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Half-yearly Financial Report at 30 June 2015

Contents

Financial Highlights

Key performance indicators

	1/1–30/6/2015	1/1–30/6/2014
Net operating profit	€491m	€386m
Cost-income ratio (based on operating income)	75.2%	79.2%
Profit before tax	€490m	€499m
Consolidated profit (from continuing operations)	€326m	€324m
Return on equity before tax	4.9%[1]	5.1%
Return on equity after tax	3.2%[1]	3.3%
Earnings per share (full HVB Group)	€0.40	€0.41

Balance sheet figures

	30/6/2015	31/12/2014
Total assets	€313,672m	€300,342m
Shareholders' equity	€20,335m	€20,597m
Leverage ratio[2]	6.0%	6.1%

Key capital ratios compliant with Basel III

	30/6/2015	31/12/2014
Common Equity Tier 1 capital	€19,030m	€18,993m
Core capital (Tier 1 capital)	€19,030m	€18,993m
Risk-weighted assets (including equivalents for market risk and operational risk)	€81,325m	€85,768m
Common Equity Tier 1 capital ratio[3]	23.4%	22.1%
Core capital ratio (Tier 1 ratio)[3]	23.4%	22.1%

	30/6/2015	31/12/2014
Employees (in FTEs)	16,890	17,980
Branch offices	590	796

1 return on equity calculated on the basis of average shareholders' equity according to IFRS and projected profit before tax or consolidated profit respectively at 30 June 2015 for the year as a whole
2 ratio sets core capital against the exposure value of all assets and off-balance-sheet items
3 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	STAND-ALONE RATING	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Moody's				baa2	19/6/2015	Aaa	Aaa	23/6/2015/ 23/6/2015
Counterparty Risk	A1	P-1	—		19/6/2015			
Deposits	A2	P-1	positive		19/6/2015			
Senior Unsecured and Issuer Rating	A3	P-2	negative		19/6/2015			
Standard & Poor's	BBB	A-2	negative	bbb+	9/6/2015	AAA	—	7/7/2015
Fitch Ratings	A–	F2	negative	a–	19/5/2015	AAA	AAA	13/11/2014/ 13/5/2015

Financial Review

Corporate structure

Legal corporate structure

UniCredit Bank AG (HVB), which is 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. (UniCredit), Rome, Italy, since November 2005 and hence a major part of the UniCredit corporate group from that date 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 for example.

Organisation of management and control

The Management Board, which consists of seven members, is the management body of HVB. 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 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 on all issues relevant to corporate planning and strategic development, the course of business, the state of the Bank and its subsidiaries, including the risk situation, and significant compliance issues. The members of the Management Board are jointly responsible for managing the Bank and for the proper business organisation of HVB. The responsibilities of the Management Board of HVB are specified in a schedule of responsibility, which forms part of the Management Board's internal regulations. The Management Board's internal regulations also specify particularly the matters reserved for the Management Board and the requirements for adopting resolutions and the required majorities. Peter Hofbauer left the Management Board at the end of 31 May 2015. Francesco Giordano was appointed to the Management Board with effect from 1 June 2015 to act as 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. In addition, the by-laws state that certain types of transaction require the approval of the Supervisory Board. The Supervisory Board was re-elected as scheduled during the Annual Shareholders' Meeting of HVB held in May 2015. Professor Annette G. Köhler, Gianni Franco Papa and Florian Schwarz were elected to the Supervisory Board for the first time, while Aldo Bulgarelli, Peter König and Dr Lothar Meyer left the body.

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

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

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

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

Changes in the group of companies included in consolidation by HVB Group are listed in Note 2, "Companies included in consolidation".

Economic report

Underlying economic conditions

The development of the global economy was mixed in the first half of 2015. The economic data for the first quarter of 2015 and the leading indicators already published for the second quarter of 2015 point to the expected economic recovery in Europe. Although the US economy weakened slightly at the start of the year mainly on account of the unusually cold winter weather, it seems to have picked up momentum again in the second quarter. The economic situation in some large emerging markets, such as China, increasingly deteriorated. The economies of Russia and oil-exporting emerging and developing countries are suffering from the persistently low price of oil. Although this has risen again somewhat during the second quarter of 2015, it is still well below the levels seen in the last four years. At the same time, the low oil price is likely to have been an important driver of the economic recovery in many industrialised nations. Geopolitical uncertainties seem to have receded somewhat in the perceptions of companies and consumers in the first half of 2015. The conflict in Ukraine seems to have calmed somewhat and become entrenched in its present state.

The debt crisis in Greece was the central issue covered by the media in the second quarter of this year. After the change in government at the beginning of 2015, the new Greek government and its European partners faced the task of agreeing on Greece's future bailout plan. Until well into July, protracted negotiations between creditors and the Greek government still had not produced any visible results. This caused the situation in Greece to escalate and even led to the introduction of strict capital controls and a referendum being held on further reform measures within Greece with the majority of the Greeks voting against the plan. Furthermore, Greece temporarily defaulted on payments to the International Monetary Fund (IMF). After yet further marathon negotiations, the lenders and the Greek government managed to reach an agreement on the basic conditions for another aid package of up to €86 billion on 14 July 2015. Greece has meanwhile used a bridging loan for some €7 billion, provided by the European Financial Stabilisation Mechanism (EFSM), to settle its arrears owed to the IMF and to repay a bond to the ECB on time. The first laws with the reforms demanded in advance, such as an increase in the VAT on certain products, have already been adopted by Greece's parliament. Furthermore, the respective parliaments of the countries that must give their approval voted in favour of starting negotiations on a third bailout package. Over the coming weeks, the exact conditions of a further bailout package have to be negotiated. Ideally, the negotiations should be completed by mid-August as more loan repayments by Greece will then fall due. It is presumed that the ECB will only gradually increase the emergency liquidity assistance (ELA) until a final agreement is reached on another rescue package, which means that capital controls will remain in place for the time being.

The data for the first quarter of 2015 show that gross domestic product (GDP) in the eurozone grew by 0.4% compared with the previous quarter on a seasonally adjusted basis. Leading indicators for the second quarter suggest that the eurozone economy has picked up pace again. This has presumably been aided by the development of oil prices and exchange rates, both of which were positive for the eurozone. For one thing, consumer spending is recovering on the strength of increased purchasing power; at the same time, exports are benefiting from the depreciation of the euro, triggered mainly by the ECB's purchases of European sovereign bonds (QE programme). According to the ECB's latest bank lending survey, eurozone banks further eased their lending standards for non-financial companies in the first quarter of 2015. This probably remained the case in the second quarter as well. Moreover, the additional liquidity created by the ECB's purchase programme is supporting the extension of loans by banks. The inflation rate has risen slightly during the course of the first half of the year to return to positive levels at 0.2%. The core inflation rate has also climbed again slightly, with the weaker euro helping to push up import prices for consumer goods.

The positive economic trend in Germany continues. GDP growth totalled 0.3% in the first quarter and the German economy is predicted to have expanded by 0.5% in the second quarter of 2015. Although somewhat weaker than expected at the start of the current year, industrial production picked up again at the beginning of the second quarter. The leading indicators show diverging trends of late. On the one hand, both the Purchasing Managers Index and the Ifo Business Climate Index, which is the most important leading indicator for German GDP, are still at high levels and support our growth forecast. On the other hand, the business expectations component has

Financial Review (Continued)

fallen several times in a row. This is, however, presumably due less to a change of direction and more to a psychological effect resulting from the greater uncertainty triggered by the crisis in Greece. As was already the case in recent quarters, the situation on the labour market has improved again slightly.

At the beginning of this year, the Swiss central bank surprised the markets by abandoning the franc's ceiling against the euro, which provoked considerable turmoil in the euro-franc exchange rate. The now much stronger franc will have an adverse effect on the Swiss economy this year, but will not have any serious impact on the surrounding countries in Europe.

Sector-specific developments

In the second quarter of 2015, there were sharp corrections on financial markets compared with the first quarter. Particularly interest markets underwent a dramatic turnaround with the yield on 10-year German government bonds rising by 58 basis points to 0.76%. The drama surrounding the price correction is underlined by the fact that the yield initially fell to 0.07% in mid-April and then temporarily rose to almost 1% by mid-June. The trading range in the 10-year yield thus amounted to almost one percentage point within just a few weeks. This dramatic increase in the interest rate was slowed down not least by heightened concern about Greece's possible exit from the eurozone. Overall, the trend on interest markets was characterised by a much steeper yield curve. For instance, the 2-year yield on German government bonds consistently remained at a negative level rose from around minus 0.2% in the second quarter while the 30-year yields of 0.60% rose to 1.57%. The impact of this significant increase in yield at the long end of the yield curve is illustrated by the case of a 30-year German benchmark bond that posted a drop in price of around 20% in the second quarter. In this environment, the spreads on credit markets for non-financials with good credit ratings also increased from 62 basis points on average at the end of the first quarter to 81 basis points. This was the first widening of spreads on a quarterly basis since the second quarter of 2013. The spreads of financial securities also widened significantly from 45 basis points to 66 basis points. By contrast, the 3-month Euribor fell to minus 0.014% at the end of the second quarter of 2015. Therefore, this variable benchmark interest rate – which is accorded key importance particularly in the derivatives market – was at a negative level for the first time in history. The ECB left its benchmark rate unchanged at 0.05% in the second quarter. The interest rate on the deposit facility remained at minus 0.2%.

The euro recovered somewhat in the second quarter of 2015 after the dramatic price losses suffered against the US dollar in the first quarter with the exchange rate rising by 3.9%. Compared with the Japanese yen, it also rose (up 5.9%) while it remained almost unchanged compared with the Swiss franc and weakened by 2.0% against the British pound.

After the sharp price rise on stock markets in the first quarter (the DAX rose by 22% for instance), the German stock market consolidated in the second quarter of 2015 and fell by 8.5%. The European market as a whole, as measured by the EURO STOXX 50 Index, fell by 7.4%.

The European Bank Recovery and Resolution Directive (BRRD) came into force on 1 January 2015. This directive defines the framework for the recovery and resolution of banks in the EU. Alongside resolution instruments, it also sets a minimum requirement for own funds and eligible liabilities (MREL) that must be applied from 1 January 2016 at the latest. In November 2014, the Financial Stability Board (FSB) published a consultation paper on the adequacy of the loss absorption capacity of global systemically important banks (G-SIBs). According to the draft, these requirements for the total loss-absorbing capacity (TLAC) of G-SIBs must be satisfied as of 1 January 2019.

Germany implemented the BRRD in full (complete with bail-in instruments) in January 2015. In March 2015, the German Federal Ministry of Finance published draft legislation to translate the Single Resolution Mechanism (SRM) into German law. According to the draft, the senior unsecured bonds of a CRR institution (meaning a bank within the scope of the Capital Requirements Directive/CRR) would become subordinated in insolvency proceedings.

