One Bank One UniCredit

2016

Annual Report

Welcome to HypoVereinsbank

Member of UniCredit

We are a simple pan-European commercial bank with a fully plugged in Corporate & Investment Banking, delivering our unique Western, Central and Eastern European network to our extensive client franchise.

We offer local expertise as well as international reach. We accompany and support our 25 million clients globally, providing them with unparalleled access to our leading banks in 14 core markets as well as to another 18 countries worldwide.

Our vision is to be “One Bank, One UniCredit”.

Everything we do to implement our vision is based on our Five Fundamentals.

Our top priority, every minute of the day, is to serve our customers the very best we can (Customers First).

To do this, we rely on the quality and commitment of our people (People Development), and on our ability to cooperate and generate synergies as “One Bank, One UniCredit” (Cooperation & Synergies).

We take the right kind of risk (Risk Management) whilst being very disciplined in executing our strategy (Execution & Discipline).

One Bank, One UniCredit.

A shared vision based on Five Fundamentals.

As a strong pan-European Group with leading banks in 14 core markets, and operations in another 18 countries, we perfectly embody our vision to be “One Bank, One UniCredit”. A simple pan-European commercial bank enriched by multiple cultures where everybody shares the same vision and are guided by our Five Fundamentals: Customers First, People Development, Execution & Discipline, Cooperation & Synergies and Risk Management.

Financial Highlights

Key performance indicators

	1/1–31/12/2016	1/1–31/12/2015
Net operating profit	€1,096m	€983m
Cost-income ratio (based on operating income)	70.7%	76.6%
Profit before tax	€297m	€776m
Consolidated profit	€157m	€750m
Earnings per share	€0.19	€0.93

Balance sheet figures/Key capital ratios

	31/12/2016	31/12/2015
Total assets	€302,090m	€298,745m
Shareholders' equity	€20,420m	€20,766m
Common Equity Tier 1 capital[1]	€16,611m	€19,564m
Core capital (Tier 1 capital)[1]	€16,611m	€19,564m
Risk-weighted assets (including equivalents for market risk and operational risk)	€81,575m	€78,057m
Common Equity Tier 1 capital ratio[1,2]	20.4%	25.1%
Core capital ratio (Tier 1 ratio)[1,2]	20.4%	25.1%
Leverage ratio in accordance with Commission Delegated Regulation[1,3]	5.3%	6.2%

	31/12/2016	31/12/2015
Employees (in FTEs)	14,748	16,310
Branch offices	579	581

1 in accordance with approved financial statements
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-sheets items

Ratings

						PFANDBRIEFS		
	LONG-TERM	SHORT-TERM	OUTLOOK	STAND-ALONE RATING	CHANGED/ CONFIRMED	PUBLIC	MORTGAGE	CHANGED/ CONFIRMED
Fitch Ratings				a–	13/2/2017	AAA/stable	AAA/stable	5/12/2016 5/12/2016
Derivative Counterparty Ratings	A–				13/2/2017			
Deposits	A–	F2			13/2/2017			
Issuer Default Rating	A–	F2	negative		13/2/2017			
Moody's				baa2	26/1/2016	Aaa/–	Aaa/–	23/6/2015 23/6/2015
Counterparty Risk	A1	P-1	—		26/1/2016			
Deposits	A2	P-1	stable		26/1/2016			
Senior – Senior Unsecured Bank Debt	A2		stable		21/11/2016			
Senior Unsecured and Issuer Rating	Baa1	P-1	stable		26/1/2016			
Standard & Poor's				bbb+	15/12/2016	AAA/negative	—	22/8/2016
Issuer Credit Rating	BBB	A-2	watch positive		15/12/2016			
Senior Unsecured	BBB	A-2	watch developing		15/12/2016			

Simple Pan-European Commercial Bank

We are a simple pan-European commercial bank with a fully plugged in CIB, enriched by multiple cultures and strong local knowledge, where everybody shares the same vision: One Bank, One UniCredit. That's why when it comes to our client's international needs we have the solution. Whether it is trade or other banking services, we can help: with our deep local knowledge and our unique Western Central and Eastern European network serving our clients in Europe and beyond, we are fully equipped to meet our clients' needs, both in our home-markets and further afield.

Contents

Customers First

Our top priority, every minute of the day, is to serve our customers the very best we can. We provide solutions for a wide variety of different personal finance and enterprise business needs. Our products and services are based on our customer's real needs and aimed at creating value for both individuals and businesses.

Financial Statements (1)

Management's Discussion and Analysis

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

Leadership function and Supervisory Board

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

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

The Supervisory Board of the Bank has 12 members and has an equal number of employee and shareholder representatives. The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. The Supervisory Board has adopted by-laws specifically defining the details of the work within the Supervisory Board, the creation and tasks of committees and the tasks of the chairman of the Supervisory Board. In addition, the by-laws state that certain types of transactions require the approval of the Supervisory Board.

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

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given in the Note "Members of the Supervisory Board" and the Note "Members of the Management Board" in the notes to the 2016 consolidated financial statements.

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

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

Overall bank management

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

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

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

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, international companies and institutional customers. HVB Group has a well-developed network of branches in Germany, particularly in Bavaria and the greater Hamburg area, which was modified to accommodate changed patterns of customer behaviour in recent years. In total, HVB Group has 579 offices around the world, including 352 HVB branches in Germany. A breakdown of the offices of HVB Group by region is shown in the Note "Offices" in the notes to the consolidated financial statements.

Transform 2019

The persistently challenging conditions for the banking sector and the huge downward pressure on profitability and costs this entails is making a further adjustment of bank structures and processes necessary. We therefore established the 2017–2019 Strategy Plan to ensure a successful future for the Bank going forward. Our now updated strategic planning is embedded in the group-wide "Transform 2019" programme. Our programme is based on proactive action which, in addition to the increased realisation of cross-selling potential, also focuses on a further optimisation of our cost structure by streamlining the organisation and processes. At the same time, another adjustment of our staffing levels is planned. In this context, more jobs will be shed at HVB overall by 2019. The job cuts will affect all areas of the Bank. By exploiting normal staff fluctuation and continuing existing programmes to create new employment perspectives, we are seeking to implement the job cuts in a socially responsible manner. The restructuring costs totalling €645 million contained in the income statement arose primarily in connection with the measures named above.

Financial Review (Continued)

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

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

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

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

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

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

The Private Banking and Wealth Management relationship models will also be managed within Commercial Banking. Based on a 360-degree advisory approach, high net worth customers are served by very well trained advisors and highly qualified specialists in this segment. In addition to tailored portfolio concepts and financing solutions for high net worth private clients with an entrepreneurial background, the Wealth Management approach includes the brokerage of shareholdings.

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

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

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

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

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

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

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

Financial Review (Continued)

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

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

The Group Corporate Centre pools the competence lines of HVB Group. They contain the organisations of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operating Officer (COO) including Human Resources Management (HR). The Group Corporate Centre encompasses profit contributions that do not fall within the jurisdiction of the Commercial Banking or CIB business segments. Among other items, this includes the profits and losses of consolidated subsidiaries and of non-consolidated holdings, provided they are not assigned to other business segments. In addition, contributions to earnings are reflected in this segment that arise within the scope of the management of HVB Group as a whole.

Corporate acquisitions and sales, and other major changes in the group of companies included in consolidation
In March 2016, we reached agreement with Bremer Kreditbank Aktiengesellschaft, Bremen, on the sale of Bankhaus Neelmeyer AG, Bremen, which had until then been a fully owned subsidiary of HVB. Closing of the transaction is scheduled for the first half of 2017. 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), Unterföhring, until then a fully owned subsidiary of HVB, to UniCredit Business Solutions S.C.p.A. (UBIS), Milan. The closing took place on 1 April 2016. 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 the Note "Companies included in consolidation" in the notes to the consolidated financial statements.

Economic report

Underlying economic conditions
The first half of 2016 was characterised by major turmoil on the financial markets and geopolitical events. The focus at the start of the year was on a further decline in oil prices and concerns about a slowdown in the Chinese economy, as a result of which the survey-based economic indicators deteriorated sharply in many countries in February 2016. The official data did not follow this movement and a renewed rise in the leading indicators as of March 2016 implied an exaggerated perception of the risks in the survey results. In the second quarter, attention shifted to the Brexit referendum in the UK, in which a majority of the British electorate voted at the end of June to leave the EU, which served to briefly increase volatility on the financial markets yet again. As the Brexit decision did not have any

major impact on the real economy, share prices rose noticeably in the second half of 2016. The failed constitutional referendum in Italy also affected the financial markets for a brief period only. By contrast, share prices increasingly benefited from Donald Trump's election as US president towards the end of the year. The recovery in the oil price, which was already becoming apparent in the second quarter, continued over the year. In December, it had meanwhile risen to over US $ 55 per Brent barrel after the OPEC and non-OPEC countries agreed to reduce their oil output.

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

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

Sector-specific developments

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

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

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

Financial Review (Continued)

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

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

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

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

The European Bank Recovery and Resolution Directive (BRRD) came into force on 1 January 2015. Alongside resolution instruments, it sets a minimum requirement for own funds and eligible liabilities that must be applied from 1 January 2016. What is known as a senior bail-in has also been possible in all EU member states since 1 January 2016. In September 2015, German lawmakers passed the German Resolution Mechanism Act (Abwicklungsmechanismusgesetz – AbwMechG), which translates the Single Resolution Mechanism (SRM) and thus the senior bail-in into German law. This act introduces special arrangements for insolvency proceedings regarding German banks by way of an amendment to Section 46f (6) KWG. Senior unsecured debt is divided into two groups. The first group, which includes bearer bonds, warrant bonds, promissory notes and similar rights, must absorb losses ahead of the second group. This means that the second group, which includes unsecured deposits from banks and major customers, derivatives and structured products, is senior to the first group. The act enters into force on 1 January 2017 and resulted in numerous rating responses by rating agencies before that date.

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

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

As already explained in the "Transform 2019" section, in the 2016 financial year we decided to take additional measures to ensure that we can continue to operate successfully and secure the Bank's earnings and return levels in the long term. The restructuring costs totalling €645 million reported in the 2016 financial year are largely related to the planned measures. Particularly on account of these expenses, the profit before tax of €297 million and the consolidated profit of €157 million were significantly lower than last year's results (profit before tax: €776 million, consolidated profit: €750 million). However, adjusted for restructuring costs in both years, profit before tax would have come to €942 million and thus been €54 million higher than the year-ago figure (€888 million). Hence, HVB Group can generally report a satisfactory business performance in the extremely challenging market environment in the 2016 financial year thanks to its well-balanced and robust business model.

In the reporting period, net operating profit rose to €1,096 million, thus surpassing the equivalent year-ago figure by €113 million or 11.5%. Within this total, operating income increased by €223 million, or 4.8%, to €4,898 million. Net interest fell by €210 million, or 7.7%, to €2,518 million, primarily as a result of the historically low level of interest rates, which continued to fall in the reporting period from what was already an ultra-low level. By contrast, net trading income developed well, rising sharply by €378 million, or 72.0%, to €903 million. HVB Group also recorded a pleasing result in net fees and commissions, which were up by €31 million, or 3.0%, to €1,066 million. In this context, it is important to note that the year-ago 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. As a result of the strict cost management and the efficiency measures already implemented, operating costs fell by €118 million, or 3.3%, to €3,461 million. This caused the operating profit to improve a substantial €341 million, or 31.1%, to €1,437 million and the cost-income ratio from 76.6% in 2015 to 70.7% in the reporting period. Net write-downs of loans and provisions for guarantees and commitments rose to a moderate level of €341 million compared with the very low year-ago figure of €113 million.

In addition to the restructuring costs named, expenses for provisions for risks and charges arose in the non-operating business, which were stated at €193 million in the reporting period (previous year: expenses for additions to provisions of €194 million). At €39 million, net income from investments was lower than the year-ago figure of €99 million.

In our expectations concerning the development of profit before tax outlined in the outlook in last year's Management's Discussion and Analysis, we forecast a noticeable increase compared with last year. This goal was not met in the reporting period, primarily on account of the restructuring costs. Pleasingly, however, our objective of generating a slight rise in earnings in the operating business was achieved. In this context, the higher than expected increase in net trading income, higher than planned net interest and higher than budgeted income from dividends offset the weaker than expected increase in net fees and commissions. In addition, we managed to reduce administrative expenses somewhat more substantially than planned thanks to the strict cost management. The lower than planned net write-downs of loans and provisions for guarantees and commitments also helped us to achieve a solid operating performance.

The profit available for distribution (based on the German Commercial Code (Handelsgesetzbuch – HGB)) disclosed in the separate financial statements of HVB (equivalent to the consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €3,005 million. This figure consists of HVB's net income of €5 million generated in the reporting period and a withdrawal from other reserves of €3,000 million. We will propose to the Shareholders' Meeting

Financial Review (Continued)

that a dividend of €3,005 million be paid in total out of this amount to UniCredit S.p.A. (UniCredit), Rome, Italy. In view of the persistently high regulatory equity quotas even after the withdrawal, this is reasonable and appropriate.

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

In the Commercial Banking business segment, the profit before tax came to €306 million and was thus €63 million lower than the year-ago figure due to restructuring costs of €160 million. Adjusted for restructuring costs in 2016 and 2015, the business segment would have generated an increase of €111 million in profit before tax to €466 million. The increase of €96 million in net operating profit to €530 million, which was also due to the substantial decline in net write-downs of loans and provisions for guarantees and commitments, also contributed to this development. Operating profit before net-write downs of loans and provisions for guarantees and commitments rose a slight €6 million to €520 million alongside a moderate decline in operating income (down 4.3% to €2,362 million) solely on account of cost cutting in operating costs (down 5.7% to €1,842 million).

The Corporate & Investment Banking (CIB) business segment generated profit before tax of €366 million, which was likewise negatively affected by restructuring costs (€91 million). Adjusted for the restructuring costs of both years, the profit before tax, at €457 million, would have been €6 million higher than the equivalent period last year (€451 million). Within this total, net operating profit rose by 9.5% to €567 million despite higher net write-downs of loans and provisions for guarantees and commitments as a result of the significant 18.7% increase to €2,422 million in operating income accompanied by a slight increase in operating costs (up 0.6% to €1,478 million).

The Other/consolidation business segment recorded a loss before tax of €375 million (2015: loss of €14 million). It was affected in both years by restructuring costs (2016: €394 million; 2015: €96 million). Furthermore, there was negative interest income of €75 million (2015: €4 million) in an environment with ultra-low interest rates.

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 20.4% at 31 December 2016 compared with 25.1% at year-end 2015 (in accordance with approved annual financial statements). The decline in the core capital ratios is largely attributable to the decrease in core capital caused by the withdrawal from HVB's other reserves (€3 billion) as well as to an increase in risk-weighted assets, relating among other things to the expansion of operations. The total capital ratio (equity funds ratio) amounts to 21.1% at year-end 2016 after 25.8% at 31 December 2015 (in accordance with approved annual financial statements in both cases). These banking supervisory ratios are still at an excellent level by both national and international standards.

Total assets rose slightly by 1.1%, or €3.3 billion, to €302.1 billion at year-end 2016 compared with year-end 2015. On the assets side, there was an expansion particularly in the volume of loans and receivables with customers and available-for-sale financial assets, while financial assets held for trading, financial assets at fair value through profit or loss and cash and cash balances fell. On the liabilities side, there was an increase particularly in deposits from customers while, in line with the assets side, there were declines in the financial liabilities held for trading and debt securities in issue. The shareholders' equity shown in the balance sheet fell slightly by €0.3 billion, or 1.7%, to €20.4 billion. In this context, the withdrawal from other reserves does not have any effect overall because it is retained in recognised consolidated profit under shareholders' equity until the dividend is paid. The slight year-on-year decline in shareholders' equity is mainly due to adjustments to pension-related obligations reflected in other reserves.

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

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

We would expressly like to thank our employees at this point. Their willingness to embrace change and at the same time to help secure our commercial success forms the basis for our good performance.

We also wish to thank the employee representatives for their constructive cooperation in spite of the very difficult issues. This gives all of us the confidence we need to master the challenges of the future.

Operating performance of HVB Group

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

	1/1–31/12/2016	1/1–31/12/2015	CHANGE	
Income/Expenses	€ millions	€ millions	€ millions	in %
Net interest	2,518	2,728	(210)	(7.7)
Dividends and other income from equity investments	57	69	(12)	(17.4)
Net fees and commissions	1,066	1,035	+ 31	+ 3.0
Net trading income	903	525	+ 378	+ 72.0
Net other expenses/income	354	318	+ 36	+ 11.3
OPERATING INCOME	**4,898**	**4,675**	**+ 223**	**+ 4.8**
Payroll costs	(1,668)	(1,821)	+ 153	(8.4)
Other administrative expenses	(1,536)	(1,560)	+ 24	(1.5)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(257)	(198)	(59)	+ 29.8
Operating costs	**(3,461)**	**(3,579)**	**+ 118**	**(3.3)**
OPERATING PROFIT	**1,437**	**1,096**	**+ 341**	**+ 31.1**
Net write-downs of loans and provisions				
for guarantees and commitments	(341)	(113)	(228)	>+ 100.0
NET OPERATING PROFIT	**1,096**	**983**	**+ 113**	**+ 11.5**
Provisions for risks and charges	(193)	(194)	+ 1	(0.5)
Restructuring costs	(645)	(112)	(533)	>+ 100.0
Net income from investments	39	99	(60)	(60.6)
PROFIT BEFORE TAX	**297**	**776**	**(479)**	**(61.7)**
Income tax for the period	(140)	(26)	(114)	>+ 100.0
PROFIT AFTER TAX	**157**	**750**	**(593)**	**(79.1)**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**157**	**750**	**(593)**	**(79.1)**
attributable to the shareholder of UniCredit Bank AG	153	743	(590)	(79.4)
attributable to minorities	4	7	(3)	(42.9)

Financial Review (Continued)

Net interest
We generated net interest in the reporting period of €2,518 million, which is €210 million or 7.7% lower than the year-ago figure in a challenging environment of persistently very low interest rates that deteriorated further in the 2016 financial year.

In the Commercial Banking business segment there was a 5.7% decline in net interest to €1,510 million. This can be attributed primarily to the development of net interest in deposit-taking operations that continues to be adversely affected by the persistently ultra-low level of interest rates. In this context, a higher volume of real estate finance in retail banking operations at practically unchanged margins, very good new business in consumer loan operations and a recovery in the demand for credit on the corporate banking side at slightly contracting margins were unable to offset the lower result from deposit-taking operations.

Net interest in the CIB business segment also fell by 3.5% to €1,083 million. The decline is attributable to the Treasury business and was caused by the interest rate levels. This development was able to be partly offset by an expansion of the lending volume.

In the Other/consolidation business segment, there was a net interest expense of €75 million compared with a net income of €4 million last year in an environment of ultra-low interest rates.

Dividends and other income from equity investments
Income of €57 million from dividends and other income was generated from equity investments during the reporting period (2015: €69 million). Both years include an extraordinary dividend payout from our investment in EURO Kartensysteme GmbH, Frankfurt am Main, which was higher in the 2015 financial year than in the reporting period. In the 2016 financial year, another significant dividend yield from our shareholdings also had a positive impact.

Net fees and commissions
Net fees and commissions rose by €31 million, or 3.0%, in the reporting period to €1,066 million, even though the deconsolidation effect of PlanetHome AG, Munich, and its subsidiaries sold in the second quarter of 2015 served to reduce the total. The deconsolidation effect is reflected particularly in the €21 million decrease in fees and commissions from other service operations. By contrast, net fees and commissions from lending operations rose a sharp €34 million to €329 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 €5 million to €533 million primarily on account of an improved result in our securities operations. At €219 million, fees and commissions from payment services were €13 million higher than the year-ago total operations.

Net trading income
In the 2016 financial year, net trading income improved substantially by €378 million, or 72.0%, to €903 million. In this context, the business with equity derivatives managed to surpass by far the already good year-ago figure. Despite the difficult environment, particularly in the first half of 2016, considerably higher income was generated in the Treasury business compared with last year. The earnings from interest-related operations were also higher year-on-year. Valuation adjustments, which mainly include credit value adjustments and funding value adjustments as well as effects from a change in own credit spreads, caused earnings to rise in net trading income overall.

Net other expenses/income
Net other expenses/income were up by €36 million to €354 million in 2016. This can be attributed notably to higher income in connection with our Bard Offshore 1 wind farm. By contrast we generated less profit from the disposal of loans and receivables. There was also an increase in the expenses for the European bank levy.

Operating costs

We continued the consistent cost management of operating costs also in the reporting period, which for years has been successful, thus reducing operating costs by €118 million, or 3.3%, to €3,461 million compared with last year. Within this total, payroll costs fell by €153 million, or 8.4%, to €1,668 million mainly as a result of a lower headcount. Other administrative expenses were also down by €24 million, or 1.5%, to €1,536 million. This cost reduction was achieved through lower marketing expenses, less use of external consulting services, lower travel expenses and declining facility management costs. In this context, the reduction in the number of our branches has a clear cost-reducing effect. By contrast, amortisation, depreciation and impairment losses on intangible and tangible assets rose by €59 million to €257 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 rose sharply by €341 million, or 31.1%, to €1,437 million in the reporting period, both on the back of a rise in operating income and in savings in operating costs. This resulted in a significant improvement in the cost-income ratio (ratio of operating expenses to operating income) to 70.7% after 76.6% in 2015.

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

Net write-downs of loans and provisions for guarantees and commitments rose significantly to a moderate level of €341 million compared with the very low year-ago figure of €113 million. Among other things, this increase can be attributed to the need to recognise higher write-downs in the reporting year to reflect the worsening situation in the shipping industry.

Net operating profit rose by 11.5%, or €113 million, to €1,096 million.

Provisions for risks and charges

In the reporting period, a sum of €193 million was transferred to provisions for risks and charges in the non-lending business (2015: €194 million). These are primarily provisions for legal risks in both years. The legal risks of HVB Group are described in detail in the section entitled "Operational risk" in the Risk Report of this Management's Discussion and Analysis.

Restructuring costs

The restructuring costs of €645 million recognised in the 2016 financial year can be largely attributed to the measures planned in the course of the "Transform 2019" strategy programme.

Last year, restructuring expenses of €112 million arose from the measures entailed in the 2016–2018 Strategic Plan. These were partially compensated by net income from net reversals of no longer needed restructuring provisions which were created in 2013 to modernise the retail banking business.

Net income from investments

In the 2016 financial year, net income from investments amounted to €39 million. This figure was generated with gains on disposal of €52 million largely relating to gains of €23 million on the disposal of available-for-sale financial assets and €33 million on the disposal of investment properties. By contrast, net write-downs and value adjustments totalling €13 million were taken on the available-for-sale financial assets, companies accounted for using the equity method and investment properties.

Last year, we generated net income from investments of €99 million. This result was generated with gains on disposal of €89 million which mainly relate to gains of €51 million on the disposal of available-for-sale financial assets, such as from the sale of our holdings in Wüstenrot & Württembergische AG, Stuttgart, and gains of €35 million on the sale of investment properties.

Financial Review (Continued)

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

In the reporting period, a profit before tax of €297 million was generated which did not match the year-ago total of €776 million due to the substantially higher restructuring costs of €645 million. Adjusted for the restructuring costs in both years, the profit before tax in the 2016 financial year would have amounted to €942 million and thus exceeded the year-ago figure by €54 million.

Income tax amounts to €140 million. Last year, income tax merely came to €26 million, partly on account of the addition of higher write-ups of deferred tax assets on tax losses carried forward. After deducting income tax, the consolidated profit in the reporting period amounted to €157 million, which is significantly lower than the year-ago consolidated profit (€750 million).

Return on allocated capital

The profitability ratio return on allocated capital (ROAC) present the consolidated profit of HVB Group (accruing to the HVB shareholder) as a ratio of the allocated capital and, in the context of management, replaces return on equity which was used in the past for reporting purposes. With ROAC, the allocated capital is determined on the basis of the average risk-weighted assets (including equivalents for market risk and operational risk). In the process, 11% equity is allocated to the average risk-weighted assets. In the 2016 financial year, this ratio amounted to 1.7% and was thus down on the previous-year figure (8.2%) in particular on account of the restructuring costs.

Appropriation of net income

The profit available for distribution disclosed in the separate financial statements of HVB (equivalent to the consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €3,005 million. This figure consists of HVB's consolidated profit of €5 million generated in the reporting year and a withdrawal from other retained earnings of €3,000 million. We will propose to the Shareholders' Meeting that a dividend of €3,005 million be paid in total to UniCredit S.p.A., Rome, Italy. This represents a dividend of around €3.75 per share.

The consolidated profit of €398 million (around €0.50 per share) reported last year was distributed to UniCredit S.p.A., Rome, Italy, in accordance with a resolution adopted by the Shareholders' Meeting on 10 May 2016.

Segment results by business segment

The business segments contributed the following amounts to the profit before tax of €297 million in the 2016 financial year (2015: €776 million):

(€ millions)

	1/1–31/12/2016	1/1–31/12/2015
Commercial Banking	306	369
Corporate & Investment Banking	366	421
Other/consolidation	(375)	(14)

The income statements for each business segment and comments on the economic performance of the individual business segments are provided in the Note "Income statement, broken down by business segment" in the notes to the 2016 consolidated financial statements. The tasks of each business segment are described in detail under the Note "Method and components of segment reporting by business segment" in the notes to the consolidated financial statements.

Financial situation

Total assets

The total assets of HVB Group increased by €3.3 billion, or 1.1%, to €302.1 billion at 31 December 2016 compared with year-end 2015.

This slight increase in total assets is primarily due on the assets side to the €8.0 billion rise to €121.5 billion in loans and receivables with customers, which is largely attributable to the rise in other loans and receivables with customers (up €5.9 billion). Mortgage loans (up €2.3 billion) and reverse repos (up €1.3 billion) were also higher while non-performing loans and receivables decreased (down €0.7 billion). Furthermore, there was an increase in holdings in available-for-sale financial assets. At 31 December 2016, these amounted to €5.9 billion and had thus risen a sharp €4.6 billion compared with year-end 2015. Within this total, only the holdings of fixed-income securities increased by €4.6 billion to €5.6 billion. Loans and receivables with banks were also up by €0.2 billion to €33.0 billion, primarily in other receivables (up €1.6 billion) with a simultaneous reduction of €1.3 billion in reverse repos. The portfolio of financial assets at fair value through profit or loss decreased by €5.3 billion to €28.5 billion, mainly in fixed-income securities. Financial assets held for trading were down by €3.7 billion to €94.1 billion on account of the decreases of €3.2 billion to €58.4 billion in the positive fair values of derivative financial instruments, primarily on account of lower holdings, and €0.5 billion to €35.7 billion in equity instruments respectively. The cash and cash balances shown in the balance sheet declined by €1.7 billion to €9.8 billion, largely as a result of the balances with central banks compared with year-end 2015. The increase of €1.0 billion to €1.1 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 subsidiary Bankhaus Neelmeyer AG, Bremen, to Bremer Kreditbank Aktiengesellschaft, Bremen.

On the liabilities side, deposits from customers were notably up by €9.5 billion to €117.2 billion compared with 31 December 2015. This increase was largely due to repos (up €4.2 billion). Within this balance sheet item, there were also higher term deposits (up €2.3 billion) and cash collateral and pledged credit balances (up €2.0 billion) and credit balances on current accounts (up €1.5 billion). By contrast, there was a decline of €4.3 billion in financial liabilities held for trading to €72.8 billion with the negative fair values of derivative financial instruments falling by €3.9 billion and other financial liabilities held for trading by €0.4 billion at the same time in line with the assets side. Deposits from banks were down by €0.9 billion to €57.6 billion. Within this total, the deposits from central banks rose by €6.6 billion compared with year-end 2015. This development 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 €6.3 billion in repos and €2.2 billion in cash collateral and pledged credit balances in particular compared with year-end 2015 while other liabilities rose by €0.8 billion. Compared with year-end 2015, the debt securities in issue were down by €1.8 billion to €24.2 billion on account of issues due, particularly in public-sector Pfandbriefs (down €1.2 billion) and mortgage Pfandbriefs (down €1.1 billion) while the registered bonds were up by €0.5 billion. The liabilities of disposal groups held for sale of €1.2 billion are carried in line with the corresponding balance sheet item on the assets side in connection with the sale of the subsidiary Bankhaus Neelmeyer AG.

The shareholders' equity shown in the balance sheet fell a slight 1.7%, or €346 million, to €20,420 million at 31 December 2016. Within this total, other reserves were down by €3,018 million; this mainly includes a withdrawal of €3,000 million and negative effects of €194 million arising from adjustments to pensions and similar obligations (mainly on account of the reduction from 2.35% to 1.90% in the discount rate). The consolidated profit of €148 million (attributable to the shareholder of UniCredit Bank AG) generated in 2016 and not proposed for dividend distribution is positively reflected in other reserves. The withdrawal from the reserves does not have any effect on shareholders' equity at the balance sheet date because it is retained in recognised consolidated profit of €3,005 million (= profit available for distribution of UniCredit Bank AG) under shareholders' equity until the dividend is paid. The dividend payment of €398 million for the 2015 financial year disbursed in the second quarter of 2016 as resolved by the Shareholders' Meeting served to reduce the total accordingly. The available-for-sale reserve rose by €63 million to €74 million.

The return on total assets compliant with Section 26a of the German Banking Act (Kreditwesengesetz – KWG) is defined as the ratio of net profit to total assets; it amounted to 0.05% at year-end 2016 (31 December 2015: 0.25%).

Financial Review (Continued)

The contingent liabilities and other commitments not included in the balance sheet rose by €2.9 billion to €71.0 billion at 31 December 2016 compared with the 2015 year-end total. This figure includes increases of €2.5 billion in contingent liabilities in the form of financial guarantees to €21.9 billion and €0.4 billion in irrevocable credit commitments to €49.1 billion respectively. 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 €81.6 billion at 31 December 2016 and were thus €3.5 billion higher than year-end 2015.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use increased by €2.9 billion to €61.0 billion. This increase arose particularly on account of higher exposures in the area of corporate customers of HVB and our subsidiary UniCredit Luxembourg S.A.

The risk-weighted assets for market risk rose by €1.2 billion to €10.9 billion. This is due to an increase in market risk on the part of HVB's internal market risk model.

The risk-weighted asset equivalents for operational risk decreased by a slight €0.6 billion to €9.7 billion on account of a decline in results in the internal model (AMA) against the backdrop of an improvement in the operational risk profile of UniCredit Group.

At 31 December 2016, the core capital compliant with Basel III excluding hybrid capital (Common Equity Tier 1 capital/CET1 capital) and the core capital (Tier 1 capital) of HVB Group amounted to €16.6 billion (in accordance with approved annual financial statements) and had thus significantly decreased compared with year-end 2015 (31 December 2015: €19.6 billion in accordance with approved annual financial statements). This decline is attributable to the withdrawal of €3.0 billion from other reserves. The CET1 capital ratio (ratio of Common Equity Tier 1 capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) and the core capital ratio under Basel III (Tier 1 capital ratio; including market risk and operational risk) amounted to 20.4% at 31 December 2016 (year-end 2015: 25.1% in both cases). The decline is predominantly attributable to the lower level of core capital and to a lesser extent also to the increase in risk-weighted assets. The equity capital in accordance with the approved annual financial statements amounted to €17.2 billion at 31 December 2016 (31 December 2015: €20.1 billion). The equity funds ratio was 21.1% at year-end 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 Risk Report section in the present Management's Discussion and Analysis. A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure had decreased to 1.15 by the end of December 2016 after 1.21 at year-end 2015.

In the context of the introduction of new European liquidity requirements under Basel III, the German Liquidity Regulation (Liquiditätsverordnung – LiqV) will also be supplemented by the new Liquidity Coverage Ratio (LCR). The LCR is the ratio of the liquidity cushion (high-quality liquid assets – HQLA) of a bank to its net cash outflows over a stress period of 30 calendar days, expressed as a percentage. The LCR must be observed as of a transitional period commencing 1 October 2015. The minimum requirement will be gradually increased up to 100% by 1 January 2018. The requirement of 70% valid at 31 December 2016 is significantly surpassed at HVB with a figure of over 100%.

The leverage ratio is determined by setting the core capital measure against the exposure measure. The total exposure measure is the sum total of the exposure values of all assets and off-balance sheet items. The leverage ratio of HVB Group in accordance with the Commission Delegated Regulation (EU) 2015/62, which came into force on 18 January 2015, amounted to 5.3% at 31 December 2016 (year-end 2015: 6.2%), taking account of the withdrawal of €3.0 billion from other reserves. The decline in the leverage ratio is mainly attributable to the lower core capital. Adjusted for the withdrawal from other reserves, the leverage ratio for December 2016 stands at 6.2% and is thus at the same level as last year.

To manage and ensure adequate risk-taking capacity, the Bank conducts analyses of its risk-taking capacity on a regular basis. In this context, the risk-taking capacity is defined by the comparison between unexpected losses in the confidence level (internal capital) and the ability to absorb losses with existing equity (available financial resources). The ratio of available financial resources to internal capital is referred to as risk-taking capacity and amounted to 203% at year-end 2016 (year-end 2015: 224%). The withdrawal of €3 billion from the reserves also has an impact on this ratio. We consider this figure to be very comfortable and it is also considerably higher than the target figure defined by the Bank as a threshold. Further details on the calculation and definition of the risk-taking capacity are given in the Risk Report.

Ratings

The ratings of countries and banks are subject to constant monitoring by rating agencies. In recent years the implementation of new regulatory requirements (especially the Bank Resolution and Recovery Directive – BRRD) has resulted in an adjustment of the rating methods used by rating agencies. In response to the specification of the liability cascade in Germany (Section 46f KWG), which applies from January 2017 onwards, ratings were differentiated further in the course of 2016. For instance, Moody's expanded its rating scale for German banks in November 2016 to include senior-senior unsecured bank debt as a rating category and assigned a rating of A2 with a stable outlook to HVB. Since January 2016, Moody's has rated HVB's senior unsecured rating at Baa1 with a stable outlook. The deposit rating is rated at A2, also with a stable outlook. The counterparty risk rating is assessed at A1.

In March 2016, Fitch Ratings confirmed the issuer default rating of HVB at A–. The outlook remains negative, as Fitch believes the fungibility of capital and liquidity could increase within banking groups under the direct supervision of the ECB. In line with Moody's, Fitch also took account of the specification of the liability cascade in Germany and introduced a derivative counterparty rating and a deposit rating in December 2016. The rating for the two new categories has been A– since then.

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

Significant investments

Work started in 2013 on turning the HVB Tower in Munich into a green building that meets the requirements of a facility strategy that is geared to sustainability and environmental compatibility. The work in the tower itself and the Flachbau Süd building were completed in the first quarter of 2016. After the necessary planning phase and preparatory work, the Flachbau Nord building will be modernised. The aims of the renovation are to improve energy efficiency and reduce carbon emissions. At the same time, the office spaces are being revamped to meet the requirements of modern communications systems and the existing areas rearranged to allow more efficient use of office space at the same time as enhancing the working environment by applying

Financial Review (Continued)

innovative office concepts. This model was also applied to the various floors in the HVB Tower, taking into account feedback received from the Smart Working pilot project. The HVB Tower became the Bank's head office and seat of its Management Board when the Bank moved into the building in the first quarter of 2016.

Report on subsequent events (events after the reporting period)

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

Forecast report/Outlook

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

General economic outlook

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

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

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

GDP growth of 1.5% in the eurozone in 2017 would be slightly below the level achieved in the previous year (1.7%). The slight slowdowns compared with last year are primarily attributable to a stronger euro and higher oil prices. But the extent to which growth can be achieved in 2017 also largely depends on the development of world trade.

There are risks to world trade as a result of increasing protectionist tendencies worldwide. Growth in the eurozone is projected to once more be driven by domestic demand in 2017, with the expansion rate of consumer spending likely to weaken from 1.7% to 1.3% compared with last year due to higher inflation rates (negative purchase power effect).

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

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

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

Sector development in 2017

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

The Financial Stability Board (FSB) published its Total Loss-Absorbing Capacity standard for global systemically important banks (G-SIBs) in 2015. This standard specifies a total loss-absorbing capacity (TLAC) for G-SIBs. Under the new rules, G-SIBs are required to hold TLAC totalling at least 16% of risk-weighted assets from 1 January 2019, rising to 18% from 1 January 2022. In addition, the TLAC must amount to at least 6% of the denominator in the leverage ratio from 2019 onwards and at least 6.75% from 2022 onwards. The TLAC consists of own funds together with other elements such as bonds that can be written down by the Bank or converted into equity (known as contingent convertible bonds).

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

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

Development of HVB Group

The group of companies included in consolidation used as the basis for the forecast horizon in 2017 will not change materially compared with the 2016 financial year. All the companies initially consolidated or deconsolidated in the reporting period were incorporated appropriately when the budget was drawn up.

Financial Review (Continued)

On account of the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are very unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that, in a consistently challenging environment for the financial industry, we will be able to generate a satisfactory profit before tax in the 2017 financial year. Taking into account the current operating conditions, the Bank is planning to record a profit that is significantly higher than the figure seen in the reporting year. It should be taken into account in this regard that the 2016 profit before tax was depressed by restructuring costs among other things. Compared with the profit before tax in 2016 adjusted for restructuring costs we expect a moderate increase in 2017.

We are planning operating income to match the reporting year level in the 2017 financial year in a persistently difficult market environment. The budgeted operating costs should remain at the same level as 2016 based on the consistent application of our strict cost management. The cost-income ratio is thus likely to remain approximately at the reporting year level. In terms of net write-downs of loans and provisions for guarantees and commitments, we project the need for additions in 2017 to remain virtually unchanged compared with 2016.

We project all the business segments to contribute a profit before tax to the results of HVB Group in the 2017 financial year as a whole and at the same time to improve their profit contributions compared with the 2016 financial year.

We will continue to enjoy an excellent capital base in 2017. The capital ratio for the core capital (Common Equity Tier 1 capital ratio) will be slightly lower than the level at year-end 2016. In terms of risk-weighted assets (including market risk and operational risk), a substantial increase is expected particularly on the back of the planned increase in lending and transaction volume and the rise in market risk.

Opportunities in terms of future business policy and corporate strategy, performance and other opportunities

The opportunities described below are offset by risks that are set against the exploitation of those opportunities and plans. The risks arising from the business policy and corporate strategy are described in the Risk Report.

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

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

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

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

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

The strategic emphasis in the CIB business segment is on consistent risk-adequate pricing and enhancements in strategic customer transactions and investment banking solutions for a sustainable and long-term business relationship. An integrated value chain comprising network and product specialists enables us to provide top-drawer advice complete with creative, solution-oriented approaches and wide-ranging financing and capital-procurement opportunities. We see further business potential in the expansion and improved use of our strong international network. To increase the efficiency of our customer-bank relations and thus enhance our cross-selling potential, we are expanding our processing and access platforms. We also wish to better exploit the opportunities afforded by digitalisation by setting up a digital client service model, for instance, or by expanding and strengthening the supply chain while optimising our approach to selling flow products.

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

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

Financial Review (Continued)

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

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

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

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

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

Non-financial performance indicators

Human resources

Our employees

As a bank in a dynamic and challenging business environment, HVB Group depends on highly competent and motivated employees willing to embrace change. These continue to be our most important capital for long-term value creation. To this end, we create a work environment in which cooperation and respect are prized above all other things, encouraging our employees to participate actively and realise their full potential. In this context, we see living diversity and a high level of digital literacy as success factors that enable us to meet our goal of being a future-oriented and innovative financial institution.

Our Strategic Plan

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

Developing managers and talents

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

Even in times when jobs are being shed, HVB continues to invest in talented junior staff, apprentices and trainees. The task of developing and retaining talents is becoming more important in the light of demographic developments while regulatory requirements are also demanding new training concepts and development approaches for senior management. In response, we maintain a comprehensive talent management programme to support gifted specialists and managers across the various stages of their careers, thus securing future leaders for all management levels. Through the relaunch of the hvb.de/jobs website in the reporting period, we are supporting the recruitment of new talents by adopting a more appropriate approach to addressing this particular target group.

Offering equal opportunities

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

Pay

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

Financial Review (Continued)

Excellent employer
HVB is regarded as one of the most attractive employers in all sectors of industry. At the beginning of 2016, for the sixth time in a row, the Top Employers Institute awarded HVB the "Top Employer" certification as a company whose human resources work meets the highest standards. The factors assessed included corporate culture, training and development offerings as well as career prospects. A number of flexible working-time models, home office, mobile work equipment and the Bank's own nursery at its location in Munich enable our female and male employees to reconcile family and working life. The percentage of part-time workers rose to 26.2% in 2016 (2015: 25.3%). The Bank's health management programme, the excellence of which has for years been confirmed by the Corporate Health Award (the leading German quality initiative), creates a framework throughout Germany in which employees can remain healthy and motivated.

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

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

Excellent performance
Since 2002, we have documented our ecological and social performance in a Sustainability Report – since 2008 according to the current guidelines of the Global Reporting Initiative (GRI). We have also issued statements of compliance with the German Sustainability Code since 2012. In 2011, we signed the "Code of Responsible Conduct for Business", thereby committing our Bank to uphold the principles of fair competition and sustainability, among other things. HVB has been regarded as Germany's most sustainable commercial bank for the last 14 years according to the sustainability rating agency oekom research AG (oekom research rating in December 2015 "Financials/ Commercial Banks & Capital Markets"). It ranks among the top ten commercial banks in a total field of 280 commercial banks worldwide.

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

Sector-specific guidelines known as Sector Policies make it possible for us to operate responsibly even in sensitive industry sectors. UniCredit develops these policies in consultation with non-governmental organisations like the World Wide Fund for Nature (WWF) on the basis of international standards such as the Performance Standards of the International Finance Corporation, including the related Environment, Health and Safety Guidelines of the World Bank Group. Sector Policies are currently implemented for the arms and defence industry, nuclear energy, mining, water infrastructure projects and for responsibly financing coal-based power generation. They are supplemented by our self-imposed obligation to respect human rights that we updated and optimised in 2016.

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

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

Our portfolio of sustainable investments can accommodate nearly all investment needs, whether mutual funds, asset management or retirement savings products. The investment strategy is implemented primarily with equities and bonds that have been proved to be best in class in terms of sustainability in a selection process conducted by oekom research. Furthermore, companies and countries with controversial practices are excluded ("exclusionary criteria"). The growing proportion of mandate solutions featuring a selection of sustainable securities over the last few years reflects the generally strong interest and enthusiastic response of our customers. At 31 December 2016, we had €2.6 billion in assets under sustainable management, which is equivalent to an increase of 29.5% compared with 2015.

Corporate citizenship
Integration has not only been a crucial issue of our times since the start of the refugee crisis. This is why we wish to give people opportunities to be involved in business and social life through our activities. We have geared our corporate citizenship strategy to this objective. In terms of content, the corporate citizenship of HVB focuses on three areas:
- **Financial education** and promotion of bank-related scientific research
- **Society:** social hardship, integration of handicapped people and immigrants, social business
- **Culture:** music, fine arts, promotion of talented youngsters

Environmentally friendly banking operations
HVB is seeking to minimise its impact on the environment not only in its products and services but also within the Bank. To design banking and building operations in an environmentally responsible way, HVB is focusing on resource efficiency, renewable energies and reducing its carbon footprint. All of HVB's own locations that the Bank uses are audited in a matrix certification process based on the ISO 14001 environment standard. HVB's banking and building operations have already been 100% CO_2-neutral since the summer of 2013. The complete ecological balance sheet of our banking operations is published on our website at www.hvb.de/nachhaltigkeit.

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

Risk Report

HVB 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 "Income statement, broken down by business segment", in the notes to the 2016 consolidated financial statements. The tasks of each business segment are presented in detail in the Note "Method and components of segment reporting by business segment".

