held for trading

(€ millions)

	30/6/2016	31/12/2015
Balance-sheet assets	39,526	36,187
Fixed-income securities	10,954	10,360
Equity instruments	9,975	11,446
Other financial assets held for trading	18,597	14,381
Positive fair value from derivative financial instruments	68,321	61,613
Total	**107,847**	**97,800**

The financial assets held for trading include €199 million (31 December 2015: €275 million) in subordinated assets.

Financial assets held for trading of related parties

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

(€ millions)

	30/6/2016	31/12/2015
Non-consolidated affiliated companies	18,316	16,359
of which:		
UniCredit S.p.A.	11,731	10,494
Sister companies[1]	6,585	5,865
Joint ventures	7	4
Associated companies	716	655
Other participating interests	11	11
Total	**19,050**	**17,029**

1 mostly derivative transactions involving UniCredit Bank Austria AG

17 Financial assets at fair value through profit or loss

(€ millions)

	30/6/2016	31/12/2015
Fixed-income securities	30,896	32,660
Equity instruments	—	—
Investment certificates	—	—
Promissory notes	1,158	1,163
Other financial assets at fair value through profit or loss	—	—
Total	**32,054**	**33,823**

The financial assets at fair value through profit or loss (fair value option) include €6 million (31 December 2015: €6 million) in subordinated assets.

18 Available-for-sale financial assets

(€ millions)

	30/6/2016	31/12/2015
Fixed-income securities	5,288	1,048
Equity instruments	94	95
Other available-for-sale financial assets	59	45
Impaired assets	156	166
Total	**5,597**	**1,354**

Available-for-sale financial assets at 30 June 2016 include financial instruments of €220 million (31 December 2015: €214 million) valued at cost.

Available-for-sale financial assets at 30 June 2016 contain a total of €156 million (31 December 2015: €166 million) in impaired assets. Impairments of €1 million (first half of 2015: €3 million) were taken to the income statement during the reporting period.

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

The available-for-sale financial assets include €45 million (31 December 2015: €165 million) in subordinated assets at 30 June 2016.

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

(€ millions)

	30/6/2016	31/12/2015
Associated companies accounted for using the equity method	50	56
of which: goodwill	11	11
Joint ventures accounted for using the equity method	—	—
Total	**50**	**56**

20 Held-to-maturity investments

(€ millions)

	30/6/2016	31/12/2015
Fixed-income securities	52	63
Impaired assets	—	—
Total	**52**	**63**

The held-to-maturity investments at 30 June 2016 include no subordinated assets, as was also the case at 31 December 2015.

The held-to-maturity investments at 30 June 2016 include no impaired assets, as was also the case at 31 December 2015.

Notes to the Balance Sheet (Continued)

21 Loans and receivables with banks

(€ millions)

	30/6/2016	31/12/2015
Current accounts	1,856	1,355
Cash collateral and pledged credit balances	11,189	9,282
Reverse repos	13,004	14,474
Reclassified securities	478	523
Other loans to banks	8,204	7,198
Total	**34,731**	**32,832**

The non-performing loans and receivables with banks arise from the gross loans and receivables of €62 million before allowances (31 December 2015: €72 million) less the associated specific allowances of €51 million (31 December 2015: €57 million).

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

The loans and receivables with banks include €5 million (31 December 2015: €5 million) in subordinated assets at 30 June 2016.

Loans and receivables with related parties

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

(€ millions)

	30/6/2016	31/12/2015
Non-consolidated affiliated companies	3,465	3,818
of which:		
UniCredit S.p.A.	1,649	1,970
Sister companies[1]	1,816	1,848
Joint ventures	304	260
Associated companies	35	86
Other participating interests	68	50
Total	**3,872**	**4,214**

1 mainly UniCredit Bank Austria AG

22 Loans and receivables with customers

(€ millions)

	30/6/2016	31/12/2015
Current accounts	9,020	7,666
Cash collateral and pledged cash balances	2,527	2,498
Reverse repos	1,402	313
Mortgage loans	42,419	41,720
Finance leases	2,082	2,120
Reclassified securities	1,387	1,658
Non-performing loans and receivables	2,470	3,199
Other loans and receivables	57,884	54,314
Total	**119,191**	**113,488**

The non-performing loans and receivables with customers arise from the gross loans and receivables of €4,693 million before allowances (31 December 2015: €5,394 million) less the associated specific allowances of €2,222 million (31 December 2015: €2,195 million).

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

Loans and receivables with customers include an amount of €3,328 million (31 December 2015: €2,407 million) funded under the fully consolidated Arabella conduit programme. This essentially involves buying short-term accounts payable and medium-term receivables under lease agreements from customers and funding them by issuing commercial paper on the capital market. The securitised loans and receivables essentially reflect loans and receivables of European borrowers, with a majority of the loans and receivables relating to German borrowers.

The loans and receivables with customers at 30 June 2016 include €504 million (31 December 2015: €503 million) in subordinated assets.