Implementation of the bail-in instrument has led to numerous reactions by the three leading rating agencies, partly as a result of modified methodologies. In short, the assumptions regarding state aid, among other things, have been fundamentally changed, as a result of which they no longer play a significant role in ratings. Statements on HVB's rating are given in the section entitled "Ratings" in this Interim Management Report.

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

In what continued to be a challenging economic and financial environment in the first half of 2015, HVB Group generated a pleasing net operating profit of €491 million, which surpassed the year-ago figure (€386 million) by €105 million or 27.2%, although the profit was weighed down in the reporting period by expenses for the European bank levy accruing for the first time from 2015. In line with our estimate, we included the full annual amount of €70 million for 2015. Last year only contained pro-rated expenses for the German banking levy of €19 million in the first half of 2014, which are replaced by the European bank levy as of 2015 and consequently will not accrue again in the current financial year. The growth engine for this positive development was an increase of €138 million, or 6.0%, to €2,428 million, in operating income compared with the same period last year. This increase was primarily driven by net trading income which was up by €168 million, or 59.6%, to €450 million and the rise of €17 million, or 3.1%, to €559 million in net fees and commissions. Net income fell only slightly by 1.5%, or €20 million, to €1,320 million despite the historically low interest rates. As a result of our consistent cost management we were able to maintain operating expenses at €1,827 million, almost unchanged at the same level as last year (€1,814 million). At €110 million, net write-downs of loans and provisions for guarantees and commitments, which posted an increase of €20 million, are still at a very low level. In the non-operating business, an expense of €59 million from additions and reversals of provisions accrued in the reporting period, whereas income of €39 million had been posted for the previous year. But with profit before tax of €490 million and consolidated profit from continuing operations of €326 million, we even managed to match the same figures posted last year of €499 million and of €324 million respectively on account of the favourable development in our operating profit despite the expenses incurred for the European bank levy.

All the segments contributed profits to the profit before tax of HVB Group. The Commercial Banking business segment generated a profit before tax of €180 million (first half of 2014: €241 million). In this context, it should be borne in mind that the business segment was charged €23 million for the European bank levy and operating costs also increased by an aggregate of €40 million notably in other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets primarily on account of the higher investments in connection with the restructuring of our retail banking business. By contrast the Corporate & Investment Banking (CIB) business segment improved its profit before tax by €68 million to €289 million in the first half of 2015 compared with the equivalent period last year. This is due to the good earnings development on the back of an increase of €25 million to €154 million in net fees and commissions and an expansion in the net trading income by €137 million to €395 million. With a profit before tax of €21 million, the Other/consolidation business segment was €16 million lower than last year in the first half of 2015.

HVB Group has had an excellent capital base for years. Both the Tier 1 ratio and the Common Equity Tier 1 (CET1) capital ratio amounted to 23.4% at 30 June 2015 compared with 22.1% at year-end 2014. The equity funds ratio totalled 24.2% after 22.9% at year-end 2014. This means that these banking supervisory ratios under Basel III are still at an excellent level by both national and international standards. The leverage ratio defined as the ratio of core capital to the overall risk position (risk position values of all assets and off-balance-sheet items) amounted to 6.0% at the end of June 2015 after 6.1% at 31 December 2014.

Total assets increased primarily as a result of the increase in loans and receivables with banks by €13.3 billion, or 4.4%, to €313.7 billion. The shareholders' equity shown in the balance sheet fell by €0.3 billion to €20.3 billion compared with year-end 2014 on account of the dividend payout totalling €627 million resolved by the Shareholders' Meeting in the second quarter of 2015, which was partially offset by the consolidated profit (accruing to HVB's shareholder) generated in the first half of 2015 of €321 million.

HVB Group enjoyed a very comfortable liquidity base and a solid financing structure at all times in the reporting period. The funding risk remained low on account of the diversification in our products, markets and investor groups. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity. To ensure that adequate liquidity is available at all times, target ratios are used, among other things, that act as triggers. A detailed description of liquidity management is given in the section entitled "Liquidity risk" in the Risk Report of our 2014 Annual Report and the Half-yearly Financial Report of HVB Group.

Financial Review (Continued)

With our diversified business model, high capital base, solid funding foundation and good market position in our core business areas, we remain a reliable partner for our customers and investors. As an integral part of UniCredit, HVB Group is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers. HVB is building on these advantages by adjusting its business model as begun last financial year to reflect the rapidly changing social, economic and regulatory environment and push further growth through a stronger entrepreneurial focus.

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

Operating performance of HVB Group

All the statements regarding the operating performance of HVB Group in this Half-yearly Financial Report refer to the structure of our segmented income statement (see Note 3, "Segment reporting") which we set out below. By doing so, we are following the Management Approach incorporated into our segment reporting.

	1/1–30/6/2015	1/1–30/6/2014	CHANGE	
Income/Expenses	**€ millions**	**€ millions**	**€ millions**	**in %**
Net interest	1,320	1,340	(20)	(1.5)
Dividends and other income from equity investments	13	49	(36)	(73.5)
Net fees and commissions	559	542	+ 17	+ 3.1
Net trading income	450	282	+ 168	+ 59.6
Net other expenses/income	86	77	+ 9	+ 11.7
OPERATING INCOME	**2,428**	**2,290**	**+ 138**	**+ 6.0**
Payroll costs	(924)	(884)	(40)	+ 4.5
Other administrative expenses	(803)	(789)	(14)	+ 1.8
Amortisation, depreciation and impairment losses on intangible and tangible assets	(100)	(141)	+ 41	(29.1)
Operating costs	**(1,827)**	**(1,814)**	**(13)**	**+ 0.7**
OPERATING PROFIT	**601**	**476**	**+ 125**	**+ 26.3**
Net write-downs of loans and provisions for guarantees and commitments	(110)	(90)	(20)	+ 22.2
NET OPERATING PROFIT	**491**	**386**	**+ 105**	**+ 27.2**
Provisions for risks and charges	(59)	39	(98)	
Restructuring costs	—	—	—	—
Net income from investments	58	74	(16)	(21.6)
PROFIT BEFORE TAX	**490**	**499**	**(9)**	**(1.8)**
Income tax for the period	(164)	(175)	+ 11	(6.3)
PROFIT AFTER TAX	**326**	**324**	**+ 2**	**+ 0.6**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**326**	**324**	**+ 2**	**+ 0.6**
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**—**	**10**	**(10)**	**(100.0)**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**326**	**334**	**(8)**	**(2.4)**

Net interest
Despite the persistently ultra-low interest rates, the net interest generated in the first half of 2015 fell only slightly by 1.5%, or €20 million, to €1,320 million.

In this context, net interest rose by €12 million to €539 million in the CIB business segment, which is largely attributable to an increase of €18 million in trading-induced interest which more than offset the lower margins on loans. At €809 million, net interest in the Commercial Banking business segment slightly surpassed last year's figure (€803 million) while net interest in the Other/consolidation business segment fell by €38 million.

Dividends and other income from equity investments
The income generated from dividends and other income from equity investments amounting to €13 million resulting primarily from income from companies accounted for using the equity method and payments from private equity funds fell sharply compared with the year-ago figure (€49 million). This decline of €36 million is almost exclusively due to the reductions in the portfolios of private equity funds and direct investments.

Net fees and commissions
Net fees and commissions rose €17 million to €559 million in the first half of 2015 compared with the equivalent period last year. This pleasing earnings performance is due exclusively to the significant increase of €40 million to €293 million in management, brokerage and advisory services and is mainly attributable to income from securities operations. By contrast, net fees and commissions from lending operations fell by €15 million to €149 million, and income from payment services by €10 million to €101 million while income from other service operations, which totalled €16 million, remained roughly at last year's level (€14 million).

Net trading income
HVB Group generated pleasing net trading income of €450 million in the reporting period, which surpassed the result posted last year by €168 million. In the process, a higher year-on-year result was achieved in currency-related business and a good result that matched last year's total was generated in the business with equity derivatives. Significant contributions to the profit were also generated in operations involving loan securitisations, fixed-income securities, interest rate derivatives and money trading, which were, however, lower than the year-ago total. Net trading income benefited from reversals of credit value adjustments and valuation effects accruing on own credit spreads.

Net other expenses/income
Net other expenses/income rose by €9 million to €86 million in the first two quarters of 2015 compared with last year, partly as a result of higher income from our offshore wind farm and higher gains on the sale of receivables.

Operating costs
At €1,827 million, operating costs were at the same level in the first half of 2015 as the equivalent period last year (€1,814 million) on account of our consistent cost management. Within this total, payroll costs rose by €40 million to €924 million, partly as a result of higher expenses for pension plans. Other administrative expenses rose only slightly by €14 million, or 1.8%, to €803 million. This rise is largely due to an increase in marketing expenses as a result of our new advertising campaign launched in December 2014 and higher IT expenses resulting in part from our investments in the expansion of digital sales channels in addition to implementing tougher regulatory requirements. By contrast, amortisation, depreciation and impairment losses on intangible and tangible assets decreased significantly by €41 million to €100 million, particularly because of the depreciation taken in the first half of the previous year in connection with the initial consolidation of the BARD Group.

Financial Review (Continued)

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)
Due to the pleasing 6.0% increase in operating income to €2,428 million in the first half of 2015, the operating profit of HVB Group developed well, rising €125 million, or 26.3%, to €601 million – especially in the light of the fact that the operating profit is heavily weighed down by the annual contribution to the European bank levy in the first half of 2015.

Due to the good earnings performance and the almost stable operating costs, the cost-income ratio improved (ratio of operating expenses to operating income) to 75.2% in the reporting period, after 79.2% in the first half of 2014.

Net write-downs of loans and provisions for guarantees and commitments and net operating profit
At €110 million, net write-downs of loans and provisions for guarantees and commitments was again at a very low level in the reporting period (first half of 2014: €90 million). In gross terms, the expenses of €762 million for additions in the current reporting period (first half of 2014: €519 million) are largely offset by releases and recoveries from write-offs of loans and receivables amounting to €652 million (first half of 2014: €429 million).

At €491 million, net operating profit was a substantial €105 million, or 27.2%, higher than the result of the same period last year (first half of 2014: €386 million).

Provisions for risks and charges
There was a net expense of €59 million from net additions/net reversals of provisions in the first half of 2015, which primarily stems from legal risks. The legal risks of HVB Group are described in detail in the section entitled "Operational risk" in the Risk Report of this Interim Management Report. By contrast, net income of €39 million from net reversals/provisions for risks and charges, resulting particularly from derivative transactions, was posted in the first half of 2014.

Net income from investments
Net income from investments came to €58 million after the first two quarters of 2015 and is attributable to both gains of €46 million on the disposal of available-for-sale financial assets, such as from the sale of our holdings in Wüstenrot & Württembergische AG, and to gains on the sale of investment properties of €12 million. In the equivalent period last year, net income from investments amounted to €74 million and was generated largely from the gains on the disposal of available-for-sale financial assets, especially from the sale of private equity funds.

Profit before tax, income tax for the period and consolidated profit from continuing operations
In the reporting year, HVB Group generated a profit before tax of €490 million, which matched last year's level of €499 million despite the higher charges arising from the European bank levy.