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

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

Risk types

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

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

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

In accordance with the Capital Requirements Regulation (CRR), HVB 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 are grouped together under **other risks.**
- We define **business risk** as losses from unexpected negative changes in the business volume and/or margins that are not attributed to other risk types. It can lead to long-term losses in earnings, thereby diminishing the fair value of the company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour and changes in the underlying legal conditions.

- **Real estate risk** covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB 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 collateral 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 both an individual risk type and a diversified risk factor contributing to the internal capital.
- **Reputational risk** is defined as the risk of a negative effect on the income statement caused by adverse reactions by stakeholders due to a changed perception of the Bank. This altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk, strategic risk or other primary risks.
- **Strategic risk** results from management either not recognising or not correctly assessing significant developments or trends in the bank's environment. As a consequence fundamental management decisions could, in retrospect, prove to be disadvantageous in terms of the bank's long-term goals. In addition, some decisions may be difficult to reverse or cannot be reversed at all. In the worst case, this can negatively impact the profitability and risk profile of HVB 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. Two adverse scenarios are separately examined to permit an assessment of the impact of a deteriorating macroeconomic business environment. Whereas the first scenario assumes a setback in growth in major EMU economies, the second scenario assumes a conventional recession in Germany on account of falling demand for exports. Since the available financial resources are considered with the same scenarios, it is possible to make a statement about how the risk-taking capacity will evolve overall over five years, taking into account the macroeconomic scenarios.

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

New releases and updates to instructions, policies and the risk strategy are communicated through the Bank's internal information system.

Functional separation

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

Risk Report (Continued)

Risk controlling

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

Business risk is defined as losses arising from unexpected, negative changes in the volume of business and/or margins that cannot be attributed to credit, market or operational risk. Hence it results mainly from the planning of earnings and costs of the individual business segments, which the CFO organisation is responsible for coordinating. The relevant business segments are responsible for controlling the financial investments. The real estate risk arising from Group-owned property is controlled centrally by Global Banking Services (GBS). Within HVB 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 (CRC; until the end of January 2017 Credit Risk Control & Economic Capital – CEC) unit monitors credit risk, business risk, real estate risk and financial investment risk and consolidates these risk types with market risk and operational risk for the determination of the economic capital requirement. Monitoring of strategic risk is the shared responsibility of HVB's Management Board.

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

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

Divisions and committees

Chief Risk Officer (CRO)

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

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

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

Chief Financial Officer (CFO)

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

Asset Liability Management

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

Internal Audit

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

Risk Report (Continued)

Risk Committee

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

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

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

Asset Liability Committee

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

Stress Test Council

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

Reputational Risk Council

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

Loan Loss Provision Committee

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

Implementation of overall bank management

Strategy

The business strategy and the risk strategy define the key pillars of business and risk policy for HVB Group. The subsidiaries, outsourcing and information and communications technology (ICT) are incorporated in both the risk strategy and the business strategy. The HVB Group business strategy describes the strategic starting point and organisational structure, the key pillars of the business strategy at overall bank level and the sub-strategies of the individual business segments.

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

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

Overall bank management

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

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

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

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

Regulatory capital adequacy

Used core capital

For the purposes of planning and monitoring risk-weighted assets, the business segments are required to have core capital backing of equivalent risk-weighted assets arising from credit, market and operational risks equal to an average of 11%. The expected return on investment is derived from the average used core capital.

Management of regulatory capital adequacy requirements

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

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

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

Risk Report (Continued)

More detailed information on these ratios is provided in the section "Risk-weighted assets, key capital ratios, liquidity and leverage ratio of HVB 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%. This agreement will remain in force until further notice. The equity funds ratio of HVB Group was 21.1% at the end of December 2016 (31 December 2015: 25.8%).

Economic capital adequacy

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

When the aggregated EC is determined, risk-reducing diversification effects are taken into account between the individual risk types. Since December 2016, HVB Group has been using the UniCredit's group-wide model for risk aggregation that uses parameters that are uniform throughout the group for determining interdependencies between the risk types. In terms of methodology, the new model is based on a copula approach where the parameters are estimated using the statistical Bayesian method. On account of the low risk content, the EC for small legal entities of HVB Group is approximated with no differentiation by risk type. Additional risks that are not included in the regular calculation of EC are quantified on a quarterly basis within the scope of a monitoring run and compared with the available financial resources.

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

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

	2016		2015	
Broken down by risk type	€ millions	in %	€ millions	in %
Credit risk	2,820	34.9	3,448	39.0
Market risk	2,145	26.6	2,178	24.7
Operational risk	1,373	17.0	1,439	16.3
Business risk	287	3.6	319	3.6
Real estate risk	385	4.8	367	4.2
Financial investment risk	149	1.8	168	1.9
Aggregated economic capital	**7,159**	**88.7**	**7,919**	**89.7**
Economic capital of small legal entities	98	1.2	51	0.6
Pension risk	815	10.1	859	9.7
Internal capital of HVB Group	**8,072**	**100.0**	**8,829**	**100.0**
Available financial resources of HVB Group	**16,355**		**19,747**	
Risk-taking capacity of HVB Group, in %	**202.6**		**223.7**	

The IC falls by €0.8 billion overall. This can mainly be attributed to the change in the confidence level.

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

Aggregated economic capital[1] after portfolio effects

(confidence level 99.90% since January 2016, 99.93% up to and including 31 December 2015)

	2016		2015	
Broken down by business segment	€ millions	in %	€ millions	in %
Commercial Banking	1,591	21.9	1,843	23.1
Corporate & Investment Banking	4,935	68.0	5,372	67.4
Other/consolidation	731	10.1	756	9.5
Aggregated economic capital of HVB Group	**7,257**	**100.0**	**7,971**	**100.0**

1 aggregate of EC of the individual risk types and EC 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 specifications for risk responsibility and positioning, regulatory requirements, profitability and risk, and controlling of specific risks. Thresholds and limits are defined for these ratios that allow excessive risk to be identified and counter-measures initiated at an early stage. The matter is escalated to the appropriate committees and the Management Board, should the defined limits be exceeded.

Gone concern/going concern

HVB Group normally controls its risk-taking capacity under a gone-concern approach (consistent liquidation 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, thresholds and limits for the risk-taking capacity.

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

Recovery plan

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

Risk-taking capacity

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

HVB Group uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach. Under this approach, the risk-taking capacity is defined by comparing unexpected losses at the confidence level (internal capital) with the ability to absorb losses using the available equity funds (available financial resources). When determining the available financial resources, the available capital is viewed from an economic standpoint. In other words, the calculation is made in accordance with a value-oriented approach, under which shareholders' equity shown in the balance sheet is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects of own credit rating are deducted and minority interests are only taken into account to the extent of the risk-bearing portion. At the same time, subordinated liabilities recognised as regulatory capital are included. The available financial resources at HVB Group totalled €16.4 billion at 31 December 2016 (31 December 2015: €19.7 billion).

Risk Report (Continued)

With internal capital of €8.1 billion, the risk-taking capacity for HVB Group is 202.6% (31 December 2015: 223.7%). This figure is much higher than the target we have set ourselves. The decrease of 21.1 percentage points for HVB Group compared with 31 December 2015 can be attributed to the decline in the available financial resources of €3.4 billion or 17.2% in 2016. This effect has a greater impact than the decrease in internal capital of €0.8 billion or 8.6%. The fall in available financial resources results from differing and, in some cases, countervailing developments in individual components, although the main factors were a reduction in the reserves on account of the proposed appropriation of profit in 2016 and the development of deferred taxes and actuarial losses on defined benefit plans.

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 IC and EC, risk-type-specific limits and limits for risk concentrations has been implemented to ensure this. It covers all risks that need to be backed with capital. Consequently, unexpected losses for credit, market, operational, financial investment, business and real estate risk are currently recorded. In addition, pension risk is included in the IC by means of a premium and the EC 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 the 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 overshootings 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 2016:
– Contagion scenario – focusing on political tensions in the EU
– Recession scenario – recession in Germany due to a massive decline in global demand
– Historical scenario – based on the 2009 financial crisis
  A second, stricter variant of the scenario additionally reflects the default of the financial intermediary with the highest stressed counterparty risk exposures.
– China Hard Landing scenario (until the third quarter of 2016) – impact of a slowing of the Chinese economic growth to 3% until the end of 2017
– Protectionism, China slowdown and Turkey shock (as of the fourth quarter of 2016) – introduction of a policy of protectionism in the USA that is throttling growth in China in conjunction with a growth shock in Turkey
– Interest Rate Shock scenario – rising interest rates in the eurozone

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

The cross-risk-type stress tests are presented and analysed in the STC on a quarterly basis and, where necessary, appropriate measures are presented to the management and the RC. The risk-taking capacity of HVB 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 default of a central counterpart, the failed coup d'état in Turkey.

Concentrations of risk and earnings

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

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

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

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

Risk inventory

The scheduled comprehensive risk inventory at HVB 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 findings of the 2016 risk inventory were presented to the RC and HVB's Management Board in September 2016 and included in the calculation and planning of the risk-taking capacity following approval. The risk inventory serves to review the overall risk profile of HVB 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 on an ad hoc basis. In addition, further monthly risk reports are created focusing on specific business segments, countries or industries, to be communicated to the RC and the units involved in risk management, among others.

Risk Report (Continued)

Risk types in detail

Where the measurement methods for individual risk types have been refined, details are presented under the risk type concerned.

1 Credit risk

Definition

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

Categories

Credit default risk

Credit default risk is considered to occur with regard to a specific contracting party when one or both of the following criteria are satisfied:
– The Bank assumes the contracting party is probably not in a position to meet its contractual obligation towards HVB Group as whole, without having to take recourse to measures like the sale of collateral (where present).
– The contracting party is more than 90 days in arrears in terms of a material receivable.

This category also encompasses counterparty risk and issuer risk.

Counterparty risk

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

Issuer risk

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

Country risk

Country risk is the risk of losses caused by events attributable to actions by government. This includes the repayment of capital in a specific country being prevented by government intervention which gives rise to various risks (such as transfer risk, expropriation risk, legal risk, tax risk, security risk). It also includes the risk of repayment of capital being prevented by a deterioration in the economic and/or political environment (such as through recession, a currency and/or banking crisis, natural disasters, war, civil war, social unrest). Country risk encompasses:
– Sovereign risk (sovereign as counterparty) is the risk of the central government or central bank (or any agency backed by the government) defaulting, irrespective of the currency in which the debt is issued.
– Transfer and conversion risk is the risk of the government taking measures aimed at limiting the transfer of capital and/or conversion of the currency due to an inability or unwillingness to pay. Armed conflict and civil war can similarly lead to a lack of solvency. Transactions contain transfer risk when they represent cross-border business (from the standpoint of the office disbursing the loan) and are denominated in a foreign currency (from the borrower's standpoint). The borrower's credit risk is not classified as transfer risk; the transfer risk is measured separately.
Delivery risk is included in transfer risk. Delivery risk is the risk of default on account of non-delivery caused by state intervention in the delivery contract or state-imposed delivery restrictions (in the case of project loans or commodity financing, for instance).

Strategy

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

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

HVB Group's successful strategy in recent years of strictly limiting risk and managing the Bank in a risk-conscious manner was continued again in 2016. By selectively writing new business, employing active portfolio management and making effective use of professional restructuring and workout capacity, HVB Group has evolved into a bank that has a lower than average risk profile for the industry. The goal for 2016 was to continue applying this strategy and maintaining the overall portfolio at a sustainable level.

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

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

Limit system

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

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

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

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

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

Risk Report (Continued)

The utilisation of the individual limits is classified using a traffic light system:
– Green: limit utilisation is not above a defined threshold
– Yellow: limit utilisation is not above the limit but above the defined threshold
– Red: limit utilisation is above the limit

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

Credit risk reduction

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

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

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

The most significant collateral types in terms of value in the lending business are land charges, guarantees and pledges of financial collateral, which together account for approximately 90% of all valued collateral.

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

Measurement

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

Probability of default (PD)

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

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

HVB master scale with PD bandwidths

HVB RATING CLASS	AVERAGE PD	LOWER PD BANDWIDTH	UPPER PD BANDWIDTH
1	0.03%	0.001%	0.048%
2	0.08%	0.048%	0.121%
3	0.19%	0.121%	0.306%
4	0.49%	0.306%	0.775%
5	1.23%	0.775%	1.961%
6	3.12%	1.961%	4.965%
7	7.90%	4.965%	12.570%
8	20.00%	12.570%	99.999%
8–/9/10	100%	100%	

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

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

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

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

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

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

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

Risk Report (Continued)

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

Internal credit risk model
Since December 2015, HVB Group has been using the credit portfolio model used throughout UniCredit to measure the economic capital of credit risk. The group model follows the structural Merton approach under which correlations between the borrowers are mapped using a multi-factor model, taking into account fluctuations in value arising from rating changes (migration risk) as well as the pure credit default risk.

The credit portfolio model covers all banking book positions and counterparty risks arising from derivatives portfolios that are relevant pursuant to the definition of credit risk. Issuer risk from the trading book continues to be recorded using the incremental risk charge (IRC) model, which forms part of the market risk in the presentation of the ICAAP.

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

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

Monitoring and controlling

Risk monitoring takes place at the level of individual exposures. In addition, various instruments are used at the portfolio level. Individual exposures are monitored in both lending and trading operations with the aid of classical monitoring systems, such as rating analysis and early warning systems. Individual exposure limits are also defined in line with the probability of default to limit the risks entered into. Monitoring and reporting of any limit overshootings takes place on a monthly basis.

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

Quantification and specification

The EC for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €3.3 billion, which is €0.2 billion lower 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 EC at 31 December 2015 would be €3.3 billion. If the effect of the change in the confidence level is eliminated, the EC remains on a constant level in comparison to 31 December 2015.

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

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

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

Development of metrics by business segment

	EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]		ECONOMIC CAPITAL[3] € millions	
	2016	2015	2016	2015	2016	2015
Commercial Banking	159	155	17	17	858	878
Corporate & Investment Banking	165	190	14	16	2,384	2,622
Other/consolidation	4	4	30	25	13	26
HVB Group	**328**	**349**	**15**	**17**	**3,255**	**3,526**

1 expected loss of the performing exposure excluding issuer risk in the trading book
2 risk density as a proportion of expected loss to performing exposure without issuer risk in the trading book in basis points; 100 BPS = 1%
3 without taking account of diversification effects (confidence level of 99.90% since January 2016, 99.93% up to and including 31 December 2015)

In 2016, the expected loss of HVB Group fell by €21 million and risk density by 2 BP. This development can be attributed mainly to an improvement in the portfolio structure in the CIB business segment, especially on account of an increase in the higher rating classes (2 to 4) with a slight reduction in the lower rating classes (5 to 8). Furthermore, individual reclassifications from the performing portfolio to the non-performing portfolio contributed to this development.

The decrease in the economic capital by business segment in 2016 essentially reflects the change in the confidence level. In the CIB business segment, EC increased while there was no change in the expected loss on account of a build-up of single-name concentrations in the financial institutions (including sovereigns) industry.

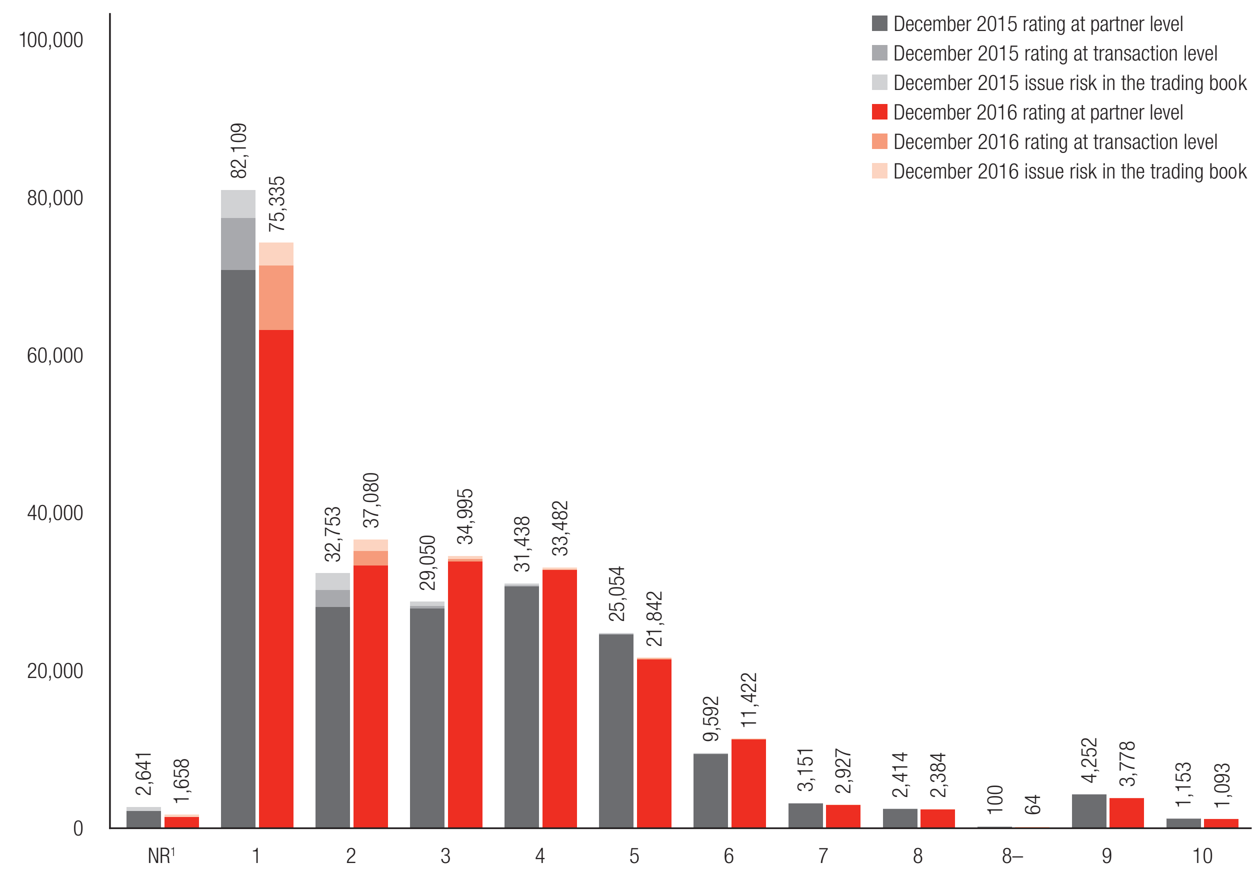
Breakdown of credit default risk exposure by business segment and risk category (€ millions)

Breakdown of exposure by business segment	CREDIT DEFAULT RISK EXPOSURE		OF WHICH COUNTERPARTY RISK		OF WHICH ISSUER RISK IN BANKING BOOK		OF WHICH ISSUER RISK IN TRADING BOOK	
	2016	2015	2016	2015	2016	2015	2016	2015
Commercial Banking	95,035	92,956	3,371	3,831	126	151	—	—
Corporate & Investment Banking	129,659	128,989	19,691	19,486	46,066	43,258	5,429	7,219
Other/consolidation	1,366	1,762	131	106	35	75	—	—
HVB Group	**226,060**	**223,707**	**23,193**	**23,423**	**46,227**	**43,484**	**5,429**	**7,219**

The credit default risk exposure of HVB Group rose by €2,353 million in 2016. The Commercial Banking business segment in particular saw a build-up of risk exposure amounting to €2,079 million. This is due to how business has developed in the real estate, food, beverages, agriculture and the public sector industries.

Risk Report (Continued)

Breakdown of credit default risk exposure by rating class (€ millions)



1 not rated

The HVB Group rating structure changed during 2016 mainly on account of the business development in the financial institutions (including sovereigns) industry group, which led to a decrease of €6,774 million in exposure in rating class 1. This was caused mainly by the reduction in HVB Group's liquidity investments.

Furthermore, there was an increase in exposure of €12,316 million in the higher rating classes (2 to 4) in various industries both on account of business growth and rating migrations. By contrast, a decrease in exposure of €1,636 million was achieved in the lower rating classes (5 to 8).

Development of metrics by industry group

Industry group	CREDIT DEFAULT RISK EXPOSURE € millions		OF WHICH ISSUER RISK IN TRADING BOOK € millions		EXPECTED LOSS[1] € millions		RISK DENSITY in BPS[2]	
	2016	2015	2016	2015	2016	2015	2016	2015
Financial institutions (including sovereigns)	50,039	55,653	4,187	5,768	26	34	6	7
Public sector	31,404	32,728	205	441	2	2	1	1
Real estate	25,918	24,653	53	61	31	27	12	11
Energy	13,692	10,393	205	194	39	18	29	18
Special products	12,312	11,678	2	1	9	29	8	24
Chemicals, pharmaceutics, health	10,275	9,062	114	79	19	17	19	19
Food, beverages, agriculture	8,925	7,700	39	29	15	14	16	17
Automotive industry	7,270	7,189	86	79	9	9	13	14
Consumer goods, textile industry	6,161	6,580	39	31	15	14	26	21
Services	5,575	5,213	40	44	16	17	30	34
Transport, travel	5,176	5,263	70	136	10	11	22	25
Metals	5,048	4,742	72	62	14	14	31	32
Machinery	4,879	3,919	17	25	10	10	22	27
Construction, wood	4,824	4,664	45	36	10	10	22	22
Shipping	4,770	5,297	1	4	55	76	173	192
Telecoms, IT	4,327	4,251	132	157	9	5	23	13
Media, paper	2,075	1,689	20	19	4	5	18	34
Electronics	1,950	2,446	86	26	2	3	14	11
Tourism	1,917	1,476	9	8	4	4	21	25
Private customers	19,432	19,012	—	—	26	27	14	14
Others	91	99	7	19	3	3	334	373
HVB Group	**226,060**	**223,707**	**5,429**	**7,219**	**328**	**349**	**15**	**17**

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

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

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

Exposure in the financial institutions (including sovereigns) industry group fell by €5,614 million in 2016. This development is attributable, among other things, to the reduction in liquidity investments and lies within the volatility parameters for business in this industry. The €8 million decrease in the expected loss can be explained primarily by the result of improvements in ratings and also by reclassifications of some customers to other industries. The risk density improved slightly from 7 BPS to 6 BPS.

Exposure in the energy industry group increased significantly by €3,299 million in 2016. The increase is mainly the result of growth in the business in line with the strategy but also of reclassification of a transaction totalling €1,520 million from another industry group. In addition to the deterioration in some ratings, this reclassification is one of the main factors in the €21 million increase in the expected loss. If the aforementioned classification is eliminated, the quality of the portfolio has even improved slightly in terms of risk density.

Exposure in the shipping industry group was reduced by a further €527 million in 2016. The expected loss likewise fell by €21 million following loan repayments and some individual transfers to the non-performing portfolio. This led to an improvement in the risk density of 19 BPS.

Risk Report (Continued)

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

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

HVB 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 and the development banks enjoying the formers' full liability represent important counterparties for internal liquidity management, the vast majority of the exposure is caused by our own liquidity investments. A reduction in liquidity investments was performed which contributed, among other things, to the decrease in exposure of €1,324 million presented above. The exposure is fluctuating comfortably within the industry limits defined for this industry.

Real estate
The real estate market in Germany again proved very stable in 2016 thanks to historically extremely low long-term interest rates coupled with a robust labour market and persistently strong demand for residential property and now also commercial property, especially in major conurbations. The change in investment patterns seen during the last financial crisis in 2008 led to large shifts of assets into real estate.

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

Partly as a result of the conservative, forward-looking credit risk strategy for the real estate industry group that has been applied for years, the portfolio of existing properties remained robust and relatively low risk in 2016 (measured by risk density). In a long-term comparison, 2016 saw the best risk result (measured in terms of actual loss) for the real estate industry group.

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

Special products
A strategy of growth in clearly defined asset classes with conservative credit standards was defined for sub-segments of the special products portfolio under the 2016 risk strategy. This growth has been achieved in the planned portfolio sub-segments despite the difficult market environment (including the competitive situation and downward pressure on margins). We are retaining the existing growth strategy for 2017 as a whole.

Energy
The energy portfolio increased in 2016 essentially on account of the reallocation of an exposure worth €1,520 million from a different industry group. In addition, the expansion of business with oil trading companies in line with the strategy as well as drawings from existing lines caused exposure to rise. If the reallocation mentioned above is excluded, the quality of the portfolio, as measured by the risk density, even improved slightly.

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

Shipping
The industry faced heavy pressure in most sub-markets in 2016. The freight and time charter rates for bulk carriers reached historic lows in the first quarter on account of overcapacity resulting from weaker demand; they have only recovered to a minor extent since then.

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

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

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

After the prices on the market for new ships and the secondary market that had fallen sharply during the course of the ongoing crisis finally started to stabilise at a low level, prices demonstrated differing trends – similar to the development of freight rates. While bulk carriers saw prices beginning to rise moderately, prices for all other types of ship were in strong decline in 2016 and reached scrap price level for certain sub-segments.

HVB 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 2016. At the same time, however, new business was written selectively where this helped to enhance the quality of the portfolio.

Risk Report (Continued)

Media, paper
The media, paper portfolio increased to €2,075 million in 2016. The €386 million rise is essentially attributable to three new financing transactions (total €200 million) and increases at other existing customers. As the increases predominantly took place in customer groups in a superior rating class, the portfolio quality improved significantly in terms of risk density. All in all, exposure remained within the industry limits defined for the industry.

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

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

Special focus facilities
The HVB Group portfolio includes exposures relating to the completion of an offshore wind farm (Ocean Breeze). 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.

The offshore wind farm has been in operation since the beginning of 2014. After initial grid connection problems, the wind farm has been in stable regular operation since the beginning of 2015, the capacity of the wind farm has improved again and stabilised over the course of 2016. It is, however, not possible to completely rule out the risk of (unforeseen) technical problems having a negative impact on performance. All issues relating to damage are included in Ocean Breeze's current business and multiple-year planning. On this basis and with regard to the wind park's performance parameters, it may be assumed that the cash flow that can be generated in regular operation will be sufficient to ensure that the debt level will be repaid over a period that is customary for the industry. To date, a further €150 million of Ocean Breeze's liabilities was repaid in 2016. For the following years, the company is planning to make further annual repayments in the range of three-digit millions from forecast cash flow.

Based on Section 17e of the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG), Ocean Breeze has already received reimbursements from the grid operator TenneT for some of the lost revenues incurred mainly in 2014. A further tranche of the claims for damages asserted by Ocean Breeze is in dispute and has been subject to court proceedings for clarification since spring 2016.

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

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

(€ millions)

	CREDIT DEFAULT RISK EXPOSURE		OF WHICH ISSUER RISK IN TRADING BOOK	
Country	**2016**	**2015**	**2016**	**2015**
Germany	135,535	135,190	744	1,576
Luxembourg	8,161	10,433	234	590
Italy	8,044	8,459	1,048	1,310
Spain	7,331	6,926	93	136
France	7,133	6,277	317	703
Netherlands	4,820	5,615	193	220
Ireland	4,724	3,000	70	90
Austria	3,258	2,164	1,457	410
Belgium	1,120	966	152	294
Greece	275	361	1	4
Finland	231	321	28	217
Cyprus	220	148	6	7
Portugal	93	70	37	13
Slovenia	88	140	17	11
Malta	34	43	—	—
Slovakia	27	20	24	17
Latvia	15	18	—	—
Lithuania	13	4	12	4
Estonia	—	1	—	1
HVB Group	**181,122**	**180,156**	**4,433**	**5,603**

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

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

Italy

The size of the 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 actively managed in accordance with market standards (such collateralized derivative transactions). The exposure to Italy also includes the exposure with UniCredit S.p.A., for which a separate strategy was defined. The economy recovered on the back of the reforms enacted by the Renzi administration, with real GDP growth turning positive again in 2016. Despite the resignation of Prime Minister Matteo Renzi in December 2016, the economy has proven to be stable in recent weeks and a change of a similar scope to that seen in 2016 is also expected for 2017.

Risk Report (Continued)

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

Development of the weaker eurozone countries
The strict austerity measures and reforms imposed by some eurozone countries have been successful, leading to a generally better assessment by the capital markets. Spain in particular should be highlighted in this respect as this country generated strong growth once again in 2016. The portfolio in the weaker eurozone countries was again actively managed in 2016, albeit with different strategies.

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

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

	CREDIT DEFAULT RISK EXPOSURE		OF WHICH ISSUER RISK IN TRADING BOOK	
Region/country	**2016**	**2015**	**2016**	**2015**
UK	11,615	11,699	160	377
USA	10,416	9,897	225	275
Switzerland	5,003	4,756	84	214
Asia/Oceania (without Japan, China, Hong Kong)	3,779	2,627	25	24
Turkey	2,498	2,056	22	6
Near/Middle East/North Africa	2,217	1,097	4	4
Western Europe (without Switzerland, UK)	1,900	1,953	179	375
China (including Hong Kong)	1,791	1,330	—	—
North America (including offshore jurisdictions, without USA)	1,276	920	50	52
Eastern Europe	1,203	1,086	166	173
Russia	962	1,322	22	69
Japan	855	3,592	9	18
Southern Africa	708	596	20	5
Central and South America	595	514	30	24
Central Asia (without Russia, Turkey)	120	106	—	—
HVB Group	**44,938**	**43,551**	**996**	**1,616**

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

In 2016, overall exposure in regions/countries outside of the eurozone rose by €1,387 million. The Asia/Oceania region (excluding Japan, China, Hong Kong) and the Near/Middle East/North Africa region in particular contributed to this development.

Brexit

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

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

Derivative transactions

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

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

On the basis of these replacement values and not taking into account any risk-reducing effects, the maximum counterparty risk for HVB Group at 31 December 2016 totalled €76.1 billion (31 December 2015: €78.6 billion).

In accordance with the regulatory provisions under Basel III and CRR as well as taking account of the internal model method (IMM) that has been approved by the regulatory authorities for use by HVB to determine counterparty risks, HVB Group's derivative business results in risk-weighted assets arising from counterparty risk of €5.3 billion as of 31 December 2016 (31 December 2015: €6.0 billion).

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

Risk Report (Continued)

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2016	2015	2016	2015	2016	2015
Interest rate derivatives	**675,353**	**690,027**	**700,362**	**2,065,742**	**2,556,410**	**60,989**	**64,452**	**57,836**	**62,123**
OTC products									
Forward rate agreements	67,579	290	—	67,869	184,122	5	26	2	21
Interest rate swaps	499,897	638,931	565,928	1,704,756	1,976,477	57,257	60,961	49,975	56,311
Interest rate options									
– purchased	14,072	22,112	70,604	106,788	164,275	3,508	3,326	195	203
– written	20,919	17,426	61,466	99,811	149,155	153	125	5,731	5,256
Other interest rate derivatives	307	—	—	307	16,035	65	11	68	329
Exchange-traded products									
Interest rate futures	34,723	11,268	1,650	47,641	39,202	—	—	1,865	—
Interest rate options	37,856	—	714	38,570	27,144	1	3	—	3
Foreign exchange derivatives	**277,386**	**41,564**	**4,505**	**323,455**	**310,378**	**5,342**	**4,028**	**6,000**	**4,464**
OTC products									
Foreign exchange forwards	226,151	32,822	1,144	260,117	268,183	4,585	3,664	5,200	4,009
Foreign exchange options									
– purchased	25,364	4,605	1,811	31,780	20,792	597	237	161	153
– written	25,867	4,137	1,550	31,554	21,397	160	127	639	302
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	4	—	—	4	6	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,250**	**104,769**	**51,525**	**191,544**	**218,769**	**6,544**	**6,502**	**6,795**	**7,906**
Equity/index derivatives	**32,372**	**36,187**	**10,383**	**78,942**	**76,138**	**2,252**	**2,158**	**3,184**	**2,955**
OTC products									
Equity/index swaps	4,927	4,816	251	9,994	9,201	204	165	302	139
Equity/index options									
– purchased	2,986	1,995	357	5,338	6,739	378	483	152	66
– written	7,975	12,150	6,805	26,930	22,276	58	25	641	690
Other equity/index derivatives	183	10	1	194	320	17	3	—	3
Exchange-traded products									
Equity/index futures	5,659	8	—	5,667	6,247	5	15	5	6
Equity/index options	10,642	17,208	2,969	30,819	31,355	1,590	1,467	2,084	2,051
Credit derivatives[1]	**14,072**	**39,931**	**2,202**	**56,205**	**69,521**	**671**	**1,446**	**556**	**1,124**
Other transactions	**8,574**	**3,582**	**1,230**	**13,386**	**9,969**	**438**	**671**	**622**	**384**
HVB Group	**1,043,007**	**916,060**	**770,207**	**2,729,274**	**3,241,185**	**76,236**	**79,257**	**74,993**	**78,956**

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

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €530,798 million at 31 December 2016 (thereof credit derivatives: €3,470 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2016	2015	2016	2015
Central governments and central banks	7,036	5,541	1,559	1,754
Banks	41,122	45,348	45,185	49,735
Financial institutions	24,590	24,921	25,988	24,939
Other companies and private individuals	3,488	3,447	2,261	2,528
HVB Group	**76,236**	**79,257**	**74,993**	**78,956**

Credit derivatives

(€ millions)

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

Credit derivatives by reference asset

(€ millions)

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

Risk Report (Continued)

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

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

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

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

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

2 Market risk

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

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

Foreign currency risk arises from fluctuations in exchange rates.

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

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

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

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

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

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

Limit system

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

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

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

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

Measurement

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

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

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

HVB 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 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%.

Risk Report (Continued)

Monitoring and controlling

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

The VaR figures are reported daily along with the limit utilisation and the earnings figures (P/L figures) to the Management Board and the responsible persons in the CIB business segment. Whenever trading-book and/or total VaR limits are exceeded, an escalation process is triggered immediately and the reduction of the positions in question monitored. In 2016, such reduction was, with a few exceptions, carried out within one day. If the specified limit was exceeded on the following day as well, the escalation process was again initiated immediately.

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

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

To calculate and allocate the EC requirements for market risk, the hypothetical distribution used to determine the VaR has been expanded to an observation period of (at least) six years and combined with the results arising from the CVA risk. Unlike in internal risk controlling, any hedge effect of the model book for equity is not included in the EC. Furthermore, market risks are also included that arise from the IRC, the market risk Standard Approach, add-ons for ABS risks and for gap option risks. All risks, with the exception of the add-ons, are scaled accordingly to obtain a confidence level of 99.90% and a holding period of one year.

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

Simulation of interest income

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

One scenario calls for a parallel interest shock of minus 100 basis points. Assuming that the expiring contracts were reinvested within the next twelve months with the same product features, this would serve to reduce net interest by €56 million (31 December 2015, minus 100 basis points: minus €32 million), whereas a parallel interest shock of plus 100 basis points would increase net interest for the same period by €84 million (31 December 2015, plus 100 basis points: plus €133 million). A floor is employed at 0%, meaning that the interest shock of minus 100 basis points is not fully applied.

The resulting sensitivity analysis is carried out on the basis of the planned net interest income for the 2016 financial year.

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

Quantification and specification

The EC for market risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €2.5 billion and has changed hardly at all in comparison to the figure as at 31 December 2015 (€2.7 billion). If the currently applicable confidence level of 99.90% were applied retrospectively to 31 December 2015, the comparative value for the EC at 31 December 2015 would be €2.6 billion. If the effect of the change in the confidence level is eliminated, the EC decreased by €0.1 billion compared with 31 December 2015.

The following table shows the aggregated market risk for the trading positions at HVB 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	Q4 2016	Q3 2016	Q2 2016	Q1 2016	31/12/2016	31/12/2015
Credit spread risks	5	4	4	5	5	4	4
Interest rate positions	7	12	5	6	5	11	3
Foreign exchange positions	4	5	4	3	2	4	2
Equity/index positions[1]	4	3	3	4	4	2	4
HVB Group[2]	**8**	**9**	**7**	**8**	**8**	**9**	**7**

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

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

Regulatory metrics of HVB Group (€ millions)

	31/12/2016	30/9/2016	30/6/2016	31/3/2016	31/12/2015
Value-at-risk	198	172	562	263	75
Stressed value-at-risk	286	310	215	257	165
Incremental risk charge	168	188	195	251	227
Market risk Standard Approach	2	2	2	5	5
CVA value-at-risk	48	50	48	44	41
Stressed CVA value-at-risk	157	174	191	204	214
CVA Standard Approach	16	17	38	59	48

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

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

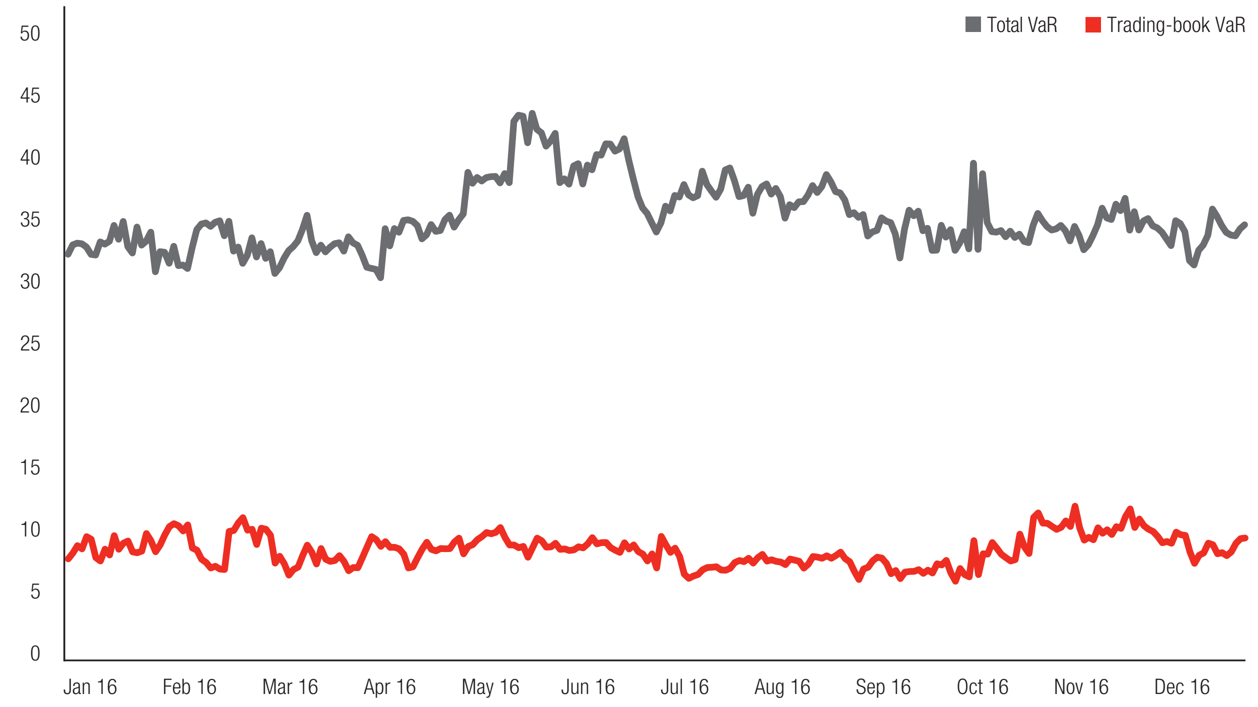
Risk Report (Continued)

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

	AVERAGES					PERIOD-END TOTALS	
	2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016	31/12/2016	31/12/2015
Credit spread risks	27	25	29	29	26	23	23
Interest rate positions	15	17	13	19	12	16	8
Foreign exchange positions	8	11	8	6	6	13	8
Equity/index positions[1]	4	4	4	4	5	3	4
HVB Group[2]	**34**	**34**	**35**	**37**	**32**	**34**	**31**

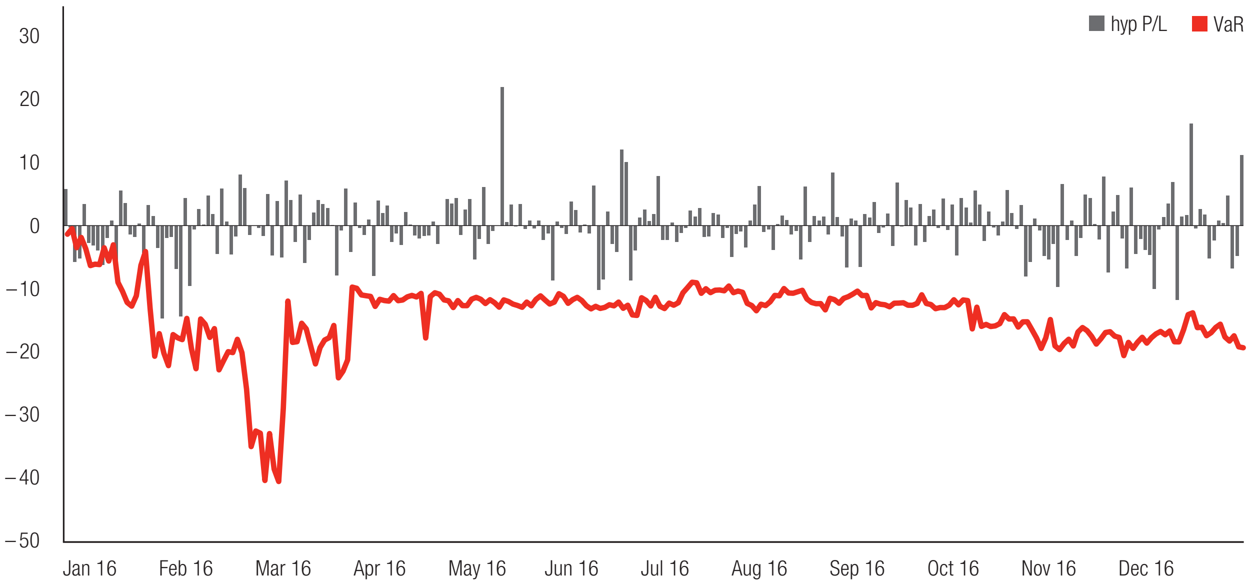
1 including commodity risk
2 Because of the diversification effects between the risk categories, the total risk is less than the sum of the individual risks.

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 2016.

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



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

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

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

Market liquidity risk
Market liquidity risk relates to the risk that the Bank will suffer losses due to the disposal of assets that can only be liquidated on the market at a discount. In the extreme case, HVB 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.

Risk Report (Continued)

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

Stress tests

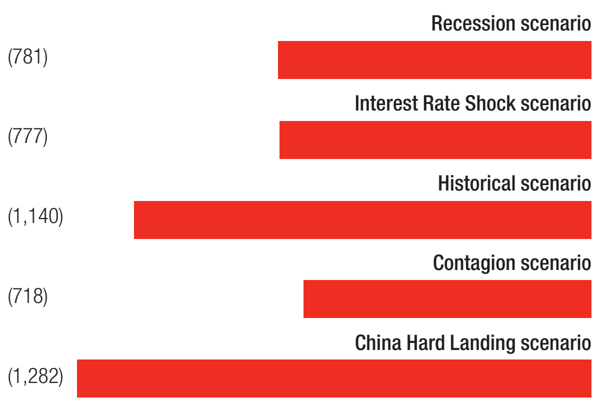
In addition to calculating the VaR and the other risk metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency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

To evaluate the effects of a financial crisis on a regular basis, we introduced the Historical scenario. This scenario reflects the trend in the financial crisis in 2009. To take account of the low market liquidity, the time horizon for this scenario was extended and covers a period of three months.

Further hypothetical scenarios are based on the potential market movements in the event of a worsening of the debt crisis in Europe (Contagion scenario) or a negative demand shock in Germany (Recession scenario). The China Hard Landing scenario simulates the effects of a slowdown in Chinese economic growth until the end of 2017. In 2017, we will compute a new scenario to replace the China Hard Landing scenario reflecting the introduction of protectionism in the US that dampens growth in China in conjunction with a growth shock in Turkey. The Interest Rate Shock scenario is used to analyse the impact of a rapid rise in interest rates in the eurozone.