Loans and receivables with related parties

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

(€ millions)

	30/6/2016	31/12/2015
Non-consolidated affiliated companies	54	17
of which:		
Sister companies	2	—
Subsidiaries	52	17
Joint ventures	26	29
Associated companies	51	57
Other participating interests	448	448
Total	**579**	**551**

Notes to the Balance Sheet (Continued)

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

Analysis of loans and receivables

(€ millions)

Balance at 1/1/2015	**2,859**
Changes affecting income[1]	173
Changes not affecting income	(77)
Changes due to make-up of group of consolidated companies and reclassifications of non-current assets or disposal groups held for sale	—
Use of existing loan-loss allowances	(137)
Effects of currency translation and other changes not affecting income	60
Non-current assets or disposal groups held for sale	—
Balance at 30/6/2015	**2,955**
Balance at 1/1/2016	**2,688**
Changes affecting income[1]	196
Changes not affecting income	(181)
Changes due to make-up of group of consolidated companies and reclassifications of non-current assets or disposal groups held for sale	(8)
Use of existing loan-loss allowances	(140)
Effects of currency translation and other changes not affecting income	(33)
Non-current assets or disposal groups held for sale	—
Balance at 30/6/2016	**2,703**

1 the changes affecting income include the gains on the disposal of impaired loans and receivables

24 Deposits from banks

(€ millions)

	30/6/2016	31/12/2015
Deposits from central banks	11,916	9,319
Deposits from banks	47,580	49,161
Current accounts	2,240	2,665
Cash collateral and pledged credit balances	11,992	13,300
Repos	17,869	18,663
Term deposits	5,142	4,316
Other liabilities	10,337	10,217
Total	**59,496**	**58,480**

Amounts owed to related parties

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

(€ millions)

	30/6/2016	31/12/2015
Non-consolidated affiliated companies	5,240	5,255
of which:		
UniCredit S.p.A.	1,567	1,761
Sister companies[1]	3,673	3,494
Joint ventures	5	28
Associated companies	20	112
Other participating interests	21	23
Total	**5,286**	**5,418**

1 the largest single item relates to UniCredit Bank Austria AG

25 Deposits from customers

(€ millions)

	30/6/2016	31/12/2015
Current accounts	69,620	67,850
Cash collateral and pledged credit balances	4,810	2,126
Savings deposits	13,844	13,792
Repos	7,836	4,599
Term deposits	16,333	13,679
Promissory notes	3,591	3,825
Other liabilities	1,627	1,819
Total	**117,661**	**107,690**

Amounts owed to related parties

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

(€ millions)

	30/6/2016	31/12/2015
Non-consolidated affiliated companies	463	290
of which:		
Sister companies	458	271
Subsidiaries	5	19
Joint ventures	1	4
Associated companies	10	6
Other participating interests	323	375
Total	**797**	**675**

26 Debt securities in issue

(€ millions)

	30/6/2016	31/12/2015
Bonds	21,963	23,961
of which:		
Registered mortgage Pfandbriefs	5,677	5,731
Registered public-sector Pfandbriefs	2,595	2,811
Mortgage Pfandbriefs	7,884	8,430
Public-sector Pfandbriefs	308	1,437
Registered bonds	2,703	2,283
Other securities	1,787	2,041
Total	**23,750**	**26,002**

Debt securities in issue, payable to related parties

The following table shows the breakdown of debt securities in issue involving related parties:

(€ millions)

	30/6/2016	31/12/2015
Non-consolidated affiliated companies	253	254
of which:		
UniCredit S.p.A	—	—
Sister companies	253	254
Joint ventures	1	2
Associated companies	169	193
Other participating interests	—	—
Total	**423**	**449**

Notes to the Balance Sheet (Continued)

27 Financial liabilities held for trading

(€ millions)

	30/6/2016	31/12/2015
Negative fair values arising from derivative financial instruments	62,536	58,739
Other financial liabilities held for trading	22,630	18,409
Total	**85,166**	**77,148**

The negative fair values arising from derivative financial instruments are carried as financial liabilities held for trading purposes. Also included under other financial liabilities held for trading purposes are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

28 Provisions

(€ millions)

	30/6/2016	31/12/2015
Provisions for pensions and similar obligations	1,162	618
Allowances for losses on guarantees and commitments and irrevocable credit commitments	184	197
Restructuring provisions	204	213
Other provisions	1,087	1,204
Payroll provisions	282	318
Provisions related to tax disputes (without income taxes)	38	42
Provisions for rental guarantees and dismantling obligations	143	143
Other provisions	624	701
Total	**2,637**	**2,232**

Provisions for pensions and similar obligations
At 30 June 2016, the provisions for pensions and similar obligations were remeasured on the basis of updated actuarial assumptions and market values of the plan assets. Compared with year-end 2015, the pension provisions shown in the consolidated balance sheet have increased by €544 million (+88.0%) to €1,162 million. The recognised pension provisions correspond to the net liability under the defined benefit plans calculated by offsetting the present value of the defined benefit obligation (DBO) of €5,262 million against the fair value of the plan assets of €4,100 million.

The main reason for the increase in pension provisions was the reduction of the actuarial interest rate (weighted average) by 65 basis points to 1.70% (31 December 2015: 2.35%) arising from developments on the capital markets in the first half of 2016. A reduced actuarial interest rate leads to lower discounting of the obligations arising from defined benefit pension commitments and hence to an increase in the present value of the obligation.

The actuarial losses resulting from the calculation of the estimated present value of the defined benefit obligation at the reporting date, netted with the losses from the current market valuation of the plan assets (difference between normalised and actual return), gave rise to an overall negative effect from remeasurement of €546 million, which was recognised immediately in shareholders' equity and carried under other comprehensive income (OCI) in the consolidated statement of total comprehensive income.