Income tax in the reporting period totalled €164 million and was thus only slightly lower than the income tax of €175 million reported for the equivalent period last year in line with the earnings performance. After deducting income tax, HVB Group generated a consolidated profit from continuing operations of €326 million in the first half of 2015 and surpassed the year-ago total by €2 million.

Profit after tax from discontinued operations and consolidated profit of full HVB Group
Last year's profit after tax from discontinued operations totalling €10 million contains the income and expenses of DAB Bank AG sold in 2014. In total, the consolidated profit of HVB Group amounted to €334 million in the first half of 2014.

In the current financial year, the consolidated profit of HVB Group is identical to the consolidated profit from continuing operations of €326 million as there are no discontinued operations in 2015.

Return on equity

The return on equity after tax sets the consolidated profit accruing to HVB's shareholder against the average shareholders' equity reported in the balance sheet consisting of subscribed capital, additional paid in capital and other reserves without valuation changes of financial instruments and without consolidated profit and minority interest. It amounted to 3.2% in the first six months of 2015 (first half of 2014: 3.3%). The evaluation of this figure is to be seen particularly against the backdrop of the relatively high capital base of HVB Group.

Segment results by business segment

The business segments contributed the following amounts to the profit before tax of €490 million of HVB Group in the first half of 2015:

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Commercial Banking	180	241
Corporate & Investment Banking	289	221
Other/consolidation	21	37

The income statements for each business segment and comments on the economic performance of the individual business segments are provided in Note 3, "Segment reporting", in this Half-yearly Financial Report. The tasks and objectives of each business segment are described in detail in Note 28, "Notes to segment reporting by business segment", in our 2014 Annual Report.

Financial situation

Total assets

The total assets of HVB Group increased by €13.3 billion, or 4.4%, to €313.7 billion at 30 June 2015 compared with year-end 2014.

On the assets side, the rise is largely due to the increase in loans and receivables with banks by €11.4 billion to €44.1 billion. The reason for this sharp rise is the increase of €14.4 billion to €21.6 billion in reverse repos. In contrast, other receivables fell by €2.9 billion to €9.3 billion. There were also increases of €4.0 billion to €9.2 billion in cash and cash balances and of €1.7 billion to €32.9 billion in financial assets at fair value through profit or loss. Loans and receivables with customers also posted growth of €1.5 billion to €111.2 billion, which can be primarily attributed to other receivables which was up by €2.8 billion. There was also a rise in mortgage loans, which increased by €0.6 billion to €41.3 billion in the first half of 2015 for the first time again after several years of decline. By contrast, receivables on current accounts (down €0.9 billion) and non-performing loans and receivables (down €0.6 billion) decreased. Financial assets held for trading fell by €5.2 billion to €106.6 billion. This decline in this connection is primarily due to the positive fair values of derivative financial instruments which fell by €9.7 billion. This was a result of a rise in medium-term interest rates in the euro, with the euro simultaneously depreciating against the US dollar and British pound. In contrast, the financial instruments shown in the balance sheet included in the financial assets held for trading rose by €4.4 billion to €35.6 billion.

Financial Review (Continued)

On the liabilities side, there was a sharp rise of €16.1 billion to €70.2 billion in deposits from banks compared with year-end 2014, largely as a result of the significant increase of €11.7 billion to €29.4 billion in repo volumes. There were also increases of €3.3 billion in deposits from central banks and €2.1 billion in term deposits while the cash collateral and pledged credit balances fell by €0.9 billion and credit balances on current accounts by €0.3 billion. The rise in deposits from customers totalling €2.9 billion to €103.6 billion is primarily attributable to an increase of €2.8 billion in credit balances on current accounts to €59.1 billion. Within deposits from customers, term deposits were also up by €0.5 billion to €15.6 billion, while repos decreased by €0.6 billion to €7.2 billion. Similarly to the development on the assets side, there has been a decline in financial liabilities held for trading by €4.8 billion to €83.2 billion due to lower negative fair values from derivative financial instruments (down €7.9 billion to €68.5 billion). Debt securities in issue fell by €1.6 billion to €26.6 billion compared with year-end 2014 on account of issues due. The other liabilities balance sheet item rose by €1.3 billion to €3.9 billion.

The loan-to-deposit ratio used by the Bank is calculated by dividing customer loans by customer deposits. At the end of June 2015, the ratio was 107%, which represents a decrease of 2 percentage points compared with year-end 2014.

The shareholders' equity shown in the balance sheet fell by €0.3 billion to €20.3 billion compared with the 2014 year-end as a result of the dividend payout of €627 million resolved by the Shareholders' Meeting in the second quarter of 2015, which was only partially offset by the consolidated profit of €321 million (accruing to HVB's shareholder) generated in the first half of 2015.

At €61.5 billion, the contingent liabilities and other commitments not included in the balance sheet were unchanged in the middle of 2015 compared with the 2014 year-end total (€61.5 billion). This figure includes €21.4 billion in contingent liabilities in the form of financial guarantees which fell compared with year-end 2014 (€22.5 billion). These contingent liabilities are offset by contingent assets of the same amount. Other commitments totalling €40.1 billion rose by €1.1 billion compared with year-end 2014 and essentially consist of irrevocable credit commitments which rose by €1.2 billion to €40.0 billion compared with last year.

Risk-weighted assets, key capital ratios and liquidity 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 €81.3 billion at 30 June 2015 and thus fell by €4.5 billion compared with year-end 2014.

The risk-weighted assets for credit risks (including counterparty default risk) determined by applying partial use decreased by €4.0 billion to €58.0 billion. In the process, credit risk fell by €5.1 billion at HVB, particularly on account of the offsetting of deferred tax assets and liabilities for the first time when calculating credit risk and in the course of the European Banking Authority (EBA) specifying the risk weighting of assets to cover pension obligations. In contrast, HVB's counterparty risk increased by €0.5 billion. At subsidiaries, the risk-weighted assets for credit risk increased by €0.6 billion particularly due to an expansion of volumes at UniCredit Luxembourg S.A.

The risk-weighted assets for market risk fell by €0.6 billion to €12.2 billion. A decline in market risk on the part of HVB's internal market risk model was partially offset by a slight rise in credit value adjustments (CVA) reflecting the risk of changes in the credit ratings of counterparties in OTC derivative operations.

The risk-weighted asset equivalents for operational risk rose a marginal €0.1 billion to €11.1 billion.

At 30 June 2015, the core capital compliant with Basel III excluding hybrid capital (Common Equity Tier 1 capital/CET1 capital) and the core capital (Tier 1 capital) of HVB Group amounted to €19.0 billion and was thus unchanged compared with year-end 2014. The CET1 capital ratio (ratio of Common Equity Tier 1 capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) and the core capital ratio under Basel III (Tier 1 capital ratio; including market risk and operational risk) rose to 23.4% at 30 June 2015 (year-end 2014: 22.1% in both cases). The equity capital amounted to €19.7 billion at 30 June 2015 and thus matched last year's level (31 December 2014: €19.6 billion). The equity funds ratio was 24.2% at the end of June 2015 (31 December 2014: 22.9%).

To ensure sufficient liquidity at all times, key figures are used, among other things, which act as triggers. A detailed description is given of the management of liquidity and the liquidity position in the Risk Report of our 2014 Annual Report and in the section "Liquidity risk" in this Half-yearly Financial Report. 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 increased to 1.26 at the end of June 2015 after 1.20 at year-end 2014.

The introduction of Basel III results in the calculation of another metric – the leverage ratio – for the first time in addition to the existing capital ratios. This ratio sets the core capital measure against the exposure measure, expressed as a percentage. The total exposure measure is the sum total of the exposure values of all assets and off-balance-sheet items. At 30 June 2015, HVB Group's leverage ratio of 6.0% has remained almost at the same level after 6.1% at year-end 2014.

Ratings

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

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

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

To coincide with the introduction of the BRRD, Moody's published its revised criteria for banks in March 2015. Alongside the uncovered issuer rating, these allow for a further division into deposits and counterparty risk, taken from the potential liability cascade in accordance with the BRRD. In this context, Moody's raised the issuer and senior

Financial Review (Continued)

unsecured rating for HVB from Baa1 to A3 with a negative outlook and the deposit rating for HVB to A2 with a positive outlook. The negative outlook for the issuer rating and the positive outlook for the deposit rating is caused by the planned amendment to the German Act on the Recovery and Resolution of Financial Institutions (Sanierungs- und Abwicklungsgesetz – SAG), meaning that certain unsecured bonds would be treated as subordinated to deposits in the event of resolution. The newly introduced counterparty risk rating was set at A1 without an outlook; among other things, this relates to the creditworthiness of HVB as a counterparty in derivative contracts.

Report on subsequent events

There were no significant events at HVB Group after 30 June 2015 to report.

Forecast report/Outlook

The following comments on the outlook are to be viewed in connection with the comments on the outlook in the Financial Review and the Risk Report in the consolidated financial statements for the 2014 financial year (see the HVB Group Annual Report for 2014).

General economic outlook

According to projections by the International Monetary Fund, the global economy is likely to grow at around its long-term average of 3.3% in 2015, although prospects for individual economies vary greatly. Whereas growth is likely to go on strengthening in Europe and the United States, the outlook in a number of emerging markets, including China and Brazil, is deteriorating. The forecasts are based on the assumption that important factors underpinning the recovery in the industrialised nations will remain in place, including reduced strains from the consolidation of state finances and highly accommodating monetary policy. Private households and companies in the United States, Europe and most emerging markets will also benefit from low oil prices going forward. The geopolitical tensions – above all the Russia-Ukraine crisis – should recede or at least persist at the current level, which could help ease the burden on stressed economies somewhat.

After the Greek government reached an agreement with its negotiating partners on 14 July 2015 about the basic terms of a new bailout package of up to €86 billion, a bridging loan was provided amounting to some €7 billion. The first laws with the reforms demanded in advance, such as an increase in the VAT on certain products, have already been adopted by the Greek parliament. Over the coming weeks, the exact conditions of a further bailout package have to be negotiated. Ideally, the negotiations should be completed by mid-August as more loan repayments by Greece will then fall due. It is presumed that the ECB will only gradually increase the ELA credit limit (emergency liquidity assistance) until a final agreement is reached on another rescue package, which means that capital controls will remain in place for the time being. The discussions surrounding Greece are likely to remain a focal point for some time to come, however.

We believe that 2015 will be a better year than its predecessor for the eurozone. Over 2015 as a whole, average GDP growth of 1.4% should be far greater than in 2014. The supporting factors in this context are a weaker euro, much lower oil prices, less restrictive fiscal policy and a decline in interest on borrowings in the peripheral countries. These responded to the QE programme set up by the ECB. At country level, Germany and Spain should again record above-average growth rates of 1.9% (not adjusted for calendar reasons) and 3.2% respectively, while France and Italy are likely to show weaker performance in the eurozone with growth rates of 1.2% and 0.6% respectively (the first expansion for three years). The fact that the inflation rate briefly turned negative is, we believe, attributable mainly to the rapid fall in oil prices; we do not, however, see increased risk of deflation in 2015, especially as the ECB's QE programme is likely to push in the other direction. Instead, we project a slight rise in inflation by the end of the year. In Germany, private consumption should benefit from the higher levels of employment, rising take-home pay, a decline in the savings rate and the boost to purchasing power brought about by low inflation. By contrast, the key to development of corporate investment rests with the contribution of foreign trade; this factor will be crucial for the speed of recovery. Nonetheless, companies should be better prepared for the geopolitical tensions, which could boost capital spending.