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

HVB Group stress tests at 31 December 2016 (€ millions)



As described under the sub-header "Stress tests" in the section entitled "Implementation of overall bank management", inverse stress tests were again performed in 2016. Risks resulting from market risk in the banking portfolio were also included in this analysis.

In compliance with the regulatory rules published by BaFin on 9 November 2011, the change in the fair value of the banking book in case of a sudden and unexpected interest rate shock of +/–200 basis points is compared with the Bank's eligible equity funds on a monthly basis. This analysis is carried out both with and without the hedging effect from the model book for equity. At 31 December 2016, the calculation of the present value from the managerial viewpoint taking into account the interest rate shocks gives rise to a capital requirement of 0.9% (31 December 2015: 0.8%). When calculated from the regulatory viewpoint, by contrast, a capital charge of 8.3% becomes apparent given an increase of 200 BPS in interest rates (31 December 2015: 7.3%). HVB Group is well below the 20% mark (in relation to the capital charge) specified, above which the banking supervisory authorities consider a bank to have increased interest rate risk. These figures include the positions of HVB as well as the positions of the material Group companies.

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

3 Liquidity risk

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

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

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

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

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

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

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

Risk Report (Continued)

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

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

Limit system

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

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

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

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

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

Reduction

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

Measurement

Short-term liquidity risk

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

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

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

Alongside this internal measurement methodology, HVB and its domestic subsidiaries engaged in banking activities are subject to the regulatory standards for short-term liquidity risk defined in the German Liquidity Regulation (Liquiditätsverordnung – LiqV).

Calculating the liquidity coverage ratio (LCR) is intended to ensure that an institution is able to meet its short-term payment obligations under the assumption of an acute stress scenario over a period of 30 calendar days. The requirement in place as at 31 December 2016 of 70% is significantly exceeded by HVB with a figure in excess of 100%.

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

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

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

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

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

Risk Report (Continued)

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

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

Quantification and specification

Short-term liquidity risk

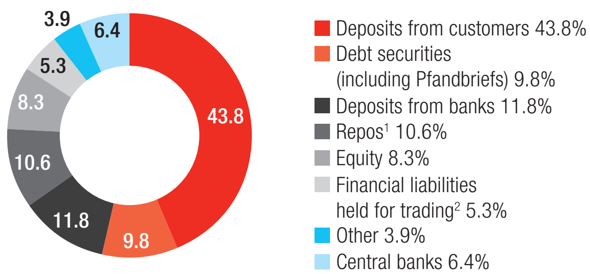
Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €35.0 billion in HVB Group for the three-month maturity bucket at the end of December 2016 (31 December 2015: €38.0 billion). The holding of available securities eligible as collateral for central bank borrowings that can be employed on the next banking day to compensate for unexpected outflows of liquidity amounted to €31.9 billion at the end of 2016 (31 December 2015: €31.8 billion).

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

Funding risk

The funding risk of HVB Group was again low in the second half of 2016 thanks to our broad funding base in terms of products, markets and investor groups. This ensured that we were able to obtain adequate funding for our lending operations in terms of volume and maturity within the framework of our limit system at all times. By the end of December 2016, HVB Group had obtained longer term funding with a volume of €13.5 billion (31 December 2015: €6.1 billion), including €7.0 billion under the ECB's TLTRO-II programme. At the end of December 2016, 102.3% (31 December 2015: 98.2%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Breakdown of sources of funding of HVB Group (31 December 2016)



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

Stress tests

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

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

Summary and outlook

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

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

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

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

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

4 Operational risk

Definition

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

Strategy

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

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

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

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

Limit system

Operational risk is part of the internal capital, with a limit set for HVB Group accordingly.

Risk Report (Continued)

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

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

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

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

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

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

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

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

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

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

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

Legal risks/arbitration proceedings
HVB 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 claimant has not specifically quantified the amounts in dispute. In all proceedings where it is possible to reliably estimate the amount of possible losses, and the loss is considered likely, appropriate provisions have been set up based on the circumstances and consistent with IFRS accounting principles applied by HVB Group.

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

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

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

Risk Report (Continued)

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

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

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

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

Legal proceedings related to financial instruments

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

Proceedings related to derivative transactions

The number of complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative market value has decreased slightly. Among other things, the arguments produced in the complaints and legal proceedings are that the Bank allegedly did not sufficiently inform the customer with respect to the relevant investment and potential risks related to such transactions. Generally, there has been a trend for customer-friendly judgements with respect to derivative-related lawsuits. The German Federal Court of Justice affirmed for instance the duty to inform about an initial negative market value of an interest rate swap, unless the interest rate swap is in a certain way related to a loan agreement ("Konnex"). In this context, the German Federal Court of Justice also stated that the established obligations to provide investor-oriented and investment-specific advice have been joined by the obligation to disclose concealed conflicts of interest on the part of the advisor. Latest rulings also confirm that the characteristics of the relevant product and the individual circumstances of each case are decisive. In particular, the statute of limitations, the client's economic experience and risk tolerance, and the actual investment advice given may be relevant aspects.

Proceedings related to German tax credits

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

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

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

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

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

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

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

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

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

Legal proceedings for consequential damages

A customer filed an action against HVB with Frankfurt Regional Court (Landgericht) for consequential damages of €51.7 million for the following reasons: In 2010, HVB was ordered by Frankfurt Higher Regional Court (Oberlandesgericht) to pay damages in the amount of €4.8 million to the plaintiff due to the faulty handling of a bill of exchange and in addition to compensate further damages suffered by the plaintiff as a result of earlier such deficiencies. In 2011, the plaintiff filed an action against HVB with Frankfurt Regional Court for alleged consequential damages in the amount of €33.7 million stating that he suffered such losses as a consequence of not being able to profitably invest the amount of the bill of exchange. In the meantime, he has also extended his claim to the amount of €51.7 million. HVB is of the view that the claim is unfounded and the allegations raised by the plaintiff are unreasonable and fallacious. It can, however, not be ruled out that the court will take a different view on some of the points in dispute.

Risk Report (Continued)

Proceedings in connection with financial sanctions

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

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

Investigations into tax evasion

In mid-March 2015, the Cologne Public Prosecutor (Staatsanwaltschaft Köln) opened an investigation alleging reasonable suspicion that individual employees of HVB and/or its subsidiary in Luxembourg assisted tax evasion committed from 2004 to 2010 by several of their private banking customers. The Cologne Public Prosecutor furthermore initiated a proceeding against HVB and the relevant subsidiary for an administrative fine according to the German Administrative Offences Act. The proceedings were concluded with legal effect in May 2016 with the imposition of a fine and a profit claw back.

Measurement

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

The AMA model is based mainly on internal and external loss data. The process involves computing loss distributions for each model risk category. A model risk category is determined by combining the Basel loss event category and the product category of the loss event. Scenario data are used to complete the data for rare yet extreme events. The individual data sources are aggregated by applying the Bayesian model to the loss distribution parameters for each model risk category.

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

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

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

Quantification and specification

The EC for operational risk at HVB Group, without taking account of the diversification effects between the risk types, amounted to €1.6 billion as at 31 December 2016 (31 December 2015: €1.9 billion). The main reason for the decrease stems from the change in the confidence level from 99.93% to 99.90%. Retroactively applying the currently valid confidence level to the previous reporting date, the EC of HVB Group remains virtually unchanged. The corresponding comparative figure as at 31 December 2015 stands at €1.6 billion.

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

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

5 Other risks

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

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

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

Strategic initiatives intended to counter earnings risks were targeted at achieving a significant level of exploitation of the cross-selling potential contained in customer relations in order to boost our share of earnings but also active interest rate management and the central control of major transactions. At the same time, the risk of declining demand for credit from enterprises due to the business model as a universal bank is being countered by stepping up debt capital markets activity, involving the issuance of bonds and other debt securities for companies.

The goal of the Commercial Banking business segment in 2016 was to expand its market position, despite the challenging market environment. Among other things, strategic initiatives intended to counter earnings risks focused on risk-adjusted pricing, the central control of major transactions by higher-level bodies, reinforced value creation with the customer in order to generate earnings, greater customer orientation by enhancing quality in the core business and sustainable cost management achieved through high cost awareness and continuous cost controlling.

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

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

Risk Report (Continued)

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

The EC for HVB Group's business risk, without taking account of diversification effects between the risk types, fell by €400 million to €403 million in 2016. Retroactively applying the currently valid confidence level and the current risk model to the previous reporting date, the comparative figure for the EC would have stood at €415 million at 31 December 2015. After eliminating the effect of the change in the confidence level and the changeover of the model, there is a slight decrease in EC of €12 million in comparison to 31 December 2015. The fully diversified EC for HVB Group's business risk totals €287 million at 31 December 2016 (31 December 2015: €319 million).

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

Real estate risk

Real estate risk covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and Special Purpose Vehicles (SPVs). No land or properties are included that serve as collateral in lending transactions.

A fundamental distinction is made in real estate risk between (strategic) real estate required for operations and non-strategic real estate. The general focus for the existing real estate portfolio in 2016 was on measures targeting current fair value and cost optimisation. At the end of 2016, a property in Leipzig was purchased for strategic use. This property had already been used by Group units in the past. No additional purchases are planned for 2017, except where they would serve the interests of HVB 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, for the first half of 2016 this relates primarily to the major renovation project aimed at turning the "HVB Tower" (formerly "Hypo-Haus") in Munich into a green building. This project was completed as planned in March 2016 and the property was reoccupied. Alongside the objective of increasing the space efficiency, the building's resource consumption was reduced. One further aspect of the "HVB Tower" project involves the renovation of another part of the building. As part of the further objective of consolidating areas at the Munich location, several projects were integrated into each other.

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

Real estate risk is managed overall on the basis of an IC limit for HVB Group. In addition, EC limits adjusted for diversification effects were allocated to the business segments and the relevant subsidiaries for 2016 in the context of overall bank management. Based on these limits, early warning indicators have also been defined in the form of targets and thresholds in order to identify an overshooting of the limit in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

The Bank uses a variance-covariance model to quantify real estate risk. The Bank's proprietary real estate indices are employed as explanatory risk factors for the parameterisation of the model. These indices are broken down by property type (rents for office areas, flats, residential rents, owner-occupied homes, land for housing construction, retailer with small floor areas, retailer with large floor areas, land for commercial construction, warehouse/logistics properties) and geographical location. In the case of foreign real estate, there is currently only one index that is derived from the present portfolio in terms of its composition due to the current strategic orientation of the portfolio. For German properties, time series are currently available for the most important municipalities (around 80).

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

The EC for the real estate risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €588 million at 31 December 2016, which is €106 million higher than the reported figure at 31 December 2015 (€482 million). One significant reason for this change is the extension of real estate fund portfolio profiles. The counteracting effect stemming from the change in the confidence level from 99.93% to 99.90% should be mentioned. If the currently valid confidence level is applied retroactively to the previous reporting date, the comparative figure for the EC would be €466 million as at 31 December 2015. Eliminating the effect arising from the change in the confidence level, there is a rise of €122 million in the EC compared to 31 December 2015. The fully diversified EC for the real estate risk at HVB Group stands at €385 million (31 December 2015: €367 million).

The risk figures relate to a portfolio valued at €3,854 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2016	2015	2016	2015
Strategic real estate	1,740	1,728	45.1	56.7
Non-strategic real estate	2,114	1,319	54.9	43.3
HVB Group	**3,854**	**3,047**	**100.0**	**100.0**

The structure of the HVB Group's real estate portfolio changed over the course of 2016 as the extension of the real estate fund profiles leads to an increase in the proportion of non-strategic properties. From a geographical perspective, the focus is on Munich region with 43.7% of the value of the portfolio located there.

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

Risk Report (Continued)

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

Financial investment risk

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

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

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

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

The EC for the financial investment risk of HVB Group, without taking account of diversification effects between the risk types, fell by €8 million in 2016 to total €208 million at 31 December 2016. One significant reason for this development is the change in the confidence level from 99.93% to 99.90%. If the currently valid confidence level is applied retroactively at the previous reporting date, the comparative figure for the EC would be €210 million as at 31 December 2015. This means that eliminating the effect arising from the change in confidence level, the financial investment risk remains virtually unchanged in comparison to 31 December 2015. The fully diversified EC of HVB Group amounts to €149 million (31 December 2015: €168 million).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	2016	2015	2016	2015
Private equity funds	119	124	46.7	45.6
Private equity investments	23	30	9.0	11.0
Other holdings[1]	113	118	44.3	43.4
HVB Group	**255**	**272**	**100.0**	**100.0**

1 listed and unlisted investments

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

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

Reputational risk

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

HVB and its most important subsidiaries apply a holistic approach to reputational risk management. This means that all significant new activities and transactions at the Bank are normally analysed with regard to potential reputational risk ("change-the-bank" approach) and individual units at the Bank are examined at regular intervals regarding latent 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 are called in who will assess the reputational risk identified in terms of quality. The RRC will obtain a decision on the basis of the risk analysis and the qualitative assessment.

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

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

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

Risk Report (Continued)

Strategic risk

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

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

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

Risk arising from the overall economic environment

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

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

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

HVB Group is a universal bank that focuses on the regional management of the German market and also acts as the centre of competence for the investment banking activities of UniCredit as a whole. As a consequence, the bank's business model is built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise. Thus, the business segments are impacted by the persistent low interest rate environment each in their own way.

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

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

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

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

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

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

Risks arising from changes to the regulatory and statutory environment
The activities of HVB Group are regulated and supervised by the central banks and regulatory authorities in the countries and regions where HVB Group does business. The regulatory requirements in the individual countries/regions are subject to change at regular intervals. Their impact on the business activities and business models of banks needs to be tracked closely. Such regulations might lead to adjustments in the strategic orientation. We assume that the trend towards more stringent regulatory provisions will persist.

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

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

Risk Report (Continued)

Risks arising from a change in HVB's rating

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

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

Pension risk

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

The risks described are calculated and monitored at regular intervals in our risk management department using a model devised specifically for pension risk. A risk figure is determined periodically using calculations based on changes in key risk parameters for both the various capital investments and the cash flows on the obligations side. A figure of €815 million was determined as at 31 December 2016 for the total pension risk of HVB Group (31 December 2015: €859 million); this figure is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the internal capital. In addition, the impact on pension risk is analysed at regular intervals as part of the cross-risk-type stress tests.

Low interest rates continue to be seen as the main negative factor for both the amount of the pension commitments disclosed and the amount of the income that can be generated from the plan assets with acceptable risk. It is perfectly conceivable that, in the current low interest rate environment, the discount rate will have to be lowered further (as at the end of 2015 the discount rate stood at 2.35% and as at 31 December 2016 at 1.90%), thus causing the pension obligations to rise further. Additional adjustments to the risk model applied are still under discussion. Depending on the final structure of the model with regard to the various risk factors applied, the pension risk might again significantly increase after a further adjustment. Furthermore, uniform European rules for the measurement of pension risk do not exist at present. This gives rise to further uncertainty regarding the future development of the disclosed pension risk.

Risks arising from outsourcing activities

Outsourcing risk is considered a cross-risk-type risk at HVB 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, and 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 significant impact" and "material with significant impact". In accordance with the group-wide regulations regarding outsourcing management, these arrangements are also subdivided into "not relevant" and "relevant" in line with the provisions of the Bank of Italy's Circular no. 263. An in-depth risk analysis covering the other risk types as well as operational risk is performed for the outsourcing arrangements classified as "material" or "relevant". A retained organisation (RTO) responsible for the arrangement is set up for each material outsourcing arrangement that manages the risks identified. The identified risks are incorporated in risk management of HVB Group in the processes defined for the risk types concerned. The operational risk managers help the project managers and the heads of the RTOs to prepare and/or update the related risk analysis.

No further material new outsourcing arrangements were set up by HVB in 2016. In a significant change to the outsourcing portfolio, HVB has folded the existing outsourcing firm UniCredit Global Business Services GmbH (UGBS GmbH) into UniCredit Business Integrated Services S.C.p.A. (UBIS). This has not yielded any material change in risk.

Within HVB Group, UniCredit Luxembourg S.A. closed a new material outsourcing agreement with International Fund Services & Asset Mgmt. S.A. (IFSAM), Luxembourg as provider for the calculation of retrocessions (retrocessional cover agreements or consideration to the benefit of the sales offices) in connection with the requirements of the EU's Markets in Financial Instruments Directive (MIFID). There were no other changes to outsourcing arrangements within HVB Group.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definitions and objectives

Section 315 (2) No. 5 of the German Commercial Code (Handelsgesetzbuch – HGB) requires capital-market-oriented companies as defined in Section 264 d HGB to describe the main features of the internal control system (ICS) and risk management system with regard to the financial reporting process.

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

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

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

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

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

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

ICS organisation

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

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

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

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

Organisational structure and tasks of the CFO organisation

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

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

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

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

ICS – Internal Control System (Continued)

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

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

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

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

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

The controls cover the aspects of the ICS described below:

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

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

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

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

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

The consolidated financial statements prepared in accordance with IFRS are based on the standalone financial statements of HVB, the subsidiaries included in the consolidated financial statements and special purpose entities on the basis of local accounting rules. These financial statements are converted by the reporting companies to HVB Group standards in accordance with the UniCredit Accounting Principles and transformed to comply with the corporate position classifications. The financial information reported within the framework of the consolidated financial statements is included in the process of auditing the consolidated financial statements. The figures for the consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system marketed by Tagetik Software S.R.L. This is used across the entire corporate group and networked across all Group companies. After the figures have been entered in or transferred to this system by the Group companies, the system is closed for further entries in line with the phases of the consolidation process. These data may only be changed in exceptional circumstances, as agreed with the subsidiary concerned. The consolidation process includes system-based validation checks at a diverse range of levels to minimise the risk of error. In addition, plausibility checks are carried out on a regular basis.

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

ICS – Internal Control System (Continued)

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

Technical system support for the Accounting department and especially in connection with preparing the financial statements has been outsourced to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), the UniCredit subsidiary responsible for IT. The outsourced activities are monitored from a technical viewpoint in part by the central Regional Business Services (CFG1) department with the Finance Tools central service unit within Data Governance or GSM for the system of international branches. The technical support processes of the central service unit are governed by operating guidelines. UBIS carries out the back-up and archiving of data from financial-reporting-related application systems under the responsibility of the CFO in accordance with Section 257 HGB in conjunction with Sections 238 and 239 HGB and the German Generally Accepted Accounting Principles (GAAP) under the supervision of CFG/GSM. Furthermore, controls between the upstream systems (e.g. EuroSIG) and the general ledger, namely first level controls, have been outsourced to UBIS via additional service level agreements (SLAs). Another technical review takes place in the Accounting department within the framework of second level controls.

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

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

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

Monitoring the effectiveness of the ICS

Internal Audit

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

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

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

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

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

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

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

Refinement of the ICS

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

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

People Development

Our success depends on the quality and commitment of our people. That's why we have such a strong commitment to developing and empowering our teams. We must make sure we can attract and retain the very best talent and we must create and nurture an environment and culture in which our staff can grow, thrive and reach their full potential.

Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

Income/Expenses	NOTES	1/1–31/12/2016 € millions	1/1–31/12/2015 € millions	CHANGE € millions	CHANGE in %
Interest income		4,083	4,618	(535)	(11.6)
Interest expense		(1,565)	(1,890)	+ 325	(17.2)
Net interest	33	2,518	2,728	(210)	(7.7)
Dividends and other income from equity investments	34	57	69	(12)	(17.4)
Net fees and commissions	35	1,066	1,035	+ 31	+ 3.0
Net trading income	36	903	525	+ 378	+ 72.0
Net other expenses/income	37	354	318	+ 36	+ 11.3
Payroll costs		(1,668)	(1,821)	+ 153	(8.4)
Other administrative expenses		(1,536)	(1,560)	+ 24	(1.5)
Amortisation, depreciation and impairment losses on intangible and tangible assets		(257)	(198)	(59)	+ 29.8
Operating costs	38	(3,461)	(3,579)	+ 118	(3.3)
Net write-downs of loans and provisions for guarantees and commitments	39	(341)	(113)	(228)	>+ 100.0
Provisions for risks and charges	40	(193)	(194)	+ 1	(0.5)
Restructuring costs	41	(645)	(112)	(533)	>+ 100.0
Net income from investments	42	39	99	(60)	(60.6)
PROFIT BEFORE TAX		**297**	**776**	**(479)**	**(61.7)**
Income tax for the period	43	(140)	(26)	(114)	>+ 100.0
PROFIT AFTER TAX		**157**	**750**	**(593)**	**(79.1)**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT		**157**	**750**	**(593)**	**(79.1)**
attributable to the shareholder of UniCredit Bank AG		153	743	(590)	(79.4)
attributable to minorities		4	7	(3)	(42.9)

Earnings per share

(in €)

	NOTES	2016	2015
Earnings per share (undiluted and diluted)	44	0.19	0.93

Consolidated statement of total comprehensive income

(€ millions)

	2016	2015
Consolidated profit recognised in the income statement	**157**	**750**
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)	(281)	162
Non-current assets held for sale	(2)	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	89	(52)
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	(7)	14
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	78	(45)
Unrealised gains/(losses)	93	(6)
Gains/(losses) reclassified to the income statement	(15)	(39)
Changes in valuation of financial instruments (hedge reserve)	—	3
Unrealised gains/(losses)	7	—
Gains/(losses) reclassified to the income statement	(7)	3
Other changes	34	(2)
Taxes on income and expenses to be reclassified to the income statement in future periods	(24)	2
Total income and expenses recognised in equity under other comprehensive income	**(113)**	**82**
Total comprehensive income	**44**	**832**
of which:		
attributable to the shareholder of UniCredit Bank AG	40	825
attributable to minorities	4	7

Consolidated Balance Sheet

Assets

	NOTES	31/12/2016 € millions	31/12/2015 € millions	CHANGE € millions	in %
Cash and cash balances	45	9,770	11,443	(1,673)	(14.6)
Financial assets held for trading	46	94,087	97,800	(3,713)	(3.8)
Financial assets at fair value through profit or loss	47	28,512	33,823	(5,311)	(15.7)
Available-for-sale financial assets	48	5,929	1,354	+ 4,575	>+ 100.0
Investments in associates and joint ventures	49	44	56	(12)	(21.4)
Held-to-maturity investments	50	36	63	(27)	(42.9)
Loans and receivables with banks	51	33,043	32,832	+ 211	+ 0.6
Loans and receivables with customers	52	121,474	113,488	+ 7,986	+ 7.0
Hedging derivatives	55	384	450	(66)	(14.7)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		51	57	(6)	(10.5)
Property, plant and equipment	56	2,869	3,230	(361)	(11.2)
Investment properties	57	1,028	1,163	(135)	(11.6)
Intangible assets	58	455	462	(7)	(1.5)
of which: goodwill		418	418	—	—
Tax assets		1,696	1,631	+ 65	+ 4.0
Current tax assets		333	347	(14)	(4.0)
Deferred tax assets		1,363	1,284	+ 79	+ 6.2
Non-current assets or disposal groups held for sale	59	1,077	104	+ 973	>+ 100.0
Other assets	60	1,635	789	+ 846	>+ 100.0
Total assets		**302,090**	**298,745**	**+ 3,345**	**+ 1.1**

Liabilities

	NOTES	31/12/2016 € millions	31/12/2015 € millions	CHANGE € millions	in %
Deposits from banks	62	57,584	58,480	(896)	(1.5)
Deposits from customers	63	117,204	107,690	+ 9,514	+ 8.8
Debt securities in issue	64	24,214	26,002	(1,788)	(6.9)
Financial liabilities held for trading	65	72,834	77,148	(4,314)	(5.6)
Hedging derivatives	66	997	1,049	(52)	(5.0)
Hedge adjustment of hedged items					
in the fair value hedge portfolio	67	1,785	2,030	(245)	(12.1)
Tax liabilities		723	745	(22)	(3.0)
Current tax liabilities		642	646	(4)	(0.6)
Deferred tax liabilities		81	99	(18)	(18.2)
Liabilities of disposal groups held for sale	68	1,162	31	+ 1,131	>+ 100.0
Other liabilities	69	2,145	2,572	(427)	(16.6)
Provisions	70	3,022	2,232	+ 790	+ 35.4
Shareholders' equity	71	20,420	20,766	(346)	(1.7)
Shareholders' equity attributable to the shareholder					
of UniCredit Bank AG		20,414	20,762	(348)	(1.7)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		5,107	8,125	(3,018)	(37.1)
Changes in valuation of financial instruments		104	41	+ 63	>+ 100.0
AfS reserve		74	11	+ 63	>+ 100.0
Hedge reserve		30	30	—	—
Consolidated profit		3,005	398	+ 2,607	>+ 100.0
Minority interest		6	4	+ 2	+ 50.0
Total shareholders' equity and liabilities		**302,090**	**298,745**	**+ 3,345**	**+ 1.1**

The 2016 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 €3,005 million. This comprises the net profit of €5 million generated by UniCredit Bank AG in 2016 and a withdrawal of €3,000 million from other retained earnings. We will propose to the Shareholders' Meeting that a dividend of €3,005 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.75 per share after around €0.50 in 2015.

Statement of Changes in Consolidated Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	
			TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2015	**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[3]	**—**	**—**	**122**	**110**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	110	110
Reserve arising from foreign currency translation	—	—	14	—
Other changes	—	—	(2)	—
Total other changes in equity	**—**	**—**	**343**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	345	—
Changes in group of consolidated companies	—	—	(2)	—
Capital decreases	—	—	—	—
Shareholders' equity at 31/12/2015	**2,407**	**9,791**	**8,125**	**(1,135)**
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[3]	**—**	**—**	**(176)**	**(194)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	(194)	(194)
Reserve arising from foreign currency translation	—	—	(7)	—
Other changes	—	—	25	—
Total other changes in equity	**—**	**—**	**(2,842)**	**13**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	(2,852)	—
Changes in group of consolidated companies	—	—	10	13
Capital decreases	—	—	—	—
Shareholders' equity at 31/12/2016	**2,407**	**9,791**	**5,107**	**(1,316)**

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 UniCredit Bank AG (HVB)
3 see Consolidated statement of total comprehensive income

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[2]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
54	**27**	**627**	**20,566**	**31**	**20,597**
—	**—**	**743**	**743**	**7**	**750**
(43)	**3**	**—**	**82**	**—**	**82**
(6)	—	—	(6)	—	(6)
(37)	3	—	(34)	—	(34)
—	—	—	110	—	110
—	—	—	14	—	14
—	—	—	(2)	—	(2)
—	**—**	**(972)**	**(629)**	**(34)**	**(663)**
—	—	(627)	(627)	(2)	(629)
—	—	(345)	—	—	—
—	—	—	(2)	(4)	(6)
—	—	—	—	(28)	(28)
11	**30**	**398**	**20,762**	**4**	**20,766**
11	**30**	**398**	**20,762**	**4**	**20,766**
—	**—**	**153**	**153**	**4**	**157**
63	**—**	**—**	**(113)**	**—**	**(113)**
76	5	—	81	—	81
(13)	(5)	—	(18)	—	(18)
—	—	—	(194)	—	(194)
—	—	—	(7)	—	(7)
—	—	—	25	—	25
—	**—**	**2,454**	**(388)**	**(2)**	**(390)**
—	—	(398)	(398)	(3)	(401)
—	—	2,852	—	—	—
—	—	—	10	1	11
—	—	—	—	—	—
74	**30**	**3,005**	**20,414**	**6**	**20,420**

Consolidated Cash Flow Statement

(€ millions)

	2016	2015
Consolidated profit	**157**	**750**
Write-downs, provisions for losses on, and write-ups of, loans and receivables and additions to		
provisions for losses on guarantees and indemnities	398	170
Write-downs and depreciation less write-ups on non-current assets	317	223
Change in other non-cash positions	(2,321)	791
Profit from the sale of investments, property, plant and equipment	(63)	(96)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(2,700)	(3,013)
Subtotal	**(4,212)**	**(1,175)**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	7,270	(6,675)
Loans and receivables with banks	(223)	(204)
Loans and receivables with customers	(8,491)	(3,846)
Other assets from operating activities	(1,609)	156
Deposits from banks	(858)	4,234
Deposits from customers	9,601	6,830
Debt securities in issue	(1,690)	(2,203)
Other liabilities from operating activities	950	6,711
Taxes on income paid	(151)	(4)
Interest received	4,156	4,677
Interest paid	(1,639)	(2,035)
Dividends received	318	301
Cash flows from operating activities	**3,422**	**6,767**
Proceeds from the sale of investments	925	774
Proceeds from the sale of property, plant and equipment	102	144
Payments for the acquisition of investments	(5,246)	(411)
Payments for the acquisition of property, plant and equipment	(246)	(356)
Effects of the change in the group of companies included in consolidation	30	12
Effect of the disposal of discontinued operations	—	—
Cash flows from investing activities	**(4,435)**	**163**

(€ millions)

	2016	2015
Change in additional paid-in capital	—	—
Dividend payments	(398)	(627)
Issue of subordinated liabilities and hybrid capital	2	12
Repayment/buy-back of subordinated liabilities and hybrid capital	(100)	(117)
Other financing activities (debt, fund for general banking risks) (+)	—	72
Other financing activities (debt, fund for general banking risks) (–)	(164)	—
Cash flows from financing activities	**(660)**	**(660)**
Cash and cash equivalents at end of previous period	**11,443**	**5,173**
Net cash provided/used by operating activities	**3,422**	**6,767**
Net cash provided/used by investing activities	**(4,435)**	**163**
Net cash provided/used by financing activities	**(660)**	**(660)**
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at end of period	**9,770**	**11,443**

Legal basis

UniCredit Bank AG (HVB) is a universal bank with its registered office and principal place of business in Arabellastrasse 12, Munich, Germany. It is 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).

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, international companies and institutional customers. Further information on the Bank's products and services are provided in the Note "Method and components of segment reporting by business segment" in the notes to these consolidated financial statements.

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (IAS-VO) together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 7 March 2017 and adopted by the Supervisory Board on 22 March 2017. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the IFRS Interpretations Committee (IFRS IC) and its predecessor known as IFRICs and SICs. All the standards and interpretations subject to mandatory adoption in the EU for the 2016 financial year have been applied. Section 315a HGB also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

Some of the national regulations applicable alongside IFRS were modified or supplemented by the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG). The BilRUG came into force on 23 July 2015 and transposes the EU Accounting Directive 2013/34/EU into national law. The BilRUG basically consists of simplifications for small and medium-sized enterprises and aims at increasing transparency and EU-wide harmonisation of separate and consolidated financial statements. Pursuant to the provisions of § 315a HGB, the amendments implemented by the BilRUG also affect to a minor extent the consolidated financial statements of IFRS users. We have taken the newly introduced or amended disclosure requirements relevant for HVB Group into consideration in the Notes to these consolidated financial statements. Initial adoption of the provisions of the BilRUG is mandatory for HVB Group for the 2016 financial year.

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

Management's Discussion and Analysis meets the requirements of Section 315 (1, 2) HGB. Also incorporated is a risk report pursuant to Section 315 HGB.

Compliant with Section 264b HGB, the following partnerships are exempted from the obligation to prepare a management report and publish their annual financial statements:
- A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Grünwald
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Grünwald
- Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Grünwald
- BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
- Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
- Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
- H & B Immobilien GmbH & Co. Objekte KG, Munich
- HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung, Munich
- HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung, Munich

– HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
– HVZ GmbH & Co. Objekt KG, Munich
– Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG, Munich
– Ocean Breeze Energy GmbH & Co. KG, Bremen
– Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Perlach KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
– Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Saarland, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
– Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
– TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich
– TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich
– Vermietungsgesellschaft mbH & Co. Objekt MOC KG, Munich

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

Accounting and Valuation

1 Reporting date/period

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

2 Uniform Group accounting policies

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

3 Consistency

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

In the first half of 2016 we designated two new hedges on the face of the balance sheet within hedge accounting:

– For purchases of fixed-interest European government bonds carried out within the available-for-sale portfolio (where the interest-rate risk was hedged individually and completely using interest-rate swaps) we have recognised a separate micro fair value hedge for each transaction.
– In addition, within the scope of our participation in the targeted longer-term refinancing operations (TLTRO II) of the European Central Bank (ECB), the hedging of the planned borrowing at our subsidiary UniCredit Luxembourg S. A. was performed in advance using a forward interest rate swap in the form of a micro cash flow hedge for future transactions. Upon receipt of the cash borrowed from the ECB this hedge was terminated as at 30 June 2016. The cash flow hedge reserve in existence at the time the hedge was terminated and the counteracting initial fair value of the interest rate swap of the same amount are reversed through the income statement in the matching periods over the term of the hedged borrowing to compensate. The borrowing taken out as at 30 June 2016 and the hedging interest rate swap are included in the general portfolio hedge of interest rate risk. We terminated the fair value hedge accounting for credit risks performed to date (micro fair value hedge) in the middle of 2016. The volume was negligible towards the end.

Over the course of the 2016 financial year the discovery was made that some of the net interest from hedging instruments for certain transactions with a special payment structure had been wrongly disclosed in the fair value hedge portfolio as hedge adjustments of hedged items since 2002. This meant that the net interest was €85 million (after tax €77 million) too low in previous years. The errors from the previous years were correspondingly adjusted in equity against the hedge adjustment amount of hedged items in the fair value hedge portfolio. For reasons of materiality, an adjustment of the income statement for 2015 was dispensed with and the entire amount of the correction for the previous years was recorded in equity. The error itself was corrected in the second half of 2016. Net interest of €4 million is attributable to the first half of 2016.

Within the scope of the transfer of further pension obligations to HVB Trust Pensionsfonds AG performed in the reporting year (see the Note "Provisions"), the following issues from the years prior to 2015 were identified that were recognised in equity in accordance with the requirement of retrospective correction of errors:

– Recognition of deferred tax liabilities of €67 million mainly within the scope of the initial transfer of pension obligations to HVB Trust Pensionsfonds AG, where the criteria for recognition were not met on the basis of the information currently available. Correspondingly, the correction leads to income of €67 million resulting from the reversal of the deferred tax liabilities recognised of €67 million. The correction gives rise to an increase in equity of €67 million.

– The adjustment of the deferred tax liabilities and/or tax assets (see above) results in a larger amount of recognised tax assets. This amount must be tested for impairment and reduced as necessary if the company does not have a sufficient amount of taxable profit available. For this purpose, HVB is using a strategic plan for the next five years (see also the Note "Income Tax"). Due to the aforementioned correction, there is an increase in the amount of deferred tax assets recognised that necessitates a reduction pursuant to IAS 12.56 as there was no corresponding taxable profit as of the date of the retrospective application of the correction. As a result, we have reduced equity by €67 million.
– In addition, it became apparent that the recognition criteria for an other asset of €36 million (likewise attributable, among other things, to the issues addressed above) were not met. Correspondingly, this value has to be corrected, which led to a reduction in equity of €36 million.

All three of the issues outlined above relate to transactions from years prior to 2015 that are not presented in the Annual Report, which means that on account of the required retrospective correction the equity and the above-mentioned balance-sheet items had to be adjusted in the opening balance sheet as at 1 January 2015 being the first period presented in the Annual Report. The effects of these issues are contained (netted) in the item Other changes in the Statement of Changes in Consolidated Shareholders' Equity.

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

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

The following matters in particular are affected by estimates, assumptions and discretionary decisions:
– Measurement of goodwill: The Strategic Plan drawn up by the Bank forms the main basis for the impairment test for goodwill. The Strategic Plan contains forecasts of future trends in terms of both the Bank's respective business units and macroeconomic developments. This means that the impairment test for goodwill is also subject to estimates, assumptions and discretionary decisions.
– Determination of loan-loss allowances:
  Specific allowances: These represent the difference between the estimated, discounted expected future cash inflows and the carrying amount. This means that, to determine the loan-loss allowances, assumptions and forecasts must be made regarding the payments that may still be received from the borrower and/or proceeds from the realisation of the collateral.
  Portfolio allowances: Portfolio allowances are determined on the basis of the Bank's credit portfolio model described in the Risk Report. This internal model similarly draws on forecasts and assumptions which are thus relevant for the measurement of the portfolio allowance.
– Determination of fair value: The Bank employs internal models to determine the fair value of financial instruments for which no price is available on an active market. The application of these internal models presupposes assumptions and forecasts, among other things, the scope of which depends on the complexity of the financial instrument and the valuation parameters derived from market data.

Accounting and Valuation (Continued)

– Provisions are recognised for present or future obligations to cover the payments required to settle these obligations. In this context, it is necessary to estimate the amount of these expenses or costs and also the date at which the liabilities are expected to be settled. This involves making assumptions regarding the actual amount of the costs occurring and, in the case of long-term provisions, also estimating possible cost increases up until the settlement date. If the settlement date is more than one year in the future, the forecast expenses and costs are discounted over the period until the liability is settled.
– Deferred tax assets and liabilities: Apart from a few exceptions defined in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (liability method). Accounting and valuation are performed in accordance with IAS 12 on the basis of local tax regulations that are expected to apply to the period when an asset is realised or a liability is settled. The regulations and applicable local tax rates are assumed that are enacted or substantively enacted at the reporting date. Deferred tax assets are not recognised to the extent that it seems unlikely that sufficient taxable profit will be available in future periods. Furthermore, deferred tax assets are recognised for unused tax losses carried forward and unused tax credits to the extent that recoverability is demonstrated. This is done on the basis of a five-year plan for HVB Group, which is subject to segment-specific and macroeconomic assumptions and takes account of local tax regulations. Appropriate haircuts are applied in the Strategic Plan. Estimation uncertainties are inherent.
– Share-based compensation: Assumptions must similarly be made to determine the cost of share-based compensation programmes. The costs for the instruments to be transferred are amortised over the vesting period or the beneficiaries' claims expire if they leave UniCredit first. This makes it necessary to forecast what proportion of employees will leave UniCredit during the vesting period. At the same time, the shares granted must be measured at fair value at the grant date. The comments made above regarding the determination of fair value are applicable analogously.
– Property, plant and equipment: Depreciable items of property, plant and equipment are depreciated over their useful lives. Since the useful life is not independent of the usage of the actual asset in question, it must be estimated in light of the circumstances in each case.
– Intangible assets: With the exception of goodwill, intangible assets are amortised over their useful life. Here, too, suitable assumptions must be made to estimate the useful life.
– Investment properties: These assets are depreciated over the useful life of the property (excluding the land portion), meaning that a forecast is also required here.

Apart from this, the accounting, valuation and disclosure principles applied in the 2016 financial year are the same as those applied in the consolidated financial statements for 2015, with the exception of the new IFRS rules to be applied as described in the Note "Initial adoption of new IFRS accounting rules".

4 Initial adoption of new IFRS accounting rules

The changes to the following standards revised by the IASB were subject to mandatory adoption by enterprises domiciled in the EU in the 2016 financial year:
– Amendments to IFRS 10, IFRS 12 and IAS 28 – "Investment Entities: Applying the Consolidation Exception"
– 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"

The amendment to the standards IFRS 10 ("Consolidated Financial Statements") and IFRS 12 ("Disclosure of Interests in Other Entities") as well as IAS 28 ("Investments in Associates and Joint Ventures") relates to clarification of the consolidation exception for investment entities. Due to its business structure, HVB Group is not affected by this regulation on investment entities.

The amendments to IFRS 11 ("Joint Arrangements") contain clarifications on the acquisition of shares in a joint operation that constitutes a business as defined by IFRS 3. These must prepare their financial statements according to the principles of IFRS 3. In the 2016 financial year this did not result in any implications for the consolidated financial statements.

The amendments to IAS 1 ("Presentation of Financial Statements") as part of the Disclosure Initiative contain clarifications relating to materiality and the aggregation of items in the financial statements as well as rules on the presentation of subtotals in the balance sheet and statement of total comprehensive income, on the structure of the notes to the financial statements and on the disclosure of material accounting and measurement methods. Furthermore, the amendment specifies that the share of companies accounted for using the equity method should be disclosed in a separate item in other comprehensive income. These clarifications and instructions have been taken into consideration in the consolidated financial statements where necessary.

The amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) clarify in particular that revenue-based depreciation is not permissible for property, plant and equipment and revenue-based amortisation of intangible assets is appropriate only in specific exceptional cases. As HVB Group does not perform any revenue-based depreciation of property, plant and equipment or amortisation of immaterial assets, but exclusively applies amortisation and depreciation using the straight-line method based on the assets' useful lives, these amendments are not applicable.

The amendments to IAS 19 (Employee Benefits) clarify that contributions from employees or third parties to a defined benefit plan rendered in the period in which the corresponding work is performed can be deducted from current service cost subject to the proviso that the contributions are not linked to the number of years of service. These amendments did not have any implications for HVB Group in the 2016 Financial Statements.

Following the amendment to IAS 27 (Separate Financial Statements), investments in subsidiaries, joint ventures and associates in an entity's separate financial statements prepared according to IFRS can now also be accounted for using the equity method. As the provisions relate exclusively to separate financial statements they do not have any implications for HVB Group's financial statements.

Within the scope of the annual improvements to existing IFRSs 2010–2012 cycle, minor amendments were made to the following standards: IFRS 2 (Share-based Payment), IFRS 3 (Business Combinations), IFRS 8 (Operating Segments), IFRS 13 (Fair Value Measurement), IAS 16 and IAS 38 (Property, Plant and Equipment, and Intangible Assets) as well as IAS 24 (Related Party Disclosure). The amendments were either not relevant or of minor importance.

The Annual Improvements cycle 2012–2014 likewise applied for the first time in the 2016 financial year related to the following standards: IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), IFRS 7 (Financial Instruments: Disclosures), IAS 19 (Employee Benefits) and IAS 34 (Interim Financial Reporting). Similarly, these minor amendments to existing standards did not have any, or any material, implications for the consolidated financial statements.

5 Published IFRS that are not yet the subject of mandatory adoption and that have not been the subject of early adoption
As permitted, we have decided against the early voluntary adoption of the standards and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2017 financial year or thereafter. The Bank will apply these standards and interpretations in the financial year in which the new provisions in question become mandatorily applicable for EU-based enterprises for the first time.

Accounting and Valuation (Continued)

The EU has adopted the following into European law:
– IFRS 9 "Financial Instruments (July 2014)". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– IFRS 15 "Revenue from Contracts with Customers including amendments to IFRS 15: Effective Date of IFRS 15". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.

The EU has not yet adopted the following into European law:
– IFRS 16 "Leases". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2019.
– IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Amendments to IFRS 2 – "Classification and Measurement of Share-based Payment Transactions". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Amendments to IFRS 4 – "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Clarifications on IFRS 15 "Revenue from Contracts with Customers". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Amendments to IAS 7 – "Disclosure Initiative". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2017.
– Amendments to IAS 12 – "Recognition of Deferred Tax Assets for Unrealised Losses". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2017.
– Amendments to IAS 40 – "Transfers of Investment Property". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– Annual Improvements to IFRS Standards 2014–2016 Cycle. The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2017 (IFRS 12) or on or after 1 January 2018 (IFRS 1, IAS 28).

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

In July 2014, the IASB published the definitive version of IFRS 9 "Financial Instruments" to replace IAS 39, the current standard covering the recognition and measurement of financial instruments. IFRS 9 contains a complete revision of the main regulations regarding the classification and measurement of financial instruments, the recognition of impairments of financial assets and the recognition of hedges. IFRS 9, which was adopted into European law by the EU in November 2016, is subject to adoption for reporting periods beginning on or after 1 January 2018. Initial application should be retrospective.