29 Subordinated capital

The following table shows the breakdown of subordinated capital included in deposits from banks and customers and debt securities in issue: (€ millions)

	30/6/2016	31/12/2015
Subordinated liabilities	582	637
Hybrid capital instruments	55	58
Total	**637**	**695**

Other Information

30 Reclassification of financial instruments in accordance with IAS 39.50 et seq. and IFRS 7

HVB reclassified certain financial assets to loans and receivables in 2008 and 2009 in accordance with the amendment to IAS 39 and IFRS 7 implemented by the International Accounting Standards Board (IASB) and Commission Regulation (EC) No 1004/2008. The intention to trade no longer exists for these reclassified holdings since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis (2008/09) through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio. No further reclassifications have been carried out since 2010.

The asset-backed securities and other debt securities reclassified in 2008 were disclosed at 31 December 2008 with a carrying amount of €13.7 billion and the holdings reclassified in 2009 were disclosed at 31 December 2009 with a carrying amount of €7.3 billion.

Analysis of the reclassified holdings for the current and previous reporting periods **(€ billions)**

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2015	1.3	1.3	1.4
Balance at 30/6/2016	1.1	1.0	1.2
Reclassified in 2009			
Balance at 31/12/2015	1.1	1.3	1.2
Balance at 30/6/2016	1.0	1.3	1.1
Balance of reclassified assets at 30/6/2016[2]	**2.2**	**2.3**	**2.3**

1 before accrued interest
2 differences caused by rounding

The fair value at the date when the reclassification takes effect represents the new acquisition cost, which in some cases is considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This together with the reclassified securities that had been matured or partially repaid gives rise to an effect of €9 million in the first half of 2016 (2015 financial year: €29 million), which is recognised in net interest.

A gain of €19 million (2015 financial year: €6 million) on reclassified securities that had been sold was recognised in the income statement in the first six months of 2016.

In the first half of 2016, we reversed write-downs of €44 million that had previously been taken on reclassified assets. Write-downs of €34 million were taken on the reclassified assets in the 2015 financial year.

If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (inclusive realised disposals) would have given rise to a net gain of €42 million (2015 financial year: net loss of €72 million) in net trading income in the first half of 2016. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification. Accordingly, the inclusion of these effects on the income statement resulted in a profit before tax that was €30 million higher in the first six months of 2016 (2015 financial year: €73 million). Between the date when the reclassifications took effect in 2008 and the reporting date, the cumulative net effect on the income statement from the reclassifications already carried out totalled minus €182 million before tax (31 December 2015: minus €212 million).

Other Information (Continued)

31 Notes to selected structured products

Additional information regarding selected structured products is given below in order to provide greater transparency. Holdings of asset-backed securities (ABS) transactions issued by third parties are shown below alongside tranches retained by HVB Group.

ABS portfolio

In a securitisation transaction, above all the originator transfers credit receivables and/or credit risks to third parties. The securitisation itself is usually performed via what are known as structured entities (formerly called special purpose vehicles or SPVs). In order to refinance the acquisition of receivables, these vehicles issue securities on the capital market that are secured by the receivables acquired. This serves to transfer the associated credit risks to investors in the form of asset-backed securities. The securities issued by vehicles are generally divided into tranches which differ above all in terms of seniority in the servicing of claims to repayment and interest payments. These tranches are generally assessed by rating agencies.

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:
– residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans)
– commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans)
– collateralised loan obligations (CLO) relating to commercial bank loans
– collateralised bond obligations (CBO) relating to securities portfolios

Besides this, consumer loans, credit card receivables and receivables under finance leases are also securitised.

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by rating class: (€ millions)

		30/6/2016				31/12/2015
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**5,622**	**599**	**—**	**6,221**	**5,978**
Residential-mortgage-backed securities (RMBS)		2,661	244	—	2,905	3,146
Commercial-mortgage-backed securities (CMBS)		147	63	—	210	271
Collateralised debt obligations (CDO)		64	—	—	64	64
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		1,126	266	—	1,392	1,007
Consumer loans		1,408	21	—	1,429	1,236
Credit cards		147	—	—	147	166
Receivables under finance leases		35	1	—	36	45
Others		34	4	—	38	43
Total	**30/6/2016**	**5,622**	**599**	**—**	**6,221**	
	31/12/2015	**5,243**	**735**	**—**	**5,978**	**5,978**

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating are carried as senior tranches. Only tranches with low ratings (worse than BB– in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by region (€ millions)

CARRYING AMOUNTS		30/6/2016 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**5,681**	**507**	**—**	**33**	**6,221**
Residential mortgage-backed securities (RMBS)		2,893	1	—	11	2,905
Commercial mortgage-backed securities (CMBS)		155	55	—	—	210
Collateralised debt obligations (CDO)		5	37	—	22	64
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		983	409	—	—	1,392
Consumer loans		1,424	5	—	—	1,429
Credit cards		147	—	—	—	147
Receivables under finance leases		36	—	—	—	36
Others		38	—	—	—	38
Total	**30/6/2016**	**5,681**	**507**	**—**	**33**	**6,221**
	31/12/2015	**5,464**	**473**	**—**	**41**	**5,978**

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (€ millions)

CARRYING AMOUNTS		30/6/2016 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**613**	**4,067**	**1,541**	**6,221**
Residential mortgage-backed securities (RMBS)		162	2,018	725	2,905
Commercial mortgage-backed securities (CMBS)		54	70	86	210
Collateralised debt obligations (CDO)		—	5	59	64
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		57	715	620	1,392
Consumer loans		324	1,081	24	1,429
Credit cards		—	147	—	147
Receivables under finance leases		16	20	—	36
Others		—	11	27	38
Total	**30/6/2016**	**613**	**4,067**	**1,541**	**6,221**
	31/12/2015	**602**	**3,908**	**1,468**	**5,978**