The US economy is set to remain a key driver of the global economy in 2015. The economy is projected to have started expanding again in the spring following a temporary dip at the start of the year due mainly to the unusually cold weather. We expect real GDP growth of around 2.3% over 2015 as a whole. Constantly rising consumption remains the most important motor of accelerated growth. The ongoing recovery on the labour market coupled with faster pay growth and lower oil prices should help consumer spending to rise at a healthy rate. In addition, public spending is likely to deliver a positive contribution to GDP again in 2015, after putting a brake on expansion over the past five years. Furthermore, spending on residential property should increase again after more or less marking time in 2014. And capital spending growth is expected to pick up more pace again in 2015. The flip side of stronger domestic demand is a larger trade deficit. Consequently, foreign trade will, if anything, tend to dampen GDP growth this year. Although the lower oil price is set to cushion inflation overall, the bigger pay rises should more than offset the impact of energy prices on the inflation rate. In this environment, the Federal Reserve is likely to start raising its benchmark rate as of September.

Sector development in 2015

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

We expect the extremely low interest rate environment to be one of the main challenges for the financial sector again in the second half of 2015. The geopolitical risks which are still acute – such as the tensions between Russia and Ukraine coupled with the threats from international terrorism as well as the discussions emerging about the United Kingdom possibly leaving the EU – might cause volatility to remain high. The TLAC debate will probably force banks to not only optimise the structure of their equity and liabilities but also to evaluate what would be an optimum corporate structure for them in the future.

Financial Review (Continued)

Development of HVB Group
All the companies initially consolidated or deconsolidated in the previous year together with PlanetHome AG and its subsidiaries, which were deconsolidated during the second quarter of 2015, were incorporated appropriately when the budget was drawn up for the rest of the 2015 financial year. This means that the results components of PlanetHome AG and its subsidiaries are no longer included in the second half of 2015, which will have an impact on the comparisons with the previous year and previous quarters this year. The results of DAB Bank, which was sold during the 2014 financial year, are no longer included in the income statement for the whole forecast period; these are only included in the comparative figures in compressed form as profit from discontinued operations.

On account of the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are very unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that, in a consistently challenging environment for the financial industry, we will again be able to generate a satisfactory profit before tax in the 2015 financial year. Taking into account the present operating conditions, we continue to expect the profit before tax for 2015 as a whole to be moderately lower than the year-ago total, as stated in the Outlook section of Management's Discussion and Analysis in the 2014 Annual Report.

In this context, we do not expect the positive impact of the wide-ranging measures that we have launched as part of the realignment of the Bank in 2014 to be reflected in the operating figures until further down the road. The Bank views both the previous financial year and the 2015 financial year as periods of transition.

We nevertheless expect operating income to once again increase slightly after the sharp declines in previous years. The persistently ultra-low interest rates will, however, significantly contribute to net interest falling again slightly. Although we anticipate a small rise in volumes in the lending business, this effect is likely to only partially offset the effect caused by low interest rates. Due to the sharp reduction in the holdings of private equity funds and direct investments, dividends and similar income from capital investments will fall further in the 2015 financial year. In contrast, we expect net trading income to undergo a substantial improvement over 2014. Net fees and commissions should also improve, which will probably increase compared with the good year-ago total. We are planning higher fee income in both the Commercial Banking business segment and the CIB business segment. The operating costs planned in HVB Group will probably rise slightly based on the consistent application of the strict cost management we have employed for years due to higher payroll costs. The workforce will nevertheless continue to decrease. Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets are likely to remain at last year's level. In terms of net write-downs of loans and provisions for guarantees and commitments and cost of risk, which also remained at a very low level in 2014, we expect the need for additions to normalise in 2015 and thus to increase significantly compared with the 2014 financial year; however, net write-downs of loans and provisions for guarantees and commitments will remain at a moderate level.

We will continue to enjoy an excellent capital base in 2015. The capital ratio for the core capital (Common Equity Tier 1 ratio) will again reach the high level of year-end 2014. In terms of risk-weighted assets (including market risk and operational risk), a slight increase is expected on the back of the planning increase in lending volume.

We expect all the business segments to contribute a profit before tax to the results of HVB Group in the 2015 financial year as a whole. The results trends for the individual business segments in the 2015 financial year are discussed below.

We project a profit before tax in 2015 for the Commercial Banking business segment of around the same level as the 2014 financial year. This includes an anticipated increase in operating income resulting mainly from improved net fees and commissions. There will in all probability be a slight rise in operating costs. After the very low level of net write-downs of loans and provisions for guarantees and commitments in the 2014 financial year, we project a normalisation for 2015 and thus a moderate increase in the cost of risk.

We expect the CIB business segment to record a year-on-year increase in operating income in the 2015 financial year. This development should result from stronger net fees and commissions coupled with higher net trading income. Operating costs are projected to expand in 2015. After the very low level of net write-downs of loans and provisions for guarantees and commitments in the 2014 financial year – which also benefited from several net reversals – we expect a normalised level again in 2015, which would represent an increase year on year. The profit before tax will in all probability be lower than the total recorded in the 2014 financial year due in part to the non-recurrence of results from private equity funds.

The profit before tax in the Other/consolidation business segment will decline in 2015 compared with the 2014 financial year. The main reason for this development is a sharp decline in net interest on the back of the low interest rates coupled with a lower net reversal of net write-downs of loans and provisions for guarantees and commitments.

The performance of HVB Group in the remaining quarters of the 2015 financial year will again depend on the future development on the financial markets and the real economy as well as other remaining imponderables. In this environment, HVB Group will continually adapt its business strategy to reflect changes in market conditions and carefully review the management signals derived from this on a regular basis. With its strategic orientation and excellent capital resources, HVB Group is in a good overall position to effectively exploit the opportunities that may arise from the new operating environment, the further volatility that can still be expected on the financial markets and an expanding real economy.

The opportunities in terms of future business policy and corporate strategy, performance and other opportunities are described in detail in the 2014 Annual Report (starting on page 43). The statements made there remain valid.

Risk Report

HVB Group as a risk-taking entity

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

The income statements for each business segment and the comments on their economic performance are provided in Note 3, “Income statement, broken down by segment”, in the present Half-yearly Financial Report. The tasks and objectives of each business segment were described in detail in the 2014 Annual Report in Note 28, “Notes to 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 2014 Annual Report entitled “Opportunities in terms of future business policy and corporate strategy, performance and other opportunities”.

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

Risk types

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

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

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

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

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

Integrated overall bank management

Risk management

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

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

Starting in 2014, a multi-year scenario has also been calculated for internal capital in accordance with the Minimum Requirements for Risk Management (MaRisk). This involves analysing the relevant risk types over an additional time horizon of five years and taking into account a deteriorating macroeconomic environment. The deteriorating macroeconomic environment entails two adverse scenarios. Whereas the first scenario starts from a delayed economic recovery in some EU countries, the second scenario assumes a conventional recession in Germany on account of falling demand for exports. Since the available financial resources are considered with the same assumptions, it is possible to make a statement about how the risk-taking capacity will evolve overall over five years, taking into account the macroeconomic scenarios.

Risk Report (Continued)

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

New releases and updates to instructions, policies and the risk strategy are communicated over the intranet. In 2014, the sales and marketing staff received comprehensive training on ICAAP via a web-based training programme (WBT).

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

Risk controlling
Risk controlling is defined as the operational implementation of the risk strategy. The Senior Risk Management unit and the Credit RR Germany (KRI) unit are responsible for managing credit risk for the Commercial Banking and Corporate & Investment Banking (CIB) business segments. The senior risk managers and the credit specialists take credit 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 credit lending decisions under conditions set by the CRO. The Trading Risk Management unit is responsible for controlling market risk and the Finance unit within the Chief Financial Officer (CFO) organisation for controlling liquidity risk. The operational risk managers in the individual business segments are responsible for controlling reputational risk and operational risk.

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

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

estate risk and financial investment risk and consolidates these risk types with market risk and operational risk for the determination of the economic capital requirement. Monitoring of strategic risk is the shared responsibility of HVB's Management Board.

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

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

Implementation of overall bank management

Strategy
The system of strategies at HVB Group essentially comprises the business strategy and the risk strategy of HVB Group, with the business strategy forming the foundation. The subsidiaries, outsourcing and information and communications technology (ICT) are incorporated in both the risk strategy and the business strategy.

The risk strategy encompasses the relevant risk types, the risk strategies of the business segments and a summary of the risk strategies of the relevant subsidiaries. This is supplemented by the Industry Credit Risk Strategy.

The HVB Group business strategy includes definitions of the business model and the conceptional framework for the strategy and its cornerstones for both the Bank as a whole and 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. The risk strategy focuses on considering the relevant risk types of credit risk and market risk together with their controlling using the economic capital and limits, as well as operational risk, investment, real estate and business risk, which are only controlled using the economic capital. In addition, the strategic objectives for reputational risk, strategic risk, liquidity risk, pension risk and outsourcing are also defined largely in quality terms.

In particular, the section on credit risk is supplemented by the Industry Credit Risk Strategy, which defines the direction of risk policy 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 relevant for the overall bank management of HVB Group are derived from the business strategy in the annual budgeting process and the risk appetite defined by the Management Board. 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 UniCredit introduced across its entire organisation. Within the scope of the principle of dual control, both regulatory capital, in the sense of used core capital and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, the amount of which is derived from the expectations of the capital market.

Risk Report (Continued)

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

Regulatory capital adequacy

Used core capital

For the purposes of planning and monitoring risk-weighted assets, the business segments are required to have core capital backing for credit, market and operational risks equal to an average of 10% of equivalent risk-weighted assets. This means that the advanced regulatory requirements compliant with the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV) as the implementation of Basel III at European level for systemically important banks or groups of institutions have been satisfied for HVB Group at present. Furthermore, the expected return on investment is derived from the average used core capital.

Management of regulatory capital adequacy requirements

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

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

More detailed information on these ratios is provided in the section "Risk-weighted assets, key capital ratios and liquidity of HVB Group" in the Financial Review in the present Half-yearly Financial Report.

The following process has essentially been defined to determine the appropriate capital funding: based on our (multi-year) annual plan, we prepare a monthly, rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the German Solvency Regulation (Solvabilitätsverordnung – SolvV) and the CRR.

HVB Group and UniCredit S.p.A. agreed with the relevant regulators beyond the statutory minimum requirements that HVB Group would not fall below an equity funds ratio of 13.5%. This agreement will remain in force until further notice. The equity funds ratio of HVB Group was 24.2% at the end of June 2015 (31 December 2014: 22.9%).