In previous years UniCredit started a group-wide project involving HVB to implement IFRS 9. The project is organised across department lines in order to integrate the new accounting requirements as well as their impact on the strategic orientation of the Bank. Within the group-wide project, HVB has assumed a pilot function for the implementation of IFRS 9 in the investment banking activity in line with its responsibility for the investment banking activity within the corporate group. As group-wide policies regarding IFRS 9 have been drawn up, the project activities in 2016 focused on the creation of detailed technical concepts to implement new requirements and the development of the methods and models required for the new and modified valuation techniques under IFRS 9. The implementation of the new methods and procedures has already been started, although the focus of activities is planned in 2017 to ensure that these can be introduced on schedule on 1 January 2018.

In connection with the initial adoption of the IFRS 9, the effects arising from the retrospective adoption of IFRS 9 will be recognised in shareholders' equity. In the process, one important factor will be the change in the methodology applied to determine the portfolio allowances. The portfolio allowances for fully performing debt instruments measured at amortised cost will be determined in future based on the 12-month expected loss or if the credit rating has been significantly downgraded since the extension of the credit, based on the life-time expected loss. This will cause an increase in portfolio allowances for fully performing debt instruments. It is not yet possible to estimate the effects in terms of quantity with sufficient reliability. This effect is typical of the banking industry.

HVB intends to exercise the option provided in IFRS 9 to continue applying the regulations set forth in IAS 39 on the fair value hedge portfolio. No significant changes to hedge accounting are thus to be expected as a result of the application of the IFRS 9. As the Bank is not exercising the option to apply the fair value option for liabilities, the new regulations on the treatment of own credit spread do not apply.

In May 2014, the IASB published a new standard regarding revenue realisation, IFRS 15 "Revenue from Contracts with Customers", which is subject to mandatory reporting as of 1 January 2018 and was adopted into European law by the EU in September 2016. IFRS 15 supercedes IAS 18. IFRS 15 defines a uniform principles-based model for determining how and when revenue is recognised. Since income accruing in connection with financial instruments is not affected by this, we only expect IFRS 15 to have a minor effect on HVB Group.

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

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

6 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 197 (2015: 192) controlled companies, of which 44 (2015: 41) are classified as structured entities within the meaning of IFRS 12.

	2016	2015
Total controlled companies	**335**	**334**
Consolidated companies	197	192
of which:		
structured entities according to IFRS 12	44	41
Non-consolidated companies	138	142
of which:		
structured entities according to IFRS 12	6	7
Joint ventures	**4**	**2**
of which:		
accounted for using the equity method	—	—
Associated companies	**10**	**13**
of which:		
accounted for using the equity method	6	6

Accounting and Valuation (Continued)

At year-end 2016, we had a total of 146 (2015: 151) controlled and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they are not of material importance to the Group.

The structured entities include 16 borrowers (2015: 17) over which HVB gained control during the course of restructuring or resolution. The borrowers are classified as structured entities within the meaning of IFRS 12 as, on account of their financial difficulties, they are controlled by their credit relationship with HVB and no longer by voting rights. Not all of the borrowers are disclosed in the Note "List of holdings", for data protection reasons. Ten (2015: ten) of these borrowers have been consolidated; six (2015: seven) borrowers have not been consolidated for materiality reasons.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these minor non-consolidated companies makes up 1.34% (2015: 0.51%) of the consolidated profit of HVB Group, while such companies provide around 0.14% (2015: 0.09%) of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets and loans extended under loans and receivables with customers.

Controlled companies
The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the supervisory authorities that regulate UniCredit. The fully consolidated companies prepared their annual financial statements for the period ending 31 December 2016.

The deviating year-end date for the entity Grand Central Funding Corporation, New York, is 31 May.

Since this company is immaterial to the consolidated financial statements, it was decided not to convert their financial years. When the consolidated financial statements are being prepared, interim financial statements are prepared at the corporate year-end date for this company.

44 (previous year: 41) fully consolidated controlled entities are classified as structured entities pursuant to IFRS 12. Please refer to the Note "Disclosures regarding structured entities" for more information on structured entities.

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

The non-controlling interests at 31 December 2016 have no significant effects on the consolidated financial statements of HVB Group either individually or in aggregate. At 31 December 2016 third parties hold non-controlling interests in 61 (2015: 57) fully consolidated companies. The non-controlling interests are shown separately in the consolidated balance sheet and generally participate in the profits and losses of the companies; their shareholders hold voting rights in the companies, but without breaking the controlling influence of HVB Group.

The following companies were newly added to the group of companies included in consolidation at HVB Group in 2016:
– Bertram Projekt Unodecima Technikzentrum GmbH & Co. KG, Hannover
– Elektra Purchase No. 39 DAC, Dublin
– Elektra Purchase No. 42 DAC, Dublin
– Elektra Purchase No. 43 DAC, Dublin
– Elektra Purchase No. 46 DAC, Dublin
– Elektra Purchase No. 47 DAC, Dublin
– Elektra Purchase No. 48 DAC, Dublin
– Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH, Munich
– WealthCap Aircraft 27 Komplementär GmbH, Grünwald
– WealthCap Entity Service GmbH, Munich
– WealthCap Immobilien 1 GmbH & Co. KG, Munich
– WealthCap Immobilien 2 GmbH & Co. KG, Munich
– WealthCap Los Gatos 131 Albright Way, L.P., Wilmington
– WealthCap Objekt-Vorrat 19 GmbH & Co. KG, Munich
– WealthCap Objekt-Vorrat 20 GmbH & Co. KG, Munich
– WealthCap Portland Park Square L.P., Wilmington
– WealthCap Spezial-AIF 5 GmbH & Co. KG, Munich
– WealthCap Vorrats-2 GmbH, Grünwald

The structured entities (Elektra Purchase No. 39 DAC, Dublin, Elektra Purchase No. 42 DAC, Dublin, Elektra Purchase No. 43 DAC, Dublin, Elektra Purchase No. 46 DAC, Dublin, Elektra Purchase No. 47 DAC, Dublin, Elektra Purchase No. 48 DAC, Dublin) are new entities that have entered into their assets (receivables) and liabilities (notes issued) at normal market terms and conditions. Thus, the carrying amounts correspond to the fair values upon addition or at the date of initial consolidation, meaning that it is not necessary to carry out a remeasurement in line with the application of IFRS 3.

The following companies left the group of companies included in consolidation of HVB Group in 2016 due to merger, sale or completed liquidation:
– Blue Capital Europa Immobilien GmbH & Co. Achte Objekte Großbritannien KG, Munich
– HVB Asset Leasing Limited, London
– HVB Principal Equity GmbH, Munich
– HVB Realty Capital Inc., New York
– HVBFF Produktionshalle GmbH i.L., Munich
– Kinabalu Financial Products LLP, London
– Kinabalu Financial Solutions Limited, London
– Pure Funding No. 10 Ltd., Dublin
– Royston Leasing Ltd., Grand Cayman
– UniCredit Global Business Services GmbH, Unterföhring
– UniCredit Zweite Beteiligungs GmbH, Munich
– US Property Investments Inc., Dallas
– VuWB Investments Inc., Atlanta

On account of the deconsolidation of the companies listed above, HVB Group realised a loss upon deconsolidation in accordance with IFRS 10.25 of €1 million. This is disclosed under net income from investments in the income statement of the HVB Group.

Accounting and Valuation (Continued)

In March 2016, we reached an agreement with UniCredit Business Integrated Solutions S.C.p.A. (UBIS), Milan, on the sale of UniCredit Global Business Services GmbH (UGBS), Unterföhring, which had until then been a fully owned subsidiary of HVB. The closing took place on 1 April 2016. Upon the closing, the company left the group of consolidated companies of HVB Group. Following 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. The sale was carried out as a transaction under common control. The deconsolidation result of €19 million is included in other reserves under shareholders' equity.

Associated companies

No financial statements at 31 December 2016 were available for the associated companies listed below valued using the equity method when the consolidated financial statements were prepared. The following financial statements were used for valuation using the equity method:

– Adler Funding LLC, Dover	30 September 2016
– Comtrade Group B.V., Rotterdam	30 November 2016
– Nautilus Tankers Limited, Valetta	30 September 2016
– SwanCap Partners GmbH, Munich	30 September 2016

There were no significant events at these companies between the date when the above financial statements were prepared and 31 December 2016 that could have an impact on the assets, liabilities, financial position, and profit or loss.

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

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

7 Principles of consolidation

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

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

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

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

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

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

We have used the Strategic Plan as the basis for determining appropriate values in use for the CGUs to which goodwill is allocated. The values in use are determined using the discounted cash flow method. The figures for profit before tax from the segments' strategic plans are included as cash flows. The average cash flows in the Strategic Plan are assumed for the subsequent period. The segment-specific cost of capital rates used for discounting average 12.5% (2015: 13.2%) for the Corporate & Investment Banking business segment and 12.2% (2015: 12.5%) for the Commercial Banking business segment. No growth factor has been assumed for the government perpetuity. These values in use are employed as recoverable amounts and exceed the carrying amount and goodwill of the CGU. It is not necessary to estimate the selling price unless the value in use is less than the carrying amount.

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

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

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

Accounting and Valuation (Continued)

8 Financial instruments

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

The classes required by IFRS 7.6 are defined as follows:
- Cash and cash reserves
- Financial assets and liabilities held for trading
- Financial assets at fair value through profit or loss
- Available-for-sale financial assets (measured at cost)
- Available-for-sale financial assets (measured at fair value)
- Held-to-maturity investments
- Loans and receivables with banks (classified as loans and receivables)
- Loans and receivables with customers (classified as loans and receivables)
- Receivables under finance leases (classified as loans and receivables)
- Hedging derivatives
- Other deposits from banks
- Other deposits from customers
- Other debt securities in issue
- Financial guarantees and irrevocable credit commitments

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

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

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

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

Financial assets and liabilities at fair value through profit or loss

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

- Financial assets and liabilities held for trading

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

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

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

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

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

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

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

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

Hedge accounting
Hedges between financial instruments are recognised almost exclusively in accordance with the forms of the fair value hedge described in IAS 39. In 2008 and 2009, HVB Group changed the previously applied macro cash flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest rate risk at portfolio level in large areas of asset/liability interest rate risk management. This is described additionally below alongside the principles covering general fair value hedges. In the 2016 financial year, we set up a micro cash flow hedge for future transactions for a special hedge.

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

In the 2016 financial year, we designated new micro fair value hedges for interest rate risks. For purchases effected in the available-for-sale holdings of fixed-interest, European government bonds, the interest rate risk of which was hedged individually and completely with interest rate swaps, we set up a separate micro fair value hedge for each transaction.

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

The micro fair value hedge accounting for credit risk previously applied as such was then terminated in the middle of 2016. The volume was negligible towards the end.

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

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

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

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

Generally, a cash flow hedge is employed to hedge the risk arising from volatile cash flows resulting from a recognised asset, recognised liability or planned transaction to be taken to the income statement. For example, derivatives are deployed in cash flow hedge accounting to hedge future streams of interest payments. In this context, payments arising from variable-interest assets and liabilities are swapped for fixed payments primarily using interest rate swaps. Hedging instruments are measured at fair value. The valuation result is divided into an effective and an ineffective portion. The effective portion of the hedging instruments is recognised in a separate item within shareholders' equity (hedge reserve) without affecting reported profit or loss. The ineffective portion of the hedging derivatives is recognised directly in profit and loss. The hedged item is recognised at amortised cost.

In the first half of 2016, hedging the planned borrowing was reported in advance through a forward interest rate swap in the form of a micro cash flow hedge for future transactions at our subsidiary UniCredit Luxembourg S.A. within the framework of our participation in the TLTRO II of the European Central Bank (ECB). Upon receiving the borrowed funds from the ECB on 30 June 2016, this hedge was terminated. The cash flow hedge reserve existing on termination of the hedge and the offsetting equally high initial fair value of the interest rate swap are reversed periodically over the term of the hedged borrowing in the income statement. The borrowing effected on 30 June 2016 and the interest rate swap were included in the general portfolio fair value hedge for interest rate risks.

9 Financial assets held for trading

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

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

10 Financial assets at fair value through profit or loss

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

11 Available-for-sale financial assets

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

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

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

12 Shares in associates accounted for using the equity method and joint ventures accounted for using the equity method

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

13 Held-to-maturity investments

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

In the case of loans and receivables, objective evidence of an impairment exists when a default has occurred in accordance with Article 178 of the Capital Requirement Regulation (CRR). This is the case when either a material liability of the borrower is at least 90 days overdue or HVB believes that the debtor is unable to meet the payment obligations in full without steps to realise collateral being undertaken. In this context, an event of default notably includes the period of 90 days in arrears, an application for or opening of insolvency proceedings, the expectation of liquidity problems as a result of the credit-monitoring process or the need for restructuring or collateral realisation steps such as terminating loans, putting loans on a non-accrual basis or enforcing realisation of collateral by HVB.

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

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

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

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

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

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

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

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

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

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

16 Property, plant and equipment

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

PROPERTY, PLANT AND EQUIPMENT	USEFUL ECONOMIC LIFE
Buildings	25 – 60 years
Fixtures in buildings not owned	10 – 25 years
Plant and office equipment	3 – 25 years
Other property, plant and equipment	
Wind farm	28 years
Other property, plant and equipment	10 – 20 years

The estimated useful lives of property, plant and equipment are reviewed once a year and adjusted as appropriate should the expectations differ from earlier estimates. An accounting-related change in the estimate was applied for the wind farm in the reporting period. Please refer to the notes to the balance sheet under property, plant and equipment for details.

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

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

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

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

17 Lease operations

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

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

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

HVB Group leases both movable assets and real estate.

HVB Group as lessor

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

Accounting and Valuation (Continued)

HVB Group as lessee

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

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

Please refer to the Note "Information regarding lease operations" for more information.

18 Investment properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting and Valuation (Continued)

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

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

24 Other liabilities

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

25 Provisions

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

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

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

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

The discount rate used to discount the defined benefit obligations (actuarial interest rate) is determined by reference to yields recorded on the market at the reporting date for high quality, fixed-rate corporate bonds and with maturities and currencies that match the obligations to be measured. A basket of AA-rated corporate bonds denominated in euros serves as the data basis for determining the discount rate for the obligations. These individual bond data are translated into a yield curve which forms the basis for determining the discount rate by using a numerical compensation technique.

Funded pension obligations differ from unfunded pension obligations in that plan assets are allocated to cover the entitlements of the beneficiaries. The beneficiaries include active employees, former employees with vested benefit entitlements, and pensioners and their surviving dependants. Both HVB and a number of subsidiaries have set up plan assets in external, restricted-access pension organisations to fund their pension obligations.

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

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

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

The provisions for pensions and similar obligations are described in detail in the Note "Provisions".

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

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

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

The employee compensation schemes are described in detail in the Note "Operating costs".

26 Foreign currency translation

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

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

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

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

27 Income tax for the period

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

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

Segment Reporting

28 Method and components of segment reporting by business segment

Method of segment reporting by business segment

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

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

In segment reporting, the business segments operate as autonomous companies with their own equity resources and responsibility for profits and losses. The business segments are delimited by responsibility for serving customers. For a description of the customer groups assigned to the individual business segments and the main components of the segments, please refer to the section entitled "Components of the business segments of HVB Group".

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

The equity capital allocation used to calculate the return on investment on companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) is based on a uniform core capital allocation for each business segment. Pursuant to Basel III, this involves allocating 11.0% (previous year: 10.0%) of core capital from risk-weighted assets to the business segments. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest. The percentage used for the return on the equity capital allocated to the companies HVB and UniCredit Luxembourg S.A. equals the base rate plus a premium in the amount of the 6-year average of the spread curve for the lending business of HVB both secured by land charges and unsecured. This rate is set for one year in advance as part of each budgeting process. The percentage changed to 1.88% in 2016 after 2.38% in the 2015 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

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

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.

In the fourth quarter of 2016 in the course of the reorganisation, there were essentially only shifts in net interest that affected all the business segments. These shifts arose mainly as a result of a new distribution of negative interest. The previous quarters were adjusted accordingly.

The loss of €1 million (2015: profit of €10 million) from investments in associated companies relates to the following companies accounted for using the equity method: Adler Funding LLC, Dover, Bulkmax Holding Ltd., Valetta, Comtrade Group B.V., Rotterdam, Nautilus Tankers Limited, Valetta, paydirekt Beteiligungsgesellschaft privater Banken mbH, Berlin and SwanCap Partners GmbH, Munich. All of these companies with the exception of paydirekt Beteiligungsgesellschaft privater Banken mbH are assigned to the CIB business segment. paydirekt Beteiligungsgesellschaft privater Banken mbH is assigned to the Commercial Banking business segment. The disclosure in profit and loss is made under dividends and other income from equity investments in the income statement. The carrying amount of the companies accounted for using the equity method is €44 million (2015: €56 million).

Components of the segments of HVB Group

Commercial Banking business segment

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

In line with the universal bank model, the range of products and services of Commercial Banking enables comprehensive customer support to be provided. This extends from payment services, consumer loans, mortgage loans, savings-and-loan and insurance products and banking services for retail customers through to business loans, foreign trade financing, and liquidity and financial risk management for corporate customers through to investment banking products for companies requiring capital-market access. For customers in the private banking and wealth management customer segments, we offer comprehensive financial and asset planning with needs-based advisory services by generalists and specialists. The wealth management approach includes not only customised portfolio concepts and financing solutions for high net worth private customers with an entrepreneurial background but also the brokerage of shareholdings.

In the Private Clients Bank business unit, in 2015 we were the first bank in Germany to complete a root-and-branch modernisation of our retail banking activities. We set ourselves up as a genuine multi-channel bank and invested heavily in mobile and internet-based offerings and in the attractiveness of our branches. We will now continue along the successful path already taken towards modernising the retail customer business by consistently implementing digitalisation and positioning ourselves as a provider of quality services.

The Unternehmer Bank business unit bundles the corporate banking business in Germany. In this respect, Unternehmer Bank is the second largest lender (of the major private banks) to the German Mittelstand and their first choice from among the banks (the “go-to” bank) for Mittelstand companies. The corporate banking business is the place where companies requiring complex advisory services on the Key Account relationship model find the right address for customised solutions, also in particular for large transaction volumes, capital market transactions and international issues.

Segment Reporting (Continued)

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

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

In addition, Commercial Banking is also home to the "Private Banking and Wealth Management" relationship model. Based on a 360-degree advisory approach, high net worth clients are served by excellently trained advisors and highly qualified specialists in these segments. The wealth management approach includes not only customised portfolio concepts and financing solutions for high net worth private customers with an entrepreneurial background but also the brokerage of shareholdings.

The Commercial Banking business segment is run by two members of the Management Board who bear joint responsibility. The business management and support functions are performed by a staff unit assigned to each of the business units. Reciprocal cross-servicing ensures that the products required are maintained only once.

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

The competitive business model of HVB Group's Commercial Banking was again rewarded by a number of awards in 2016:
– Private Clients Bank: top mark of 5***** awarded to the HVB FinanzKonzept for outstanding investment advice by the Institut für Vermögensaufbau
– Private Banking and Wealth Management: "summa cum laude" awarded to Wealth Management (for the fourth consecutive time and the only one of Germany's major banks)
– The Banker Awards 2016, award for HypoVereinsbank

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

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

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

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

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

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

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

Segment Reporting (Continued)

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

The **Global Banking Services** business unit acts as a central internal service provider for customers and employees. Its activities extend to purchasing, organisation, corporate security, logistics and facility management, cost management and back-office functions for credit, accounts, foreign exchange, money market and derivatives as well as in-house consulting. Payments, securities settlement, IT application development and IT operations have been outsourced. Strategic real estate management at HVB is similarly the responsibility of Global Banking Services and is carried out by the Real Estate unit (GRE), HVB Immobilien AG, Munich and UniCredit Global Business Services GmbH, Unterföhring (UGBS, until 31 March 2016) or UniCredit Business Integrated Solutions S.C.p.A., Milan (UBIS, since 1 April 2016), respectively, as engaged by HVB Immobilien AG, Munich by way of an operating contract.

The new Data Governance unit was set up in 2016; it has been tasked with developing and operating a data warehouse for financial and risk figures.

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

Information on products and services at company level
The information required by IFRS 8.32 on income from external customers generated from the products and services of HVB Group are contained under the disclosures regarding the income statement in these notes to the consolidated financial statements.

29 Income statement, broken down by business segment

Income statement, broken down by business segment for the period from 1 January to 31 December 2016 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,510	1,083	(75)	2,518
Dividends and other income from equity investments	24	8	25	57
Net fees and commissions	748	331	(13)	1,066
Net trading income	62	836	5	903
Net other expenses/income	18	164	172	354
OPERATING INCOME	**2,362**	**2,422**	**114**	**4,898**
Payroll costs	(656)	(473)	(539)	(1,668)
Other administrative expenses	(1,176)	(880)	520	(1,536)
Amortisation, depreciation and impairment				
losses on intangible and tangible assets	(10)	(125)	(122)	(257)
Operating costs	**(1,842)**	**(1,478)**	**(141)**	**(3,461)**
OPERATING PROFIT/(LOSS)	**520**	**944**	**(27)**	**1,437**
Net write-downs of loans and provisions for guarantees and commitments	10	(377)	26	(341)
NET OPERATING PROFIT/(LOSS)	**530**	**567**	**(1)**	**1,096**
Provisions for risks and charges	(74)	(116)	(3)	(193)
Restructuring costs	(160)	(91)	(394)	(645)
Net income from investments	10	6	23	39
PROFIT BEFORE TAX/(LOSS)	**306**	**366**	**(375)**	**297**

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

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,602	1,122	4	2,728
Dividends and other income from equity investments	48	17	4	69
Net fees and commissions	738	313	(16)	1,035
Net trading income	70	460	(5)	525
Net other expenses/income	10	129	179	318
OPERATING INCOME	**2,468**	**2,041**	**166**	**4,675**
Payroll costs	(717)	(488)	(616)	(1,821)
Other administrative expenses	(1,226)	(909)	575	(1,560)
Amortisation, depreciation and impairment				
losses on intangible and tangible assets	(11)	(72)	(115)	(198)
Operating costs	**(1,954)**	**(1,469)**	**(156)**	**(3,579)**
OPERATING PROFIT	**514**	**572**	**10**	**1,096**
Net write-downs of loans and provisions for guarantees and commitments	(80)	(54)	21	(113)
NET OPERATING PROFIT	**434**	**518**	**31**	**983**
Provisions for risks and charges	(119)	(69)	(6)	(194)
Restructuring costs	14	(30)	(96)	(112)
Net income from investments	40	2	57	99
PROFIT BEFORE TAX/(LOSS)	**369**	**421**	**(14)**	**776**

Segment Reporting (Continued)

Development of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	2016	2015	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest	1,510	1,602	371	380	390	369
Dividends and other income from equity investments	24	48	1	—	2	20
Net fees and commissions	748	738	187	182	187	192
Net trading income	62	70	51	17	5	(12)
Net other expenses/income	18	10	4	9	14	(8)
OPERATING INCOME	**2,362**	**2,468**	**614**	**588**	**598**	**561**
Payroll costs	(656)	(717)	(152)	(166)	(168)	(170)
Other administrative expenses	(1,176)	(1,226)	(276)	(296)	(301)	(303)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(10)	(11)	3	(7)	(2)	(3)
Operating costs	**(1,842)**	**(1,954)**	**(425)**	**(469)**	**(471)**	**(476)**
OPERATING PROFIT	**520**	**514**	**189**	**119**	**127**	**85**
Net write-downs of loans and provisions for guarantees and commitments	10	(80)	31	(30)	1	8
NET OPERATING PROFIT	**530**	**434**	**220**	**89**	**128**	**93**
Provisions for risks and charges	(74)	(119)	(83)	9	3	(2)
Restructuring costs	(160)	14	(160)	—	—	—
Net income from investments	10	40	(4)	—	13	—
PROFIT BEFORE TAX/(LOSS)	**306**	**369**	**(27)**	**98**	**144**	**91**
Cost-income ratio in %[1]	78.0	79.2	69.2	79.8	78.8	84.8

1 ratio of operating expenses to operating income

The Commercial Banking business segment increased its operating profit by 1.2%, or €6 million in the 2016 financial year (before net write-downs of loans and provisions for guarantees and commitments) to €520 million.

At €2,362 million, operating income failed to match the previous-year figure (€2,468 million). On account of a further reduction in what were already extremely low interest rates, net interest of €1,510 million was generated, down 5.7%. Deposit-taking operations continued to be weighed down by the persistently ultra-low interest rates. Despite a rise in real estate financing in the retail customer business with virtually unchanged margins, a very good rise in the consumer lending activities (up 48%) and increased demand for credit in our business customer activities (up 2.9%) with a slight contraction in margins in comparison to the previous year, it was not possible to offset the fall in profit in the deposit-taking business. Dividends and similar income from capital investments totalled €24 million in the reporting year (2015: €48 million). In both financial years there was an extraordinary dividend payment from our investment in EURO Kartensysteme GmbH, which was higher last year. There was a pleasing development in net fees and commissions in the 2016 financial year, with a rise of €10 million to €748 million. In this context, it should be noted that the deconsolidation effect of the disposal of PlanetHome AG and its subsidiaries in the second quarter of 2015 exerted an adverse effect. The net trading income fell by €8 million to €62 million as a consequence of the ongoing corrections to the valuation of the derivative portfolio (CVA). In contrast, the balance of other expenses/income improved by €8 million to €18 million.

There was a pleasing development in operating costs with a 5.7%, or €112 million, decline to €1,842 million. This meant that the business segment was able to continue benefiting from the positive cost effects from the repositioning in the retail banking business. For example, payroll expenses fell by 8.5%, or €61 million, to €656 million specifically on account of the smaller workforce. Likewise, other administrative expenses were lowered by 4.1%, or €50 million, to €1,176 million, which is attributable, among other factors, to a reduction in marketing expenses and a lower level of other project-related renovation expenses.

The cost-income ratio improved from 79.2% in the previous year to 78.0% in the reporting year, exclusively due to a repeat of the reduction in the operating expenses.

There was a very favourable development in the write-downs of loans and provisions for guarantees and commitments in the 2016 financial year with a net reversal of €10 million after a net addition (minus €80 million) was recorded in the previous year. This €90 million fall in write-downs of loans and provisions for guarantees and commitments, in conjunction with the improvement in the operating profit, led to a significant rise in the net operating profit of 22.1%, or €96 million to €530 million.

The additions to the provisions for risks and charges saw a significant reduction of 37.8%, or €45 million, to minus €74 million (2015: minus €119 million). As the business segment was negatively impacted by restructuring costs of €160 million in the reporting year, the profit before tax of €306 million fell €63 million short of the previous-year figure. Adjusted for these restructuring costs, profit before tax would, however, stand at €466 million that clearly exceeds the previous-year figure (€355 million) by €111 million.

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

INCOME/EXPENSES	2016	2015	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest	1,083	1,122	261	248	316	258
Dividends and other income from equity investments	8	17	(1)	5	3	—
Net fees and commissions	331	313	60	75	94	102
Net trading income	836	460	219	269	230	119
Net other expenses/income	164	129	74	19	47	24
OPERATING INCOME	**2,422**	**2,041**	**613**	**616**	**690**	**503**
Payroll costs	(473)	(488)	(115)	(123)	(119)	(117)
Other administrative expenses	(880)	(909)	(216)	(220)	(220)	(225)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(125)	(72)	(37)	(29)	(29)	(29)
Operating costs	**(1,478)**	**(1,469)**	**(368)**	**(372)**	**(368)**	**(371)**
OPERATING PROFIT	**944**	**572**	**245**	**244**	**322**	**132**
Net write-downs of loans and provisions for guarantees and commitments	(377)	(54)	(180)	(22)	(105)	(70)
NET OPERATING PROFIT	**567**	**518**	**65**	**222**	**217**	**62**
Provisions for risks and charges	(116)	(69)	(98)	(8)	(6)	(5)
Restructuring costs	(91)	(30)	(90)	1	(1)	—
Net income from investments	6	2	(1)	5	3	—
PROFIT/(LOSS) BEFORE TAX	**366**	**421**	**(124)**	**220**	**213**	**57**
Cost-income ratio in %[1]	61.0	72.0	60.0	60.4	53.3	73.8

1 ratio of operating expenses to operating income

In the 2016 financial year, the Corporate & Investment Banking business segment generated operating income of €2,422 million (2015: €2,041 million), clearly improving on the previous-year total with a rise of €381 million or 18.7%.

In the reporting year, net interest continued to come under clear pressure from the ultra-low interest rate environment. At €1,083 million, a good result was achieved, nevertheless, that was down a mere €39 million on the previous-year level (2015: €1,122 million). In this respect, the fall mainly stems from the Treasury business on account of the interest rates. It was possible, to a certain extent, to balance out this effect by expanding the volume of lending. In contrast, net fees and commissions grew by €18 million, or 5.8%, to €331 million (2015: €313 million) due, among other things, to rising demand from companies for equity or debt funding using capital market products such as bonds and shares. There was also a clear rise in net other expenses/income of €35 million to €164 million, which essentially stems from higher income in connection with our Bard Offshore 1 wind farm.

In comparison with the previous year, net trading income rose very clearly by €376 million, or 81.7%, to €836 million (2015: €460 million). The primary contributor to this development was the business with equity derivatives. There was also an increase in comparison to the previous year in the result from operations involving interest rate derivatives. Despite the difficult environment, particularly in the first half of 2016, Treasury generated an improved result in comparison to the previous year. Valuation adjustments, which are for our purposes mainly credit valuation adjustments and funding valuation adjustments, as well as effects from changes to the own credit spread, buoyed the trading income overall.

Segment Reporting (Continued)

Operating costs increased slightly in comparison to the previous year by €9 million, or 0.6%, to €1,478 million. Of this total, payroll costs fell by €15 million to €473 million and other administrative expenses by €29 million to €880 million. In contrast, amortisation, depreciation and impairment losses on intangible and tangible assets increased by €53 million to €125 million. This rise is attributable in particular to an adjustment to the concept applied to amortisation and depreciation for our Bard Offshore 1 wind farm. The cost-income ratio improved significantly by 11.0 percentage points to 61.0%.

In the reporting period, net write-downs of loans and provisions for guarantees and commitments amounted to €377 million, which is €323 million up on the unusually low figure of €54 million reported in the previous year. This rise is the result of, among other things, the need to recognise higher net write-downs on account of the deteriorating situation throughout the shipping industry. A net amount of €116 million was added to provisions in the reporting year (2015: minus €69 million) essentially relating to legal risks. Furthermore, the business segment's result was burdened by restructuring costs of €91 million (2015: costs of €30 million).

In the 2016 financial year, the business segment generated a profit before tax of €366 million, down €55 million on the result from the previous-year period (2015: €421 million). Adjusted for the restructuring costs incurred in the two years, the profit before tax would have been €6 million in excess of the previous-year figure at €457 million.

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

INCOME/EXPENSES	2016	2015	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest	(75)	4	(40)	(19)	(31)	15
Dividends and other income from equity investments	25	4	3	1	2	21
Net fees and commissions	(13)	(16)	(4)	(1)	(5)	(3)
Net trading income	5	(5)	6	(1)	3	(3)
Net other expenses/income	172	179	44	39	42	46
OPERATING INCOME	**114**	**166**	**9**	**19**	**11**	**76**
Payroll costs	(539)	(616)	(120)	(131)	(134)	(153)
Other administrative expenses	520	575	97	137	132	155
Amortisation, depreciation and impairment losses on intangible and tangible assets	(122)	(115)	(34)	(30)	(30)	(30)
Operating costs	**(141)**	**(156)**	**(57)**	**(24)**	**(32)**	**(28)**
OPERATING PROFIT/(LOSS)	**(27)**	**10**	**(48)**	**(5)**	**(21)**	**48**
Net write-downs of loans and provisions for guarantees and commitments	26	21	4	7	3	12
NET OPERATING PROFIT/(LOSS)	**(1)**	**31**	**(44)**	**2**	**(18)**	**60**
Provisions for risks and charges	(3)	(6)	(9)	5	—	1
Restructuring costs	(394)	(96)	(394)	—	(1)	—
Net income from investments	23	57	1	1	20	1
PROFIT/(LOSS) BEFORE TAX	**(375)**	**(14)**	**(446)**	**8**	**1**	**62**
Cost-income ratio in %[1]	123.7	94.0	633.3	126.3	290.9	36.8

1 ratio of operating expenses to operating income

In the reporting year, the operating income of the Other/consolidation business segment stood at €114 million, down €52 million on the previous-year figure (€166 million). This development was decisively characterised by the negative interest income (minus €75 million), a figure that was significantly down on the previous year (€4 million) in an environment characterised by persistently low interest rates that had fallen further in the 2016 financial year. This trend was counteracted to a certain extent by the rise in dividends and similar income from equity investments of €4 million in the previous year to the current €25 million.

With operating costs having fallen by €15 million on the previous year to €141 million, the operating loss stood at €27 million after the operating profit of €10 million seen in the previous year.

There was a net reversal in net write-downs of loans and provisions for guarantees and commitments in the two years: €26 million in 2016 and €21 million in 2015. This meant that the net operating profit in the reporting year stood at minus €1 million after €31 million in the previous year.

On balance, there was a net reversal of provisions for risks and charges of €3 million on the previous-year figure (net reversal of €6 million). At €23 million, the net income from investments was down on the previous year (€57 million). In both years, the net income stemmed primarily from the disposal of investment properties. Restructuring costs of €394 million were incurred in the reporting year mainly in connection with the measures relating to the Transform 2019 strategic programme. The restructuring costs recorded in the previous year of €96 million was necessitated in particular by the measures aimed at boosting efficiency and earnings from the 2016–2018 Strategic Plan. Mainly on account of the negative impact of the restructuring costs, there was a loss before tax of €375 million, following the loss of €14 million in the previous year.

30 Balance sheet figures, broken down by business segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with banks				
31/12/2016	1,093	31,901	49	33,043
31/12/2015	983	32,913	(1,064)	32,832
Loans and receivables with customers				
31/12/2016	78,435	43,863	(824)	121,474
31/12/2015	77,154	37,344	(1,010)	113,488
Goodwill				
31/12/2016	130	288	—	418
31/12/2015	130	288	—	418
Deposits from banks				
31/12/2016	3,609	47,593	6,382	57,584
31/12/2015	3,442	48,190	6,848	58,480
Deposits from customers				
31/12/2016	81,962	30,519	4,723	117,204
31/12/2015	77,901	25,132	4,657	107,690
Debt securities in issue				
31/12/2016	998	4,263	18,953	24,214
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)				
31/12/2016	30,440	44,493	6,642	81,575
31/12/2015	28,171	42,327	7,559	78,057

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in the Notes "Non-current assets or disposal groups held for sale" and "Liabilities of disposal groups held for sale"

31 Employees, broken down by business segment[1]

	2016	2015
Commercial Banking	7,183	7,467
Corporate & Investment Banking	2,407	2,654
Other/consolidation	5,158	6,189
Total	**14,748**	**16,310**

1 in full-time equivalents (FTEs)

Segment Reporting (Continued)

32 Segment reporting by region

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

Income statement, broken down by region (€ millions)

	2016		2015	
	OPERATIVE INCOME	OPERATING PROFIT/(LOSS)	OPERATIVE INCOME	OPERATING PROFIT/(LOSS)
Germany	4,554	980	4,392	745
Italy	230	158	298	206
Luxembourg	139	102	165	125
United Kingdom	277	133	262	36
Rest of Europe	23	26	41	1
Americas	109	59	78	32
Asia	46	10	34	(3)
Consolidation	(480)	(31)	(595)	(46)
HVB Group	**4,898**	**1,437**	**4,675**	**1,096**

Total assets, broken down by region (€ millions)

	2016	2015
Germany	279,696	273,074
Italy	39,207	43,253
Luxembourg	25,134	24,832
United Kingdom	13,490	12,967
Rest of Europe	6,336	5,583
Americas	7,783	5,862
Asia	4,006	5,010
Consolidation	(73,562)	(71,836)
HVB Group	**302,090**	**298,745**

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

	2016	2015
Germany	2,826	2,947
Italy	—	—
Luxembourg	30	32
United Kingdom	7	10
Rest of Europe	1	236
Americas	3	3
Asia	2	2
Consolidation	—	—
HVB Group	**2,869**	**3,230**

Investment properties, broken down by region (€ millions)

	2016	2015
Germany	1,006	1,140
Italy	—	—
Luxembourg	22	23
United Kingdom	—	—
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
HVB Group	**1,028**	**1,163**

Intangible assets, broken down by region (€ millions)

	2016	2015
Germany[1]	453	460
Italy	—	—
Luxembourg	2	2
United Kingdom	—	—
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
HVB Group	**455**	**462**

1 includes goodwill

Employees, broken down by region[1]

	2016	2015
Germany	13,367	14,702
Italy	241	287
Luxembourg	162	170
United Kingdom	482	542
Rest of Europe	228	235
Africa	3	2
Americas	124	179
Asia	141	193
HVB Group	**14,748**	**16,310**

1 in full-time equivalents (FTEs)

Notes to the Income Statement

33 Net interest

(€ millions)

	2016	2015
Interest income	4,083	4,618
Lending and money market transactions	2,920	3,124
Other interest income	1,163	1,494
Interest expense	(1,565)	(1,890)
Deposits	(203)	(328)
Debt securities in issue and other interest expenses	(1,362)	(1,562)
Total	**2,518**	**2,728**

In the reporting year, the Bank generated €48 million (same period in the previous year: €68 million) in interest income on impaired financial assets that are valued at cost.

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €3,049 million (same period last year: €3,300 million) and €1,042 million (same period last year: €1,296 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

Interest that the Bank is required to pay on assets (such as interest payable on average reserves maintained with the ECB above the minimum required reserve and other deposits with the ECB) is carried as a negative item under interest income (€122 million); where interest receivable accrues on the liabilities side, this is similarly recognised as a positive item under interest expense (€172 million). This mainly relates to securities repurchase agreements, overnight deposits and forward transactions with banks and institutional investors.

Net interest attributable to related parties

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

(€ millions)

	2016	2015
Non-consolidated affiliated companies	54	67
of which:		
UniCredit S.p.A.	13	24
Sister companies	40	41
Joint ventures	5	3
Associated companies	6	10
Other participating interests	12	—
Total	**77**	**80**

34 Dividends and other income from equity investments

(€ millions)

	2016	2015
Dividends and other similar income	58	59
Companies accounted for using the equity method	(1)	10
Total	**57**	**69**

35 Net fees and commissions

(€ millions)

	2016	2015
Fee and commission income	1,420	1,355
Fee and commission expense	(354)	(320)
Net fees and commissions	**1,066**	**1,035**
thereof:		
Management, brokerage and consultancy services	533	528
Collection and payment services	219	206
Lending operations	329	295
Other service operations	(15)	6

Fee and commission income of €146 million (equivalent period last year: €112 million) and fee and commission expense of €4 million (equivalent period last year: €5 million) relate to financial instruments not measured at fair value through profit or loss.

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

Net fees and commissions from related parties

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

(€ millions)

	2016	2015
Non-consolidated affiliated companies	45	42
of which:		
UniCredit S.p.A.	(58)	(38)
Sister companies	94	80
Subsidiaries	9	—
Joint ventures	1	1
Associated companies	20	14
Other participating interests	—	—
Total	**66**	**57**

36 Net trading income

(€ millions)

	2016	2015
Net gains on financial assets held for trading[1]	880	556
Effects arising from hedge accounting	1	(7)
Changes in fair value of hedged items	87	159
Changes in fair value of hedging derivatives	(86)	(166)
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	22	(26)
Other net trading income	—	2
Total	**903**	**525**

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 2016: plus €41 million; effect in the equivalent period last year: plus €158 million)

Notes to the Income Statement (Continued)

The net gains on financial assets in the reporting period include positive credit valuation adjustments of €86 million on our holdings of derivatives (equivalent period last year: minus €14 million).

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 €1 million (2015: expense of €7 million) arises from the increase of €87 million (2015: increase of €159 million) in fair value relating to the secured risk of the hedged items and the decrease of €86 million in the fair value of hedging derivatives (2015: decrease of €166 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.

37 Net other expenses/income

(€ millions)

	2016	2015
Other income	595	543
Other expenses	(241)	(225)
Total	**354**	**318**

Other income includes rental income of €169 million (2015: €170 million) from investment properties and mixed usage buildings. Current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €56 million (2015: €59 million) are netted with the other income. Other expenses include expenses of €70 million for the European bank levy (2015: €53 million). Net other expenses/income includes income of €219 million (2015: €172 million) in connection with the BARD Offshore 1 wind farm.

At the same time, there were gains of €26 million (2015: €43 million) on the sale of unimpaired receivables.

Net other expenses/income attributable to related parties

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

(€ millions)

	2016	2015
Non-consolidated affiliated companies	87	135
of which:		
UniCredit S.p.A.	20	26
Sister companies	67	109
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**87**	**135**

38 Operating costs

(€ millions)

	2016	2015
Payroll costs	(1,668)	(1,821)
Wages and salaries	(1,360)	(1,480)
Social security costs	(207)	(216)
Pension and other employee benefit costs	(101)	(125)
Other administrative expenses	(1,536)	(1,560)
Amortisation, depreciation and impairment losses	(257)	(198)
on property, plant and equipment	(241)	(177)
on software and other intangible assets, excluding goodwill	(16)	(21)
Total	**(3,461)**	**(3,579)**

Wages and salaries includes payments of €11 million (2015: €12 million) made upon the termination of the employment contract. The expenses for similar payments under restructuring measures are recognised under restructuring costs in the income statement and explained in the Note “Restructuring 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)

	2016	2015
Non-consolidated affiliated companies	(712)	(653)
of which:		
UniCredit S.p.A.	(6)	(13)
Sister companies	(706)	(640)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(712)**	**(653)**

Share-based payment compliant with IFRS 2

Share-based payments were granted primarily under the Group Incentive System in the reporting period. In addition, UniCredit has two further schemes under which shares or stock are granted that are also accounted for in accordance with IFRS 2: the long-term incentive programme and the “Let’s Share” employee share ownership plan.

Group Incentive System

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

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

The cash component is disbursed in tranches over a period of up to five years. Accordingly, this group of employees received 20% to 30% of the bonus for 2016 in cash with the commitment at the beginning of 2017, and a further 10% to 20% will be disbursed after year-end 2017 and year-end 2019/2021.

Notes to the Income Statement (CONTINUED)

At the beginning of 2017, the beneficiaries receive a commitment for the remaining 50% of the total bonus to allocate shares in UniCredit S.p.A. as part of the bonus for 2016, to be transferred to the beneficiaries after year-end 2018 to 2020 and 2021.

The deferred payment after year-end 2017, 2019 and 2021 and the transfer of shares after year-end 2018, 2019, 2020 and 2021 to the beneficiaries is subject to the provision that, as part of a malus arrangement, it is ensured that a loss has not been recorded at the UniCredit corporate level or at the level of the individual beneficiary, or a significant reduction in the results achieved.

The fair value of the granted shares is calculated using the average stockmarket price of UniCredit S.p.A. shares in the month prior to the resolution by the Board of Directors in March 2017 regarding the granting, adjusted for a discount for expected dividends during the vesting period.