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by class as per IAS 39 (€ millions)

		30/6/2016					
CARRYING AMOUNTS		HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**122**	**22**	**5,931**	**53**	**93**	**6,221**
Residential mortgage-backed securities (RMBS)		49	7	2,826	—	23	2,905
Commercial mortgage-backed securities (CMBS)		41	—	160	—	9	210
Collateralised debt obligations (CDO)		—	8	34	22	—	64
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		—	7	1,302	26	57	1,392
Consumer loans		17	—	1,407	5	—	1,429
Credit cards		—	—	147	—	—	147
Receivables under finance leases		15	—	17	—	4	36
Others		—	—	38	—	—	38
Total	**30/6/2016**	**122**	**22**	**5,931**	**53**	**93**	**6,221**
	31/12/2015	**181**	**19**	**5,599**	**63**	**116**	**5,978**

32 Fair value hierarchy

The development of financial instruments measured at fair value and recognised at fair value in the balance sheet is described below notably with regard to the fair value hierarchy.

This fair value hierarchy is divided into the following levels:

Level 1 contains financial instruments measured using prices of identical assets or liabilities listed on an active market. These prices are incorporated unchanged. We have assigned mostly listed equity instruments, bonds and exchange-traded derivatives to this category.

Assets and liabilities whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data are shown in Level 2. No price can be observed on an active market for the assets and liabilities concerned themselves. As a result of this, we notably show the fair values of interest rate and credit derivatives in this level together with the fair values of ABS bonds, provided a liquid market exists for the asset class in question.

Financial assets or liabilities of €904 million (31 December 2015: €2,136 million) have been transferred between Level 1 and Level 2. At the same time, financial assets or liabilities of €836 million (31 December 2015: €1,874 million) were transferred between Level 2 and Level 1. Most of the transfers relate to securities, resulting from an increase or decrease in the actual trading taking place in the securities concerned and the associated change in the bid-offer spreads.

The following table shows transfers between Level 1 and Level 2 for financial instruments whose fair value is determined on a recurring basis: (€ millions)

		TO LEVEL 1	TO LEVEL 2
Financial assets held for trading			
	Transfer from Level 1	—	56
	Transfer from Level 2	130	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	789
	Transfer from Level 2	641	—
Available-for-sale financial assets			
	Transfer from Level 1	—	45
	Transfer from Level 2	56	—
Financial liabilities held for trading			
	Transfer from Level 1	—	13
	Transfer from Level 2	9	—

1 January is considered the transfer date for instruments transferred between the levels in the first half of the reporting period (1 January to 30 June).

Level 3 relates to assets or liabilities for which the fair value cannot be calculated exclusively on the basis of observable market data (non-observable input data). The amounts involved are stated in Level 2 if the impact of the non-observable input data on the determination of fair value is insignificant. Thus, the respective fair values also incorporate valuation parameters based on model assumptions. This includes derivatives and structured products that contain at least one “exotic” component, such as foreign currency or interest rate derivatives on illiquid currencies, derivatives without standard market terms, structured products with an illiquid underlying as reference and ABS bonds of an asset class for which no liquid market exists.

If the value of a financial instrument is based on non-observable valuation parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the reporting date. Appropriate values are determined for these non-observable parameters and applied for valuation purposes, when the annual financial statements are prepared, reflecting the prevailing market conditions. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

Other Information (Continued)

The following measurement methods are applied for each product type, broken down by the individual classes of financial instrument. The valuations for financial instruments in fair value Level 3 depend upon the following significant parameters that cannot be observed on the market:

PRODUCT TYPE	MEASUREMENT METHOD	SIGNIFICANT NON-OBSERVABLE PARAMETERS	RANGE
Fixed-income securities and other debt instruments	Market approach	Price	0%–204%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	22BPS–21%
		Residual value	20%–80%
		Default rate	0%–8%
		Prepayment rate	0%–47%
Equity derivatives	Option price model	Equity volatility	10%–120%
		Correlation between equities	(95)%–95%
	DCF method	Dividend yields	0%–10%
Interest rate derivatives	DCF method	Swap interest rate	(30)BPS–1,000BPS
		Inflation swap interest rate	100BPS–230BPS
	Option price model	Inflation volatility	1%–10%
		Interest rate volatility	1%–100%
		Correlation between interest rates	0%–100%
Credit derivatives	Hazard rate model	Credit spread curves	0%–29%
		Credit correlation	25%–85%
		Residual value	6%–61%
	Option price model	Credit volatility	55%–81%
Currency derivatives	DCF method	Yield curves	(30)%–20%
	Option price model	FX volatility	1%–40%
Commodity derivatives	Option price model	Correlation between commodities	(95)%–95%
		Commodity price volatility	10%–120%
Hybrid derivatives	Option price model	Parameter correlation	(80)%–80%
		Parameter volatility	10%–100%

The impact of changing possible appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. For portfolios at fair value through profit or loss, the positive change in fair value at 30 June 2016 resulting from the use of possible appropriate alternatives would be €151 million (31 December 2015: €148 million), and the negative change would be €79 million (31 December 2015: €61 million).