Economic capital adequacy

HVB Group determines its internal capital on a monthly basis. The internal capital is the sum total of the aggregated economic capital for all quantified risk types (with the exception of liquidity risk), an undifferentiated premium for pension risk and the economic capital for small legal entities. The economic capital measures the potential loss over a time horizon of one year with a confidence level of 99.93%.

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

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

Internal capital after portfolio effects (confidence level 99.93%)

	30/6/2015		31/12/2014	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Credit risk	3,982	41.4	4,749	46.5
Market risk	2,100	21.8	2,038	20.0
Operational risk	1,786	18.6	1,711	16.8
Business risk	309	3.2	302	3.0
Real estate risk	344	3.6	346	3.4
Financial investment risk	176	1.8	304	3.0
Aggregated economic capital	**8,697**	**90.4**	**9,450**	**92.7**
Economic capital of small legal entities	51	0.5	93	0.9
Pension risk	879	9.1	657	6.4
Internal capital of HVB Group	**9,627**	**100.0**	**10,200**	**100.0**
Available financial resources of HVB Group	**19,090**		**19,284**	
Risk-taking capacity of HVB Group, in %	**198.3**		**189.1**	

The internal capital decreases by €0.6 billion overall. This can be attributed to declining risk trends in credit risk and financial investment risk while the pension risk has risen. The individual changes are described in greater detail in the sections on the respective risk types below.

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

	30/6/2015		31/12/2014	
Broken down by business segments	**€ millions**	**in %**	**€ millions**	**in %**
Commercial Banking	2,231	25.5	2,186	22.9
Corporate & Investment Banking	5,573	63.7	5,834	61.1
Other/consolidation	945	10.8	1,523	16.0
Aggregated economic capital of HVB Group	**8,749**	**100.0**	**9,543**	**100.0**

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

Risk Report (Continued)

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

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

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

Recovery and resolution plan
The preparation of a recovery and resolution plan (RRP) is intended to facilitate the restructuring and, if necessary, the orderly resolution of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important on a global level and a national level, respectively. Working closely with UniCredit S.p.A., HVB drew up a comprehensive local recovery plan for HVB Group and submitted it to the German Federal Financial Supervisory Authority (BaFin) in December 2013. The recovery plan will now be updated at least once a year, taking into account the further development of the regulatory requirements. Consequently, an updated recovery plan was submitted to BaFin at the end of 2014.

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

HVB Group uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach (gone concern). Under this approach, the risk-taking capacity is defined by comparing unexpected losses at the confidence level (internal capital) with the ability to absorb losses using the available equity (available financial resources). When determining the available financial resources, the available capital is viewed from an economic standpoint. In other words, the calculation is made in accordance with a value-oriented derivation, under which shareholders' equity is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects arising from the own credit spread are deducted and minority interests are only taken into account to the extent of the risk-bearing portion. At the same time, subordinated liabilities recognised as shareholders' equity for banking supervisory purposes are included. The available financial resources at HVB Group totalled €19.1 billion at 30 June 2015 (31 December 2014: €19.3 billion).

With internal capital of €9.6 billion, the risk-taking capacity is approximately 198.3% (31 December 2014: 189.1%). This figure is much higher than the target we have set for ourselves. The increase of 9 percentage points for HVB Group compared with 31 December 2014 can be attributed to the decline of €0.6 billion, or 5.6%, in internal capital. This effect is greater than the slight decrease of €0.2 billion, or 1.0%, in the available financial resources in the first half of 2015. The reduction in the available financial resources results from different and, in some cases, contrary developments in individual components, including the expiry of limited-term subordinated capital instruments and the reduction of the comparison of impairment losses.

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

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

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

In order to identify possible limit overshoots at an early stage, HVB Group has specified thresholds in the form of early warning indicators as well as the defined limits. The utilisation 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 a historical scenario were calculated for the cross-risk-type stress tests in the first half of 2015:
– Contagion scenario – sovereign debt crisis becomes systemic and other countries are infected
– Grexit scenario – orderly departure of Greece from the eurozone (As of the first quarter of 2015, this has again been computed regularly as a special analysis in response to current developments.)
– CEE Crisis scenario – Central Eastern Europe Crisis scenario reflecting the conflict with Russia
– 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 biggest financial intermediary.

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

Furthermore, inverse and ad hoc stress tests are carried out. This involves 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 or default by the biggest customers. After being discussed by the STC, it was decided that further measures were not necessary.

Risk Report (Continued)

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

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

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

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

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

Risk inventory
The scheduled comprehensive risk inventory at HVB Group was started in February 2015. The existing and potential new risks were analysed and scrutinized by means of structured interviews with numerous decision-makers in the Bank, among other things. The larger subsidiaries adapted this approach. A simplified procedure is used to determine the relevant risks for smaller subsidiaries. The results are presented to the RC of HVB Group in the autumn 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 identify various topics, some of which are included in the stress test, the validation of the significant risk types and other ICAAP components.

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

Risk types in detail

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

1 Credit risk

The economic capital for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €4.1 billion, which is €0.7 billion lower than the total at 31 December 2014 (€4.8 billion). The decrease is mainly due to the reductions in exposure particularly to UniCredit and a lower loss expected in the portfolio. The economic capital also decreased sharply as a result of the reduced concentrations of individual counterparties.

Credit default, counterparty and issuer risk

The following tables and charts for credit default risk and counterparty risk in the Bank as a whole and issuer risk in the banking book show the aggregate exposure values of HVB Group excluding the remaining exposures assigned to the former Real Estate Restructuring business segment. These are excluded from the analysis because the portfolio, which has already been reduced considerably in recent years to €483 million (31 December 2014: €526 million), is earmarked for elimination without any new business being written. The aggregate credit default, counterparty and issuer exposure is called credit risk exposure or simply exposure below. Issuer risk arising from the trading book is included in the market risk analysis by way of the incremental risk charge. The comments in this regard can be found in the section covering market risk.

Development of metrics by business segment (€ millions)

	EXPECTED LOSS[1]		ECONOMIC CAPITAL[2]	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Commercial Banking	163	166	1,193	1,024
Corporate & Investment Banking	215	243	2,734	2,997
Other/consolidation	22	35	127	795
HVB Group	**400**	**444**	**4,054**	**4,816**

1 expected loss of the performing exposure
2 without taking account of diversification effects

The expected loss of HVB Group fell by €44 million in the first half of 2015. This development can be attributed mainly to an improvement in the portfolio structure in several industries.

Risk Report (Continued)

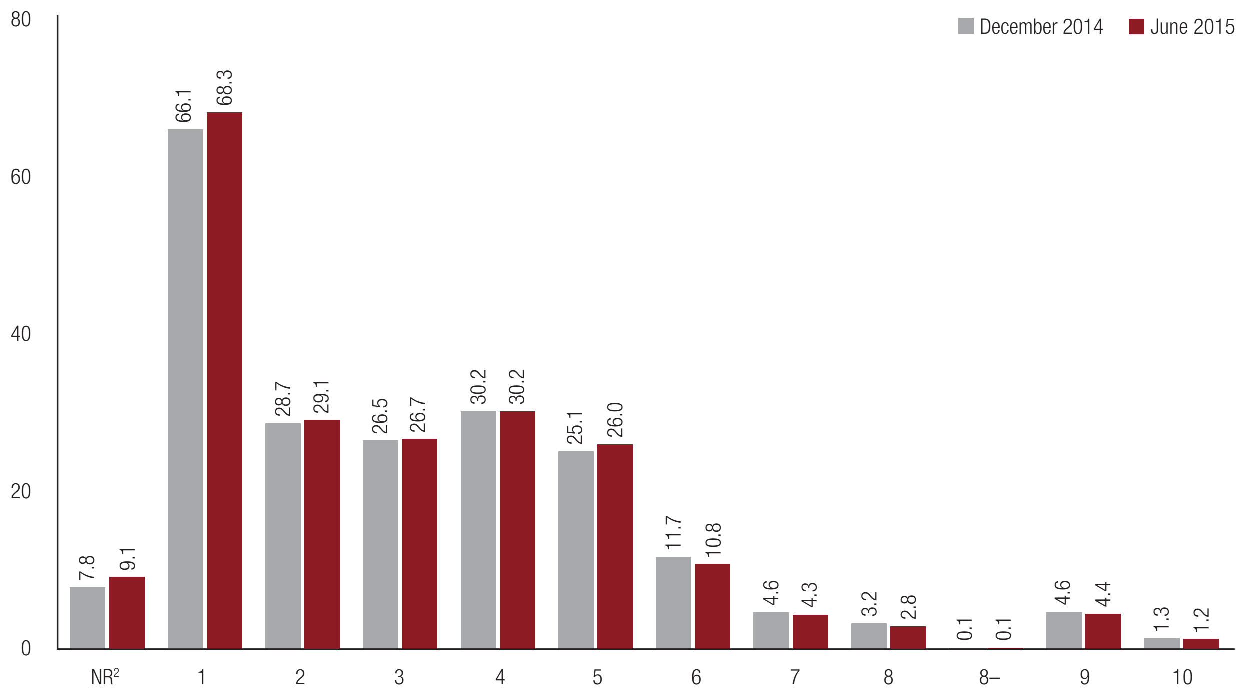
Breakdown of credit risk exposure[1] by business segment and risk category (€ billions)

Breakdown of exposure by business segment	CREDIT DEFAULT RISK		COUNTERPARTY RISK		ISSUER RISK IN TRADING BOOK		TOTAL	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Commercial Banking	89.4	88.9	1.9	2.0	0.1	0.1	91.4	91.0
Corporate & Investment Banking	58.6	52.2	17.3	18.4	42.8	42.5	118.7	113.1
Other/consolidation	1.9	1.8	0.1	0	0.9	4.0	2.9	5.8
HVB Group	**149.9**	**142.9**	**19.3**	**20.4**	**43.8**	**46.6**	**213.0**	**209.9**

1 total of non-performing and performing exposure

The total exposure of HVB Group increased by €3.1 billion. In particular, the exposure in the Corporate & Investment Banking (CIB) business segment increased by €5.6 billion. Among others, the banks, insurance companies industry group (including sovereigns) contributed to this development.

Breakdown of credit risk exposure[1] by rating class at partner level (€ billions)



1 total of non-performing and performing exposure
2 not rated (of which €7.1 billion at 30 June 2015 with a rating at transaction level (31 December 2014: €6.1 billion))

During the first two quarters of 2015, HVB Group's rating structure changed in rating classes 1 and 2 mainly on account of the build-up of exposure in the banks, insurance companies industry group (including sovereigns).