10.5 million UniCredit S.p.A. shares (before possible adjustment due to adjustments in the equity of UniCredit S.p.A.) were granted in the reporting period as a component of the bonus granted for 2015, with a fair value of €30.6 million. The shares granted in 2016 as part of the bonus for 2015 will be transferred in 2018, 2019, 2020 and 2021. The following table shows the fair values per share at the time of granting:

	2016
Fair value of the shares to be transferred in 2018 (€ per share)	3.150
Fair value of the shares to be transferred in 2019 (€ per share)	2.919
Fair value of the shares to be transferred in 2020 (€ per share)	2.597
Fair value of the shares to be transferred in 2021 (€ per share)	2.236

Analysis of outstanding shares

	2016		2015	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**17,296,557**	**June 2017**	**19,741,750**	**December 2015**
Additions				
Newly granted shares	10,536,220	March 2019	6,160,619	January 2019
From corporate transfers	441,058	August 2017	—	—
Releases				
Forfeited shares	171,558	September 2018	633,817	January 2017
Transferred shares	7,185,845	May 2016	7,971,995	May 2015
From corporate transfers	170,678	February 2019	—	—
Expired shares	—	—	—	—
Total at end of period	**20,745,754**	**October 2018**	**17,296,557**	**June 2017**

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

Bonuses for the 2016 financial year falling due for disbursement in 2017 are recognised in full as expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.153 in conjunction with IAS 19.68. Thus, deferred cash payments under the bonus promised for 2016 are recognised as expense in the respective period (starting with the 2016 financial year to the end of the financial year in which the waiting period for the respective tranche ends) on a pro rata basis.

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

In the 2016 financial year, prorated expenses of €19 million (2015: €52 million) accrued for the stock component arising from the bonuses promised for 2012 to 2016 in the form of share-based payments compliant with IFRS 2. These expenses are recognised under payroll costs. The provision set up totalled €77 million (2015: €117 million).

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

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

The following statements relate to all eligible HVB Group employees covered by the long-term incentive programme. The information provided in the Note "Information on relationships with related parties" in this regard merely relates to the stock options granted to members of the Management Board.

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

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

The stock options granted in 2012 expired in the 2016 financial year as the relevant targets were not achieved. All other stock options granted in earlier years are already exercisable. No new stock options have been granted since 2012.

Notes to the Income Statement (Continued)

Analysis of outstanding stock options

	2016			2015		
	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY
Outstanding at start of period	**13,182,652**	**4.62**	**December 2018**	**13,538,008**	**4.62**	**December 2018**
Additions						
Newly granted options	—	—	—	—	—	—
From corporate transfers	—	—	—	—	—	—
Releases						
Forfeited stock options	50,791	5.94	March 2018	355,356	4.83	November 2018
Exercised stock options	—	—	—	—	—	—
Expired stock options	1,128,249	4.01	December 2022	—	—	—
Total at end of period	**12,003,612**	**4.67**	**August 2018**	**13,182,652**	**4.62**	**December 2018**
Exercisable options at end of period	12,003,612	4.67	August 2018	12,054,403	4.67	December 2018

1 The average strike price is only of limited information value on account of the non-inclusion of completed capital increases and stock consolidations (in 2012: stock consolidation at a ratio of 10:1 and subsequent capital increase at a ratio of 1:2 at a price of €1.943; in 2017: stock consolidation at a ratio of 10:1) in line with the conditions for granting the stock options.

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

In the reporting period, no further prorated expenses arose nor did any income from forfeited instruments (2015: net income of €2 million). No provisions were set up in 2016 and 2015 for stock options in HVB Group for which a firm commitment exists.

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

Between July 2016 and December 2016, employees participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). However, the plan offers the following advantage compared with buying the shares directly on the market:

Participating employees first receive the right to obtain free shares with a value of one-third of the amount they have invested under the plan. At the end of a one-year vesting period in July 2017, the participants receive regular UniCredit shares in exchange for their rights, over which they have an immediate right of disposal. The rights to the free shares generally expire when employees sell the investment shares or their employment with a UniCredit company is terminated before the vesting period ends.

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

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

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

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

(€ millions)

	2016	2015
Additions	(1,265)	(1,090)
Allowances for losses on loans and receivables	(1,097)	(992)
Allowances for losses on guarantees and indemnities	(168)	(98)
Releases	867	920
Allowances for losses on loans and receivables	730	786
Allowances for losses on guarantees and indemnities	137	134
Recoveries from write-offs of loans and receivables	57	58
Gains/(losses) on the disposal of impaired loans and receivables	—	(1)
Total	**(341)**	**(113)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €26 million in the reporting period (equivalent period last year: €43 million). The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €284 million (equivalent period last year: net expense of €106 million).

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

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

	2016	2015
Non-consolidated affiliated companies	(1)	—
of which:		
UniCredit S.p.A.	—	—
Sister companies	(1)	—
Joint ventures	(2)	—
Associated companies	(5)	—
Other participating interests	1	(1)
Total	**(7)**	**(1)**

40 Provisions for risks and charges

In the reporting period, a sum of €193 million was transferred to provisions for risks and charges in the non-lending business (2015: €194 million). These are primarily provisions for legal risks in both years. The legal risks of HVB Group are described in detail in the section entitled “Operational risk” in the Risk Report of this Management’s Discussion and Analysis.

Notes to the Income Statement (Continued)

41 Restructuring costs

The restructuring costs of €645 million recognised in the 2016 financial year can be largely attributed to the measures planned in the course of the "Transform 2019" strategy programme.

Last year, there were restructuring costs totalling €112 million on balance. This figure contained expenses for the creation of restructuring provisions relating to measures serving to boost efficiency and earnings in the 2016–2018 Strategic Plan. These were partially compensated by net income from net reversals of no longer needed restructuring provisions which were created in 2013 to modernise the retail banking business.

42 Net income from investments

(€ millions)

	2016	2015
Available-for-sale financial assets	20	45
Shares in affiliated companies	(1)	5
Companies accounted for using the equity method	(4)	(10)
Held-to-maturity investments	—	—
Land and buildings	—	—
Investment properties[1]	27	51
Other	(3)	8
Total	**39**	**99**

1 gains on disposal, impairments and write-ups

Net income from investments breaks down as follows:

(€ millions)

	2016	2015
Gains on the disposal of	52	89
available-for-sale financial assets	23	51
shares in affiliated companies	(1)	5
companies accounted for using the equity method	—	(10)
held-to-maturity investments	—	—
land and buildings	—	—
investment properties	33	35
other	(3)	8
Write-downs, value adjustments and write-ups on	(13)	10
available-for-sale financial assets	(3)	(6)
shares in affiliated companies	—	—
companies accounted for using the equity method	(4)	—
held-to-maturity investments	—	—
investment properties	(6)	16
other	—	—
Total	**39**	**99**

The gains on sale of €52 million related largely to gains of €23 million on the disposal of available-for-sale financial assets and €33 million on the sale of investment properties. By contrast, net write-downs and value adjustments totalling €13 million were taken on the available-for-sale financial assets, companies accounted for using the equity method and investment properties.

Of last year's gains on sale of €89 million, €51 million stem from gains on disposal of available-for-sale financial assets, such as the sale of our holdings in Wüstenrot & Württembergische AG, Stuttgart, and gains of €35 million on the sale of investment properties.

43 Income tax for the period

(€ millions)

	2016	2015
Current taxes	(166)	(141)
Deferred taxes	26	115
Total	**(140)**	**(26)**

The current tax expense for 2016 includes tax income of €43 million for previous years (2015: €70 million).

The deferred tax income in the reporting period contains income totalling €56 million arising from value adjustments on deferred tax assets on tax losses carried forward and temporary differences. The offsetting deferred tax expense totalling €30 million resulted overall from the origination and reversal of temporary differences and the utilisation of tax losses. The deferred tax income in the previous year stemmed from a value adjustment and from the origination and reversal of temporary differences and the origination and utilisation of tax losses.

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

(€ millions)

	2016	2015
Profit before tax	297	776
Applicable tax rate	31.4%	31.4%
Computed income taxes	(93)	(244)
Tax effects		
arising from previous years and changes in tax rates	(21)	173
arising from foreign income	1	16
arising from non-taxable income	93	45
arising from different tax laws	(23)	(21)
arising from non-deductible expenses	(65)	(65)
arising from value adjustments and the non-recognition of deferred taxes	(32)	69
arising from other differences	—	1
Recognised income taxes	**(140)**	**(26)**

As in 2015, an applicable tax rate of 31.4% has been assumed in the tax reconciliation. This comprises the current rate of corporate income tax in Germany of 15.0%, the solidarity surcharge of 5.5% and an average trade tax rate of 15.6%. This reflects the fact that the consolidated profit is dominated by profits generated in Germany, meaning that it is subject to German corporate income tax and trade tax.

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

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

Notes to the Income Statement (Continued)

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

(€ millions)

	2016	2015
Deferred tax assets		
Financial assets/liabilities held for trading	257	226
Investments	2	8
Property, plant and equipment/intangible assets	118	105
Provisions	703	633
Other assets/other liabilities/hedging derivatives	465	541
Loans and receivables with banks and customers,		
including provisions for losses on loans and receivables	166	142
Losses carried forward/tax credits	374	376
Other	—	1
Total deferred tax assets	**2,085**	**2,032**
Effect of offsetting	(722)	(748)
Recognised deferred tax assets	**1,363**	**1,284**
Deferred tax liabilities		
Loans and receivables with banks and customers,		
including provisions for losses on loans and receivables	95	59
Financial assets/liabilities held for trading	1	27
Investments	169	99
Property, plant and equipment/intangible assets	67	69
Other assets/other liabilities/hedging derivatives	449	571
Deposits from banks/customers	3	3
Non-current assets or disposal groups held for sale	—	—
Other	19	19
Total deferred tax liabilities	**803**	**847**
Effect of offsetting	(722)	(748)
Recognised deferred tax liabilities	**81**	**99**

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

The deferred taxes mentioned in the Note "Consistency" are reflected in the year-ago figures above. They do not affect the overall position after netting.

Deferred tax liabilities of €15 million were debited to the AfS reserve of HVB Group (2015: €0 million) and deferred tax liabilities of €13 million (2015: €13 million) were offset against the hedge reserve. The deferred taxes are mainly included in the items "Investments" and "Other assets/other liabilities/hedging derivatives" mentioned above. Deferred tax assets of €602 million (2015: €519 million) were recognised outside profit or loss in connection with the accounting for pension commitments in accordance with IAS 19. In each case, the deferred tax items offset directly against reserves or other comprehensive income are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €3,182 million (2015: €3,025 million), most of which do not expire, and deductible temporary differences of €1,750 million (2015: €1,623 million).

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

44 Earnings per share

	2016	2015
Consolidated profit attributable to the shareholder (€ millions)	153	743
Average number of shares	802,383,672	802,383,672
Earnings per share (€) (undiluted and diluted)	0.19	0.93

Notes to the Balance Sheet

45 Cash and cash balances

(€ millions)

	2016	2015
Cash on hand	4,518	530
Balances with central banks	5,252	10,913
Total	**9,770**	**11,443**

46 Financial assets held for trading

(€ millions)

	2016	2015
Balance-sheet assets	35,691	36,187
Fixed-income securities	10,928	10,360
Equity instruments	11,315	11,446
Other financial assets held for trading	13,448	14,381
Positive fair value from derivative financial instruments	58,396	61,613
Total	**94,087**	**97,800**

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

The financial assets held for trading include €170 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)

	2016	2015
Non-consolidated affiliated companies	15,116	16,359
of which:		
UniCredit S.p.A.	9,937	10,494
Sister companies[1]	5,179	5,865
Joint ventures	20	4
Associated companies	703	655
Other participating interests	9	11
Total	**15,848**	**17,029**

1 mostly derivative transactions involving UniCredit Bank Austria AG

47 Financial assets at fair value through profit or loss

(€ millions)

	2016	2015
Fixed-income securities	27,423	32,660
Equity instruments	—	—
Investment certificates	—	—
Promissory notes	1,089	1,163
Other financial assets at fair value through profit or loss	—	—
Total	**28,512**	**33,823**

76% (31 December 2015: 76%) of the promissory notes was issued by the federal states and regional authorities in the Federal Republic of Germany. The portfolio also includes one promissory note issued by the Republic of Austria.

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

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

48 Available-for-sale financial assets

(€ millions)

	2016	2015
Fixed-income securities	5,627	1,048
Equity instruments	99	95
Other available-for-sale financial assets	56	45
Impaired assets	147	166
Total	**5,929**	**1,354**

Available-for-sale financial assets at 31 December 2016 include financial instruments of €231 million (31 December 2015: €214 million) valued at cost.

Within this total, equity instruments with a carrying amount of €3 million (previous year: €4 million) were sold during the reporting period, yielding a gain of €2 million (previous year: €2 million).

Available-for-sale financial assets at 31 December 2016 contain a total of €147 million (31 December 2015: €166 million) in impaired assets. Impairments of €4 million (31 December 2015: €7 million) were taken to the income statement during the reporting period.

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

At 31 December 2016, the available-for-sale financial assets include no subordinated assets (31 December 2015: €165 million).

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

(€ millions)

	2016	2015
Associated companies accounted for using the equity method	44	56
of which: goodwill	11	11
Joint ventures accounted for using the equity method	—	—
Total	**44**	**56**

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

Notes to the Balance Sheet (Continued)

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

	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January 2015	**77**
Additions	17
Purchases[1]	1
Write-ups	—
Changes from currency translation	5
Other additions[2]	11
Disposals	(38)
Sales	(35)
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[2]	(3)
Carrying amounts at 31 December 2015	**56**
Carrying amounts at 1 January 2016	**56**
Additions	5
Purchases[1]	1
Write-ups	—
Changes from currency translation	—
Other additions[2]	4
Disposals	(17)
Sales	—
Impairments	(4)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[2]	(13)
Carrying amounts at 31 December 2016	**44**

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

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

	2016	2015
Net interest	(6)	(8)
Net other expenses/income	117	137
Operating costs	(98)	(85)
Profit before tax	**13**	**44**
Income tax	(4)	(6)
Consolidated profit/loss	**9**	**38**
Other comprehensive income	**—**	**—**
Total comprehensive income	**9**	**38**

There were no changes in volume arising from other comprehensive income and other equity items at companies accounted for using the equity method. There was no prorated loss during the reporting period or 2015 from companies accounted for using the equity method. Furthermore, there were no prorated cumulative losses in the reporting period or 2015 from companies accounted for using the equity method.

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

50 Held-to-maturity investments

(€ millions)

	2016	2015
Fixed-income securities	36	63
Impaired assets	—	—
Total	**36**	**63**

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

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

Development of held-to-maturity investments

(€ millions)

	2016	2015
Balance at 1 January	**63**	**66**
Additions		
Purchases	—	—
Write-ups	—	—
Other additions	2	8
Disposals		
Sales	—	—
Redemptions at maturity	(29)	(11)
Write-downs	—	—
Other disposals	—	—
Balance at 31 December	**36**	**63**

51 Loans and receivables with banks

(€ millions)

	2016	2015
Current accounts	1,059	1,355
Cash collateral and pledged credit balances	9,567	9,282
Reverse repos	13,169	14,474
Reclassified securities	450	523
Other loans to banks	8,798	7,198
Total	**33,043**	**32,832**

Notes to the Balance Sheet (Continued)

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

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

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

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

(€ millions)

	2016	2015
Non-consolidated affiliated companies	3,874	3,818
of which:		
UniCredit S.p.A.	1,897	1,970
Sister companies[1]	1,977	1,848
Joint ventures	295	260
Associated companies	12	86
Other participating interests	79	50
Total	**4,260**	**4,214**

1 mainly UniCredit Bank Austria AG

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

(€ millions)

	2016	2015
Properly serviced loans and receivables – carrying amount	**32,899**	**32,815**
Carrying amount before allowances	32,916	32,863
Portfolio allowances	17	48
Properly serviced loans and receivables past due – carrying amount	**142**	**2**
Carrying amount before allowances	142	2
Portfolio allowances	—	—
Non-performing loans and receivables (rating classes 8–, 9 and 10) – carrying amount	**2**	**15**
Carrying amount before allowances	45	72
Specific allowances	43	57

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

	2016	2015
Properly serviced loans and receivables past due – carrying amount		
1–30 days	142	2
31–60 days	—	—
61–90 days	—	—
Value of collateral		
1–30 days	48	—
31–60 days	—	—
61–90 days	—	—

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

	2016	2015
Loans and receivables		
Not rated	1,072	704
Rating class 1–4	29,915	30,754
Rating class 5–8	2,054	1,359
Rating class 9–10	2	15
Collateral		
Not rated	—	63
Rating class 1–4	850	1,096
Rating class 5–8	272	99
Rating class 9–10	2	6

52 Loans and receivables with customers

(€ millions)

	2016	2015
Current accounts	7,315	7,666
Cash collateral and pledged cash balances	2,529	2,498
Reverse repos	1,632	313
Mortgage loans	44,009	41,720
Finance leases	2,026	2,120
Reclassified securities	1,271	1,658
Non-performing loans and receivables	2,511	3,199
Other loans and receivables	60,181	54,314
Total	**121,474**	**113,488**

Notes to the Balance Sheet (Continued)

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

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

Loans and receivables with customers include an amount of €3,515 million (previous year: €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 31 December 2016 include €467 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)

	2016	2015
Non-consolidated affiliated companies	54	17
of which:		
Sister companies	2	—
Subsidiaries	52	17
Joint ventures	24	29
Associated companies	37	57
Other participating interests	437	448
Total	**552**	**551**

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

	2016	2015
Properly serviced loans and receivables – carrying amount	**117,892**	**109,439**
Carrying amount before allowances	118,240	109,823
Portfolio allowances	348	384
Properly serviced loans and receivables past due – carrying amount	**1,071**	**850**
Carrying amount before allowances	1,076	854
Portfolio allowances	5	4
Non-performing loans and receivables (rating classes 8–, 9 and 10) – carrying amount	**2,511**	**3,199**
Carrying amount before allowances	4,661	5,394
Specific allowances	2,150	2,195

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

	2016	2015
Properly serviced loans and receivables past due – carrying amount		
1–30 days	993	711
31–60 days	59	112
61–90 days	19	27
Value of collateral		
1–30 days	340	417
31–60 days	46	85
61–90 days	16	25

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

	2016	2015
Loans and receivables		
Not rated	12,174	10,588
Rating class 1–4	76,453	67,438
Rating class 5–8	30,336	32,263
Rating class 9–10	2,511	3,199
Collateral		
Not rated	317	1,713
Rating class 1–4	37,543	33,981
Rating class 5–8	17,602	19,041
Rating class 9–10	977	1,418

Amounts receivable from customers under lease agreements (receivables under finance leases)
The amounts receivable from customers under finance lease agreements are described in more detail in the Note “Information regarding lease operations”.

53 Forbearance

The European Banking Authority (EBA) defines forborne exposures as debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments that the lender would not have been prepared to grant under other circumstances. Possible measures range from deferrals and temporary moratoriums, longer periods allowed for repayment, reduced interest rates and rescheduling, and even debt forgiveness. It should be noted, however, that not every modification of a lending agreement is due to financial difficulties on the part of the borrower and represents forbearance.

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

	2016			2015		
	CARRYING AMOUNT BEFORE ALLOWANCES	ALLOWANCES	CARRYING AMOUNT	CARRYING AMOUNT BEFORE ALLOWANCES	ALLOWANCES	CARRYING AMOUNT
Performing exposures	896	(16)	880	1,515	(26)	1,489
Non-performing exposures	3,502	(1,494)	2,008	3,577	(1,319)	2,258
Total	**4,398**	**(1,510)**	**2,888**	**5,092**	**(1,345)**	**3,747**

Notes to the Balance Sheet (Continued)

Of the total forborne exposures, €2,888 million are carried under loans and receivables with customers (2015: €3,659 million) and €0 million (2015: €88 million) under loans and receivables with banks. As in the previous year, no securities with forbearance measures were held at the reporting date.

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

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

Analysis of loans and receivables:

(€ millions)

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2015	**2,491**	**368**	**2,859**
Changes affecting income			
Gross additions[1]	897	95	992
Releases	(759)	(27)	(786)
Changes not affecting income			
Changes due to make-up of group of consolidated companies			
and reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(413)	—	(413)
Effects of currency translation and other changes not affecting income	36	—	36
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2015	**2,252**	**436**	**2,688**
Balance at 1 January 2016	**2,252**	**436**	**2,688**
Changes affecting income			
Gross additions[1]	1,076	21	1,097
Releases	(644)	(86)	(730)
Changes not affecting income			
Changes due to make-up of group of consolidated companies			
and reclassifications of disposal groups held for sale	(6)	(2)	(8)
Use of existing loan-loss allowances	(463)	—	(463)
Effects of currency translation and other changes not affecting income	(22)	1	(21)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2016	**2,193**	**370**	**2,563**

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

55 Hedging derivatives

(€ millions)

	2016	2015
Micro fair value hedge	2	—
Fair value hedge portfolio[1]	382	450
Total	**384**	**450**

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

56 Property, plant and equipment

(€ millions)

	2016	2015
Land and buildings	931	930
Plant and office equipment	524	776
Other property, plant and equipment	1,414	1,524
Total[1]	**2,869**	**3,230**

1 including leased assets of €576 million (previous year: €817 million). More information about leases is contained in the Note "Information regarding lease operations".

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

At the beginning of the reporting year, both the underlying depreciation method and the useful life of the wind farm were reviewed and adjusted accordingly as significant changes occurred in the expected pattern of future economic benefits and expectations now differ from earlier estimates. The adjustment of the expected pattern of consumption of the potential economic benefits and the extension of the depreciation period by 3 years to what is now 28 years more accurately reflect the actual consumption of value of the item of property, plant or equipment in the reporting period and lead to an overall increase of €42 million in depreciation expense in the income statement in the reporting period. In the following periods the change in the depeciation method will initially lead to comparatively higher annual depreciation amounts despite the longer period of use.

Costs of €5 million (2015: €27 million) accrued for the elimination of defects and were capitalised during the reporting period. The measures that have been implemented served to increase the economic benefit of the wind farm, meaning that the recognition requirements defined in IAS 16.10 in conjunction with IAS 16.7 are satisfied.

This item also includes the grants of €53 million (31 December 2015: €53 million) provided by the European Union that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the initial cost of the other property, plant and equipment on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Notes to the Balance Sheet (Continued)

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

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2015	**2,180**	**1,194**	**3,374**	**1,667**	**5,041**
Write-downs and write-ups from previous years	(1,240)	(750)	(1,990)	(102)	(2,092)
Carrying amounts at 1 January 2015	**940**	**444**	**1,384**	**1,565**	**2,949**
Additions					
Acquisition/production costs	84	225	309	27	336
Write-ups	12	4	16	—	16
Changes from currency translation	—	25	25	—	25
Other additions[2]	1	220	221	—	221
Disposals					
Sales	(68)	(47)	(115)	—	(115)
Amortisation and write-downs	(30)	(89)	(119)	(68)	(187)
Impairments	(4)	(4)	(8)	—	(8)
Changes from currency translation	—	—	—	—	—
Non-current assets or disposal groups held for sale	—	(1)	(1)	—	(1)
Other disposals[2]	(5)	(1)	(6)	—	(6)
Carrying amounts at 31 December 2015	**930**	**776**	**1,706**	**1,524**	**3,230**
Write-downs and write-ups from previous years plus					
the reporting period	1,186	737	1,923	174	2,097
Acquisition costs at 31 December 2015	**2,116**	**1,513**	**3,629**	**1,698**	**5,327**
Acquisition costs at 1 January 2016	**2,116**	**1,513**	**3,629**	**1,698**	**5,327**
Write-downs and write-ups from previous years	(1,186)	(737)	(1,923)	(174)	(2,097)
Carrying amounts at 1 January 2016	**930**	**776**	**1,706**	**1,524**	**3,230**
Additions					
Acquisition/production costs	47	154	201	15	216
Write-ups	1	—	1	—	1
Changes from currency translation	—	8	8	—	8
Other additions[2]	2	11	13	—	13
Disposals					
Sales	(4)	(77)	(81)	(5)	(86)
Amortisation and write-downs	(35)	(102)	(137)	(111)	(248)
Impairments	(4)	—	(4)	(9)	(13)
Changes from currency translation	—	—	—	—	—
Non-current assets or disposal groups held for sale	(4)	(244)	(248)	—	(248)
Other disposals[2]	(2)	(2)	(4)	—	(4)
Carrying amounts at 31 December 2016	**931**	**524**	**1,455**	**1,414**	**2,869**
Write-downs and write-ups from previous years plus					
the reporting period	1,185	654	1,839	293	2,132
Acquisition costs at 31 December 2016	**2,116**	**1,178**	**3,294**	**1,707**	**5,001**

1 including leased assets. More information about leases is contained in the Note “Information regarding lease operations”.
2 including changes in the group of companies included in consolidation

57 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €1,471 million (31 December 2015: €1,371 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. The fair values determined in this way are classified as Level 3 (please refer to the Note "Fair value hierarchy" for the definition of the level hierarchy) due to the fact that each property is essentially unique and the fair value is determined using appraisals that reflect the special features of the real estate being valued. In the case of developed land, current market rents, operating costs and property yields are applied in the gross-rental method. Where necessary, property-specific considerations are also taken into account when determining the value. These property-specific factors include vacancy rates, deviations between current contractual rents and current market rents, the condition of the buildings' technical systems and so on. In the case of undeveloped land, figures for sales of nearby land that have been completed are normally taken as the basis; where these are not available, the standard land value is employed as a benchmark, with adjustments made for the individual location, size and layout of the land, among other factors.

The net carrying amount of the leased assets arising from finance leases included in investment properties amounted to €11 million (31 December 2015: €10 million) for land and buildings at the reporting date.

Development of investment properties: **(€ millions)**

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

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

Notes to the Balance Sheet (Continued)

Development of investment properties:

(€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2016	**1,909**
Write-downs and write-ups from previous years	(746)
Carrying amounts at 1 January 2016	**1,163**
Additions	
Acquisition/production costs	4
Write-ups	14
Changes from currency translation	—
Other additions[1]	2
Disposals	
Sales	(88)
Amortisation and write-downs	(29)
Impairments	(19)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(18)
Other disposals[1]	(1)
Carrying amounts at 31 December 2016	**1,028**
Write-downs and write-ups from previous years plus the reporting period	816
Acquisition costs at 31 December 2016	**1,844**

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

58 Intangible assets

(€ millions)

	2016	2015
Goodwill	418	418
Other intangible assets	37	44
Internally generated intangible assets	22	26
Other intangible assets	15	18
Total	**455**	**462**

Development of intangible assets: (€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2015	**1,042**	**487**	**298**
Write-downs and write-ups from previous years	(624)	(448)	(277)
Carrying amounts at 1 January 2015	**418**	**39**	**21**
Additions			
Acquisition/production costs	—	5	7
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions	—	—	—
Disposals			
Sales	—	(1)	—
Amortisation and write-downs	—	(12)	(9)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	(1)
Other disposals[1]	—	(5)	—
Carrying amounts at 31 December 2015	**418**	**26**	**18**
Write-downs and write-ups from previous years plus the reporting period	624	360	242
Acquisition costs at 31 December 2015	**1,042**	**386**	**260**
Acquisition costs at 1 January 2016	**1,042**	**386**	**260**
Write-downs and write-ups from previous years	(624)	(360)	(242)
Carrying amounts at 1 January 2016	**418**	**26**	**18**
Additions			
Acquisition/production costs	—	4	5
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions	—	—	—
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(8)	(8)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	—
Carrying amounts at 31 December 2016	**418**	**22**	**15**
Write-downs and write-ups from previous years plus the reporting period	624	362	173
Acquisition costs at 31 December 2016	**1,042**	**384**	**188**

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

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

Notes to the Balance Sheet (Continued)

59 Non-current assets or disposal groups held for sale

(€ millions)

	2016	2015
Cash	93	—
Available-for-sale financial assets	143	—
Loans and receivables with banks	116	3
Loans and receivables with customers	546	—
Property, plant and equipment	152	25
Investment properties	22	57
Intangible assets	—	1
Tax assets	2	14
Other assets	3	4
Total	**1,077**	**104**

The investment properties designated as held for sale essentially relate to the disposal of non-strategic real estate. Also shown are assets relating to the planned sale of Bankhaus Neelmeyer AG, Bremen. This item no longer contains the assets of UniCredit Global Business Services (UGBS) contained last year as the subsidiary was sold to UniCredit Business Integrated Solutions S.C.p.A. (UBIS) on 1 April 2016.

Valuation effects of minus €13 million, which are recognised in net other expenses/income, were recorded in the reporting period in connection with the non-current assets classified as for sale.

60 Other assets

Other assets include prepaid expenses of €93 million (previous year: €87 million).

61 Own securitisation

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

This involves structuring the cash flows of the underlying loan portfolio, meaning that at least two hierarchical positions (tranches) are formed when dividing up the risks and cash flows. In the case of traditional securitisation (true sale), receivables are sold to a special purpose entity which in turn issues securities.

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

In the case of the true sale transactions Rosenkavalier 2008 (€3.1 billion), Rosenkavalier 2015 (€2.5 billion) and Geldilux 2015 (€2 billion) HVB retained all of the tranches issued by the special purpose entity. The senior positions (or senior tranches) of securities generated in this way can, if required, be used as collateral for repurchase agreements with the European Central Bank (ECB). The underlying receivables continue to be recognised by HVB and the special purpose entities set up for this purpose are fully consolidated in accordance with IFRS 10. The risk-weighted assets have not been reduced.

The Newstone Mortgage Securities No. 1 plc transaction was concluded with a view to obtaining funding. The underlying receivables continue to be recognised by HVB and the special purpose entity set up for this purpose is fully consolidated in accordance with IFRS 10. The volume of lending at 31 December 2016 amounted to €0.2 billion. The risk-weighted assets have not been reduced.

62 Deposits from banks

(€ millions)

	2016	2015
Deposits from central banks	15,946	9,319
Deposits from banks	41,638	49,161
Current accounts	2,417	2,665
Cash collateral and pledged credit balances	11,132	13,300
Repos	12,362	18,663
Term deposits	4,720	4,316
Other liabilities	11,007	10,217
Total	**57,584**	**58,480**

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

Amounts owed to related parties

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

(€ millions)

	2016	2015
Non-consolidated affiliated companies	4,407	5,255
of which:		
UniCredit S.p.A.	1,139	1,761
Sister companies[1]	3,268	3,494
Joint ventures	33	28
Associated companies	78	112
Other participating interests	22	23
Total	**4,540**	**5,418**

1 the largest single item relates to UniCredit Bank Austria AG

63 Deposits from customers

(€ millions)

	2016	2015
Current accounts	69,341	67,850
Cash collateral and pledged credit balances	4,076	2,126
Savings deposits	13,780	13,792
Repos	8,798	4,599
Term deposits	16,028	13,679
Promissory notes	3,565	3,825
Other liabilities	1,616	1,819
Total	**117,204**	**107,690**

Notes to the Balance Sheet (Continued)

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

Amounts owed to related parties

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

	2016	2015
Non-consolidated affiliated companies	333	290
of which:		
Sister companies	326	271
Subsidiaries	7	19
Joint ventures	6	4
Associated companies	4	6
Other participating interests	370	375
Total	**713**	**675**

64 Debt securities in issue

(€ millions)

	2016	2015
Bonds	21,834	23,961
of which:		
Registered mortgage Pfandbriefs	5,498	5,731
Registered public-sector Pfandbriefs	3,027	2,811
Mortgage Pfandbriefs	7,351	8,430
Public-sector Pfandbriefs	262	1,437
Registered bonds	2,740	2,283
Other securities	2,380	2,041
Total	**24,214**	**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)

	2016	2015
Non-consolidated affiliated companies	217	254
of which:		
UniCredit S.p.A.	—	—
Sister companies	217	254
Joint ventures	16	2
Associated companies	146	193
Other participating interests	—	—
Total	**379**	**449**

65 Financial liabilities held for trading

(€ millions)

	2016	2015
Negative fair values arising from derivative financial instruments	54,806	58,739
Other financial liabilities held for trading	18,028	18,409
Total	**72,834**	**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.

The cumulative valuation effects of the financial liabilities held for trading in the portfolio at 31 December 2016, which result from including the own credit spread, total €143 million (31 December 2015: €164 million). A valuation expense of €21 million (31 December 2015: income of €74 million) arising from own credit spread changes accrued for these holdings in the reporting period.

66 Hedging derivatives

(€ millions)

	2016	2015
Micro fair value hedge	113	3
Fair value hedge portfolio[1]	884	1,046
Total	**997**	**1,049**

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

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

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €1,785 million (31 December 2015: €2,030 million). The fair value of the netted fair value hedge portfolio derivatives represents an economic comparable amount. The hedge adjustments are recognised separately in the balance sheet (for hedged lending and deposit-taking activities) for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €51 million (31 December 2015: €57 million).

68 Liabilities of disposal groups held for sale

(€ millions)

	2016	2015
Deposits from banks	33	—
Deposits from customers	1,096	—
Other liabilities	7	10
Provisions	26	21
Total	**1,162**	**31**

The liabilities disclosed in 2016 relate to the planned disposal of Bankhaus Neelmeyer AG, Bremen.

Notes to the Balance Sheet (Continued)

69 Other liabilities

This item totalling €2,145 million (31 December 2015: €2,572 million) essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

70 Provisions

(€ millions)

	2016	2015
Provisions for pensions and similar obligations	898	618
Allowances for losses on guarantees and commitments and irrevocable credit commitments	230	197
Restructuring provisions	631	213
Other provisions	1,263	1,204
Payroll provisions	272	318
Provisions related to tax disputes (without income taxes)	60	42
Provisions for rental guarantees and dismantling obligations	133	143
Other provisions	798	701
Total	**3,022**	**2,232**

The effects arising from changes in the discount rate and compounding led to an increase of €9 million (2015: €29 million) in provisions recognised in the income statement in the reporting period. The effect arising from changes in the discount rate used for pension provisions is recognised in other comprehensive income.

Provisions for pensions and similar obligations

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

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

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

Defined benefit plans

Characteristics of the plans

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

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

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

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

HVB Group reorganised its company plans for pensioners (direct commitments) in 2009. HVB Trust Pensionsfonds AG (pension fund) was set up in this process. Both the pension obligations to pensioners who in October 2009 had already received pension benefits from the Bank and the assets required to cover these obligations were transferred to the pension fund. In December 2016, pension commitments and obligations of the Bank amounting to €370 million were again transferred to the pension fund for a further 2,910 beneficiaries who in October 2016 had already received pension benefits and the corresponding plan assets to cover the beneficiaries' claims. The amount was determined on the basis of the framework for the transfer of direct commitments to a pension fund permitted for tax purposes in accordance with the BMF letter dated 10 July 2015. The pensioners' pension claims are not affected by the transfer; HVB continues to guarantee the pension. The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

On account of the current phase of low interest rates, the Bank, as the sponsoring company, paid €122 million in the reporting period to bolster HVB Trust Pensionsfonds AG, which adjusted its valuation parameters by that amount.

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

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

Reconciliations

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

(€ millions)

	2016	2015
Present value of funded pension obligations	4,975	4,664
Fair value of plan assets	(4,091)	(4,079)
Funded status	**884**	**585**
Present value of unfunded pension obligations	14	33
Net liability (net asset) of defined benefit plans	**898**	**618**
Asset ceiling	—	—
Capitalised excess cover of plan assets	—	—
Recognised pension provisions	**898**	**618**

Notes to the Balance Sheet (Continued)

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

(€ millions)

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

(€ millions)

	PRESENT VALUE OF PENSION COMMITMENTS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2016	**4,697**	**(4,079)**	**618**	**—**	**—**	**618**
Service cost component						
Current service cost	69	—	69	—	—	69
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	110	(96)	14	—	—	14
Service costs and net interest						
of defined benefit plans recognised in						
profit or loss for the period	**179**	**(96)**	**83**	**—**	**—**	**83**
Remeasurement component						
Gains/(losses) on plan assets excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	(22)	(22)	—	—	(22)
Actuarial gains/(losses) –						
demographic assumptions	—	—	—	—	—	—
Actuarial gains/(losses) –						
financial assumptions	316	—	316	—	—	316
Actuarial gains/(losses) –						
experience adjustments	(11)	—	(11)	—	—	(11)
Changes due to asset ceiling excluding						
amounts included in net interest on the net						
defined benefit liability (asset)	—	—	—	—	—	—
Remeasurements component of defined						
benefit plans recognised in OCI	**305**	**(22)**	**283**	**—**	**—**	**283**
Other changes						
Excess cover of plan assets	—	—	—	—	—	—
Exchange differences	(15)	21	6	—	—	6
Contributions to the plan:						
Employer	—	(73)	(73)	—	—	(73)
Plan participants	7	—	7	—	—	7
Pension payments	(144)	143	(1)	—	—	(1)
Business combinations, disposals and other	(40)	15	(25)	—	—	(25)
Balance at 31 December 2016	**4,989**	**(4,091)**	**898**	**—**	**—**	**898**

At the end of the reporting period, 33% (31 December 2015: 33%) of the present value of the defined benefit obligations of €4,989 million (31 December 2015: €4,697 million) was attributable to active employees, 23% (31 December 2015: 22%) to former employees with vested benefit entitlements and 44% (31 December 2015: 45%) to pensioners and surviving dependants.

Notes to the Balance Sheet (Continued)

Actuarial assumptions

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

(in %)

	2016	2015
Actuarial interest rate	1.90	2.35
Rate of increase in pension commitments	1.50	1.60
Rate of increase in future compensation and over career	2.00	2.50

The mortality rate underlying the actuarial calculation of the present value of the defined benefit obligation is based on the modified Heubeck 2005 G tables (generation tables) that allow for the probability of mortality to fall to 90% (31 December 2015: 90%) for women and 75% (31 December 2015: 75%) for men.

HVB Group similarly reduces the probability of disability based on these guidance tables to 80% (31 December 2015: 80%) for women and men equally. Since any changes in the actuarial assumptions regarding disability fundamentally only have a minor impact on the present value of the defined benefit obligation, HVB Group does not calculate any sensitivities for this valuation parameter.

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

Sensitivity analyses

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

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

Sensitivities at 31 December 2016:

	CHANGES OF THE ACTUARIAL ASSUMPTIONS	IMPACT ON THE PRESENT VALUE OF PENSION COMMITMENTS		
		PRESENT VALUE OF LIABILITY	ABSOLUTE CHANGES	RELATIVE CHANGES
		€ millions	€ millions	in %
	Basic value of the calculation of sensitivity	4,989		
Actuarial interest rate	Increase of 25 basis points	4,772	(217)	(4.3)
	Decrease of 25 basis points	5,224	235	4.7
Rate of increase in pension commitments	Increase of 25 basis points	5,141	152	3.0
	Decrease of 25 basis points	4,846	(143)	(2.9)
Rate of increase in future compensation/career trend	Increase of 25 basis points	4,996	7	0.1
	Decrease of 25 basis points	4,985	(4)	(0.1)

Sensitivities at 31 December 2015:

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

The observable decline in mortality rates is associated with an increase in life expectancy depending on the individual age of each beneficiary. In order to determine the sensitivity of the mortality or longevity, the lifetime for all beneficiaries was increased by one year. The present value of the defined benefit obligation at 31 December 2016 would rise by €158 million (3.2%) to €5,147 million (or by €143 million (3.0%) at 31 December 2015 to €4,840 million) as a result of this change. HVB Group considers an opposite trend, that is an increase in mortality or a decrease in life expectancy, to be unlikely and has therefore not calculated a sensitivity for this case in the reporting period (or in the previous year).

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

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

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

Notes to the Balance Sheet (Continued)

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

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

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

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

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

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

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

Disaggregation of plan assets

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

	2016	2015
Participating interests	54	43
Debt securities	134	146
Properties	174	171
Mixed investment funds	3,182	3,314
Property funds	331	215
Cash and cash equivalents/term deposits	68	49
Other assets	148	141
Total	**4,091**	**4,079**

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

In terms of amount, the investment in mixed investment funds represents the lion's share of the asset allocation for the plan assets. The deliberate investment in various asset classes and the general restriction to traditional investment instruments serve to ensure a risk-mitigating minimum diversification and also reflect a conservative underlying strategy. The high proportion of bonds with a medium- to long-term benchmark (such as government and corporate bonds, and Pfandbriefs) held in the fund implies low volatility with the intention of balancing the development in the value of the long-term pension commitments that follows general interest rates.

The following table shows a detailed breakdown of the mixed investment fund: **(in %)**

	2016	2015
Equities	6.5	7.5
German equities	1.1	1.3
European equities	4.6	4.5
Other equities	0.8	1.7
Government bonds	32.2	27.1
Pfandbriefs	13.4	13.3
Corporate bonds	29.3	24.9
German corporate bonds	5.8	5.0
European corporate bonds	16.7	13.8
Other corporate bonds	6.8	6.1
Fund certificates	3.1	2.8
Cash and cash equivalents/term deposits	15.5	24.4
Total	**100.0**	**100.0**

The plan assets comprised own financial instruments of the Group, property occupied by and other assets used by HVB Group companies at the reporting date: **(€ millions)**

	2016	2015
Participating interests	—	—
Debt securities	15	16
Properties	—	7
Mixed investment funds	332	318
Property funds	—	—
Cash and cash equivalents/term deposits	68	43
Other assets	—	—
Total	**415**	**384**

Notes to the Balance Sheet (Continued)

Future cash flows
There are financing agreements at HVB Group that contain measures to fund defined benefit plans. The minimum funding requirements included in the agreements may have an impact on future contribution payments. In the case of HVB Trust Pensionsfonds AG, HVB Group is liable for calls for additional capital should the assets fall below the minimum cover provision. For HVB Pensionskasse, the Bank is required to make an additional contribution if the permanent financing of the obligations is no longer ensured. No such requirement for calls for additional capital exists for the CTA.

HVB Group intends to make contributions of €28 million (2016 financial year: €17 million) to defined benefit plans in the 2017 financial year.

The weighted average duration of HVB Group's defined benefit obligations at the reporting date amounted to 18.1 years (31 December 2015: 18.1 years).

Multi-employer plans
HVB Group is a member of Versorgungskasse des Bankgewerbes e.V. (BVV), which also includes other financial institutions in Germany in its membership. BVV provides company pension benefits for eligible employees of the sponsoring companies. The BVV tariffs allow for fixed pension payments with profit participation. On account of the employer's statutory subsidiary liability applicable in Germany (Section 1 (1) 3 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG)), HVB Group classifies the BVV plan as a multi-employer defined benefit plan.

Since the available information is not sufficient to allow this plan to be accounted for as a defined benefit plan by allocating to the individual member companies the assets and the pension obligations relating to active and former employees, HVB Group accounts for the plan as if it were a defined contribution plan.

In the event of a plan deficit, the Group may be exposed to investment risk and actuarial risk. HVB Group does not currently expect that the statutory subsidiary liability will be used.

HVB Group expects to book employee contributions of €25 million for this pension plan in the 2017 financial year (2016: €18 million). Due to the current interest rate environment, BVV has reduced the payment for the future pension rights. To exempt the Bank's employees from this reduction in payment, the Bank, as the employer, will pay an additional contribution in future so that employees do not suffer any disadvantage in their future pension rights. This additional contribution amounts to €8 million in the 2017 financial year.

Defined contribution plans
HVB Group companies pay fixed amounts for each period to independent pension organisations for the defined contribution pension commitments. The contributions for the defined contribution plans and Pensions-Sicherungs-Verein VVaG (PSVaG) recognised as current expense under payroll costs totalled €22 million during the reporting period (31 December 2015: €35 million).

The employer contributions to the statutory pension scheme and the alternative professional pension schemes, which qualify as defined contribution state plans, are similarly included in payroll costs. Such contributions amounted to €92 million in the reporting period (31 December 2015: €99 million).