The following table shows the significant sensitivity effects, broken down by the individual classes of financial instrument for the various product types:

(€ millions)

	30/6/2016		31/12/2015	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	1	(1)	1	(2)
Equities	18	(18)	14	(14)
Asset-backed securities	1	—	1	—
Equity derivatives	85	(31)	89	(23)
Interest rate derivatives	5	—	5	(1)
Credit derivatives	34	(26)	32	(20)
Currency derivatives	3	(3)	2	(1)
Commodity derivatives	2	—	2	—
Hybrid derivatives	2	—	2	—
Other	—	—	—	—
Total	**151**	**(79)**	**148**	**(61)**

For fixed-income securities and other debt instruments and asset-backed securities, the credit spread curves were varied as part of the sensitivity analyses in line with rating. For shares, the spot price is varied using a relative value.

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity derivatives included in Level 3: spot prices for hedge funds, implicit volatility, dividends, implicit correlations and the assumptions regarding the interpolation between individual parameters observable on the market, such as volatilities. For interest rate products, interest rates, interest rate correlations and implicit volatilities were varied as part of the sensitivity analysis. For credit derivatives, rating-dependent shifts in the risk premium curves for credit risk were assumed together with changes in implicit correlations and increases in default rates. Foreign currency derivatives were varied in terms of interest rates and the implicit volatility.

Where trades are executed for which the transaction price deviates from the fair value at the trade date and non-observable parameters are employed to a considerable extent in valuation models, the financial instrument concerned is recognised at the trade price. This difference between the transaction price and the fair value of the valuation model is defined as the trade date gain/loss. Any gain determined at the trade date is deferred and recognised in the income statement over the term of the transaction. As soon as a reference price can be determined for the transaction on an active market, or the significant input parameters on observable market data, the deferred trade date gain is taken directly to the income statement in net trading income.

The following table shows a year-on-year comparison of changes in trade date gains that were deferred on account of the application of significant non-observable parameters for financial instruments recognised at fair value:

(€ millions)

	2016	2015
Balance at 1/1	**—**	**64**
New transactions during the period	—	—
Write-downs	—	13
Expired transactions	—	—
Retroactive change in observability	—	51
Exchange rate changes	—	—
Balance at 30/6/2016 and 31/12/2015	**—**	**—**

Other Information (Continued)

The following table shows the assignment of the financial assets and financial liabilities shown in the balance sheet to the respective levels of the fair value hierarchy:

(€ millions)

	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)		FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)		FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3)	
	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Financial assets recognised in the						
balance sheet at fair value						
Financial assets held for trading	22,397	22,329	84,630	74,424	820	1,047
thereof: derivatives	1,913	1,617	65,717	59,095	691	901
Financial assets at fair value through profit or loss	13,618	17,821	18,420	15,872	16	130
Available-for-sale financial assets[1]	4,801	653	555	456	21	31
Hedging derivatives	—	—	480	450	—	—
Financial liabilities recognised in the						
balance sheet at fair value						
Financial liabilities held for trading	6,147	5,934	77,759	69,591	1,260	1,623
thereof: derivatives	2,009	2,133	59,878	55,554	649	1,052
Hedging derivatives	—	—	1,021	1,049	—	—

1 Available-for-sale financial assets include financial instruments of €220 million (31 December 2015: €214 million) valued at historical cost that are not included in these totals at 30 June 2016.

The following tables show the development of the financial assets and financial liabilities that are assigned to Level 3 as part of the fair value hierarchy:

(€ millions)

	2016			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1	**1,047**	**130**	**31**	**—**
Additions				
Acquisitions	586	—	4	—
Realised gains[1]	99	—	—	—
Transfer from other levels	74	—	1	—
Other additions[2]	—	1	—	—
Reductions				
Sale	(563)	—	(7)	—
Repayment	—	—	—	—
Realised losses[1]	(113)	(1)	—	—
Transfer to other levels	(293)	(114)	(7)	—
Other reductions	(17)	—	(1)	—
Balance at 30/6	**820**	**16**	**21**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2016	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1	**1,623**	**—**
Additions		
Sale	257	—
Issues	150	—
Realised losses[1]	105	—
Transfer from other levels	93	—
Other additions[2]	23	—
Reductions		
Buy-back	(348)	—
Repayment	(94)	—
Realised gains[1]	(125)	—
Transfer to other levels	(411)	—
Other reductions	(13)	—
Balance at 30/6	**1,260**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2015			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1	**2,009**	**281**	**39**	**—**
Additions				
Acquisitions	183	—	—	—
Realised gains[1]	163	1	—	—
Transfer from other levels	40	—	7	—
Other additions[2]	6	—	8	—
Reductions				
Sale	(325)	—	—	—
Repayment	—	—	(8)	—
Realised losses[1]	(315)	—	—	—
Transfer to other levels	(90)	—	—	—
Other reductions	(2)	(1)	(5)	—
Balance at 30/6	**1,669**	**281**	**41**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

Other Information (Continued)

(€ millions)

	2015	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1	**1,015**	**—**
Additions		
Sale	435	—
Issues	236	—
Realised losses[1]	152	—
Transfer from other levels	1,125	—
Other additions[2]	11	—
Reductions		
Buy-back	(147)	—
Repayment	(31)	—
Realised gains[1]	(173)	—
Transfer to other levels	(258)	—
Other reductions	(25)	—
Balance at 30/6	**2,340**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

The transfers of financial assets and liabilities held for trading to other levels are attributable to the improved observability of the valuation parameters for interest rate derivates in certain currencies.

33 Fair values of financial instruments compliant with IFRS 7

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is assumed in this context that the transaction takes place on the principal market for the instrument or the most advantageous market to which the Bank has access.