Development of metrics by industry group

Industry group	EXPOSURE[1] € billions		EXPECTED LOSS[2] € millions		RISK DENSITY in BPS[3]	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Banks, insurance companies	47.7	46.7	36	41	8	9
Public sector	34.3	36.8	2	2	1	1
Real estate	24.0	22.9	28	26	12	12
Special products	10.8	9.6	50	67	47	72
Energy	9.8	10.0	20	19	21	20
Chemicals, pharmaceuticals, health	8.8	9.2	16	17	19	19
Machinery, metals	8.6	8.4	23	27	27	34
Automotive industry	6.1	5.7	7	8	12	14
Consumer goods	5.5	5.2	11	8	20	16
Shipping	5.4	5.5	77	87	190	214
Food, beverages	5.3	4.5	8	7	15	16
Transport, travel	4.8	4.8	14	15	35	35
Services	4.7	4.7	18	20	41	43
Construction, wood	4.6	4.6	12	11	26	25
Telecoms, IT	4.3	3.1	10	6	25	19
Electronics	2.4	2.3	3	2	11	10
Agriculture, forestry	2.2	2.2	5	4	23	20
Media, paper	1.8	2.0	5	4	30	25
Tourism	1.4	1.5	4	10	31	64
Textile industry	1.3	1.3	3	4	27	29
Retail	19.2	18.9	48	59	25	32
HVB Group	**213.0**	**209.9**	**400**	**444**	**19**	**22**

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

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

The exposure in the banks, insurance companies industry group rose by €1.0 billion in the first two quarters of 2015. In addition to an increase in the liquidity placed with Deutsche Bundesbank, this can be attributed to an increase in exposure to other financial institutions including central banks and sovereigns. The €5 million decrease in the expected loss is partly due to the reduction in exposure to individual customers but also to individual transfers to the non-performing portfolio. The risk density remained largely constant.

The exposure in the special products industry group increased sharply in the first half of 2015 compared with year-end 2014, although efforts were consistently made to reduce the non-strategic part of the portfolio. This enabled a further optimisation of the portfolio which is reflected in a decrease in the expected loss and a lower risk density.

The exposure in euros disclosed for the shipping industry group in the first two quarters of 2015 remained almost unchanged. The main reason for this was the development of the US dollar/euro exchange rate, as most of the loans are extended in dollars. Adjusted for this effect, the exposure declined in line with regular instalments and repaid loans, despite new business being written selectively. The risk density progressed positively in line with this development.

Banks, insurance companies

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

Risk Report (Continued)

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

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

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

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

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

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

Partly as a result of the conservative, forward-looking credit risk strategy for the real estate sector that has been applied for years, the portfolio of existing properties remained robust and relatively low risk in the first half of 2015 (measured by risk density). No risk concentrations exist with regard to individual exposures or the security provided.

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

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

Energy
Despite the growth in the oil and gas segment, the energy portfolio declined slightly in the first half of 2015 on account of the US dollar exchange rate in particular. This was due to another decline in the sub-portfolio of utilities caused particularly by the reluctance of many companies to invest as a result of the uncertain regulatory environment and the extensive divestment programmes. Many energy producers have been forced to take massive write-downs on the value of their conventional power generation plants in response to lower spot electricity prices and low capacity utilisation rates. In accordance with the defined risk strategy, we aim to secure the continued good quality of the portfolio over the medium run as well.

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

Shipping

Developments in the various sub-markets within this industry varied greatly in the first half of 2015. Whereas overcapacity put huge downward pressure on the freight rates and fair values of bulk carriers and the demand in the offshore industry suffered from the persistently low price of oil, other segments have performed much better of late. Oil products and especially oil tankers are benefiting from strong demand for transport capacity, leading to a commensurate uptick in freight rates. In container shipping, the time charter rates have similarly developed positively, although freight rates suffered from the persistently high number of deliveries of large container ships in the first half of 2015.

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

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 of the existing portfolio continues to be implemented as planned in 2015. At the same time, however, new business can be selectively transacted where this would help to enhance the quality of the portfolio. Opportunities arising on the secondary market with selected counterparties are also seized after being examined on a case-by-case basis. HVB Group focuses on market segments and participants that proved to be robust during the past shipping crisis and for which the market can be expected to perform sustainably well going forward.

Global acquisition finance in the core markets of HVB Group

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

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

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

Special focus facilities

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

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

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

Risk Report (Continued)

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

There were severe problems with connections to the grid in 2014, which led to long idle times during last year. The search for the technical causes revealed the origins to be resonance arising from an unstable grid configuration overall. The issue has in the meantime been resolved by updating the software, meaning that the wind farm is now operating as envisaged. Ocean Breeze received compensation for the earnings it lost in 2014 under Section 17 of the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG), generated a net profit for the year and paid back €100 million of its debts as planned. A further €25 million has already been repaid in the first half of 2015 and further repayments are planned.

Exposure development of countries/regions by risk category

The following tables show the concentration risk at country level. Starting in 2014, the exposure figures have been shown with regard to the risk country of the partner.

Exposure developments[1] of eurozone countries, broken down by risk category (€ millions)

	CREDIT DEFAULT RISK		COUNTERPARTY RISK		ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL[4]		OF WHICH SOVEREIGN
	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015
Germany[2]	100,702	97,404	7,463	7,530	25,232	27,456	1,723	1,908	135,120	134,298	687
Luxembourg	5,016	5,274	1,588	1,592	3,194	3,771	835	1,170	10,633	11,807	19
Italy	2,470	2,397	3,320	3,650	2,386	5,098	1,510	1,630	9,686	12,775	2,714
Spain	960	767	71	63	5,542	2,904	152	240	6,725	3,974	3,812
France	2,951	3,281	934	821	1,890	1,902	770	829	6,545	6,833	727
Netherlands	2,694	2,679	351	300	1,565	1,359	228	341	4,838	4,679	49
Ireland	2,428	1,808	170	261	393	325	135	183	3,126	2,577	—
Austria	701	1,388	264	149	746	837	605	459	2,316	2,833	718
Belgium	148	131	100	298	47	51	144	183	439	663	74
Greece	300	316	71	85	—	—	0	0	371	401	2
Finland	65	71	37	31	17	—	249	154	368	256	35
Slovenia	47	49	92	67	—	—	6	9	145	125	1
Cyprus	124	112	1	2	—	—	0	0	125	114	0
Portugal	42	44	33	32	30	32	15	14	120	122	12
Malta	93	153	8	2	—	—	0	10	101	165	—
Latvia	19	17	—	—	—	—	0	0	19	17	0
Estonia	1	2	—	—	—	—	8	4	9	6	0
Slovakia	0	1	5	8	—	—	3	8	8	17	0
Lithuania[3]	0	—	—	—	—	—	0	—	0	—	0
HVB Group	**118,761**	**115,894**	**14,508**	**14,891**	**41,042**	**43,735**	**6,383**	**7,142**	**180,694**	**181,662**	**8,850**

1 total of non-performing and performing exposure
2 shown for the first time in order to provide a complete picture of the total exposure in the eurozone
3 Lithuania adopted the euro on 1 January 2015. Consequently, the country exposure is now shown separately and is no longer included in the Eastern Europe region as it was at 31 December 2014.
4 In contrast to the generally applicable definition as the sum of credit default and counterparty risk of the whole Bank and issuer exposures in the banking book, the total exposure in the country concentration view also contains the exposure from issuer risk from the trading book due to the limits set for issuer risk in the trading book.

The exposure developed within the scope of the risk strategy defined for 2015. The Bank will continue to apply its conservative strategy, with the possibility of writing selective new business. This principle remains valid against the backdrop of signs of the economy stabilising in the eurozone. The risks for the eurozone stemming from a possible Grexit are considered limited, as the financial interdependencies are now low and the ECB will prevent a sell-off of government bonds issued by peripheral eurozone countries by making its own purchases under its quantitative easing scheme and its Outright Monetary Transactions (OMT) programme.

Italy

The relatively large portfolio results from HVB Group's role as group-wide centre of competence for the markets and investment banking business of UniCredit. This portfolio is being actively managed in accordance with market standards (such as secured derivatives activities). The exposure to Italy includes the exposure with UniCredit S.p.A., for which a separate strategy was defined (see also the comments above regarding the banks, insurance companies industry group). Short-term economic indicators suggest that the Italian economy will recover this year in the wake of the reforms initiated by the Renzi administration both last year and over recent months.

Luxembourg

The exposure in Luxembourg declined by €1.2 billion, due among other things to flowbacks from the European Financial Stability Facility (EFSF) and the European Investment Bank (EIB). The absolute amount of the exposure is attributable mainly to the subsidiary in Luxembourg, where some German corporate banking transactions are also booked.

Development of the weaker eurozone countries

The strict austerity measures and reforms imposed by some eurozone countries have been successful, leading to a generally better assessment by the capital markets. Spain in particular should be highlighted in this regard, as it is likely to achieve growth of at least 3% over 2015 as a whole. The portfolio in the weaker eurozone countries was again actively managed in the first half of 2015, albeit with different strategies.

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

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

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

Risk Report (Continued)

Exposure development[1] by region/country outside the eurozone[2]

(€ millions)

Region/country	TOTAL[3] 30/6/2015	TOTAL[3] 31/12/2014	OF WHICH ISSUER RISK IN TRADING BOOK 30/6/2015	OF WHICH ISSUER RISK IN TRADING BOOK 31/12/2014
UK	11,303	11,636	446	633
USA	8,632	7,172	264	214
Asia/Oceania	6,559	4,624	21	22
Switzerland	3,894	3,186	292	298
Turkey	2,483	2,483	17	57
Western Europe (without Switzerland, UK)	1,881	1,820	328	346
Russia	1,704	2,014	10	36
North America (including offshore jurisdictions, without USA)	1,074	1,326	69	69
Eastern Europe	900	1,075	224	281
Middle East/North Africa	897	916	4	8
Southern Africa	521	684	5	13
Central and South America	419	356	15	12
Central Asia (without Russia, Turkey)	113	92	10	0
HVB Group	**40,380**	**37,384**	**1,705**	**1.989**

1 total of non-performing and performing exposure
2 Lithuania adopted the euro on 1 January 2015. Consequently, the country exposure is now shown separately and is no longer included in the Eastern Europe region as it was at 31 December 2014.
3 In contrast to the generally applicable definition as the sum of credit default and counterparty risk of the whole Bank and issuer exposures in the banking book, the total exposure in the country concentration view also contains the exposure from issuer risk from the trading book due to the limits set for issuer risk in the trading book.

The total exposure of the regions/countries outside the eurozone rose by €3.0 billion in the first half of the year. In particular, the Asia/Oceania region contributed to this development, which is mainly attributable to Japan, in addition to the United States and Switzerland.

Geopolitical trouble spots

In response to the conflict in eastern Ukraine and its economic impact on the country as a whole, unsecured business with Ukrainian banks remains discontinued. An escalation of the situation with Russian involvement led to stronger EU and US sanctions with an impact on cross-border business involving Russia. The country concentration limit for Russia has been greatly reduced and new business is only written after each individual case has been analysed, provided compliance with all sanctions is ensured and taking into account customer interests.

In the Middle East, the political and economic stability of the region is endangered by the growing strength of the IS terror organisation.