Allowances for losses on financial guarantees and irrevocable credit commitments, restructuring provisions and other provisions

(€ millions)

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES AND COMMITMENTS AND IRREVOCABLE CREDIT COMMITMENTS	RESTRUCTURING PROVISIONS[1]	OTHER PROVISIONS
Balance at 1 January 2015	**232**	**267**	**1,059**
Changes in consolidated group	—	—	—
Changes arising from foreign currency translation	1	—	11
Transfers to provisions	99	140	398
Reversals	(135)	(34)	(84)
Reclassifications	—	(111)	23
Amounts used	—	(49)	(203)
Non-current assets or disposal groups held for sale	—	—	—
Other changes	—	—	—
Balance at 31 December 2015	**197**	**213**	**1,204**
Balance at 1 January 2016	**197**	**213**	**1,204**
Changes in consolidated group	—	—	—
Changes arising from foreign currency translation	1	—	11
Transfers to provisions	179	494	375
Reversals	(146)	(6)	(110)
Reclassifications	—	(50)	21
Amounts used	—	(20)	(234)
Non-current assets or disposal groups held for sale	(1)	—	(4)
Other changes	—	—	—
Balance at 31 December 2016	**230**	**631**	**1,263**

1 the transfers and reversals are included in the income statement under restructuring costs together with other restructuring costs accruing during the reporting period

Restructuring provisions

The allocations to restructuring provisions reported in the 2016 financial year essentially relate to the measures planned in connection with the "Transform 2019" programme.

The allocations to restructuring provisions in the previous year resulted from the measures of the 2016–2018 Strategic Plan. The reversals, reclassifications and amounts used in the previous year mostly relate to provisions set up in 2013 in connection with restructuring programmes for the modernisation of the retail banking business.

Notes to the Balance Sheet (Continued)

Other provisions
The payroll provisions carried under other provisions encompass long-term obligations to employees such as service anniversary awards, early retirement or partial retirement. In addition, payroll provisions cover the parts of the bonus that are disbursed on a deferred basis, or transferred in cases where the bonus is granted in the form of shares, with the waiting period exceeding one year. The disbursement of these bonuses is additionally dependent upon the achievement of pre-defined targets. The bonus commitments for the 2012, 2013, 2014, 2015 and 2016 financial years to be disbursed as of 2017 are included here accordingly. The bonus provisions included here have been taken to the income statement in both the reporting period and the previous financial years. It is considered highly probable that the bonus will be disbursed. For details of the bonus plan, please refer to the Note "Operating costs".

The other provisions of €798 million (31 December 2015: €701 million) include provisions of €678 million (31 December 2015: €579 million) for legal risks, litigation fees and damage payments.

The amount of the respective provisions reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

With the exception of the provisions for rental guarantees and pre-emptive rights, the other provisions are normally expected to be utilised during the following financial year.

71 Shareholders' equity
The shareholders' equity of HVB Group at 31 December 2016 consisted of the following:

Subscribed capital
At 31 December 2016, the subscribed capital of HVB totalled €2,407 million (31 December 2015: €2,407 million) and consisted of 802,383,672 no par shares of common bearer stock (31 December 2015: 802,383,672 no par shares).

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share. The shares are fully paid in.

Additional paid-in capital
The additional paid-in capital results from premiums generated on the issuance of shares; the total at 31 December 2016 amounted to €9,791 million (31 December 2015: €9,791 million).

Other reserves
Other reserves of €5,107 million (2015: €8,125 million) predominantly contain retained earnings. The year-on-year decrease in other reserves essentially reflects a withdrawal of €3,000 million and its simultaneous transfer to consolidated profit of the reporting period as well as adjustments of minus €194 million in pensions and similar obligations. By contrast, the transfer of €148 million from consolidated profit (to the shareholder UniCredit S.p.A.) has a positive impact resulting from net consolidated profit of €153 million less the transfer (€5 million) to consolidated profit.

Change in valuation of financial instruments
The reserves arising from changes in valuation of financial instruments recognised in equity totalled €104 million at 31 December 2016 (2015: €41 million). This year-on-year increase of €63 million can be attributed to the €63 million increase in the AfS reserve to €74 million resulting essentially from the positive fair value fluctuations of fixed-income securities and participating interests. At €30 million, the hedge reserve similarly included in the reserves arising from changes in valuation of financial instruments recognised in equity remained unchanged compared with the previous year.

72 Subordinated capital

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

(€ millions)

	2016	2015
Subordinated liabilities	543	637
Hybrid capital instruments	56	58
Total	**599**	**695**

In this context, subordinated liabilities and hybrid capital instruments have been classified as Tier 2 capital for banking supervisory purposes in accordance with the provisions set forth in Articles 62, para. 1a, 63 to 65, 66 para. 1a and 67 CRR. The hybrid capital instruments are allocated to Tier 2 capital in accordance with Articles 87 and 88 CRR in conjunction with Article 480 CRR.

The following table shows the breakdown of subordinated capital by balance sheet item:

(€ millions)

	2016	2015
Deposits from customers	10	20
Deposits from banks	96	141
Debt securities in issue	493	534
Total	**599**	**695**

We have incurred interest expenses of €18 million (31 December 2015: €21 million) in connection with this subordinated capital. Subordinated capital includes proportionate interest of €4 million (31 December 2015: €5 million).

Subordinated liabilities

The borrowers cannot be obliged to make early repayments in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated liabilities can only be repaid after the claims of all primary creditors have been settled.

There were subordinated liabilities of €313 million payable to related parties in the reporting period (31 December 2015: €395 million).

Hybrid capital instruments

Hybrid capital instruments may include, in part, issues placed by specially created subsidiaries in the form of capital contributions from silent partners.

Our hybrid capital instruments satisfy the requirements for classification as Tier 2 capital as defined in Article 63 CRR. At 31 December 2016, HVB Group had hybrid capital of €22 million (31 December 2015: €34 million) bolstering its capital base for banking supervisory purposes.

Notes to the Cash Flow Statement

73 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the reporting period. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown correspond to the "Cash and cash balances" item in the balance sheet, comprising both cash on hand and deposits with central banks repayable on demand.

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interests in net income.

Gains of €30 million were generated on the disposal of shares in fully consolidated companies in the 2016 financial year, of which €30 million was in cash. The gains on disposal generated in cash relate to the sale of the Bank's participating interest in UniCredit Global Business Services GmbH (UGBS).

The following table shows the assets and liabilities of the fully consolidated companies sold: (€ millions)

	2016		2015	
	ACQUIRED	SOLD	ACQUIRED	SOLD
Assets				
Cash and cash balances	—	—	—	—
Financial assets held for trading	—	—	—	—
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	—	—	—	—
Shares in associated companies accounted for				
using the equity method and joint ventures				
accounted for using the equity method	—	—	—	—
Held-to-maturity investments	—	—	—	—
Loans and receivables with banks	—	28	—	7
Loans and receivables with customers	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Property, plant and equipment	—	1	—	1
Investment properties	—	—	—	—
Intangible assets	—	1	—	5
of which: goodwill	—	—	—	—
Tax assets	—	14	—	2
Non-current assets or disposal groups held for sale	—	—	—	—
Other assets	—	5	—	11
Liabilities				
Deposits from banks	—	—	—	—
Deposits from customers	—	—	—	—
Debt securities in issue	—	—	—	—
Financial liabilities held for trading	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Tax liabilities	—	—	—	1
Liabilities of disposal groups held for sale	—	—	—	—
Other liabilities	—	13	—	11
Provisions	—	21	—	3

There were no significant acquisitions of subsidiaries or associated companies in the 2015 and 2016 financial years.

Other Information

74 Events after the reporting period
There were no significant events at HVB Group after 31 December 2016 to report.

75 Information regarding lease operations
HVB Group as lessor
Operating leases
HVB Group acts as a lessor under operating leases. The relevant lease agreements notably encompass real estate (land and buildings) and movable assets such as plant and office equipment, aircraft, motor vehicles and industrial machinery in the reporting period. The lease agreements for real estate are based on customary market terms and contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have generally not been agreed. The lease agreements for movable assets have generally been concluded with lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the breakdown of the minimum lease payments to be received on non-cancellable operating leases: (€ millions)

	2016	2015
up to 1 year	114	123
from 1 year to 5 years	368	435
from 5 years and over	106	195
Total	**588**	**753**

Finance leases
HVB Group leases mobile assets as a lessor under finance leases. This notably includes plant and office equipment, aircraft, motor vehicles and industrial machinery. As a general rule, the lease agreements stipulate lease periods of between four and ten years and possibly a pre-emptive right in favour of the lessor; they do not contain any extension or price adjustment clauses.

The following table shows the reconciliation from the future minimum lease payments to the gross and net investment in the lease and to the present value of the future minimum lease payments at the reporting date. The amounts receivable from lease operations (finance leases) consist of the following: (€ millions)

	2016	2015
Future minimum lease payment	2,159	2,279
+ Unguaranteed residual value	—	—
= Gross investment	**2,159**	**2,279**
– Unrealised finance income	(110)	(132)
= Net investment	**2,049**	**2,147**
– Present value of unguaranteed residual value	—	—
= Present value of future minimum lease payments	**2,049**	**2,147**

The future minimum lease payments reflect the total lease payments to be made by the lessee under the lease agreement plus the guaranteed residual value.

The unguaranteed residual value is that portion of the residual value of the leased asset which is not guaranteed to be realised by the lessor.

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment). It corresponds to the return implicit in the lease between the reporting date and the end of the lease.

The present value of the minimum lease payments is calculated as the net investment in the lease less the present value of the unguaranteed residual value.

Other Information (Continued)

The following table shows the remaining maturity of the gross investment in the leases and the present value of the minimum lease payments:

(€ millions)

	GROSS INVESTMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2016	2015	2016	2015
up to 1 year	772	813	732	765
from 1 year to 5 years	1,247	1,324	1,184	1,248
from 5 years and over	140	142	133	134
Total	**2,159**	**2,279**	**2,049**	**2,147**

The cumulative write-downs on uncollectible outstanding minimum lease payments in amounts receivable from customers under finance leases amounted to €18 million at the end of the reporting period (31 December 2015: €15 million).

The amounts receivable under finance leases included in loans and receivables with customers are shown net of allowances for losses on loans and receivables in each case (see the Note "Loans and receivables with customers"). These break down as follows:

(€ millions)

	2016	2015
Properly serviced loans and receivables – carrying amount	**2,017**	**2,110**
Carrying amount before allowances	2,022	2,117
Portfolio allowances	5	7
Properly serviced loans and receivables past due – carrying amount	**9**	**10**
Carrying amount before allowances	9	10
Portfolio allowances	—	—
Non-performing loans and receivables – carrying amount	**23**	**27**
Carrying amount before allowances	47	45
Specific allowances	24	18

Properly serviced loans and receivables past due and associated collateral, broken down by period past due

(€ millions)

	2016	2015
Properly serviced loans and receivables past due – carrying amount		
1–30 days	7	9
3 –60 days	2	1
61–90 days	—	—
Value of collateral		
1–30 days	7	2
31–60 days	1	1
61–90 days	—	—

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

	2016	2015
Loans and receivables		
Not rated	192	217
Rating class 1–4	1,512	1,519
Rating class 5–8	322	384
Rating class 9–10	23	27
Value of collateral		
Not rated	—	141
Rating class 1–4	1,159	988
Rating class 5–8	190	250
Rating class 9–10	19	18

The presentation of the collateral broken down by period past due and rating class was adjusted in the reporting period. The tables now also contain the leased assets legally belonging to UniCredit Leasing GmbH or its subsidiaries serving as collateral that are leased to external third parties under finance leases but were unable to be allocated to the individual categories to date. The previous year's figures were adjusted accordingly.

HVB Group as lessee

Operating leases

HVB Group acts as lessee under operating leases. The current obligations in the reporting period relate primarily to rental and lease agreements for real estate (land and buildings) and movable assets, mainly comprising plant, office equipment and motor vehicles. The lease agreements for real estate generally contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have been agreed in some cases. The lease agreements for movable assets have been concluded at customary market terms for lease periods of between three and nine years.

In the reporting period, the commitments arising from operating leases under lease and sublease agreements resulted in minimum lease payments of €103 million (31 December 2015: €123 million) being recognised as expense in the income statement.

The following table shows the cumulative minimum lease payments arising from non-cancellable operating leases to be expected in future financial years: (€ millions)

	2016	2015
up to 1 year	98	119
from 1 year to 5 years	139	168
from 5 years and over	37	49
Total	**274**	**336**

The agreements regarding the outsourcing of information and communications technology processes to the UniCredit-wide service provider UBIS include the charged transfer of rights to use assets in the form of operating leases. The full service contracts concluded annually in this regard consist for the most part of rent payments for the provision of hardware and software that are included in the minimum lease payments of €33 million for the reporting period and €33 million for the following financial year mentioned above.

HVB Group has concluded sublease agreements for real estate at customary market terms, some of which include rent adjustment clauses and extension options. Payments of €9 million (31 December 2015: €9 million) received from subleases were recognised as income in the income statement during the reporting period.

The aggregate future minimum lease payments arising from non-cancellable subleases expected to be received in the subsequent financial years amount to €27 million (31 December 2015: €18 million).

Other Information (Continued)

Finance leases
The finance leases entered into by HVB Group as lessee relate to real estate (land and buildings). The lease agreements generally contain an option to purchase and price adjustment clauses.

The following table shows the reconciliation from the aggregate future minimum lease payments at the reporting date to their present value. This gives rise to the amounts payable to customers from lease operations (finance leases): (€ millions)

	2016	2015
Future minimum lease payments	213	223
– Finance charge (interest included in minimum lease payments)	(20)	(23)
= Present value of future minimum lease payments	**193**	**200**

The difference between the future minimum lease payments and their present value represents unamortised interest expense.

The following table shows the remaining maturity of the future minimum lease payments and their present value at the reporting date: (€ millions)

	FUTURE MINIMUM LEASE PAYMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2016	2015	2016	2015
up to 1 year	13	12	12	12
from 1 year to 5 years	52	52	48	48
from 5 years and over	148	159	133	140
Total	**213**	**223**	**193**	**200**

The aggregate future minimum lease payments arising from non-cancellable subleases that are expected to be received in the subsequent financial years amount to €22 million (31 December 2015: €19 million).

76 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 31/12/2016	0.9	0.9	1.0
Reclassified in 2009			
Balance at 31/12/2015	1.1	1.3	1.2
Balance at 31/12/2016	0.9	1.0	0.9
Balance of reclassified assets at 31/12/2016[2]	**1.8**	**1.9**	**1.9**

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 €13 million in the 2016 financial year (2015 financial year: €29 million), which is recognised in net interest. The effective interest rates for the reclassified securities are in a range from 0.16% to 7.81%.

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 2016 financial year.

In the 2016 financial year, we reversed write-downs of €51 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 loss of €25 million (2015 financial year: €72 million) in net trading income in the 2016 financial year. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification. Accordingly, the inclusion of these effects on the income statement resulted in a profit before tax that was €108 million higher in the 2016 financial year (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 €104 million before tax (31 December 2015: minus €212 million).

77 Notes to selected structured products

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

ABS portfolio

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

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

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

Other Information (Continued)

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

		31/12/2016				31/12/2015
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**6,278**	**510**	**—**	**6,788**	**5,978**
Residential mortgage-backed securities (RMBS)		2,656	232	—	2,888	3,146
Commercial mortgage-backed securities (CMBS)		73	49	—	122	271
Collateralised debt obligations (CDO)		61	—	—	61	64
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		1,958	203	—	2,161	1,007
Consumer loans		1,396	21	—	1,417	1,236
Credit cards		77	—	—	77	166
Receivables under finance leases		25	1	—	26	45
Others		32	4	—	36	43
Total	**31/12/2016**	**6,278**	**510**	**—**	**6,788**	
	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)

		31/12/2016				
CARRYING AMOUNTS		EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**5,800**	**957**	**—**	**31**	**6,788**
Residential mortgage-backed securities (RMBS)		2,878	2	—	8	2,888
Commercial mortgage-backed securities (CMBS)		115	7	—	—	122
Collateralised debt obligations (CDO)		4	34	—	23	61
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		1,252	909	—	—	2,161
Consumer loans		1,412	5	—	—	1,417
Credit cards		77	—	—	—	77
Receivables under finance leases		26	—	—	—	26
Others		36	—	—	—	36
Total	**31/12/2016**	**5,800**	**957**	**—**	**31**	**6,788**
	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		31/12/2016 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		**822**	**4,356**	**1,610**	**6,788**
Residential mortgage-backed securities (RMBS)		186	2,075	627	2,888
Commercial mortgage-backed securities (CMBS)		—	44	78	122
Collateralised debt obligations (CDO)		2	2	57	61
Collateralised loan obligations (CLO)/ collateralised bond obligations (CBO)		72	1,277	812	2,161
Consumer loans		549	859	9	1,417
Credit cards		—	77	—	77
Receivables under finance leases		13	13	—	26
Others		—	9	27	36
Total	**31/12/2016**	**822**	**4,356**	**1,610**	**6,788**
	31/12/2015	**602**	**3,908**	**1,468**	**5,978**

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

CARRYING AMOUNTS		31/12/2016 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		**156**	**14**	**6,517**	**36**	**65**	**6,788**
Residential mortgage-backed securities (RMBS)		107	7	2,752	—	22	2,888
Commercial mortgage-backed securities (CMBS)		—	—	115	—	7	122
Collateralised debt obligations (CDO)		—	5	33	23	—	61
Collateralised loan obligations (CLO)/ collateralised bond obligations (CBO)		2	2	2,117	8	32	2,161
Consumer loans		35	—	1,377	5	—	1,417
Credit cards		—	—	77	—	—	77
Receivables under finance leases		12	—	10	—	4	26
Others		—	—	36	—	—	36
Total	**31/12/2016**	**156**	**14**	**6,517**	**36**	**65**	**6,788**
	31/12/2015	**181**	**19**	**5,599**	**63**	**116**	**5,978**

Other Information (Continued)

78 Fair value hierarchy

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

This fair value hierarchy is divided into the following levels:

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

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

Financial assets or liabilities of €1,168 million (2015: €2,136 million) have been transferred between Level 1 and Level 2. At the same time, financial assets or liabilities of €1,393 million (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	—	75
	Transfer from Level 2	158	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	1,071
	Transfer from Level 2	1,177	—
Available-for-sale financial assets			
	Transfer from Level 1	—	—
	Transfer from Level 2	56	—
Financial liabilities held for trading			
	Transfer from Level 1	—	22
	Transfer from Level 2	2	—

1 January is considered the transfer date for instruments transferred between the levels in the reporting period (1 January to 31 December).

Level 3 relates to assets or liabilities for which the fair value cannot be calculated exclusively on the basis of observable market data (non-observable input data). The amounts involved are stated in Level 2 if the impact of the non-observable input 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.

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%–146%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	68BPS–9%
		Residual value	20%–70%
		Default rate	1%–3%
		Prepayment rate	0%–30%
Equity derivatives	Option price model	Equity volatility	10%–120%
		Correlation between equities	(95)%–95%
	DCF method	Dividend yields	0%–8%
Interest rate derivatives	DCF method	Swap interest rate	(40)BPS–1,000BPS
		Inflation swap interest rate	0BPS–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%–56%
		Credit correlation	25%–85%
		Residual value	7%–41%
Currency derivatives	DCF method	Yield curves	(25)%–20%
	Option price model	FX volatility	1%–40%
Commodity derivatives	Option price model	Correlation between commodities	(95)%–95%
		Commodity price volatility	10%–120%

Other Information (Continued)

The impact of changing possible appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. For portfolios at fair value through profit or loss, the positive change in fair value at 31 December 2016 resulting from the use of possible appropriate alternatives would be €125 million (2015: €148 million), and the negative change would be €61 million (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)

	2016		2015	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	1	(1)	1	(2)
Equities	10	(10)	14	(14)
Asset-backed securities	1	—	1	—
Equity derivatives	80	(25)	89	(23)
Interest rate derivatives	2	(1)	5	(1)
Credit derivatives	26	(21)	32	(20)
Currency derivatives	3	(3)	2	(1)
Commodity derivatives	2	—	2	—
Hybrid derivatives	—	—	2	—
Total	**125**	**(61)**	**148**	**(61)**

As significant valuation parameters of hybrid derivatives contained in Level 3 corresponded to those of equity derivatives, the respective financial instruments were classified under the equity derivatives product type at 31 December 2016.

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	13	—
Write-downs	1	13
Expired transactions	—	—
Retroactive change in observability	3	51
Exchange rate changes	—	—
Balance at 31/12	**9**	**—**

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)	
	2016	2015	2016	2015	2016	2015
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	23,431	22,329	69,620	74,424	1,036	1,047
thereof: derivatives	1,718	1,617	55,964	59,095	714	901
Financial assets at fair value through profit or loss	10,069	17,821	18,429	15,872	14	130
Available-for-sale financial assets[1]	4,846	653	846	456	6	31
Hedging derivatives	—	—	384	450	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	7,661	5,934	63,842	69,591	1,331	1,623
thereof: derivatives	2,158	2,133	51,875	55,554	773	1,052
Hedging derivatives	—	—	997	1,049	—	—

1 Available-for-sale financial assets include financial instruments of €231 million (31 December 2015: €214 million) valued at historical cost that are not included in these totals at 31 December 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	721	—	2	—
Realised gains[1]	73	1	11	—
Transfer from other levels	41	—	—	—
Other additions[2]	20	—	—	—
Reductions				
Sale	(543)	(1)	(21)	—
Repayment	(18)	—	—	—
Realised losses[1]	(62)	—	—	—
Transfer to other levels	(227)	(116)	(7)	—
Other reductions	(16)	—	(10)	—
Balance at 31/12	**1,036**	**14**	**6**	**—**

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

In the case of derivative products, the transfers to other levels are attributable to the improved observability of the valuation parameters for interest rate derivatives as well as interest rate/currency derivatives in certain currencies. The majority of the other transfers to and from other levels relate to securities and results from an increase or decrease in the actual trading of the securities concerned and an associated change in the bid-offer spreads. All in all, the Level 3 volume of derivative contracts decreased year-on-year by €161 million (2015: reduction of €105 million) on the assets side and by €266 million (2015: increase of €318 million) on the liabilities side.

Other Information (Continued)

(€ millions)

	2016	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1	**1,623**	**—**
Additions		
Sale	445	—
Issues	345	—
Realised losses[1]	147	—
Transfer from other levels	78	—
Other additions[2]	20	—
Reductions		
Buy-back	(607)	—
Repayment	(117)	—
Realised gains[1]	(97)	—
Transfer to other levels	(482)	—
Other reductions	(24)	—
Balance at 31/12	**1,331**	**—**

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	611	6	—	—
Realised gains[1]	6	—	7	—
Transfer from other levels	347	114	6	—
Other additions[2]	119	—	3	—
Reductions				
Sale	(434)	—	(7)	—
Repayment	(52)	(20)	(8)	—
Realised losses[1]	(34)	—	—	—
Transfer to other levels	(1,214)	(251)	—	—
Other reductions	(311)	—	(9)	—
Balance at 31/12	**1,047**	**130**	**31**	**—**

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

(€ millions)

	2015	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1	**1,015**	**—**
Additions		
Sale	342	—
Issues	639	—
Realised losses[1]	122	—
Transfer from other levels	1,560	—
Other additions[2]	58	—
Reductions		
Buy-back	(461)	—
Repayment	(116)	—
Realised gains[1]	(128)	—
Transfer to other levels	(1,309)	—
Other reductions	(99)	—
Balance at 31/12	**1,623**	**—**

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

79 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.

Other Information (Continued)

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 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.

(€ billions)

	CARRYING AMOUNT		FAIR VALUE	
ASSETS	**2016**	**2015**	**2016**	**2015**
Cash and cash balances	9.8	11.4	9.8	11.4
Financial assets held for trading	94.1	97.8	94.1	97.8
Financial assets at fair value through profit or loss	28.5	33.8	28.5	33.8
Available-for-sale financial assets				
thereof measured:				
at cost	0.2	0.2	0.2	0.2
at fair value	5.7	1.1	5.7	1.1
Held-to-maturity investments	—	0.1	—	0.1
Loans and receivables with banks	33.0	32.8	33.5	33.4
Loans and receivables with customers	121.5	113.5	125.0	118.2
thereof: finance leases	2.0	2.1	2.0	2.1
Hedging derivatives	0.4	0.5	0.4	0.5
Total	**293.2**	**291.2**	**297.2**	**296.5**

(€ billions)

ASSETS	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)	
	2016	2015	2016	2015	2016	2015
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	9.8	11.4	—	—
Held-to-maturity investments	—	—	—	0.1	—	—
Loans and receivables with banks	0.5	0.4	25.6	26.4	7.4	6.6
Loans and receivables with customers	1.1	1.2	17.7	16.4	106.2	100.6
thereof: finance leases	—	—	—	—	2.0	2.1

(€ billions)

LIABILITIES	CARRYING AMOUNT		FAIR VALUE	
	2016	2015	2016	2015
Deposits from banks	57.6	58.5	57.5	59.0
Deposits from customers	117.2	107.7	117.8	107.9
Debt securities in issue	24.2	26.0	27.2	29.0
Financial liabilities held for trading	72.8	77.1	72.8	77.1
Hedging derivatives	1.0	1.0	1.0	1.0
Total	**272.8**	**270.3**	**276.3**	**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)	
	2016	2015	2016	2015	2016	2015
Financial liabilities not carried at fair value						
in the balance sheet						
Deposits from banks	—	—	25.7	34.5	31.8	24.5
Deposits from customers	—	—	82.2	74.5	35.6	33.4
Debt securities in issue	5.7	7.2	6.0	6.6	15.5	15.2

The difference in HVB Group between the fair values and carrying amounts totals €4.0 billion (2015: €5.3 billion) for assets and €3.5 billion (2015: €3.7 billion) for liabilities. The balance of these amounts is €0.5 billion (2015: €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.

Other Information (Continued)

80 Disclosures regarding the offsetting of financial assets and liabilities

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

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

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2016
Derivatives[1]	77,853	(19,073)	58,780	(37,520)	(1,379)	(9,697)	10,184
Reverse repos[2]	29,142	(3,770)	25,372	—	(15,206)	—	10,166
Loans and receivables[3]	90,728	(1,279)	89,449	—	—	—	89,449
Total at 31/12/2016	**197,723**	**(24,122)**	**173,601**	**(37,520)**	**(16,585)**	**(9,697)**	**109,799**

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 €10,571 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 31/12/2016
Derivatives[1]	73,559	(17,756)	55,803	(37,520)	(1,114)	(10,280)	6,889
Repos[2]	29,908	(3,770)	26,138	—	(21,053)	—	5,085
Liabilities[3]	102,185	(2,596)	99,589	—	—	—	99,589
Total at 31/12/2016	**205,652**	**(24,122)**	**181,530**	**(37,520)**	**(22,167)**	**(10,280)**	**111,563**

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 €4,978 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities (including cumulative variation margins), as covered in the notes covering deposits from banks and deposits from customers

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

(€ millions)

				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 (including cumulative variation margins), as covered in the notes covering deposits from banks and deposits from customers

Other Information (Continued)

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. As the securities lending transactions without cash collateral not recognised in the balance sheet are not contained in the above netting tables either, we refer to the Note "Assets assigned or pledged as security for own liabilities" and the Note "Collateral received that HVB Group may pledge or sell on" for the securities received or pledged as collateral in this regard.

The judgement passed by the German Federal Court of Justice (BGH) on 9 June 2016 regarding the partial invalidity in insolvency law of netting agreements under the German Master Agreement for Financial Derivative Transactions had no effect on the accounting of these netting agreements as a result of the General Administrative Act issued in the meantime by the German Federal Financial Supervisory Authority (BaFin) and the legal amendment of the German Insolvency Code that entered into effect on 29 December 2016. The netting agreements used thus continue to be legally valid and enforceable in the event of the insolvency of one of the two parties.

81 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39 (c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €49,111 million (2015: €48,683 million). This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket

(€ millions)

	2016						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	399	6,771	1,725	3,652	4,135	6,067	13,334
Derivatives on financial assets held for trading	58,396	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	243	1,840	7,073	15,821	3,733	—
Available-for-sale financial assets	64	73	8	431	5,218	1,714	912
Held-to-maturity investments	—	—	—	1	10	34	—
Loans and receivables with banks	11,242	6,304	4,000	7,464	4,073	485	747
Loans and receivables with customers	12,058	8,627	6,219	10,158	42,436	53,917	3,173
thereof: finance leases	28	93	157	650	1,817	260	95
Hedging derivatives	—	179	358	1,609	3,945	1,484	—

(€ millions)

	2015						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	439	3,174	3,345	7,833	7,828	10,591	12,093
Derivatives on financial assets held for trading	61,613	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	178	2,038	6,409	22,174	3,521	—
Available-for-sale financial assets	—	35	113	340	678	1,836	1,097
Held-to-maturity investments	—	—	—	1	37	33	—
Loans and receivables with banks	11,835	7,579	3,877	6,548	3,517	483	5,827
Loans and receivables with customers	12,000	8,440	5,553	9,800	37,961	52,472	438
thereof: finance leases	23	75	161	681	1,900	283	132
Hedging derivatives	—	115	230	1,036	1,620	1,566	—

Breakdown of non-derivative and derivative financial liabilities by maturity bucket

(€ millions)

	2016						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	13,801	9,122	18,006	5,411	7,047	4,956	13
Deposits from customers	74,502	11,495	17,806	9,420	2,763	1,754	—
Debt securities in issue	58	209	2,372	3,554	8,747	14,842	—
Financial liabilities held for trading	264	4,654	365	1,180	3,889	4,311	3,571
Derivatives on financial liabilities held for trading	54,806	—	—	—	—	—	—
Hedging derivatives	—	120	241	1,084	819	453	—
Credit commitments and financial guarantees	71,197	—	—	—	—	—	—

(€ millions)

	2015						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	15,888	9,001	17,027	6,632	5,580	4,452	—
Deposits from customers	71,111	8,801	15,858	7,517	2,633	1,771	—
Debt securities in issue	22	1,284	1,031	4,747	10,176	14,636	—
Financial liabilities held for trading	141	6,235	1,507	1,444	4,935	8,141	3,689
Derivatives on financial liabilities held for trading	58,739	—	—	—	—	—	—
Hedging derivatives	—	103	207	930	1,114	485	—
Credit commitments and financial guarantees	68,233	—	—	—	—	—	—

Other Information (Continued)

82 Regulatory disclosure requirements (Disclosure Report)

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

HVB discloses this information on a standalone basis in the form of a separate disclosure report. This report is produced on an annual basis at 31 December and at each quarter-end during the year and published on the Bank's website under About us > Investor Relations > Reports. The publication for the reporting date 31 December appears soon after the publication of the Annual Report. The reports during the year are published soon after the regulatory COREP report is submitted to the supervisory authorities responsible.

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

83 Key capital ratios (based on IFRS)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. The yield expectations are calculated in accordance with the allocated capital principle that UniCredit employs across its entire organisation. Under the principle of dual control, both regulatory capital in the sense of used core capital and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, which is derived from the expectations of the capital market. Please refer to the section of the Risk Report entitled "Implementation of overall bank management" for further details on the management of regulatory capital adequacy requirements and economic capital adequacy.

The supervisory ratios are discussed below.

The legal basis is provided by the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (CRR), which came into force on 1 January 2014. The supervisory total capital ratio prescribed in the CRR represents the ratio of the equity determined in accordance with Part Two CRR to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted asset equivalent of these risk positions). Under Article 92 CRR, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 6.0%.

The eligible equity underlying the calculation of the total capital ratio in accordance with CRR consists of Tier 1 and Tier 2 capital. HVB Group uses internal models in particular to measure market risk positions.

The following table shows equity funds based on the approved consolidated financial statements and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2016:

Equity funds[1] (€ millions)

	2016	2015
Tier 1 – Total core capital for solvency purposes	**16,611**	**19,564**
Shares of common stock	2,407	2,407
Additional paid-in capital, retained earnings, minority interest, own shares	15,939	18,662
Hybrid capital instruments (silent partnership certificates) without prorated interest	—	—
Other	(872)	(707)
Capital deductions	(863)	(798)
Tier 2 – Total supplementary capital for solvency purposes	**562**	**538**
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	—	—
Cumulative shares of preferred stock	—	—
Participating certificates outstanding	—	—
Subordinated liabilities	278	340
Value adjustment excess for A-IRB positions	284	198
Other	—	—
Capital deductions	—	—
Total equity funds	**17,173**	**20,102**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

The equity funds of HVB Group in accordance with Part Two CRR amounted to €17,173 million at 31 December 2016 (2015: €20,102 million). As in the previous year, we have not included in Tier 2 capital any unrealised reserves in accordance with Section 10 (2b) 1 No. 6 and 7 KWG in the version applicable until 31 December 2013.

The equity funds are determined on the basis of IFRS figures determined in accordance with CRR/CRD IV using the consolidated accounting method.

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS: (€ millions)

	COMMON EQUITY TIER 1 CAPITAL	ADDITIONAL TIER 1 CAPITAL	TIER 2 CAPITAL	TOTAL OWN FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	20,420	—	—	20,420
Reconciliation to the equity funds compliant with the Capital Requirements Regulation				
Cumulative shares of preferred stock	—	—	—	—
Ineligible profit components	(3,005)	—	—	(3,005)
Ineligible minority interests under banking supervisory regulations	(6)	—	—	(6)
Diverging consolidation perimeters	65	—	—	65
Deduction of intangible assets	(466)	—	—	(466)
Hybrid capital recognised under banking supervisory regulations	—	—	22	22
Eligible portion of subordinated liabilities	—	—	256	256
Value adjustment excess (+) or shortfall (–) for A-IRB positions	—	—	284	284
Adjustments to CET1 due to prudential filters	(269)	—	—	(269)
Deductible deferred tax assets	(254)	—	—	(254)
Capital deductions which can alternatively be subject to a 1,250% risk weight	(52)	—	—	(52)
Transitional adjustments	366	(186)	—	180
Other effects	(188)	186	—	(2)
Equity funds compliant with the Capital Requirements Regulation (CRR)	**16,611**	**—**	**562**	**17,173**

(€ millions)

	2016 BASEL III	2015 BASEL III
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	43,517	40,524
off-balance-sheet counterparty risk positions	11,591	10,572
other counterparty risk positions[1]	427	904
derivative counterparty risk positions	5,419	6,073
Total credit risk-weighted assets	**60,954**	**58,073**
Risk-weighted asset equivalent for market risk positions	**10,938**	**9,705**
Risk-weighted asset equivalent for operational risk	**9,683**	**10,279**
Total risk-weighted assets	**81,575**	**78,057**

1 primarily including repos and securities lending transactions

Other Information (Continued)

At 31 December 2016, the key capital ratios (based on the approved consolidated financial statements) were as follows:

(in %)

	2016 BASEL III	2015 BASEL III
Tier 1 capital ratio		
[Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	20.4	25.1
CET1 capital ratio		
[Common Equity Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	20.4	25.1
Total capital ratio		
[own funds/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	21.1	25.8

84 Contingent liabilities and other commitments

(€ millions)

	2016	2015
Contingent liabilities[1]	**21,856**	**19,353**
Guarantees and indemnities	21,856	19,353
Other commitments	**49,165**	**48,731**
Irrevocable credit commitments	49,111	48,683
Other commitments[2]	54	48
Total	**71,021**	**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 operation leases.

Financial guarantees and irrevocable credit commitments are shown at their nominal amount (maximum outflow) less provisions set up for this purpose. Neither contingent liabilities nor other commitments contain any significant items. The guarantees and indemnities listed here essentially reflect guarantees and indemnities that the Bank has granted on behalf of customers. Consequently, the Bank has a right of recourse against the customer (contracting party) should the guarantee or indemnity in question be used. An appropriate provision is set up where such a customer's creditworthiness is doubtful. This takes account of the loss suffered by the Bank, as the recourse claim against the contracting party is not considered fully realisable on account of the party's doubtful creditworthiness.

It is hard to anticipate the date at which the contingent liabilities and other commitments mentioned here will result in an outflow of funds. Credit commitments frequently serve as liquidity reserve for the beneficiary in particular, meaning that the amounts are not necessarily utilised at all and hence an outflow of funds is not certain. In terms of financial guarantees, it is important to note that these are conditional payment commitments, meaning that the condition must be met before utilisation becomes possible (such as default on the guaranteed credit in the case of a credit guarantee or non-compliant delivery in the case of a delivery guarantee). Here, too, it is hard to assess whether and when this will be the case, as financial guarantees in particular are only ever utilised in exceptional circumstances entailing an outflow of funds.

Securities lending transactions are not recognised, as economic ownership remains with the lender. The Bank only becomes the legal owner of the borrowed securities which are returned to the lender when the lending transaction falls due. Obligations of €13,603 million (2015: €12,593 million) to return securities arising from securities lending transactions are thus offset by borrowed securities of the same amount, which are not carried as assets on the assets side of the balance sheet.

HVB has made use of the option to provide up to 15% of the annual contribution (2015: 30%) to the bank restructuring fund in the form of fully secured payment claims (irrevocable payment commitments) in accordance with Section 12 of the German Bank Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG). The cash collateral provided in this regard amounted to €34 million at year-end 2016 (31 December 2015: €22 million).

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

Legal risks can give rise to losses for HVB Group, the occurrence of which is greater than improbable but less than probable, and for which no provisions have been set up. Such legal risks may result from negative developments in proceedings under civil law and the tendency for rulings to be made in favour of consumers or customers. The assessment of the risk of loss may prove to be too low or too high, depending on the outcome of the proceedings. We assume that it will not be necessary to utilise the vast majority of the contingent liabilities arising from legal risks, meaning that the amounts are not representative of actual future losses. For HVB such contingent liabilities arising from significant legal risks for which an estimate is possible amounted to €162 million at year-end 2016 after €84 million at year-end 2015.

As part of real estate financing and development operations, we have assumed rental obligations and pre-emptive obligations or issued rental guarantees to make fund constructions more marketable – in particular for lease funds and (closed-end) KG real estate funds. Identifiable risks arising from such guarantees have been incorporated by setting up provisions.

Commitments for uncalled payments on shares not fully paid up amounted to €50 million at year-end 2016 (year-end 2015: €44 million), and similar obligations for shares in cooperatives totalled €1 thousand (year-end 2015: €1 thousand). We were not liable for any defaults on such calls under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG).

At the reporting date, we had unlimited personal liability arising from shares in 72 partnerships (2015: 67).

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

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

In the same way as HVB and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related parties (€ millions)

	2016	2015
Non-consolidated affiliated companies	1,403	1,388
of which:		
UniCredit S.p.A.	563	642
Sister companies	786	687
Subsidiaries	54	59
Joint ventures	46	62
Associated companies	—	1
Other participating interests	250	84
Total	**1,699**	**1,535**

85 Statement of Responsibility

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

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

Other Information (Continued)

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

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

86 Disclosures regarding structured entities

A structured entity as defined in IFRS 12 is an enterprise (or an economically separate entity) that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are frequently characterised by restricted activities, a narrow, well-defined objective, insufficient equity or financing in tranches.

Structured entities may be consolidated or not consolidated, depending on whether HVB Group has control over the entity or not. Transactions involving structured entities can be divided into the following categories using the business model applied by HVB Group:
- ABS vehicles
- Repackaging vehicles
- Funding vehicles for customers
- Some investment funds
- Other structured entities

Financial instruments with unconsolidated structured entities

Financial instruments with unconsolidated structured entities encompass all contractual relationships from which HVB Group obtains variable earnings and exposure to loss from the structured entities, but without gaining control over the structured entity. These might be equity and debt instruments, derivatives, liquidity facilities or guarantees.

ABS vehicles

HVB Group invests in ABS vehicles and uses ABS vehicles for its own securitisations. These vehicles buy loans or receivables and refinance themselves by issuing securities on the money or capital market. The securities are backed by the assets purchased. HVB Group can also provide finance for these vehicles in the form of liquidity facilities.

ABS vehicles used for own securitisations are fully consolidated in the consolidated financial statements and are not included in the unconsolidated structured entities shown here. This means that only such ABS vehicles in which HVB Group solely has an interest as an investor are classified as unconsolidated structured entities.

	2016	2015
Number of unconsolidated ABS vehicles (investor positions only)	325	302

For more information on the exposure to unconsolidated ABS investor positions, please refer to the "Notes to selected structured products".

Repackaging vehicles
Repackaging vehicles are used to offer customers specific securities and derivatives solutions. These vehicles buy assets (such as securities, loans and receivables, and derivatives) and restructure the cash flows from these assets by incorporating other instruments or securities. The vehicles refinance themselves by issuing custom-packaged securities or derivatives that meet the customer's demands. The funding is normally secured by the acquired assets.

	2016	2015
Number of unconsolidated repackaging vehicles	6	6
Aggregate total assets of unconsolidated repackaging vehicles (€ millions)	109	109
Nominal value of the securities issued by unconsolidated repackaging vehicles (€ millions)	109	109

Funding vehicles for customers
Customers use these vehicles as a source of funding. These funding vehicles buy current receivables or leasing receivables from customers and refinance themselves mostly by issuing securities on the capital and money market (mostly commercial paper conduits). HVB Group can also provide financing for these vehicles in the form of liquidity facilities or other lending products.

The majority of the vehicles listed below were set up by the customer or by HVB Group on behalf of the customer. These vehicles are not consolidated as HVB Group is not exposed to a majority of the variable income from the vehicles and has no possibility of influencing them.

	2016	2015
Number of unconsolidated funding vehicles for customers	31	25
Aggregate total assets of unconsolidated funding vehicles for customers (€ millions)	4,020	3,489
Nominal value of the securities issued by unconsolidated funding vehicles for customers (€ millions)	4,020	3,242

Some investment funds
Investment funds are classified as structured entities if they are not controlled by means of voting or similar rights. Investment funds invest in a range of assets and can also finance themselves with debt within the framework of their investment policies alongside the moneys provided by investors. Investment funds serve to achieve specifically defined investment goals.

HVB Group offers its customers investment funds under own and third party management and also itself invests in investment funds. We are also mandated by customers to keep shares in investment funds in securities accounts for third party account. Furthermore, HVB Group holds shares in investment funds in its own portfolio. These are mostly held in the held-for-trading portfolio and to a much smaller extent also in the AfS portfolio. In addition, we offer typical banking services to investment funds, including derivative and financing solutions and deposit-taking operations.

The European-Office-Fonds investment fund controlled by HVB Group is fully consolidated in the consolidated financial statements and is not one of the unconsolidated structured entities shown here. The number and aggregated net asset value of investment funds include only funds to which HVB Group has an exposure in the reporting period. Funds with which HVB Group exclusively conducts deposit-taking activities (essentially deposits) are no longer included in this note because there is no variability in these transactions for HVB Group and these are not treated as an "interest" in accordance with IFRS 12 Appendix A. The previous year's figures were adjusted accordingly.

	2016	2015
Number of unconsolidated investment funds classified as structured entities	455	664
thereof: managed by HVB Group	35	32
Aggregate net asset value (including minority interests) of the investment funds classified as structured entities (€ millions)	680,181	641,261
thereof: managed by HVB Group	834	907

With regard to the aggregate net asset value, it should be noted that our risk is only calculated in terms of the participating interest held, loans extended or derivatives issued as a proportion of the aggregate fund volume. A risk analysis is provided in the table under "Risks in connection with unconsolidated structured entities" below.

Other Information (Continued)

Other structured entities

This category covers structured entities that cannot be assigned to any of the other categories. For the most part, HVB Group mainly performs lending activities under this category with structured entities set up by customers or by HVB Group on behalf of customers.

These entities are mostly leasing vehicles that have only insufficient equity and are controlled economically by the lessee. Some of the leasing vehicles were financed through syndicated loans.

In addition, other structured entities include borrowers over which HVB Group gained control during the course of restructuring and/or resolution but which have not been consolidated for materiality reasons (see the Note "Companies included in consolidation").