The fair value of loans is calculated as the sum total of the discounted, risk-adjusted anticipated cash flows discounted on the basis of the swap curve (based on Libor). In this context, the anticipated, risk-adjusted cash flows are based on the survival probability and the loss given default. The survival probability is determined on the basis of the risk-neutral probability of default, while the proceeds upon realisation are determined on the basis of the internal loss given default parameters. In turn, the risk-neutral probability of default is determined on the basis of the internally calculated one-year default rate (real-world probability of default), the market risk premium and the correlation between the respective loan and the general market risk. The market risk premium represents a factor used to cover the difference between the real-world probability of default and the market's return expectations for the risk assumed. The loan portfolio is divided into four sectors (sovereign loans, loans to banks, corporate loans and retail loans) in order to take account of the specific features of each sector. For each of these sectors with exception of retail loans, first of all the market risk premium is determined on the basis of a portfolio of specific, liquid CDS prices for the respective sector. Only for retail loans is the market risk premium derived from the market risk premiums for the other sectors due to the lack of a CDS market.

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate. Such instruments are transferred at regular intervals at the amount repayable (such as the repayment of a deposit repayable on demand at the nominal amount), meaning that listed prices for identical and similar instruments are available on inactive markets. These instruments are allocated to Level 2 accordingly.

The fair value calculation for other loans and receivables for which the fair value is not roughly equivalent to the carrying amount is built around the risk-neutral credit spread, which takes account of all relevant factors on the market. Further parameters besides the risk-neutral credit spread and the risk-free return on investment are not included. Provided the markets are liquid and no relevant market disruptions are evident, as is currently the case, the arbitrage between the markets on which credit risks are traded leads to a narrowing of the credit spreads. Accordingly, the CDS market is defined as the relevant exit market for loans and receivables.

Since the parameters used to determine the real-world probability of default (PD) and loss given default (LGD) are not immaterial when determining the fair value, and these are determined on the basis of internal procedures meaning they cannot be observed on the market, the other loans and receivables are allocated to Level 3.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value. Where the fair value of non-listed equity instruments cannot be reliably determined, such assets are recognised at cost.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. These instruments are allocated to Level 1. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows. The methods used to determine the fair value levels as described in the note covering the fair value hierarchy are employed for this purpose.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments. The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally accepted models used to calculate the price of options. The common Black & Scholes model and the Bachelier model are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters. The methods used to determine the fair value levels described in the note covering the fair value hierarchy are employed for this purpose.

Please refer to the note covering the fair value hierarchy for a description of the methods used to determine the fair value levels for non-listed derivatives.

The anticipated future cash flows of the other liabilities (deposits from banks and customers, and debt securities in issue, provided these are not listed) are discounted to the present value using current interest rates taking into account internally determined funding premiums. The funding premiums correspond to the parameters that the Bank uses when setting the prices for its own issues. These funding premiums represent internally determined parameters that are essential for the determination of the fair value; the other liabilities are allocated to Level 3 accordingly.

The fair values are calculated using the market information available at the reporting date as well as individual company valuation methods.

Other Information (Continued)

(€ billions)

ASSETS	30/6/2016 CARRYING AMOUNT	30/6/2016 FAIR VALUE	31/12/2015 CARRYING AMOUNT	31/12/2015 FAIR VALUE
Cash and cash balances	8.3	8.3	11.4	11.4
Financial assets held for trading	107.8	107.8	97.8	97.8
Financial assets at fair value through profit or loss	32.1	32.1	33.8	33.8
Available-for-sale financial assets				
thereof measured:				
at cost	0.2	0.2	0.2	0.2
at fair value	5.4	5.4	1.1	1.1
Held-to-maturity investments	0.1	0.1	0.1	0.1
Loans and receivables with banks	34.7	35.1	32.8	33.4
Loans and receivables with customers	119.2	123.3	113.5	118.2
thereof: finance leases	2.1	2.1	2.1	2.1
Hedging derivatives	0.5	0.5	0.5	0.5
Total	**308.3**	**312.8**	**291.2**	**296.5**

(€ billions)

ASSETS	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 30/6/2016	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 31/12/2015	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 30/6/2016	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 31/12/2015	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 30/6/2016	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 31/12/2015
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	8.3	11.4	—	—
Held-to-maturity investments	—	—	0.1	0.1	—	—
Loans and receivables with banks	0.5	0.4	27.8	26.4	6.8	6.6
Loans and receivables with customers	1.2	1.2	18.6	16.4	103.5	100.6
thereof: finance leases	—	—	—	—	2.1	2.1

(€ billions)

LIABILITIES	30/6/2016 CARRYING AMOUNT	30/6/2016 FAIR VALUE	31/12/2015 CARRYING AMOUNT	31/12/2015 FAIR VALUE
Deposits from banks	59.5	60.0	58.5	59.0
Deposits from customers	117.7	118.0	107.7	107.9
Debt securities in issue	23.8	27.6	26.0	29.0
Financial liabilities held for trading	85.2	85.2	77.1	77.1
Hedging derivatives	1.0	1.0	1.0	1.0
Total	**287.2**	**291.8**	**270.3**	**274.0**

(€ billions)

LIABILITIES	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)		FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)		FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3)	
	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
Financial liabilities not carried at fair value						
in the balance sheet						
Deposits from banks	—	—	32.0	34.5	28.0	24.5
Deposits from customers	—	—	82.3	74.5	35.7	33.4
Debt securities in issue	5.7	7.2	6.1	6.6	15.8	15.2

The difference in HVB Group between the fair values and carrying amounts totals €4.5 billion (31 December 2015: €5.3 billion) for assets and €4.6 billion (31 December 2015: €3.7 billion) for liabilities. The excess of liabilities over assets in this regard amounts to €0.1 billion (31 December 2015: excess of assets over liabilities of €1.6 billion). When comparing carrying amounts and fair values for the hedged items, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

34 Disclosures regarding the offsetting of financial assets and liabilities

The following two tables separately show the recognised financial assets and financial liabilities that have already been netted in the balance sheet in accordance with IAS 32.42 together with the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement but that do not satisfy the criteria for offsetting in the balance sheet.