Derivative transactions

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

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

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB Group at 30 June 2015 totalled €86.5 billion (31 December 2014: €103.2 billion).

The regulatory provisions under Basel III and the Capital Requirements Directive IV(CRD IV)/Capital Requirements Regulation (CRR) are employed to determine counterparty risk taking into account the internal model method (IMM) approved by the regulatory authorities for use by HVB. Based on individual risk weightings and applying existing, legally enforceable, bilateral netting agreements as well as the collateral provided by borrowers for HVB Group, risk-weighted assets arising from counterparty risk amounted to €6.4 billion at 30 June 2015 (31 December 2014: €6.2 billion) for the derivatives business.

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

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Interest rate derivatives	883,827	818,193	872,193	2,574,213	2,565,085	70,413	88,708	67,935	85,213
Foreign exchange derivatives	248,779	30,730	867	280,376	230,250	5,021	4,716	5,676	5,070
Cross-currency swaps	67,388	124,021	72,256	263,665	251,534	6,938	5,911	8,723	6,869
Equity/index derivatives	86,683	46,283	34,996	167,962	157,944	2,815	2,271	3,327	2,891
Credit derivatives	17,283	61,998	2,202	81,483	92,503	1,832	1,823	1,474	1,533
– purchased	8,961	31,242	1,211	41,414	46,693	623	648	925	935
– written	8,322	30,756	991	40,069	45,810	1,209	1,175	549	598
Other transactions	5,379	3,948	788	10,115	8,167	313	365	256	319
HVB Group	**1,309,339**	**1,085,173**	**983,302**	**3,377,814**	**3,305,483**	**87,332**	**103,794**	**87,391**	**101,895**

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €587,946 million at 30 June 2015 (thereof credit derivatives: €4,053 million).

Risk Report (Continued)

Derivative transactions by counterparty type (€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Central governments and central banks	5,089	5,838	1,866	2,027
Banks	54,467	64,752	58,999	66,040
Financial institutions	24,281	30,133	23,883	31,787
Other companies and private individuals	3,495	3,071	2,643	2,041
HVB Group	**87,332**	**103,794**	**87,391**	**101,895**

Summary and outlook

The Bank has put a strong focus on growth with simultaneous risk control in its business strategy. The very good quality of the credit portfolio was confirmed by the ECB's comprehensive assessment. It is still the goal to retain a low-risk credit portfolio within the relevant peer group. This goal is measured using the risk density. The current risk density of 19 BPS is well below the long-term target which also takes account of macroeconomic downturn scenarios and forms part of the long-term plan. Consequently, a certain increase in the risk is certainly justifiable on account of the favourable initial situation.

Closer attention will need to be paid to country risk in particular in 2015 as a result of the downgraded economic forecasts and the increasingly worrying international flashpoints. The growth initiatives of the business segments, notably CIB, also deserve reasonable support for compliance with risk management requirements.

2 Market risk

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

The value-at-risk (VaR) shows the maximum expected loss caused by market price fluctuations that with a certain probability (confidence level) will not be exceeded over a given period. We use a confidence level of 99% and a holding period of one day for internal risk reports, risk management and risk limits.

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

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%.
– 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 99.9%.
– The specific risks for securitizations and nth-to-default credit derivatives are covered by the regulatory Standard Approach.
– Based on the new CRR regulations, we calculate risks with regard to the credit valuation adjustment (CVA). The CVA risk shows the risk of fair value losses based on changes in the expected counterparty risk for all relevant OTC derivatives under CRR. We use our own internal model that has been approved by BaFin to calculate the vast majority of the CVA. For the regulatory report, the internal model calculates both the CVA VaR and the stressed CVA VaR on the basis of a 10-day holding period and a confidence level of 99%.

The economic capital for the market risk of HVB Group, without taking account of diversification effects between the risk types, amounts to €2.6 billion, and remained constant compared with the figure at 31 December 2014 (€2.6 billion).

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

Market risk from trading book activities of HVB Group (VaR, 99% confidence level, one-day holding period) **(€ millions)**

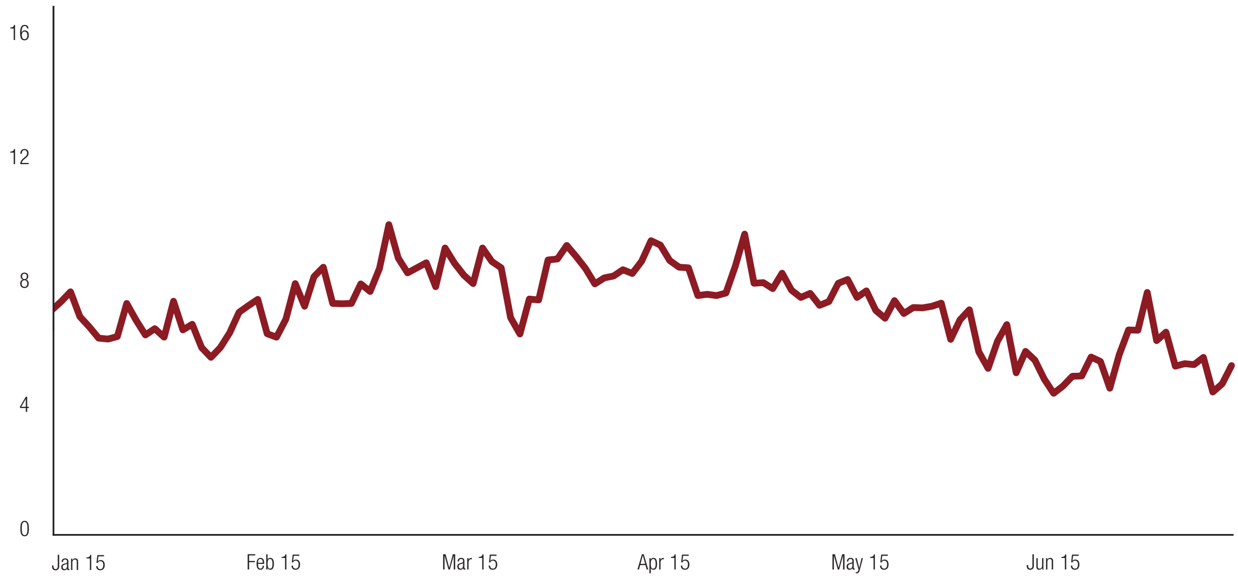
	AVERAGE 2015[1]	30/6/2015	31/3/2015	31/12/2014	30/9/2014	30/6/2014
Credit spread risks	6	4	7	7	6	6
Interest rate positions	7	5	9	5	3	6
Foreign exchange derivatives	1	1	1	1	1	1
Equity/index positions[2]	3	2	3	2	2	1
HVB Group[3]	**7**	**5**	**8**	**8**	**5**	**6**

1 arithmetic mean of the last two quarter-end figures
2 including commodity risk
3 Because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks.

The decline in risk between 31 March and 30 June 2015 is mainly attributed to three historical scenarios that were still included in the VaR calculation in the first quarter of 2015.

Risk Report (Continued)

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



The VaR curve reflects a relatively stable development of risk in the first half of 2015.

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

Regulatory metrics of HVB Group (€ millions)

	30/6/2015	31/3/2015	31/12/2014	30/9/2014	30/6/2014
Value-at-risk	81	87	74	68	76
Stressed value-at-risk	321	314	344	384	225
Incremental risk charge	243	283	288	258	266
Market risk Standard Approach	3	3	4	3	4
CVA value-at-risk	36	55	63	64	82
Stressed CVA value-at-risk	191	187	189	184	192
CVA Standard Approach	103	99	65	30	30

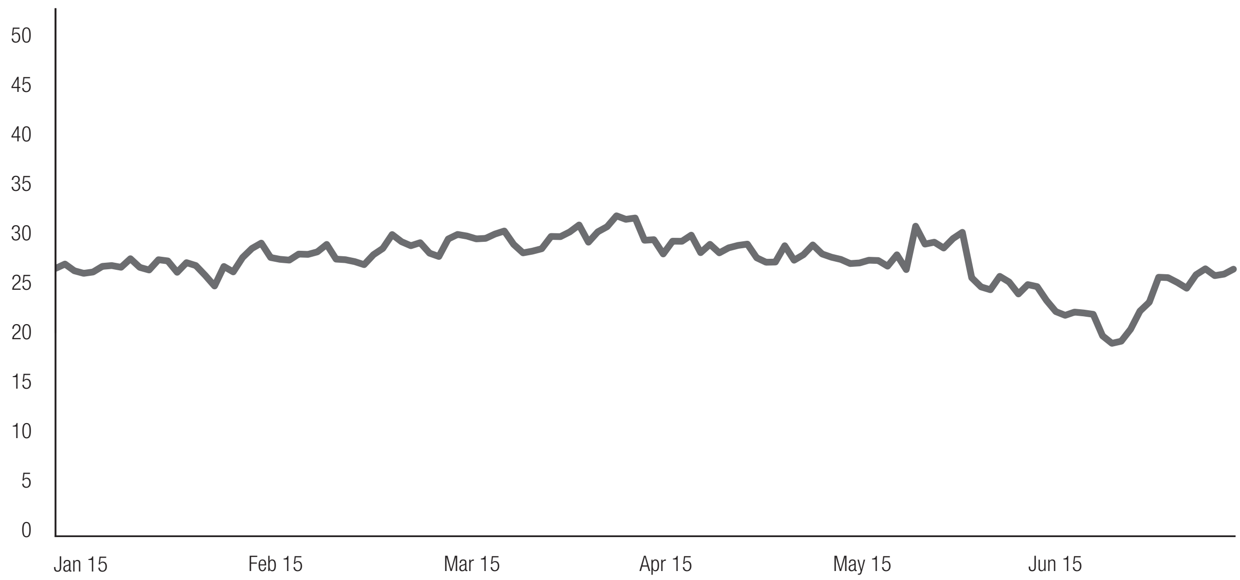
Alongside the market risk arising that is relevant for regulatory reporting, further market risk arises from positions in the banking book. All transactions exposed to market risk in the trading and banking books of HVB Group are consolidated for the purpose of risk controlling. Most of the market risk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

Market risk from trading and banking book activities of HVB Group (VaR, 99% confidence level, one-day holding period) (€ millions)

	AVERAGE 2015[1]	30/6/2015	31/3/2015	31/12/2014	30/9/2014	30/6/2014
Credit spread risks	26	24	28	28	28	24
Interest rate positions	8	5	10	6	7	7
Foreign exchange derivatives	2	3	1	2	2	1
Equity/index positions[2]	3	2	4	2	2	2
HVB Group[3]	**29**	**26**	**31**	**28**	**26**	**26**

1 arithmetic mean of the last two quarter-end figures
2 including commodity risk
3 Because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks.