	2016	2015
Number of other structured entities	43	52
Aggregate total assets (€ millions)	1,775	889

Risks in connection with unconsolidated structured entities

The following tables show the carrying amounts of the assets and liabilities together with the off-balance-sheet risk positions of HVB Group in connection with unconsolidated structured entities:

(€ millions)

	31/12/2016				
	ABS VEHICLES (INVESTOR POSITIONS)	REPACKAGING VEHICLES	FUNDING VEHICLES FOR CUSTOMERS	SOME INVESTMENT FUNDS	OTHER STRUCTURED ENTITIES
Assets	**7,363**	**14**	**3,839**	**3,543**	**548**
Financial assets held for trading	432	14	—	2,407	30
Financial assets at fair value through profit or loss	14	—	—	—	—
Available-for-sale financial instruments	64	—	—	177	—
Held-to-maturity investments	36	—	—	—	—
Loans and receivables with customers	6,817	—	3,839	959	518
Liabilities	**6**	**23**	**42**	**2,905**	**63**
Deposits from customers	3	—	38	2,397	44
Debt securities in issue	—	—	—	16	—
Financial liabilities held for trading	3	23	1	492	1
Other liabilities	—	—	—	—	—
Provisions	—	—	3	—	18
Off-balance-sheet positions	**319**	**—**	**1,162**	**131**	**209**
Irrevocable credit commitments and other commitments	319	—	1,143	131	55
Guarantees	—	—	19	—	154
Maximum exposure to loss	**7,682**	**14**	**5,001**	**3,674**	**757**

(€ millions)

	31/12/2015				
	ABS VEHICLES (INVESTOR POSITIONS)	REPACKAGING VEHICLES	FUNDING VEHICLES FOR CUSTOMERS	SOME INVESTMENT FUNDS	OTHER STRUCTURED ENTITIES
Assets	**6,262**	**11**	**2,649**	**3,636**	**594**
Financial assets held for trading	269	11	—	1,798	38
Financial assets at fair value through profit or loss	9	—	—	—	—
Available-for-sale financial instruments	89	—	—	966	—
Held-to-maturity investments	28	—	—	—	—
Loans and receivables with customers	5,867	—	2,649	872	556
Liabilities	**25**	**7**	**56**	**3,630**	**105**
Deposits from customers	21	—	54	3,057	83
Debt securities in issue	—	—	—	6	—
Financial liabilities held for trading	4	7	—	567	2
Other liabilities	—	—	—	—	1
Provisions	—	—	2	—	19
Off-balance-sheet positions	**400**	**—**	**1,125**	**37**	**87**
Irrevocable credit commitments and other commitments	400	—	941	37	7
Guarantees	—	—	184	—	80
Maximum exposure to loss	**6,662**	**11**	**3,774**	**3,673**	**681**

The maximum exposure to loss from unconsolidated structured entities arises from the assets and off-balance-sheet risk positions relating to structured entities. This view does not, however, reflect the economic risk, as security received and hedging instruments are not included.

No financial or other support ("implicit support") was provided to unconsolidated structured entities during the reporting period without having a contractual obligation to do so. Neither are there any concrete plans to provide support to unconsolidated structured entities in future.

Sponsored unconsolidated structured entities
Structured entities are classified as sponsored by HVB Group if HVB Group was materially involved in setting up the entities. HVB Group has sponsored structured entities without having a participating interest in these entities through financial instruments. Thus, HVB Group is not exposed to the economic risks arising from these structured entities.

We only generate income from structured entities without participating interests to a limited extent through financial instruments. Fee and commission income of €9 million (2015: €9 million) from charges and management fees was generated during the reporting period on investment funds managed by the Bank, of which €5 million (2015: €5 million) was passed on to third parties in trailer fees.

Consolidated structured entities
The biggest consolidated structured entity is the multi-seller conduit programme Arabella. Securities with a nominal value of €3,515 million (2015: €2,404 million) were outstanding at 31 December 2016. The total assets of the multi-seller conduit Arabella Finance DAC at the reporting date amounted to €3,517 million (2015: €2,409 million).

Other Information (Continued)

Contractual arrangements that oblige HVB Group to provide financial assistance to consolidated structured entities exist notably in the form of liquidity facilities. These may be drawn by the vehicles to bridge maturity mismatches between the assets acquired and the securities issued.

Financial or other support was provided to consolidated structured entities without a contractual obligation to do so (“implicit support”):

Where the market conditions prevented the securities issued by the consolidated multi-seller conduit Arabella Finance DAC being placed, HVB has acquired such issues. Without the purchases of the securities, HVB would have been required to provide liquidity facilities in the same amount to individual Elektra Purchase companies. At the reporting date, HVB held securities issued by Arabella Finance DAC with a nominal value of €1,353 million (2015: €627 million) in its portfolio.

Future support arrangements are planned as follows: HVB will continue to decide on a case-by-case basis whether to buy temporarily non-placeable securities issued by the consolidated multi-seller conduit Arabella Finance DAC or utilise the liquidity lines. Accordingly, the volume of securities to be acquired depends on the funding required, the prevailing market conditions and the above decision in each case.

Both contractual financial and other support provided to consolidated structured entities without a contractual obligation to do so are not material for the consolidated financial statements, as these represent intra-group transactions.

87 Trust business

(€ millions)

	2016	2015
Trust assets	**2,713**	**2,429**
Loans and receivables with banks	—	—
Loans and receivables with customers	141	151
Equity securities and other variable-yield securities	—	—
Debt securities and other fixed-income securities	—	—
Participating interests	—	—
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	2,571	2,277
Remaining trust assets	1	1
Trust liabilities	**2,713**	**2,429**
Deposits from banks	141	151
Deposits from customers	2,571	2,277
Debt certificates including bonds	—	—
Other liabilities	1	1

88 Transfer of financial assets

Transferred financial assets are derecognised in accordance with the derecognition criteria set forth in IAS 39 when substantially all the risks and rewards incident to ownership of the asset are transferred.

HVB Group has no continuing involvement in transferred and derecognised financial assets for which substantially the risks and rewards are neither retained nor transferred.

Transferred, non-derecognised financial assets
However, HVB Group conducts business transactions under which it transfers previously recognised financial assets in accordance with IAS 39, but substantially retains all the risks and rewards associated with these assets, meaning that such assets are not derecognised. The recognised asset is simultaneously offset by an associated liability for the consideration received, which corresponds to recognition as a secured loan. HVB Group may not use these transferred, non-derecognised assets for other purposes.

Transactions of this type conducted by the Group relate primarily to securities repurchase agreements (repos) and securities lending transactions.

The securities (transferred) under repo transactions (cash sale) continue to be carried and measured in the consolidated balance sheet, as the Group as seller retains all the credit, share price, interest rate and currency risks associated with the assets and their results. The payment received by the buyer for whom the transferred security acts as security is recognised as a repo liability payable to banks or customers, depending on the counterparty. Upon delivery of the securities, the unrestricted power of disposal passes to the buyer.

Where the corporate group acts as a lender of securities in securities lending transactions, the securities lent to the counterparty continue to be carried in the balance sheet of the lender.

The transactions are conducted under the customary market terms for securities lending and repurchasing agreements, under which the counterparty holds a contractual or customary right to sell on or pledge on the securities received.

At the same time, these transaction types also encompass such examples as the true sale securitisation transactions Rosenkavalier 2008 and Rosenkavalier 2015 (see the Note “Own securitisation”) carried out by HVB Group, under which non-derecognised securitised customer receivables indirectly serve as security for repurchase agreements with the ECB.

The following Note “Assets assigned or pledged as security for own liabilities”, contains details of repo transactions, securities lending transactions and other transactions under which the financial assets transferred as security for own liabilities are not derecognised.

89 Assets assigned or pledged as security for own liabilities
Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €51.5 billion (2015: €47.4 billion) or transferred them to a collateral pool with the European Central Bank or GC Pooling. It is not always necessary for liabilities to exist in the latter instance. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

Other Information (Continued)

The following table shows the breakdown of assets that we provide as collateral for own liabilities:

(€ millions)

	2016	2015
Financial assets held for trading	20,265	19,313
Financial assets at fair value through profit or loss	16,559	15,514
Available-for-sale financial assets	3,640	1,320
Held-to-maturity investments	—	—
Loans and receivables with banks	24	75
Loans and receivables with customers	10,855	9,436
Property, plant and equipment	—	—
Non-recognised received securities pledged on:		
Pledged securities from non-capitalised securities lending transactions	11,645	11,162
Received collateral pledged	13,053	16,291
Total	**76,041**	**73,111**

The collateral pledged from loans and receivables with customers relates to special credit facilities provided by KfW and similar institutions.

The assets pledged by HVB Group as security relate to the following liabilities:

(€ millions)

	2016	2015
Deposits from banks	44,131	42,421
Deposits from customers	11,779	5,233
Debt securities in issue	36	36
Financial liabilities held for trading	11,310	14,749
Contingent liabilities	—	—
Obligations to return non-expensed, borrowed securities	8,785	10,672
Total	**76,041**	**73,111**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, figures are disclosed showing the extent to which the security provided may be pledged or sold on by the security-taker.

(€ millions)

	2016	2015
Aggregate carrying amount of assets pledged as security	76,041	73,111
of which: may be pledged/sold on	34,937	38,563

90 Collateral received that HVB Group may pledge or sell on

As part of repurchase agreements and collateral agreements for OTC derivatives, HVB Group has received security that it may pledge or sell on at any time without the security provider having to be in arrears. The fair value of this security is €29.6 billion (2015: €32.0 billion).

HVB Group has actually pledged or sold on €13.1 billion (2015: €16.0 billion) of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

The transactions that make it possible to use this collateral were conducted under the customary market terms for repurchase agreements and securities lending transactions.

91 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. The section of the Risk Report in Management's Discussion and Analysis entitled "Credit risk" under "Risk types in detail" contains further information regarding the exposure to UniCredit and its subsidiaries.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), Milan, 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 €560.7 million (2015: €538.6 million) for these services during 2016. This was offset by income of €16.8 million (2015: €11.4 million) from services rendered and internal charges. Moreover, software products worth €2.1 million (2015: €3.2 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €100.5 million (2015: €67.5 million) for these services during 2016.

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

Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to the members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Management Board and Supervisory Board **(€ thousands)**

	2016						
	SHORT-TERM COMPONENTS		LONG-TERM INCENTIVES				
	FIXED SALARY	SHORT-TERM PERFORMANCE-RELATED CASH REMUNERATION	LONG-TERM PERFORMANCE-RELATED CASH REMUNERATION	SHARE-BASED REMUNERATION	POST-EMPLOYMENT BENEFITS	TERMINATION BENEFITS	TOTAL
Members of the Management Board of UniCredit Bank AG	5,910	916	998	1,600	1,597	—	11,021
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	831	—	—	—	—	—	831
Members of the Supervisory Board of UniCredit Bank AG for activities as employee representatives	386	27	—	—	25	—	438
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	337	136	307	537	1,382	—	2,699

Other Information (Continued)

(€ thousands)

	2015						
	SHORT-TERM COMPONENTS		LONG-TERM INCENTIVES				
	FIXED SALARY	SHORT-TERM PERFORMANCE-RELATED CASH REMUNERATION	LONG-TERM PERFORMANCE-RELATED CASH REMUNERATION	SHARE-BASED REMUNERATION	POST-EMPLOYMENT BENEFITS	TERMINATION BENEFITS	TOTAL
Members of the Management Board of UniCredit Bank AG	6,376	923	901	1,724	1,519	—	11,443
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	804	—	—	—	—	—	804
Members of the Supervisory Board of UniCredit Bank AG for activities as employee representatives	477	32	—	—	30	—	539
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	—	30	54	100	1,993	—	2,177

It is the task of the Bank's full Supervisory Board to decide on the total remuneration paid to the individual members of the Management Board and to review the structure of the remuneration systems for the Management Board. The full Supervisory Board receives assistance in this regard from the Remuneration Control Committee, which submits appropriate proposals to the full Supervisory Board. Appropriateness and sustainability are key criteria for the form and structure of the remuneration paid to the members of the Management Board. The structure of remuneration is derived from the service agreements with the members of the Management Board. It has two components: a fixed salary and a variable element. The variable remuneration is normally granted in deferred tranches over several years in the form of cash and in shares, with disbursement dependent upon defined corporate targets being achieved in the subsequent years.

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

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

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

Provisions for pensions totalling €187 were transferred in the 2016 financial year (2015: reversal of €2,487 thousand) with regard to the commitments (for death benefits) made to the members of the Management Board.

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €141,906 thousand (2015: €138,477 thousand).

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1,382 thousand in 2016 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2015: €1,993 thousand).

Share-based remuneration was granted to the members of the Management Board under the Group Incentive Scheme in the reporting period as follows:

SHARES GRANTED TO MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	2016	2015
Number of shares granted	372,176	468,856
Fair value per share on grant date (€)	3.462	6.190

For details of share-based compensation, please refer to the disclosures in the Note "Operating costs", where the underlying UniCredit programmes are described.

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

	2016			2015		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	1,416	—	7,896	1,758	—	7,058
Members of the Supervisory Board of UniCredit Bank AG	340	—	4,260	337	—	3,461
Members of the Executive Management Committee[1]	—	—	1,994	—	—	1,370

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

Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee of UniCredit S.p.A. and their respective immediate family members are considered related parties.

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

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

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

Other Information (Continued)

92 Fees paid to the independent auditors

The following table shows the breakdown of fees (excluding value-added tax) of €12 million (2015: €12 million) recorded as expense in the reporting period, as paid to the independent auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2016	2015
Fee for	**12**	**12**
Auditing of the financial statements	9	8
Other auditing services	2	3
Tax consulting services	—	—
Other services	1	1

93 Employees

Average number of people employed by us:

	2016	2015
Employees (excluding apprentices)	16,322	17,994
Full-time	11,713	12,934
Part-time	4,609	5,060
Apprentices	455	657

The staff's length of service was as follows:

(in %)

	WOMEN	MEN	2016	2015
	(EXCLUDING APPRENTICES)		TOTAL	TOTAL
Staff's length of service				
31 years or more	12.2	12.9	12.5	12.1
from 21 years to less than 31 years	35.0	24.5	30.0	28.4
from 11 years to less than 21 years	28.2	24.1	26.3	26.8
less than 11 years	24.6	38.5	31.2	32.7

94 Offices

Offices, broken down by region

	1/1/2016	ADDITIONS	REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	31/12/2016
		NEW OPENINGS	CLOSURES	CONSOLIDATIONS		
Germany						
Baden-Wuerttemberg	17	—	—	—	—	17
Bavaria	325	—	—	2	4	327
Berlin	10	—	—	—	—	10
Brandenburg	7	—	—	—	—	7
Bremen	7	—	—	—	—	7
Hamburg	20	—	—	—	—	20
Hesse	12	—	—	—	—	12
Lower Saxony	23	—	—	—	1	24
Mecklenburg-Western Pomerania	4	—	—	—	—	4
North Rhine-Westphalia	11	—	—	—	—	11
Rhineland-Palatinate	14	—	—	—	—	14
Saarland	4	—	—	—	—	4
Saxony	8	—	—	—	—	8
Saxony-Anhalt	9	—	—	—	—	9
Schleswig-Holstein	35	—	—	—	—	35
Thuringia	5	—	—	—	—	5
Subtotal	**511**	**—**	**—**	**2**	**5**	**514**
Other regions						
Africa	1	—	—	—	—	1
Americas	15	—	1	—	(2)	12
Asia	9	—	1	—	—	8
Europe	45	—	3	—	2	44
Subtotal	**70**	**—**	**5**	**—**	**—**	**65**
Total	**581**	**—**	**5**	**2**	**5**	**579**

Other Information (Continued)

95 List of holdings

The separate list of holdings drawn up in compliance with Section 313 (2) HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings pursuant to Section 271 (1) HGB and structured entities included in the consolidated financial statements, with and without an HVB shareholding.

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
1 Controlled companies						
1.1 Controlled by voting rights						
1.1.1 Consolidated subsidiaries						
1.1.1.1 Banks and financial institutions						
Bankhaus Neelmeyer AG	Bremen	100.0		EUR	63,973	573
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	160,013	[2]
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,349,710	34,822
1.1.1.2 Other consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	31	581
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	34	(46)
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	40	512
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	23,985	1,271
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	0
Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	[2]
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(41,576)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(38,262)	950
A&T-Projektentwicklungs GmbH & Co.						
Potsdamer Platz Berlin KG[3]	Munich	100.0	100.0	EUR	(37,240)	(31)
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	8,331	662
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	94	2
Bayerische Wohnungsgesellschaft für Handel und Industrie,						
Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	294	[2]
Bertram Projekt Unodecima Technikzentrum GmbH & Co. KG	Hanover	94.0	94.0	EUR	(2,597)	(2,597)
B.I. International Limited	George Town	100.0	100.0	EUR	(785)	426
BIL Leasing-Fonds GmbH & Co VELUM KG						
(share of voting rights: 66.7%, of which 33.3% held indirectly)	Grünwald	100.0		EUR	(2)	0
BIL Leasing-Fonds Verwaltungs-GmbH	Grünwald	100.0	100.0	EUR	32	0
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	611	100
CUMTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(22,880)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(53,477)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(59,493)	0
Erste Onshore Windkraft Beteiligungs gesellschaft mbH & Co.						
Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	1,044	(45)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	1,394	2
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	1,270	(12)
Food & more GmbH[3]	Munich	100.0		EUR	235	[1.1]
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	0
Grundstücksaktiengesellschaft am Potsdamer Platz (Haus Vaterland)	Munich	98.2	98.2	EUR	4,495	[2]
Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft[3]	Munich	100.0	100.0	EUR	52	1,194
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	(1)
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	812
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	449
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	26	[2]
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG (Immobilienleasing)[4]	Munich	99.4	99.4	EUR	33,247	8,584
HJS 12 Beteiligungsgesellschaft mbH[3]	Munich	100.0		EUR	278	[1.2]
HVB Asset Management Holding GmbH[3]	Munich	100.0	100.0	EUR	25	[2]
HVB Capital LLC	Wilmington	100.0		USD	1,128	87
HVB Capital LLC II	Wilmington	100.0		GBP	2	0
HVB Capital LLC III	Wilmington	100.0		USD	1,107	90
HVB Capital Partners AG[3]	Munich	100.0		EUR	12,671	[1.3]
HVB Export Leasing GmbH	Munich	100.0		EUR	39	0
HVB Funding Trust II	Wilmington	100.0		GBP	2	0
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	29	0
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	22,887
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,617	(14)
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1.4]
HVB Investments (UK) Limited	George Town	100.0		GBP	0	0
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	1,025	(10)
HVB London Investments (AVON) Limited	London	100.0		GBP	0	0
HVB Profil Gesellschaft für Personalmanagement mbH[3]	Munich	100.0		EUR	28	[1.5]
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	[2]
HVB Secur GmbH	Munich	100.0		EUR	127	[1.6]
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 1 GmbH[3]	Munich	100.0		EUR	41	[1.7]
HVB Verwa 4 GmbH[3]	Munich	100.0		EUR	10,132	[1.8]
HVB Verwa 4.4 GmbH[3]	Munich	100.0	100.0	EUR	10,025	[2]
HVBFF International Greece GmbH	Munich	100.0	100.0	EUR	280	0
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	7	(1)
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	35	(2)
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	687
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	16	2
Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(2,460)
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG[3]	Munich	80.0	80.0	EUR	(850)	0
HypoVereinsFinance N.V.	Amsterdam	100.0		EUR	2,286	208
Interra Gesellschaft für Immobilienverwaltung mbH3[3]	Munich	100.0	93.9	EUR	51	[2]
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	[2]
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung[3]	Munich	100.0		EUR	16,692	[1.9]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	12,359	7,936
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	15	0
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	[2]

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
NF Objekt München GmbH[3]	Munich	100.0	100.0	EUR	75	[2]
NF Objekte Berlin GmbH[3]	Munich	100.0	100.0	EUR	15,725	[2]
Ocean Breeze Asset GmbH & Co. KG	Bremen	100.0	100.0	EUR	0	(8)
Ocean Breeze Energy GmbH & Co. KG[3]	Bremen	100.0	100.0	EUR	(58,208)	(764)
Ocean Breeze GmbH	Bremen	100.0	100.0	EUR	13	(9)
Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG[3]	Munich	100.0	94.0	EUR	26	(1)
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	(90)
Omnia Grundstücks-GmbH & Co. Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	3,565	491
Orestos Immobilien-Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	56,674	[2]
Othmarschen Park Hamburg GmbH & Co. Centerpark KG[3]	Munich	100.0	100.0	EUR	(18,942)	0
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	0
Perikles 20092 Vermögensverwaltung GmbH	Bremen	100.0	100.0	EUR	21	(2)
Portia Grundstücks-Verwaltungs gesellschaft mbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	15,319
"Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	31	0
Redstone Mortgages Limited	London	100.0		GBP	56,515	10,601
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	43	5
Roncasa Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	(37,120)	950
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Saarland[3]	Munich	100.0	100.0	EUR	1,534	340
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	9,662
Salvatorplatz-Grundstücksgesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	711	[2]
Selfoss Beteiligungsgesellschaft mbH[3]	Grünwald	100.0	100.0	EUR	25	[2]
Simon Verwaltungs-Aktiengesellschaft i.L.[4]	Munich	<100.0		EUR	3,070	(14)
Sirius Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(143,835)	[2]
Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG[3]	Munich	100.0	100.0	EUR	(32,873)	950
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Structured Invest Société Anonyme	Luxembourg	100.0		EUR	7,020	20
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	36,750	[2]
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(7,024)	1
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,484)	6
TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs-KG[3]	Munich	75.0	75.0	EUR	(268,579)	0
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(377)	0
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	11,791	4,275
Transterra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	26	[2]
TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	9,534	777
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	22,004	713
Trinitrade Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0		EUR	816	(3)
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,175	[1.10]
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	119,056	15,840
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	1,318	(992)
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	937	[1.11]
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	27,088	(477)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	452,026	[1.12]
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	114,722	34
Verba Verwaltungsgesellschaft mit beschränkter Haftung	Munich	100.0		EUR	740	(8)

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
Vermietungsgesellschaft mbH & Co. Objekt MOC KG[3]	Munich	89.3	89.3	EUR	(100,316)	1,767
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.13]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,591	[1.14]
WealthCap Aircraft 27 GmbH & Co. geschlossene Investment KG	Grünwald	100.0	100.0	EUR	2	0
WealthCap Aircraft 27 Komplementär GmbH	Grünwald	100.0	100.0	EUR	25	0
WealthCap Entity Service GmbH	Munich	100.0	100.0	EUR	500	1
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	1,320	820
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	1,192	1,167
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	5,261	5,653
WealthCap Immobilien 1 GmbH & Co. KG	Munich	100.0	100.0	EUR	2	(2)
WealthCap Immobilien 2 GmbH & Co. KG	Munich	100.0	100.0	EUR	46	(34)
WealthCap Initiatoren GmbH	Munich	100.0	100.0	EUR	5,617	5,342
WealthCap Investment Services GmbH	Munich	100.0	90.0	EUR	5,101	[2]
WealthCap Investments, Inc.	Wilmington	100.0	100.0	EUR	1,365	(20)
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	[2]
WealthCap Kapitalverwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	7,099	[2]
WealthCap Leasing GmbH	Grünwald	100.0	100.0	EUR	163	138
WealthCap Los Gatos 131 Albright Way L.P.	Wilmington	100.0	100.0	EUR	(1,016)	(670)
WealthCap Management Services GmbH	Grünwald	100.0	100.0	EUR	36	(174)
WealthCap Objekt-Vorrat 19 GmbH & Co. KG	Munich	100.0	100.0	EUR	(81)	(91)
WealthCap Objekt-Vorrat 20 GmbH & Co. KG	Munich	100.0	100.0	EUR	(38)	(48)
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	53	7
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	2,861	1,815
WealthCap Portland Park Square, L.P.	Wilmington	100.0	100.0	EUR	(162)	(163)
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Spezial-AIF 5 GmbH & Co. KG	Munich	100.0	100.0	EUR	(981)	(991)
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	43	0
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	203	153
WealthCap Vorrats-2 GmbH	Grünwald	100.0	100.0	EUR	34	8
WMC Aircraft 27 Leasing Limited	Dublin	100.0	100.0	EUR	(11,112)	(6,427)
1.1.2 Non-consolidated subsidiaries[5]						
Acis Immobilien- und Projektentwicklungs GmbH	Grünwald	100.0	100.0	EUR	25	[2]
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
"Alte Schmelze" Projektentwicklungsgesellschaft mbH	Munich	100.0	100.0			
Altea Verwaltungsgesellschaft mbH & Co. Objekt I KG	Munich	100.0	100.0			
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH i.L.	Ebersberg	98.8	98.8			
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.9			
Apir Verwaltungsgesellschaft mbH & Co. Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(26,600)	950
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	100.0	100.0			
BIL Aircraftleasing GmbH	Grünwald	100.0	100.0			
BIL Immobilien Fonds GmbH	Munich	100.0	100.0			
BIL Leasing GmbH & Co Hotel Rostock KG i.L.	Rostock	58.9	58.9			
Blue Capital Metro Amerika Inc.	Wilmington	100.0	100.0			
BV Grundstücksentwicklungs-GmbH & Co. Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.9	EUR	26	[2]
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	[2]
H.F.S. Immobilienfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 3 Komplementär GmbH	Grünwald	100.0	100.0			

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
H.F.S. Immobilienfonds Deutschland 4 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 6 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 8 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 9 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 10 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 11 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 12 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 15 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 16 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 18 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 2 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Beteiligungs B.V.	The Hague	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds GmbH & Co. Europa 4 KG	Munich	100.0	100.0			
H.F.S. Leasingfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds GmbH	Ebersberg	100.0	100.0			
H.F.S. Value Management GmbH	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 2 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 3 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 4 GmbH & Co. KG	Munich	100.0	100.0			
Hofgarten Real Estate B.V. (share of voting rights: 50.5%)	Amsterdam	47.2	47.2	EUR	(49,321)	(29)
HVB Life Science GmbH	Munich	100.0				
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVBFF Baumanagement GmbH	Munich	100.0	100.0	EUR	50	[2]
HVBFF Kapitalvermittlungs GmbH	Munich	100.0	100.0	EUR	19	[2]
HVBFF Leasing & Investition GmbH & Co Erste KG	Munich	100.0	100.0			
HVBFF Leasing Objekt GmbH	Grünwald	100.0	100.0			
HVBFF Leasing-Fonds Verwaltungs GmbH	Munich	100.0	100.0			
HVBFF Produktionshalle GmbH i.L.	Munich	100.0	100.0			
HVZ GmbH & Co. Objekt Unterföhring KG	Munich	100.0	100.0			
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH	Munich	100.0	100.0	EUR	128	[2]
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0	GBP	267	437
Life Britannia Management GmbH	Grünwald	100.0	100.0			
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Omnia Grundstücks-GmbH	Munich	100.0	100.0	EUR	26	[2]
Omnia Grundstücks-GmbH & Co. Betriebs KG	Munich	100.0	94.0			
Othmarschen Park Hamburg Wohn- und Gewerbepark GmbH	Munich	100.0	100.0	EUR	102	[2]
Perterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Projekt-GbR Kronstadter Straße München	Munich	75.0	75.0			
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Saphira Immobilien- und Projektentwicklungs GmbH & Co.						
Frankfurt City West Office Center und Wohnbau KG	Munich	100.0	100.0			
Schloßberg-Projektentwicklungs-GmbH & Co 683 KG	Munich	100.0	100.0			
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co.						
Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(3,002)	0
Tishman Speyer Berlin Friedrichstraße KG i.L.						
(share of voting rights: 96.6%, of which 7.1% held indirectly)	Munich	97.1	5.9			

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UniCredit CAIB Securities UK Ltd.	London	100.0				
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(22,997)	950
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
WealthCap Canadian Management Inc.	Toronto	100.0	100.0			
WealthCap Dritte Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Erste Kanada Immobilien Verwaltung GmbH	Munich	100.0	100.0			
WealthCap Europa Erste Immobilien –						
Objekt Niederlande – Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Fünfte Objekte						
Österreich Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Europa Immobilien Siebte Objekte						
Österreich Komplementär GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Immobilien Deutschland 39 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien Nordamerika 16 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien Nordamerika 17 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien und Verwaltung Sekundär GmbH	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 37 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 38 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Los Gatos 121 Albright Way GP, Inc.	Wilmington	100.0	100.0			
WealthCap Los Gatos 131 Albright Way GP, Inc.	Wilmington	100.0	100.0	USD	(562)	(572)
WealthCap Management, Inc.	Wilmington	100.0	100.0	USD	86	(176)
WealthCap Mountain View GP, Inc.	Georgia	100.0	100.0			
WealthCap Objekt Frankfurt GmbH & Co. KG	Munich	100.0	100.0	EUR	0	(218)
WealthCap Objekt Sendling GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Stuttgart II GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 9 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 13 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 15 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 16 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 17 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 19 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 20 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Objekt-Vorrat 21 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 21 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Portfolio 3 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Portland Park Square GP Inc.	Atlanta	100.0	100.0			
WealthCap Private Equity GmbH	Munich	100.0	100.0			
WealthCap Private Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity 19 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Private Equity 20 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Real Estate GmbH	Munich	100.0	100.0			
WealthCap Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
WealthCap SachWerte Portfolio 2 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap SachWerte Portfolio 3 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Spezial 3 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 4 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial 5 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial 6 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial-AIF 1 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial-AIF 4 GmbH & Co. KG	Munich	100.0	100.0			

Other Information (Continued)

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WealthCap Spezial-AIF 6 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Vorrats-1 GmbH	Grünwald	100.0	100.0			
WealthCap Zweite Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Zweite USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte Immobilien 4 Komplementär GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte 5 GP S.à r.l.	Senningerberg	100.0	100.0			
WealthCap 39 Komplementär GmbH	Grünwald	100.0	100.0			

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
1.2 Fully consolidated structured entities				
with or without shareholding				
Altus Alpha Plc	Dublin	0	EUR	40
Arabella Finance DAC	Dublin	0	EUR	<1
BARD Engineering GmbH	Emden	0	EUR	100
BARD Holding GmbH	Emden	0	EUR	25
Buitengaats Holding B.V.	Eemshaven	0	EUR	18
Cuxhaven Steel Construction GmbH	Cuxhaven	0	EUR	25
Elektra Purchase No. 17 S.A. – Compartment 2	Luxembourg	0	EUR	<1
Elektra Purchase No. 28 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 31 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 32 S.A.	Luxembourg	0	EUR	31
Elektra Purchase No. 33 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 34 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 35 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 36 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 37 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 38 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 39 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 40 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 41 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 42 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 43 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 46 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 47 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 48 DAC	Dublin	0	EUR	<1
Elektra Purchase No. 911 Ltd.	St. Helier	0	EUR	<1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-TS-2013 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2015 S.A.	Luxembourg	0	EUR	31
GEMMA Verwaltungsgesellschaft mbH & Co.				
Vermietungs KG (held indirectly)	Pullach	6.1	EUR	68,326
Grand Central Funding Corporation	New York	0	USD	1
H.F.S. Leasingfonds Deutschland 7 GmbH & Co. KG				
(held indirectly)	Munich	<0.1	EUR	56,605
HVB Funding Trust	Wilmington	0	USD	0
HVB Funding Trust III	Wilmington	0	USD	0
MOC Verwaltungs GmbH & Co. Immobilien KG				
(held indirectly)[4, 6]	Munich	23.0	EUR	5,113
Newstone Mortgage Securities No. 1 Plc.	London	0	GBP	13
Ocean Breeze Finance S.A. – Compartment 1	Luxembourg	0	EUR	0
OSI Off-shore Service Invest GmbH	Hamburg	0	EUR	25
OWS Logistik GmbH	Emden	0	EUR	13

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OWS Natalia Bekker GmbH & Co. KG	Emden	0	EUR	1
OWS Ocean Zephyr GmbH & Co. KG	Emden	0	EUR	6
OWS Off-shore Wind Solutions GmbH	Emden	0	EUR	25
OWS Windlift 1 Charter GmbH & Co. KG	Emden	0	EUR	1
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Rosenkavalier 2015 UG	Frankfurt am Main	0	EUR	8

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

Other Information (Continued)

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

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

Other Information (Continued)

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

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

Other Information (Continued)

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

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

Other Information (Continued)

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

China	1 euro =	7.3202	CNY
UK	1 euro =	0.85618	GBP
Pakistan	1 euro =	109.790	PKR
USA	1 euro =	1.0541	USD

Notes and comments to the list of holdings

Percentages marked < or > are rounded up or down to one decimal place, e.g. < 100.0% = 99.99% or > 0.0% = 0.01%.

1 UniCredit Bank AG has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Food & more GmbH, Munich	(524)
1.2	HJS 12 Beteiligungsgesellschaft mbH, Munich	1
1.3	HVB Capital Partners AG, Munich	10,295
1.4	HVB Immobilien AG, Munich	(7,243)
1.5	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	(2,475)
1.6	HVB Secur GmbH, Munich	234
1.7	HVB Verwa 1 GmbH, Munich	(1)
1.8	HVB Verwa 4 GmbH, Munich	965
1.9	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	(2,241)
1.10	UniCredit Beteiligungs GmbH, Munich	1,610
1.11	UniCredit Direct Services GmbH, Munich	1,948
1.12	UniCredit Leasing GmbH, Hamburg	20,240
1.13	Verwaltungsgesellschaft Katharinenhof mbH, Munich	(232)
1.14	Wealth Management Capital Holding GmbH, Munich	25,983

2 Profit and loss transfer to shareholders and partners.

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

4 Figures of the 2015 annual accounts are indicated for this consolidated company.

5 Where equity capital and net profit are not stated, the information is omitted due to minor importance compliant with Section 286 (3) 1 No. 1, German Commercial Code.

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

7 Despite a holding of 22.5%, UniCredit Bank AG has no significant influence over the company on account of the ownership structure and voting patterns to date.

8 The company has been in liquidation since 1 January 2017.

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

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

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

Other Information (Continued)

96 Members of the Supervisory Board

Gianni Franco Papa Chairman since 11 August 2016 Federico Ghizzoni until 10 August 2016	**Chairman**
Florian Schwarz Dr Wolfgang Sprissler	**Deputy Chairmen**
Mirko Davide Georg Bianchi until 8 November 2016 Paolo Cornetta since 30 August 2016 Beate Dura-Kempf Francesco Giordano since 9 November 2016 Klaus Grünewald Werner Habich Prof Dr Annette G. Köhler Dr Marita Kraemer Klaus-Peter Prinz Jens-Uwe Wächter	**Members**

97 Members of the Management Board

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

Munich, 7 March 2017

UniCredit Bank AG
The Management Board

Buschbeck Dr Diederich Laber Schindler

Varese Dr Weimer Zadra

Declaration by the Management Board

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

Munich, 7 March 2017

UniCredit Bank AG
The Management Board

Buschbeck Dr Diederich Laber Schindler

Varese Dr Weimer Zadra

Independent Auditors' Report

We have audited the consolidated financial statements prepared by UniCredit Bank AG, Munich, – comprising the income statement, statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements – and the group management report for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB ("German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

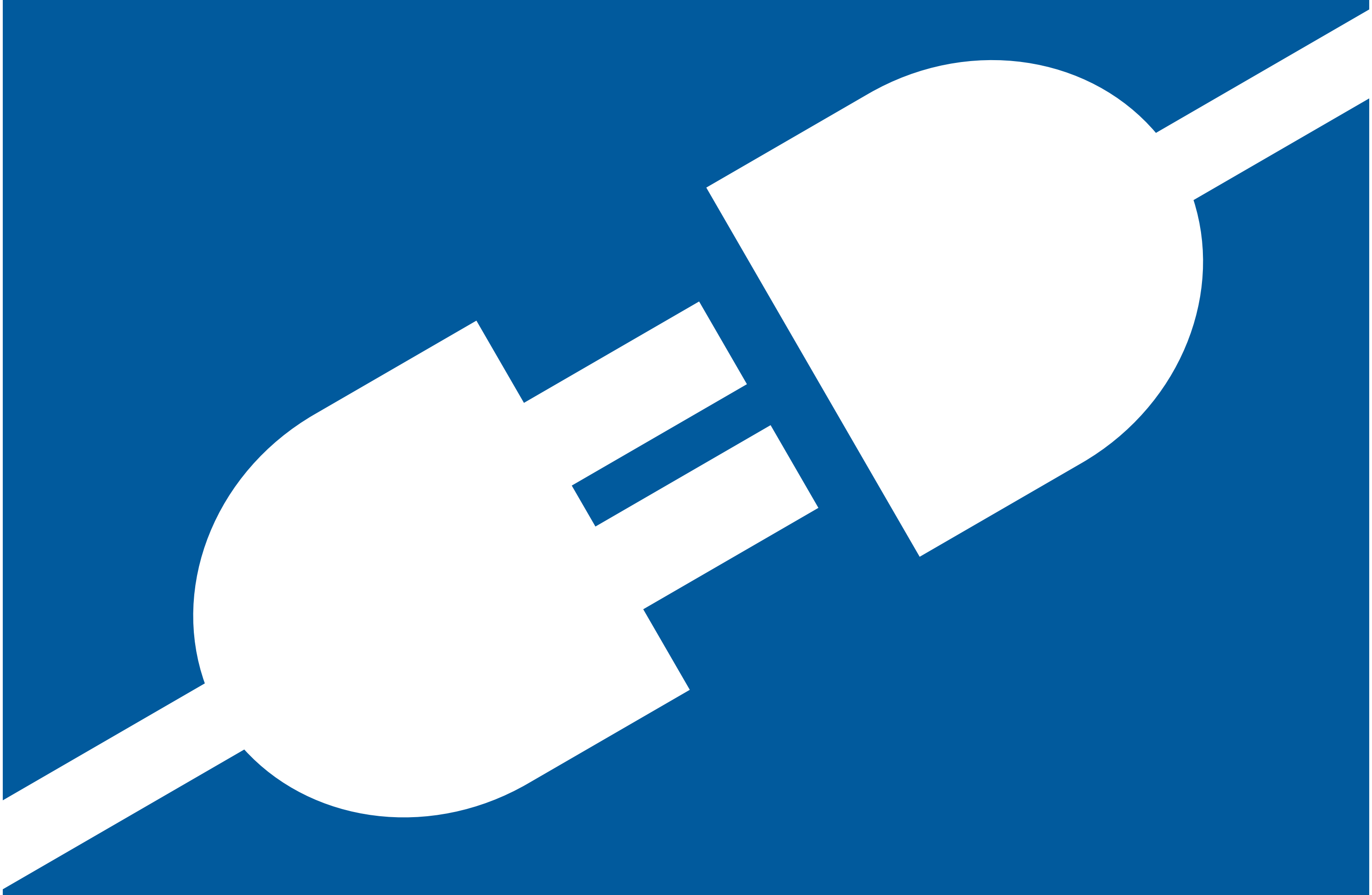
In our opinion, based on the findings of our audit, the consolidated financial statements of UniCredit Bank AG, Munich, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 9 March 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Prof Dr Leuschner	Kopatschek
German Public Auditor	German Public Auditor

Cooperation & Synergies



Our ability to cooperate and generate synergies across departments and geographies is what makes us unique and allows us to be “One Bank, One UniCredit”. We are a true pan-European bank and we work seamlessly across the Group.

Corporate Governance

List of Executives and Outside Directorships

Supervisory Board

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Federico Ghizzoni until 10 August 2016 Chairman Chief Executive Officer of UniCredit S.p.A. until 11 July 2016, Milan		
Gianni Franco Papa since 11 August 2016 Chairman General Manager of UniCredit S.p.A., Vienna		Koç Finansal Hizmetler A.S., Istanbul (Deputy Chairman), until 12 October 2016, Yapi ve Kredi Bankasi A.S., Istanbul, until 12 October 2016, UniCredit Bank Austria AG, Vienna, since 15 January 2016, Bank Polska Kasa Opieki Spółka Akcyjna (BANK PEKAO SA), Warsaw, since 16 June 2016
Florian Schwarz Employee of UniCredit Bank AG, Munich Deputy Chairman		
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft i.L., Hamburg (Chairman), until 30 June 2016	Dr. R. Pfleger Chemische Fabrik Gesellschaft mit beschränkter Haftung, Bamberg (Deputy Chairman)
Mirko Davide Georg Bianchi until 8 November 2016 Chief Financial Officer of UniCredit Bank Austria AG until 30 September 2016, Group CFO of UniCredit S.p.A., Lugano-Castagnola		UniCredit Bank Czech Republic and Slovakia, a.s., Prague (Chairman), Zagrebačka banka d.d., Zagreb, UniCredit Bank SA, Bucharest, Koç Finansal Hizmetler A.S., Istanbul, Yapi ve Kredi Bankasi A.S., Istanbul, Schoellerbank Aktiengesellschaft, Vienna (Deputy Chairman), since 6 June 2016
Paolo Cornetta since 30 August 2016 Head of Group Human Resources of UniCredit S.p.A., Milan		ES Shared Service Center S.p.A., Cernusco sul Naviglio/Milan
Beate Dura-Kempf Employee of UniCredit Bank AG, Litzendorf		
Francesco Giordano since 9 November 2016 Co-Chief Operating Officer of UniCredit S.p.A., Milan		UniCredit Business Integrated Solutions S.C.p.A., Milan, since 20 October 2016, Pioneer Asset Global Management S.p.A., Milan, since 8 November 2016
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia & GAD IT AG, Frankfurt am Main	
Werner Habich Employee of UniCredit Bank AG, Mindelheim		

1 as of 31 December 2016

NAME, OCCUPATION, PLACE OF RESIDENCE	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES[1]	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES[1]
Prof Dr Annette G. Köhler University professor and Chair of Accounting, Auditing and Controlling, University of Duisburg-Essen, Faculty of Business Administration – Mercator School of Management, Düsseldorf	Value-Holdings Capital Partners AG, Gersthofen	
Dr Marita Kraemer Former member of the Management Board of Zurich GI Management Aktiengesellschaft (Deutschland) and former member of the Management Board of Zurich Service GmbH, Frankfurt am Main		EULER HERMES GROUP S.A., Paris, since 25 May 2016, Allianz France S.A., Paris, since 29 June 2016
Klaus-Peter Prinz Employee of UniCredit Luxembourg S.A., Trier		
Jens-Uwe Wächter Employee of UniCredit Bank AG, Himmelpforten		

Supervisory Board committees[2]

Audit Committee
Dr Wolfgang Sprissler, Chairman
Mirko Davide Georg Bianchi, until 8 November 2016
Francesco Giordano, since 9 November 2016
Prof Dr Annette G. Köhler
Florian Schwarz

Nomination Committee
Federico Ghizzoni, Chairman, until 29 July 2016
Gianni Franco Papa, since 29 July 2016, Chairman since 3 August 2016
Dr Wolfgang Sprissler
Jens-Uwe Wächter

Remuneration Control Committee
Federico Ghizzoni, Chairman, until 10 August 2016
Paolo Cornetta, since 30 August 2016, Chairman since 2 September 2016
Dr Wolfgang Sprissler
Jens-Uwe Wächter

Risk Committee
Dr Marita Kraemer, Chairwoman
Gianni Franco Papa
Florian Schwarz

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Bernd Schreiber
President of the Bavarian Department of State-owned Palaces, Gardens and Lakes, Markt Schwaben

Deputies

Stefan Höck
Chief Ministerialrat in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Hohenschäftlarn

Robert Saliter
Chief Ministerialrat in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Munich

1 as of 31 December 2016
2 see also the Report of the Supervisory Board

List of Executives and Outside Directorships (Continued)

Management Board

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

1 as of 31 December 2016
2 Group directorship

HVB Women's Council

Patrons:
Dr Theodor Weimer, Spokesman of the Bank's Management Board, Country Chairman Germany and member of the Executive Management Committee of UniCredit S.p.A.
Dr Susanne Weiss, attorney, member of the Bank's Supervisory Board until 31 December 2013 and founding president of the HVB Women's Council

President:
Gabriele Zedlmayer, social innovator and former Chief Progress Officer at The Hewlett Packard Company

In December 2009, HVB became the first bank in Germany to form its own women's council, with which it has been setting a new tone in the German banking world ever since. Besides dealing with feedback and comments, and regularly discussing economic and social issues, the Council looks at ways of improving the position of women in the financial industry, among other things. The Council aims to reflect the constantly rising importance of women in financial and purchasing decisions. It helps the Bank to take even better account of the needs of female customers and employees. The Council accompanies the Bank, launches initiatives and devises new measures. Firstly, the Bank benefits from the valuable advisory skills of experienced entrepreneurs and, secondly, is helping to further reinforce the role of women in German industry. The Council has been expressly empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so outstanding entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in work-groups when preparing the initiatives. For current information about HVB's Women's Council, visit www.hvb-frauenbeirat.de.