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement (€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 30/6/2016
Derivatives[1]	94,063	(25,262)	68,801	(42,655)	(303)	(12,115)	13,728
Reverse repos[2]	37,777	(7,443)	30,334	—	(14,701)	—	15,633
Loans and receivables[3]	91,836	(1,156)	90,680	—	—	—	90,680
Total at 30/6/2016	**223,676**	**(33,861)**	**189,815**	**(42,655)**	**(15,004)**	**(12,115)**	**120,041**

1 derivatives are included in financial assets held for trading and hedging derivatives
2 Reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €15,928 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables (including cumulative variation margins), as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement (€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 30/6/2016
Derivatives[1]	87,586	(24,029)	63,557	(42,655)	(1,292)	(11,691)	7,919
Repos[2]	44,274	(7,443)	36,831	—	(25,658)	—	11,173
Liabilities[3]	103,015	(2,389)	100,626	—	—	—	100,626
Total at 30/6/2016	**234,875**	**(33,861)**	**201,014**	**(42,655)**	**(26,950)**	**(11,691)**	**119,718**

1 derivatives are included in financial liabilities held for trading and hedging derivatives
2 Repos are covered in the notes covering deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €11,126 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities, as covered in the notes covering deposits from banks and deposits from customers

Other Information (Continued)

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement (€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2015
Derivatives[1]	81,114	(19,051)	62,063	(40,957)	(478)	(9,513)	11,115
Reverse repos[2]	30,107	(3,366)	26,741	—	(14,931)	—	11,810
Loans and receivables[3]	83,735	(1,422)	82,313	—	—	—	82,313
Total at 31/12/2015	**194,956**	**(23,839)**	**171,117**	**(40,957)**	**(15,409)**	**(9,513)**	**105,238**

1 derivatives are included in financial assets held for trading and hedging derivatives
2 Reverse repos are covered in the notes regarding loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €11,954 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables (including cumulative variation margins), as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement (€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2015
Derivatives[1]	77,406	(17,618)	59,788	(40,957)	(1,711)	(9,901)	7,219
Repos[2]	34,076	(3,366)	30,710	—	(23,185)	—	7,525
Liabilities[3]	100,832	(2,855)	97,977	—	—	—	97,977
Total at 31/12/2015	**212,314**	**(23,839)**	**188,475**	**(40,957)**	**(24,896)**	**(9,901)**	**112,721**

1 derivatives are included in financial liabilities held for trading and hedging derivatives
2 Repos are covered in the notes regarding deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €7,448 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities, as covered in the notes covering deposits from banks and deposits from customers

Compliant with IAS 32.42, financial assets and liabilities with the same counterparty are to be offset and recognised in the balance sheet at the net amount if such offsetting of the amounts recognised at the present date is legally enforceable and the intention is to settle on a net basis during the normal course of business or to realise the asset and settle the liability simultaneously. The tables show a reconciliation from the gross amounts prior to netting and the set-off amounts to the net amounts after offsetting for these set-offs in the balance sheet. At HVB Group, the set-offs in the balance sheet relate to transactions with central counterparties (CCPs), being OTC derivatives (set-off of the balancing positive and negative fair values at currency level) and the receivables and liabilities arising from reverse repos and repos concluded with the same central counterparty. At the same time, nettable receivables and liabilities repayable on demand with the same counterparty in the banking business are also offset in the balance sheet. In addition, cumulative changes in the fair value of listed future-styled derivatives are netted with the cumulative variation margin payments.

The column “Effects of master netting arrangements” shows the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement, but which are not netted in the balance sheet as they do not satisfy the IAS 32.42 offsetting requirements as described above. At HVB Group, this includes OTC derivatives and repo transactions with individual counterparties with which legally enforceable master netting arrangements have been concluded allowing netting in the event of default.

In addition, the tables contain the financial instruments received or pledged as collateral in this context and cash collateral.

The German Federal Court of Justice recently issued a judgement (proceedings IX ZR 314/14 dated 9 June 2016) regarding the partial invalidity in insolvency law of netting agreements under the German Master Agreement for Financial Derivative Transactions. Due to a General Administrative Act issued by the German Federal Financial Supervisory Authority (BaFin) in the meantime and the announced amendments to the German Insolvency Code (Insolvenzordnung), this judgement does not have any impact on the legal certainty and offsetting of these netting agreements.

35 Contingent liabilities and other commitments

(€ millions)

	30/6/2016	31/12/2015
Contingent liabilities[1]	20,105	19,353
Guarantees and indemnities	20,105	19,353
Other commitments	47,797	48,731
Irrevocable credit commitments	47,741	48,683
Other commitments[2]	56	48
Total	**67,902**	**68,084**

1 Contingent liabilities are offset by contingent assets to the same amount.
2 Not included in other commitments are the future payment commitments arising from non-cancellable operating leases.

HVB has made use of the option to provide some 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 30 June 2016 (31 December 2015: €22 million).