Prof Dr Dadja Altenburg-Kohl
Director of the Museum Montanelli, DrAK Foundation, Prague

Sigrid Bauschert
Member of the Management Board of Management Circle AG, Eschborn/Ts.

Dr Christine Bortenlänger
Executive member of the Board of Deutsches Aktieninstitut e.V., Frankfurt am Main

Stephanie Czerny
Managing director of DLD Media GmbH/Hubert Burda Media, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Controlling Group Functions of F. Hoffmann La Roche, Basel

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
Member of the Management Board of Heliocentris Energy Solutions AG, Berlin

Dr Marita Kraemer
Former member of the Holding Board of the Zurich Group in Germany, former CEO of the European Centre of Excellence Credit & Surety, Frankfurt am Main

Anja Krusel
Vice President Group Controlling of Borealis AG, Vienna

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Frfr. von Münchhausen
Independent corporate consultant, business mediator Consulting, training, coaching & mediation, Munich

Andrea Neuroth
Former managing director of KION Financial Services GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, senior partner of Pilati + Partner Rechtsanwälte Notar, Frankfurt am Main

Prof Susanne Porsche
Managing director of summerset GmbH, Neue Münchner Fernsehproduktion GmbH & Co. KG and sunset austria GmbH, Munich

Annette Roeckl
Managing director of Roeckl Handschuh & Accessoires GmbH & Co. KG, Munich

Monika Rödl-Kastl
Auditor, tax advisor at Rödl & Partner GbR, Nuremberg

Sabine Schaedle
Formerly at Group Treasury of BMW Group, Munich

Annette Schnell
Head of Exhibitions, Events and Key Account Communications Division of Dr. Schnell Chemie GmbH, Munich

Alexandra Schöneck
Owner of Alexandra Schöneck Schatzmeisterei, Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board and Chairwoman of the Management Board of Schörghuber Group, Munich

Claudia Strittmatter
Senior manager of Wacker Chemie AG, Munich

Ildikó M. Várady
Head of Finance of Krauss-Maffei Wegmann GmbH & Co. KG, Munich

Dr Susanne Weiss
Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich

Gabriele Zedlmayer
Social innovator and former Chief Progress Officer at The Hewlett Packard Company, Prien am Chiemsee

Report of the Supervisory Board

In the year under review, the Supervisory Board discharged the responsibilities incumbent on it by law, the Articles of Association and its By-Laws and within that framework advised the Management Board on the running of the company and monitored its management activities. As in previous years, the Supervisory Board focused on the economic and financial performance of the HVB subgroup (hereinafter referred to as "HVB Group") in a persistently challenging environment. The Management Board informed the Supervisory Board regularly, promptly and comprehensively about the business situation and the economic position of the individual business units, business policies and fundamental issues concerning corporate management and planning. The Supervisory Board examined the financial development of UniCredit Bank AG (hereinafter referred to as "HVB" or "Bank") and HVB Group, the earnings situation as well as liquidity and capital management and the risk situation. A full report was also submitted by the Management Board on significant transactions, legal disputes, internal and governmental investigations of the Bank in Germany and abroad, compliance topics and other events of considerable importance to the Bank. This happened primarily during the meetings of the Supervisory Board and its committees, but also outside meetings in written form. In addition, important topics and pending decisions were also discussed at regular meetings between the Spokesman of the Management Board and the Chairman of the Supervisory Board. The Supervisory Board was directly consulted at an early stage on decisions of fundamental importance for the Bank, engaged in comprehensive consultations on the matters at hand and decided after a thorough review, insofar as this was indicated. Resolutions were also passed outside meetings in written form, as required.

Meetings of the Supervisory Board

The Supervisory Board held seven meetings in the 2016 financial year, two of which were extraordinary meetings. In addition, the future orientation of Commercial Banking and Corporate & Investment Banking were discussed in-depth together with the digitalisation strategy, IT strategy and risk strategies in a separate strategy workshop. At each of these meetings, the Supervisory Board addressed the following subjects in particular:

The first meeting of the year on **19 February 2016** focused on the topic of "Strategies of the Bank". In a **strategy workshop** held in advance on **18 February 2016** the business strategy including the ICT strategy, IT investments and digitalisation strategy as well as risk strategies were discussed individually with the Management Board and considered in-depth. In the process, the Bank's business model was discussed with the Management Board against the background of the macroeconomic development. At the meeting on 19 February 2016, the Supervisory Board then considered the multi-year business strategy and the Multi-Year Plan of HVB Group for 2016–2020, particularly with regard to the implementation of the HVB Programme "16/18" and the related job cuts in the Bank as well as the budget for 2016. The Management Board also reported on the provisional results of HVB based on the financial reporting (FinRep), which were published for the first time, and on the result of individual ECB audit reports, particularly on SREP 2015.
Moreover, the Supervisory Board determined the total amount of variable remuneration for the Management Board members and employees ("bonus-pool") for the 2015 financial year and approved the 2016 goals set for the Management Board, taking into account the recommendation of the Remuneration Control Committee and the Remuneration Officer including external consultants. The Supervisory Board also addressed the evaluation of the 2015 Performance Screens and goal achievement by Management Board members. Related resolutions were passed, taking account of the recommendations of the Remuneration Control Committee.

At the meeting held on **17 March 2016** devoted to the annual financial statements, the Supervisory Board discussed the annual and consolidated financial statements for 2015 including the Management's Reports with the independent auditor, Deloitte GmbH Wirtschaftsprüfungsgesellschaft (hereinafter referred to as "Deloitte") and subsequently approved them at the recommendation of the Audit Committee following its own in-depth review. The Supervisory Board also dealt with the report on relations with affiliated companies (Dependency Report) and approved the Management Board's proposal for the appropriation of net profit. At this meeting, the Bank's Chief Risk Officer (CRO) presented a comprehensive risk report, enabling the Supervisory Board to gain an overview of the development of credit risk, market risk, operational risk, reputational risk and strategic risk. Furthermore, the Management Board reported on the status of the transaction involving the transfer of UniCredit Global Business Services GmbH to UniCredit Business Integrated Solutions S.C.p.A.

At the meeting on **21 April 2016,** the Supervisory Board discussed the 2015 Personnel Report with the Management Board. In addition, the implementation of the UniCredit S.p.A. policy on the 2016 Group Incentive System at HVB for the remuneration of the Management Board was also approved. The Management Board provided information on the outcome of the identification of Risk Takers at HVB. Moreover, the Management Board reported on the status of internal investigations and inquiries made by the supervisory authorities concerning what are referred to as the Panama Papers and on the status of the outsourcing portfolio and pending decisions in this connection, e.g. contract extensions. At this meeting, the Supervisory Board also adopted the proposed resolutions for the Bank's Annual Shareholders' Meeting on 10 May 2016.

On **13 May 2016** outside of a meeting, the Supervisory Board approved the granting of the audit engagement (including the specification of audit focus areas and the remuneration) to Deloitte, which had been elected the independent auditor and the auditor of the 2016 consolidated financial statements on 10 May 2016 by the Shareholders' Meeting at the recommendation of the Audit Committee. Based on a resolution passed by the Supervisory Board at a meeting held on 8 November 2016, the audit engagement was subsequently expanded to include an additional review of the third quarter of 2016 and on 19 December 2016 outside a meeting, an audit focus on IFRS 9; an appropriate adjustment of the remuneration was approved by the Supervisory Board.

At the meeting on **29 July 2016,** the Management Board explained the performance of the Bank and the results for the first half of 2016 (Half-yearly Financial Report) on the basis of detailed documents. The implementation of the Group Compensation Policy of UniCredit S.p.A. at HVB for the Management Board was approved. The Supervisory Board also considered the review of the appropriateness of the remuneration systems as a whole and discussed the Remuneration Report 2015 of the Management Board. At this meeting, the Supervisory Board also resolved to amend the By-Laws of the Supervisory Board as of 1 August 2016, which had become necessary particularly on account of the EU Audit Regulation. The remuneration for Deloitte for the 2016 annual financial statements were approved by the Supervisory Board at the recommendation of the Audit Committee. Furthermore, the Management Board reported on the Fintech strategy of the Bank. As a result of Mr Federico Ghizzoni stepping down from the Supervisory Board of HVB, Mr Gianni Franco Papa was elected the new Chairman of the Supervisory Board and a resolution was passed on his appointment in the committees.

Outside a meeting on **21 July and 10 August 2016** the Supervisory Board passed the proposed resolutions for two further Extraordinary Shareholders' Meetings of the Bank on 27 July and 30 August 2016 in connection with the cum/ex trades issue and the election of Mr Paolo Cornetta as a new member of the Supervisory Board.

At an extraordinary meeting of the Supervisory Board on **5 September 2016,** the Supervisory Board approved the amicable termination of the term of office of Mr Lutz Diederichs as a Management Board member effective from the end of 5 September 2016 and the appointment of the new Management Board member, Mr Robert Schindler, effective 6 September 2016 until the end of 31 December 2019.

On **30 September 2016** another extraordinary meeting of the Supervisory Board was held at which the amicable termination of the term of office of Mr Francesco Giordano as a Management Board member was approved effective from the end of 30 September 2016 and the appointment of the new Management Board member (CFO), Mr Guglielmo Zadra, effective 1 October 2016 until the end of 31 December 2019.

Outside a meeting on **19 October 2016,** the Supervisory Board adopted the proposed resolutions for another Extraordinary Shareholders' Meeting of the Bank on 9 November 2016, the only item on the agenda of which was the election of Mr Francesco Giordano as a Supervisory Board member to replace the resigning Mr Mirko Davide Georg Bianchi, and also adopted resolutions on the appointment of replacements in the various committees in this connection.

In the meeting on **8 November 2016,** the Management Board provided an overview of the performance and the results for the first nine months of 2016 (discussion of the provisional figures at 30 September 2016) on the basis of detailed documents. This meeting concentrated on the provisional Multi-Year Plan 2016–2019 and the related measures in the Bank, which were extensively discussed. The basic willingness to pay a special dividend was also discussed in this context. Representatives of the Joint Supervisory Team of the

Report of the Supervisory Board (Continued)

ECB, who attended the entire meeting, provided an overview of their view of the HVB, particularly the business model, the risk profile and the cost structure of HVB as a part of UniCredit Group. The Management Board also reported on the monitoring of compliance with banking supervisory regulations. In addition to discussing the succession planning for the Management Board and the Supervisory Board at this meeting, the results of the annual evaluation for the Management Board and Supervisory Board, which was carried out with the aid of an external, independent consultant (auditing company), were also presented. Based on the preliminary discussion at the meeting of the Nomination Committee on 24 October 2016, these results were then discussed by the Supervisory Board as a whole and measures and recommendations for improvement were examined. The auditing company arrived at the result that, in its opinion, the size, composition, structure and performance of the Supervisory Board comply with the legal requirements of Section 25d KWG and that the performance of this body should be rated as efficient and in compliance with legal requirements on the whole. The Supervisory Board concurred with this opinion after discussing the matter.

In the **meetings held in 2016** and based on written information on what are known as findings management, the Supervisory Board dealt at regular intervals with the key internal audit results and reports (Compliance and Internal Audit) and external audit results and reports (German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and ECB) and those of the independent auditor and monitored the appropriate implementation of audit findings. The remediation of the documented findings in compliance with the timetables are subject to close scrutiny and progress monitoring by both the Management Board and the Supervisory Board. Moreover, the Management Board briefed the Supervisory Board about the progress achieved in implementing the strategic orientation of Commercial Banking (KOMPASS Project). In addition, the Supervisory Board considered the development of the upstream exposure last year, which is HVB Group's exposure to UniCredit S.p.A. and affiliated companies of UniCredit S.p.A. Based on BaFin Circular No. 6/2013, the Management Board also informed the Supervisory Board about the Bank's algorithmic trading strategy and corresponding risks in its Algorithmic Trading Report 2016.

Legal disputes as well as internal and external investigations

The Supervisory Board solicited information and deliberated on important legal disputes and proceedings on a regular basis last year. Where necessary, ad-hoc committees were set up on individual issues which prepared recommendations on dealing with the results of investigations for the Supervisory Board. Moreover, external legal advisers were called in to provide advice to the Supervisory Board. The chairmen of the ad-hoc committees reported to the plenary sessions of the Supervisory Board at regular intervals together with the external legal advisers. As in previous years, these included the proceedings in connection with trades around the dividend ex-date (cum/ex trades) in particular. In this context the Management Board also provided information on the cum/ex committee of inquiry of the Deutscher Bundestag and on the cum/cum trades issue on a regular basis. The Management Board also briefed the Supervisory Board on the conclusion of the preliminary proceedings initiated in March 2015 by the public prosecution in Cologne in connection with transactions of UniCredit Luxembourg S.A. In addition, the Supervisory Board obtained information over the course of the year 2016 about the status and further development of the investigations being conducted by US authorities in connection with past transactions pertaining to certain Iranian individuals and/or legal entities. The Supervisory Board also obtained reports on further investigations conducted in this context by HVB.

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. No member of the Supervisory Board attended fewer than half of the meetings held in 2016. Prior to every Supervisory Board meeting, the Supervisory Board members representing both the employees and the shareholders had the opportunity to address the topics of the meeting in question in preliminary discussions with the Management Board. When required, meetings were also held without the participation of the Management Board. Conflicts of interests of individual Supervisory Board members were disclosed and taken into account; the Supervisory Board members concerned did not take part in the respective deliberations or in meetings.

Supervisory Board committees

To efficiently perform its tasks, the Bank's Supervisory Board set up a Risk Committee, an Audit Committee, a Nomination Committee and a Remuneration Control Committee. Each committee elected a chairman. The composition of the committees is shown in the Supervisory Board list in this Annual Report. The responsibilities of each of the committees are defined in the rules of procedure of the Supervisory Board.

The cooperation and sharing of content among the individual committees is ensured by the same members sitting on the committees in some cases. The chairmen of the committees coordinated inter-committee topics with the Management Board member responsible in each case and among one another to strengthen cooperation in the committees as a whole. They also exercised their rights to information vis-à-vis the head of the Internal Audit and the Chief Compliance Officer as well as the level below the Management Board, where agreed with the Management Board. The chairmen of all the committees reported in detail at the next respective plenary session of the Supervisory Board on the topics of the committees' discussions, the results and the resolutions passed by the committees.

Nomination Committee

The Nomination Committee met two times in the past year and in particular performed its duties as defined in Section 25d (11) KWG. Where necessary, it adopted resolutions outside of meetings. The committee discussed the succession planning for Supervisory Board members and in particular prepared the Supervisory Board's proposal for the election of shareholder representatives to the Supervisory Board to elect Mr Paolo Cornetta and Mr Francesco Giordano by the Extraordinary Shareholders' Meetings on 30 August 2016 and 9 November 2016, guided by the criteria specified by the Supervisory Board for the composition of the Supervisory Board. In addition, topics of the meetings included preparing the re-appointment and new appointment of Management Board members and succession planning on the Bank's Management Board. The Nomination Committee also reviewed and confirmed the strategy to achieve the goal of promoting women on the Management Board and on the Supervisory Board. With the support of an external, independent consultant (auditing company), moreover, the Nomination Committee prepared the annual evaluation of the Management Board and Supervisory Board according to Section 25d (11) KWG by the Supervisory Board and issued corresponding recommendations for action to the Supervisory Board. The Nomination Committee reviewed the Management Board's principles for selecting and appointing individuals to the senior management level and supported the Supervisory Board in making corresponding recommendations to the Management Board. The Nomination Committee consented to Management Board members accepting secondary employment outside of HVB Group that must be taken into account as offices held within the meaning of Section 25c (2) KWG. The Nomination Committee was briefed on the acceptance of additional secondary employment. Finally, the Nomination Committee granted its consent to personal loans pursuant to Section 15 KWG following an appropriate review.

Remuneration Control Committee

The Remuneration Control Committee met seven times in 2016, and also met once in a joint meeting with the Risk Committee. In particular, this committee performed the tasks set forth in Section 25d (12) KWG and in the Regulation on the Requirements for the Remuneration Systems of Institutions under Regulatory Law (Institutsvergütungsverordnung – InstitutsVergV) of 16 December 2013, which particularly include supporting the Supervisory Board in the appropriate design of the remuneration systems for the Management Board and in monitoring the appropriate design of the remuneration systems for the employees.

In the 2016 financial year, the Remuneration Control Committee discussed the appropriate design of the remuneration systems for the employees in the 2015 financial year on the basis of the Remuneration Control Report 2015 of the Bank's Remuneration Officer and solicited a presentation of the 2016 annual plan of the Remuneration Officer. Based on this report of the Remuneration Officer, it held a joint meeting with the Risk Committee to review relevant interfaces between the remuneration system and the risk management system in order to analyse the effects of the remuneration systems on the

Report of the Supervisory Board (Continued)

risk, capital and liquidity situation of the institution/HVB Group and to ensure that the remuneration systems are oriented towards the business strategy focused on sustainable development at the institution and on the risk strategies derived from it as well as on the remuneration strategy at institutional and corporate levels. Furthermore, it discussed the resolution on the appropriateness of the total amount of variable remuneration for the Management Board and employees ("bonus-pool") for the 2015 financial year and prepared the resolution for the Supervisory Board. The committee also discussed the evaluation of Management Board members' performance and the determination of the respective variable remuneration for the 2015 financial year and gave appropriate recommendations to the Supervisory Board.

The Remuneration Control Committee prepared the resolutions of the Supervisory Board regarding the goals set for the individual Management Board members in the 2016 financial year. The committee also acknowledged the 2016 Group Compensation Policy for HVB Group employees and considered the principles of the remuneration systems for employees to be reasonable. The Remuneration Control Committee also discussed the implementation of the 2016 Group Compensation Policy for the Management Board and recommended that it be implemented. In addition, the committee discussed the appropriateness of the 2016 Group Incentive System for the Management Board, the Senior and Executive Vice Presidents and Risk Takers and considered the implementations of this system for the Management Board members. The Remuneration Control Committee also assisted the Supervisory Board in reviewing the appropriateness and compatibility of the compensation packages for Management Board members in 2016 based on a benchmark analysis carried out by an external consultant and in monitoring the appropriate design of remuneration for the heads of the Risk Control function and the Compliance function as well as the Risk Takers. The Remuneration Control Committee monitored the proper involvement of the internal control functions and all other relevant areas in the design of the remuneration systems. Moreover, the committee discussed the employment contracts of Management Board members and the remuneration in connection with the changes in the Management Board. The Remuneration Control Committee individually discussed the arrangements of these employment contracts and provided recommendations to the full Supervisory Board. The committee consulted external legal advisers in individual cases. The Remuneration Officer assisted the Remuneration Control Committee in its monitoring and design duties with respect to all remuneration systems.

Risk Committee

The Risk Committee met five times in the past year and also held a joint meeting with the Remuneration Control Committee. The lead auditors of the independent auditor, the head of the Internal Audit and the head of CRO Central Functions (Risk Controlling) attended all the committee meetings to provide information. The Risk Committee advised the Supervisory Board in particular on the Bank's current and future overall risk appetite and risk strategy and helped it to monitor the implementation of that strategy. The Risk Committee discussed the deviations from the overall risk appetite and risk strategy on a regular basis. In compliance with the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement der Kreditinstitute – MaRisk), the Risk Committee received monthly risk reports. The CRO used the quarterly risk reports in the meetings to explain the development of the regulatory financial ratios, risk taking capacity, credit risk, market risk, operational risk, reputational risk and liquidity risk. The Risk Committee was briefed on a regular basis on the topic of risk and strategy. Key information from the risk point of view was also passed on to the Risk Committee in a timely manner outside of meetings. The efficiency of the risk management system was also the subject of detailed discussion with the CRO, the Internal Audit and the independent auditor. The committee regularly discussed the findings of the Internal Audit and the measures taken as well as the status of remediation of significant findings of the supervisory authorities and the independent auditor, which are collated in the Management Board's Findings-Programme. In two meetings, the Risk Committee discussed at length with the Management Board, the Internal Audit and the independent auditor whether the terms in the customer business were in harmony with the business model and the risk structure of the Bank. In a joint meeting with the

Remuneration Control Committee, the Risk Committee used the Remuneration Control Report 2015 of the Remuneration Officer to analyse whether the incentives set by the remuneration system take the risk, capital and liquidity structure of the Bank into account, as well as the probability and due dates of revenues. In addition, the Risk Committee received regular reports at its meetings on the North Sea wind farm project financed by the Bank and on potential risks. Further topics considered by the Risk Committee regularly in its meetings were particularly cybercrime, potential impacts of the Brexit on the Bank, the IT organisation and the Bank's IT security management. Requirements of the Capital Requirements Regulation (CRR) assigned to the committee and an analysis of the Bank's legal risks were also discussed. The Risk Committee held ad hoc discussions in the meetings on individual credit exposures as well as on country, concentration and sector risks. Finally, the Risk Committee granted its consent to loans to bodies of a company pursuant to Section 15 KWG following an appropriate review.

Audit Committee

The Audit Committee held six meetings last year. The lead auditors of the independent auditor, the head of the Internal Audit, the Compliance Officer (Chief Compliance Officer) and the head of CRO Central Functions (Risk Controlling) attended all of the committee meetings to provide information. The meetings looked at the audit of the annual and consolidated financial statements and the report on relations with affiliated companies as well as the Half-yearly Financial Report and the figures at 31 March and 30 September 2016.

The committee considered the proposal on the election of the independent auditor for the 2016 financial year and assessed the qualification and independence of the auditor based on the Statement of Independence and the quality of the audit. It prepared the granting of the audit engagement by the Supervisory Board including the specification of audit focus areas and a recommendation on the amount of remuneration for the independent auditor. In addition, it gave its consent to additional services being placed with the independent auditor at regular intervals.

Other topics discussed at length were the efficiency of the risk management system, and particularly of the internal control system and the Internal Audit. The efficiency of the individual systems was discussed with the Management Board, the Internal Audit and the independent auditor. Measures aimed at refining the systems were stipulated; reports on this were provided to the committee on a regular basis. In addition, the Risk Committee of the Supervisory Board submitted reports to the Audit Committee on the efficiency of risk management. The Audit Committee also satisfied itself of the efficiency of the Internal Audit. Moreover, the committee was informed at regular intervals about the work and findings of the Internal Audit, the Compliance function, special audits and material objections by the supervisory authorities. The committee was briefed on the status of remediation of the relevant audit findings of the independent auditor on the annual and consolidated financial statements. The Compliance Officer (Chief Compliance Officer) reported to the committee on the annual compliance report on the securities business and on money laundering prevention and also submitted reports on compliance-related issues on a regular basis which the Audit Committee especially discussed at length and followed up. Among other things, Compliance reported on the expansion of the Compliance function during its quarterly reports. In addition, the committee examined the auditor's report on the annual audit of the securities account business according to Section 36 of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the report by the Management Board on the Bank's outsourcing arrangements, the report of the Data Protection Officer and the adequacy of staffing levels at the Bank. The Audit Committee requested quarterly reports on the liquidity situation. It was informed several times about the implementation status of new accounting provisions, in particular IFRS 9. Furthermore, the Audit Committee repeatedly considered the reforms and the effects on the work of the Audit Committee as a result of the EU Audit Reform. In this context the members of the Audit Committee and the independent auditor already discussed the new requirements relating to the audit opinion and the disclosure of key audit matters and redefined the process for the approval of audit-unrelated services. The head of the Internal Audit department presented a report prepared by the Management Board and Internal Audit on a quarterly basis at meetings of the Audit Committee on the main findings of the audits carried out by Internal Audit and other significant aspects of its work. The committee was also provided with the annual plan of the Internal Audit.

Report of the Supervisory Board (Continued)

Corporate Governance
The Supervisory Board and its committees again intensively examined the implementation of the governance requirements set forth in Sections 25c and 25d KWG in the past year. A key aspect of this examination was the legally prescribed responsibilities of the Supervisory Board committees. The new extended requirements of the Audit Committee based on the German Audit Reform Act 2016 were discussed in-depth and also reflected in the revised version of the By-Laws of the Supervisory Board. As already mentioned, the Nomination Committee and the Supervisory Board discussed the results of the annual evaluation of the Management Board and the Supervisory Board. The Supervisory Board believes that both the Supervisory Board and the Management Board work efficiently and that a good standard has been achieved. The audit indicated individual areas for improvement that will be taken into account in future. In its opinion, the Supervisory Board also has a sufficient number of independent members.

Training and education
The members of the Supervisory Board took part in the training and educational programmes required for their tasks on their own initiative. In the process, they were appropriately supported by HVB. An internal induction programme was offered particularly to new Supervisory Board members and individual written information was provided. The Bank offered all Supervisory Board members internal training and educational measures on the rating systems in the Bank, on digitalisation, on the liquidity and funding situation of the Bank and on the Market Abuse Regulation. In addition, Supervisory Board members received information from the Bank on the new regulatory developments relating to supervisory board members of banks.

Annual financial statements for 2016
The annual financial statements and Management Report of UniCredit Bank AG prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the consolidated financial statements and Group Management Report prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, for the 2016 financial year were audited by Deloitte. The independent auditor issued an unqualified opinion in each case.

The financial statements listed above were forwarded to the Supervisory Board, together with the Management Board's proposal for the appropriation of profits and the independent auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The lead auditor of the independent auditor reported on the key findings of the audit, in particular on the internal control system and the risk management system relating to the financial reporting process compliant with Section 171 (1) AktG, and provided detailed answers to the questions of Supervisory Board members at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also reported on the work performed by the independent auditor in addition to the audit of the financial statements and stated that there were no circumstances giving rise to concerns about its partiality. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by this committee. Upon recommendation by the Audit Committee, the Supervisory Board approved the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. The Supervisory Board determined that, on the basis of its own examination of the annual financial statements, the consolidated financial statements, the Management Report and Group Management Report as well as the proposal for the appropriation of profits, no objections were to be raised. The Supervisory Board has therefore approved the annual financial statements and the consolidated financial statements prepared by the Management Board. Consequently, the annual financial statements were adopted. The Supervisory Board also concurred with the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB with affiliated companies for the 2015 financial year in accordance with Section 312 AktG. The report contains the following concluding statement by the Management Board:

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

Deloitte audited this report and issued the following opinion:

"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relations with affiliated companies and the related audit report by Deloitte were also forwarded to the Supervisory Board. In the course of the preliminary audit, the Audit Committee and then the full Supervisory Board considered these documents in-depth. The information was checked for plausibility and consistency, and individual legal transactions between HVB and UniCredit S.p.A. and its affiliated companies were carefully examined together with other cost generating measures initiated by UniCredit S.p.A. The lead auditors of the independent auditor took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. Based on the final outcome of the Supervisory Board's own examination of the report on relations of HVB with affiliated companies in the 2016 financial year prepared by the Management Board compliant with Section 312 AktG, which did not identify any deficiencies, no objections are to be raised about the final declaration of the Management Board in this report.

Personnel

Mr Lutz Diederichs resigned from the Management Board effective from the end of 5 September 2016 and Mr Francesco Giordano effective from the end of 30 September 2016 by mutual consent. Mr Robert Schindler and Mr Guglielmo Zadra were appointed as full members of the Management Board by the Supervisory Board with effect from 6 September 2016 and 1 October 2016 respectively. Mr Federico Ghizzoni stepped down from the Supervisory Board by resigning from office effective from the end of 10 August 2016. At the Extraordinary Shareholders' meeting held on 30 August 2016 Mr Paolo Cornetta was elected a new member of the Supervisory Board for the remaining term of office of Mr Ghizzoni, i.e. until the end of the Shareholders' Meeting resolving on the formal discharge of the Supervisory Board for the 2019 financial year. At the meeting on 29 July 2016, Mr Gianni Franco Papa was already elected as the new Chairman of the Supervisory Board from 11 August 2016. Effective from the end of 8 November 2016, Mr Mirko Davide Georg Bianchi resigned from the Supervisory Board. For the remaining period of his term of office, i.e. until the end of the Shareholders' Meeting resolving on the formal discharge of the Supervisory Board for the 2019 financial year, Mr Francesco Giordano was elected a new member of the Supervisory Board from the end of the Shareholders' Meeting held on 9 November 2016.

The Supervisory Board thanks Mr Federico Ghizzoni for his long-term, committed and valuable service on this board as the Chairman and also Mr Mirko Davide Georg Bianchi for his commitment and his constructive support for the Bank on the Supervisory Board.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work and their services in the 2016 financial year.

Munich, 22 March 2017

The Supervisory Board

Gianni Franco Papa

Chairman

Risk Management

In order to be successful in what we do we must take risks, but we must rigorously manage our risks. We must be fully aware of the impacts of our decisions, we must take risks but we must take the right risks. And to do that, we must apply strong risk management to everything we do.

Additional Information

Financial Calendar

Important Dates 2017

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

1 planned

Contacts

Should you have any questions about the annual report or our half-yearly financial report, please contact Media Relations by
calling +49 (0)89 378-25263,
faxing +49 (0)89 378-3325263
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Summary of Annual Financial Data

(€ millions)

OPERATING PERFORMANCE	2016	2015	2014	2013	2012
Net interest	2,518	2,728	2,643	2,873	3,464
Dividends and other income from equity investments	57	69	92	117	147
Net fees and commissions	1,066	1,035	1,082	1,102	1,108
Net trading income	903	525	483	1,095	1,190
Net other expenses/income	354	318	302	328	141
OPERATING INCOME	**4,898**	**4,675**	**4,602**	**5,515**	**6,050**
Payroll costs	(1,668)	(1,821)	(1,782)	(1,770)	(1,839)
Other administrative expenses	(1,536)	(1,560)	(1,532)	(1,509)	(1,499)
Amortisation, depreciation and impairment losses					
on intangible and tangible assets	(257)	(198)	(245)	(199)	(178)
Operating costs	**(3,461)**	**(3,579)**	**(3,559)**	**(3,478)**	**(3,516)**
OPERATING PROFIT	**1,437**	**1,096**	**1,043**	**2,037**	**2,534**
Net write-downs of loans and provisions for guarantees and commitments	(341)	(113)	(151)	(214)	(727)
NET OPERATING PROFIT	**1,096**	**983**	**892**	**1,823**	**1,807**
Provisions for risks and charges	(193)	(194)	25	(220)	195
Restructuring costs	(645)	(112)	18	(362)	(102)
Net income from investments	39	99	148	198	158
PROFIT BEFORE TAX	**297**	**776**	**1,083**	**1,439**	**2,058**
Income tax for the period	(140)	(26)	(298)	(377)	(771)
PROFIT AFTER TAX	**157**	**750**	**785**	**1,062**	**1,287**
Impairment on goodwill	—	—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**157**	**750**	**785**	**1,062**	**1,287**
Profit before tax from discontinued operations[1]			185	19	
Income tax from discontinued operations[1]			(12)	(7)	
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS[1]			**173**	**12**	
CONSOLIDATED PROFIT OF FULL HVB GROUP	**157**	**750**	**958**	**1,074**	**1,287**
attributable to the shareholder of UniCredit Bank AG	153	743	947	1,033	1,246
attributable to minorities	4	7	11	41	41
Cost-income ratio in % (based on total revenues)	70.7	76.6	77.3	63.1	58.1
Earnings per share from continuing operations (€)			0.96	1.27	
Earnings per share of full HVB Group (€)	0.19	0.93	1.18	1.29	1.55

	2016	2015	2014	2013	2012
Balance sheet figures (€ billions)					
Total assets	302.1	298.7	300.3	290.0	347.3
Shareholders' equity	20.4	20.8	20.6	21.0	23.3
Key capital ratios[2]	**Compliant with Basel III**	**Compliant with Basel III**	**Compliant with Basel III**	**Compliant with Basel II**	**Compliant with Basel II**
Core capital (€ billions)	16.6	19.6	19.0	18.5	19.5
Risk-weighted assets (€ billions)					
(including equivalents for market risk and operational risk)	81.6	78.1	85.7	85.5	109.8
Core capital ratio (%)					
(calculated based on risk-weighted assets including equivalents					
for market risk and operational risk)	20.4	25.1	22.1	21.6	17.8
Employees[3]	14,748	16,310	17,980	19,092	19,247
Branch offices	579	581	796	933	941

1 Contains the contribution to profits of DAB Bank AG and its direktanlage.at AG subsidiary. In 2012 this contribution to profits was included in the consolidated profit from continuing operations.
2 in accordance with approved financial statements
3 in full-time equivalents

Execution & Discipline

We know that to do well we must be extremely disciplined in the execution of everything we do. In addition to our strategic plan, we have performance measures in place which provide all our teams with clear targets and regularly follow-up on progress to ensure we are always on track.

Annex

UniCredit Profile

Highlights

UniCredit is a strong pan-European Group with a simple commercial banking model and a fully plugged in Corporate & Investment Bank, delivering its unique Western, Central and Eastern European network to its extensive 25 million strong client franchise. UniCredit offers local expertise as well as international reach and accompanies and supports its clients globally, providing clients with unparalleled access to leading banks in its 14 core markets as well as an another 18 countries worldwide. UniCredit's European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, Serbia and Turkey.

Financial Highlights[1]

Operating income
€ 18,801 m

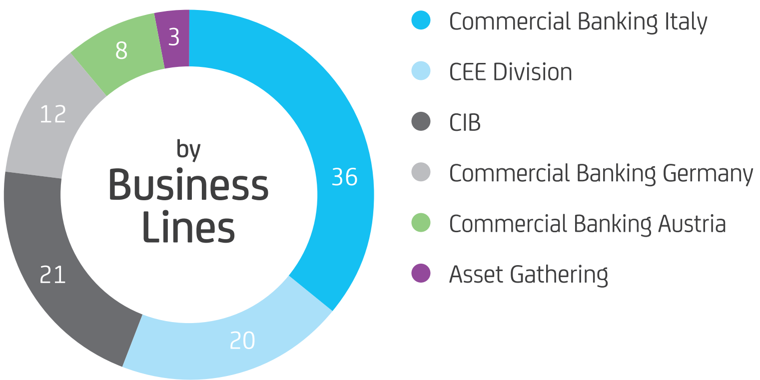
Net profit (loss)
€ (11,790) m

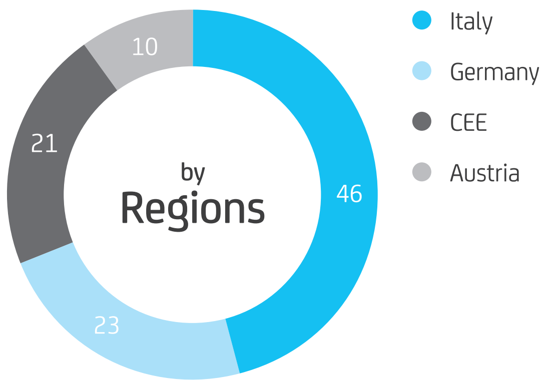
Shareholders' equity
€ 39,336 m

Total assets
€ 859,533 m

Common Equity Tier 1 ratio*
11.15%

Revenues[1] (%)





1 Data as at 31 December 2016. As at 31 December 2016, in accordance with IFRS5, the assets/liabilities and the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies, as a result of their classification as "discontinued operations", were recognized:
- in Balance Sheet under items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale";
- in Income Statement under item "Profit (loss) after tax from discontinued operation";
- the previous periods were restated accordingly to increase comparability.

* Fully loaded CET1 ratio at 11.15% post capital increase, above 12% including Pioneer and Pekao deals. CET1 ratio transitional at 11.49% post capital increase.

International Presence[2]

- Austria
- Bosnia and Herzegovina
- Bulgaria
- Croatia
- Czech Republic
- Germany
- Hungary
- Italy
- Romania
- Russia
- Serbia
- Slovakia
- Slovenia
- Turkey

Market Shares[3] (%)

Austria	14.5
Bosnia and Herzegovina	23.5
Bulgaria	20.3
Croatia	28.9
Czech Republic	8.7
Germany	2.6
Hungary	8.9
Italy	12.3
Romania	9.2
Russia	1.6
Serbia	10.8
Slovakia	8.6
Slovenia	8.0
Turkey	10.0

2 On 8 December 2016, UniCredit ("UCG") entered into a binding agreement with PZU SA and PFR (Polish Development Fund) for the sale of a 32.8% stake in Bank Pekao (Poland) and, on the same date, it announced the disposal of the remaining 7.3% via a market transaction. The CEE division includes only the 11 countries in which the Group operates through Retail branches. Accordingly, Azerbaijan, Estonia, Latvia and Lithuania have been excluded.
3 Market Shares in terms of Total Loans as at 31 December 2016. Source: Company data, National Central Banks.

One Bank, One UniCredit Transform 2019

A challenging business environment marked by greater regulatory pressure and a lengthy period of low growth and low interest rates has prompted a deep strategic review of every major area of the bank. More specifically, the review has focused on how to reinforce and optimize the Group's capital position, reduce the risk profile of the balance sheet, improve profitability, and ensure that operations are transformed continuously in ways that enable increased client focus, further cost reductions and cross-selling across Group entities. These goals are to be pursued while maintaining the flexibility to seize value-creating opportunities and while improving risk discipline still further.

Hence, the Transform 2019 strategic plan targets are pragmatic, tangible and achievable and are based on conservative assumptions associated with five strategic pillars defined as follows:

- **Strengthen and optimize capital,** to align capital ratios with the best in class G-SIFIs
- **Improve the asset quality,** addressing Italian legacies via a proactive balance sheet de-risking
- **Transform the operating model,** strengthening our client focus while simplifying and streamlining products and services
- **Maximize commercial bank value,** capitalizing on the potential of our retail client relationships and our status as the "go-to" bank for corporate clients in Western Europe while building on our leadership position in Central and Eastern Europe and increasing cross-selling across business lines and countries
- **Adopt a lean but strong steering Group Corporate Center,** establishing consistent Groupwide KPIs to drive performance and improve accountability

This transformation will enable the Group to take advantage of future opportunities and generate long-term profits, functioning successfully as a **simple pan-European commercial bank with a fully plugged in CIB and a unique network in Western, Central and Eastern Europe.**

Five Strategic Pillars

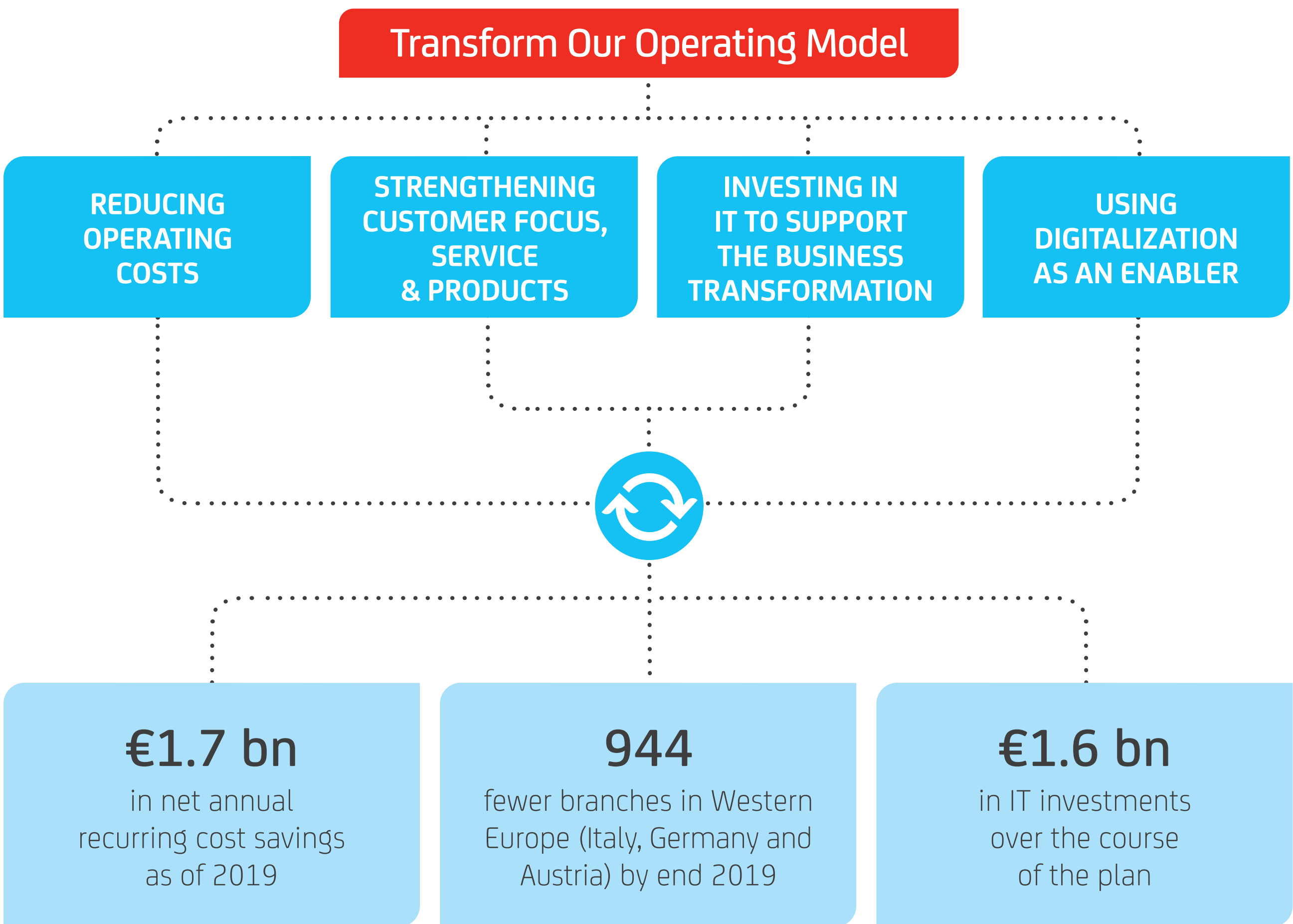
STRENGTHEN AND OPTIMIZE CAPITAL	IMPROVE ASSET QUALITY	TRANSFORM OPERATING MODEL	MAXIMIZE COMMERCIAL BANK VALUE	ADOPT LEAN BUT STEERING CENTER
Reinforce capital	Increasing coverage ratio of bad loans	Digitalization and process redesign	Tailored strategies	KPIs to drive performance and accountability
Capital optimization actions	Strong risk discipline	Improved efficiency and customer focus	Synergies and cross-selling	Leaner support functions and transparent cost allocation

Transform Our Operating Model

Among the key pillars of UniCredit's strategic plan for 2017–2019, one of the most important objectives is the transformation of the Group's operating model. The purpose of this is to strengthen our customer focus, service and products while simplifying our structure and increasing our efficiency. Digitalization will enable the transformation and make it possible to achieve a lower sustainable cost base.

The main initiatives include:

- **Redesigning end-to-end processes and lowering the cost of "running the bank"** by leveraging our global operations and developing economies of scale
- **Strengthening client focus** by further improving the customer experience, carrying out product standardization, and engaging in more client-facing activities
- **Investments in IT** that will support the business transformation with greater digitalization, the technological improvement of core systems, and ongoing infrastructure updates



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

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