Contingent liabilities payable to related parties

(€ millions)

	30/6/2016	31/12/2015
Non-consolidated affiliated companies	1,280	1,388
of which:		
UniCredit S.p.A.	616	642
Sister companies	664	687
Subsidiaries	—	59
Joint ventures	89	62
Associated companies	1	1
Other participating interests	84	84
Total	**1,454**	**1,535**

Other Information (Continued)

36 Information on relationships with related parties
Besides the relationships with consolidated, affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies. The quantitative information in this regard can be found in the notes to the balance sheet and the income statement.

HVB has been assigned the role of centre of competence for the markets and investment banking activities of the entire UniCredit corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB. Furthermore, HVB places excess liquidity efficiently with other UniCredit group companies. The section of the Risk Report in the Interim Management Report entitled “Credit risk” under “Risk types in detail” contains further information regarding the exposure to UniCredit and its subsidiaries.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services by means of a service level agreement. HVB incurred expenses of €279.7 million (first half of 2015: €275.5 million) for these services during the first half of 2016. This was offset by income of €6.1 million (first half of 2015: €4.6 million) from services rendered and internal charges. Moreover, software products worth €0.8 million (first half of 2015: €1.9 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €48.3 million (first half of 2015: €36.0 million) for these services during the first half of 2016.

Transactions involving related parties are always conducted on an arm’s length basis.

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee and their respective immediate family members are considered related parties.

(€ thousands)

	30/6/2016			31/12/2015		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	1,418	—	7,660	1,758	—	7,058
Members of the Supervisory Board of UniCredit Bank AG	324	—	4,263	337	—	3,461
Members of the Executive Management Committee[1]	—	—	1,571	—	—	1,370

1 excluding members of the Management Board and Supervisory Board of UniCredit Bank AG

Loans and advances were granted to members of the Management Board and their immediate family members in the form of overdraft facilities with an interest rate of 6% and no fixed maturity, and mortgage loans with interest rates of between 1.36% and 3.96% and falling due in the period from 2018 to 2025.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of overdraft facilities with an interest rate of 6% and no fixed maturity, and mortgage loans with interest rates of 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.

37 Members of the Supervisory Board

Federico Ghizzoni	**Chairman**
Florian Schwarz Dr Wolfgang Sprissler	**Deputy Chairmen**
Mirko Davide Georg Bianchi Beate Dura-Kempf Klaus Grünewald Werner Habich Prof Dr Annette G. Köhler Dr Marita Kraemer Gianni Franco Papa Klaus-Peter Prinz Jens-Uwe Wächter	**Members**

Other Information (Continued)

38 Members of the Management Board

Peter Buschbeck	**Commercial Banking/ Private Clients Bank**
Dr Michael Diederich	**Corporate & Investment Banking** **Human Resources Management (Corporate & Investment Banking only)**
Lutz Diederichs	**Commercial Banking/ Unternehmer Bank**
Francesco Giordano	**Chief Financial Officer (CFO)**
Heinz Laber	**Chief Operating Officer (COO)** **Human Resources Management (excluding Corporate & Investment Banking)** **Global Banking Services**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**

Munich, 2 August 2016

UniCredit Bank AG
The Management Board

Buschbeck Dr Diederich Diederichs Giordano

Laber Varese Dr Weimer

Declaration by the Management Board

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

Munich, 2 August 2016

UniCredit Bank AG
The Management Board

Buschbeck | Dr Diederich | Diederichs | Giordano

Laber | Varese | Dr Weimer

Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net interest	675	642	764	644	668
Dividends and other income from equity investments	7	41	8	48	7
Net fees and commissions	276	291	230	246	257
Net trading income	238	104	33	42	270
Net other expenses/income	103	62	126	106	65
OPERATING INCOME	**1,299**	**1,140**	**1,161**	**1,086**	**1,267**
Operating costs	(871)	(875)	(869)	(883)	(910)
OPERATING PROFIT	**428**	**265**	**292**	**203**	**357**
Net write-downs of loans and provisions					
for guarantees and commitments	(101)	(50)	(46)	43	(48)
NET OPERATING PROFIT	**327**	**215**	**246**	**246**	**309**
Provisions for risks and charges	(3)	(6)	(91)	(44)	(57)
Restructuring costs	(2)	—	(112)	—	—
Net income from investments	36	1	36	5	41
PROFIT BEFORE TAX	**358**	**210**	**79**	**207**	**293**
Income tax for the period	(125)	(72)	210	(72)	(98)
PROFIT AFTER TAX	**233**	**138**	**289**	**135**	**195**
Impairment on goodwill	—	—	—	—	—
CONSOLIDATED PROFIT	**233**	**138**	**289**	**135**	**195**
attributable to the shareholder of UniCredit Bank AG	232	137	289	133	192
attributable to minorities	1	1	—	2	3
Earnings per share (€) (undiluted and diluted)	**0.29**	**0.17**	**0.36**	**0.17**	**0.24**

Financial Calendar

Important Dates 2016[1]

Half-yearly Financial Report at 30 June 2016	4 August 2016
Interim Report at 30 September 2016	11 November 2016

1 dates planned

Contacts
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Published by:
UniCredit Bank AG
Head Office
D-81925 Munich
www.hvb.de
Registrar of companies: Munich HRB 421 48
Creative concept and stories: M&C Saatchi Milano
Design, graphic development and composition: UniCredit
Typesetting: Serviceplan Solutions 1 GmbH & Co. KG, Munich
Printed by: G. Peschke Druckerei GmbH
Printed in Germany

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We're there for both.

50063431