Development of value-at-risk at HVB Group (€ millions)

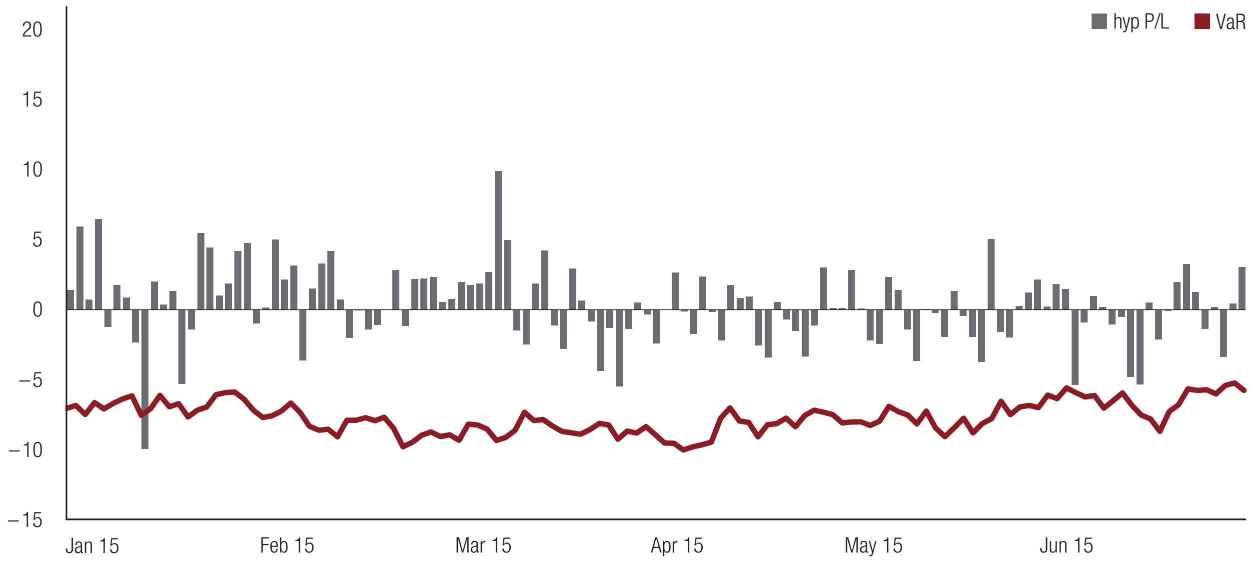


The chart entitled "Development of value-at-risk at HVB Group" shows the VaR curve for all market price risk arising from trading and banking book positions and for the market price risk assigned directly to the Management Board.

The forecasting quality of the VaR measurement method is checked by means of a regular back-testing that compares the calculated VaR values with the hypothetical fair value changes derived from the positions. In 2015 one reportable back-testing outlier has been observed to date. On this day the hypothetical loss was greater than the forecast VaR figure (see chart "Regulatory back-testing of the internal model at HVB, 2015"). On 15 January 2015 the hypothetical loss was caused by the fall of the euro against the Swiss franc (and US dollar), which arose on account of the decision by the Swiss National Bank to abandon the minimum exchange rate of 1.20 for the Swiss franc against the euro.

Risk Report (Continued)

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



In compliance with the regulatory rules published by BaFin on 9 November 2011, the change in the fair value of the banking book in case of a sudden and unexpected interest shock of +/–200 basis points is compared with the Bank's eligible equity funds on a monthly basis. This analysis is carried out both with and without the hedging effect from the equity capital model book. At 30 June 2015, there was no capital requirement from the managerial viewpoint when the present value is calculated taking into account the interest shocks (31 December 2014: 0%). In contrast, the same calculation performed from the regulatory viewpoint gives rise to a capital charge of 5.7% for an interest rate rise of 200 basis points (31 December 2014: 5.3%). HVB Group is well below the 20% mark specified above which the banking supervisory authorities consider a bank to have increased interest rate risk. These figures include the positions of HVB as well as the positions of the material Group companies.

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

One scenario calls for a parallel interest shock of minus 100 basis points. Assuming that the excesses over the 3-month Euribor close within the next 12 months, this would serve to reduce net interest income by €12 million (31 December 2014, minus 100 basis points: minus €33 million), whereas a parallel interest shock of plus 100 basis points would increase net interest income for the same period by €114 million (31 December 2014, plus 100 basis points: plus €156 million).

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

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

Market liquidity risk

Market liquidity risk refers to the risk which the Bank incurs when (purchasing or) selling an asset on account of a deviation from the expected reasonable fair value in insufficiently liquid markets.

Market liquidity risk is taken account of through "close-out costs" and "less liquid positions" when determining VaR limits and calculating fair value adjustments (FVA). Close-out costs are calculated on the basis of observations of the bid-ask spreads that rise in periods when there is reduced liquidity. The calculation of less liquid positions enables the inclusion of observed prices as well as trading volume and trading frequency, which correlate with market liquidity. The specific FVA are directly incorporated into the income statement.

After the entry into force of Article 105 of the CRR (Capital Requirements Regulation) on the conservative evaluation of financial instruments, additional value adjustments will be carried out. Close-out costs will be determined on a conservative basis at a confidence level of 99%. Additional value adjustments will be debited to the core capital directly.

Summary and outlook

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

3 Liquidity risk

Short-term liquidity risk

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

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €34.0 billion in HVB Group for the three-month maturity bucket at the end of June 2015 (30 June 2014: €30.1 billion). The holding of available securities eligible as collateral for central bank borrowings that can be employed on the next banking day to compensate for unexpected outflows of liquidity amounted to €30.3 billion at the end of the second quarter of 2015 (30 June 2014: €27.2 billion).

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

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB Group during the year to date. The funds available exceeded its payment obligations for the following month by an average of €26.8 billion for HVB Group in the second quarter of 2015 (second quarter of 2014: €18.2 billion) and €31.5 billion at 30 June 2015. This means that we are significantly above the internally defined threshold.

Risk Report (Continued)

Funding risk
The funding risk of HVB Group was again quite low in the first two quarters of 2015 due to our broad funding base with regard to products, markets and investor groups. This ensured that we were able to obtain adequate funding for our lending operations in terms of volume and maturity within the framework of our limit system at all times. HVB Group obtained longer-term funding with a volume of €2.7 billion on the capital market until the end of June 2015 (30 June 2014: €3.9 billion). At the end of June 2015, 95.8% (30 June 2014: 102.4%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Summary and outlook
The European sovereign debt crisis continues to cast a long shadow over the financial industry. Despite the quantitative easing under the liquidity policy of the European Central Bank and the improvement in consumer confidence and the business climate since the start of the year, the markets remain volatile. The monetary and macroeconomic measures initiated notably in the European Union to date only served to calm the markets temporarily. In particular, the worsening of the situation in Greece in the first half of the year resulted in greater uncertainty in the markets. It is not yet possible to predict for how long and to what extent the financial markets will be adversely affected by the consequences of the European debt crisis, current geopolitical uncertainties, and the risks arising from changes in interest and exchange rates.

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

4 Operational risk

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.

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

In the first quarter of 2015, HVB introduced the new UniCredit-wide AMA model for calculating the economic capital for operational risk. The AMA model is based mainly on internal and external loss data. The process involves computing loss distributions for each model risk category. A model risk category is determined by combining the Basel loss event category and the product category of the loss event. Scenario data are used to complete the data for rare yet extreme events. The model was developed by UniCredit. HVB Group checks the plausibility of the calculation results on a regular basis and validates the model to ensure that it is appropriate.

The 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 the internal control and business environment factors.

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

The economic capital for operational risk at HVB Group, without taking account of the diversification effects between the risk types, amounted to €2.3 billion at 30 June 2015 (31 December 2014: €2.2 billion). The introduction of the new model had a slight effect on the economic capital of HVB Group, which remained almost unchanged compared with the reporting date of 31 December 2014.

Information technology (IT)

HVB's IT services are mostly provided by the Group company UniCredit Business Integrated Services S.C.p.A. (UBIS). HVB's IT operating processes continue to require adjustments to be made to the internal control system for IT to allow for all significant risks to be monitored and managed appropriately alongside performance and quality considerations. The refinement of appropriate metrics and review processes is a key part of the activities planned for 2015, with a focus notably on the outsourcing of the IT infrastructure to Value Transformation Services (VTS, a joint venture of IBM and UBIS) carried out by UBIS. In addition, the control system will continue to be adjusted in line with the potential improvements identified at regular intervals and findings from audits.

Business continuity management, IT service continuity management and crisis management

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

Legal risk and compliance risk

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

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

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

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

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

Compliance function under MaComp

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

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

Risk Report (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Medienfonds and other closed-ended funds lawsuits

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

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 (Oberlandesgericht) by the German Federal Court of Justice (Bundesgerichtshof), will affect only a few pending cases since a general settlement has already been reached with the vast majority of the investors. However, the German Federal Court of Justice overruled significant findings of the first instance court and set the barriers for liability on the part of HVB because of an allegedly incorrect prospectus at a very high level. In the fiscal proceedings initiated by the fund, which are pending alongside the civil proceedings and concern the tax declaration of the fund for the 2004 financial year, no final decision has been issued regarding whether the tax benefits were revoked rightfully.

Furthermore there are a number of separate lawsuits from investors pending regarding other closed-end funds (mainly media funds, but also other asset classes). 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. The investors demand restitution of their equity contribution and offer in return the transfer of the related fund share to the Bank.

Relating to one retail fund with investment target in heating plants, a number of investors brought legal proceedings against HVB pursuant to the Capital Markets Test Case Act. Munich Higher Regional Court has asked court-appointed experts to prepare several reports to help it clarify the question of alleged prospectus liability.

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

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

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

Risk Report (Continued)

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

Proceedings related to derivative transactions
The number of complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative fair value has decreased slightly. Among other arguments presented in the complaints and lawsuits, it is alleged that the Bank failed to adequately explain the transactions to the customers in each case and elucidate the possible risks associated with such transactions. Generally, there has been a trend for consumer-friendly judgements with respect to derivative-related lawsuits. Latest rulings confirm that the characteristics of the relevant product and the individual circumstances of each case are decisive. In particular, the statute of limitations under Section 37a of the earlier version of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the client's economic experience and risk tolerance, and the actual investment advice given may be relevant questions.

Proceedings related to German tax credits
During the years from 2006 to 2008, a client of HVB entered into various transactions based on the expectation of receiving withholding tax credits on dividends from German equities which were traded around dividend dates.

In the context of a tax audit of the client, the German tax authorities demanded payment from the client of withholding tax credits that were previously granted. The demand, together with interest, amounted to approximately €124 million. The client and its tax advisor opposed the tax authorities' position.

Based on an alleged issuer liability of HVB, the tax authorities have also served a secondary liability notice upon HVB demanding payment of the same amount. HVB has challenged this notice.

In order to avoid the accruing of further potential interest and/or potential late payment penalties, HVB and the client made preliminary payments to the competent tax authorities on a without prejudice basis.

After the German tax authorities had demanded payment by the client and HVB, the client asserted claims against HVB and vice versa HVB asserted claims amongst others against the client, each requiring payment and full indemnification.

In August 2014 the parties agreed on the settlement of all disputes subject to civil law and tax law in this context, without acknowledgement of any legal obligation. Accordingly all proceedings subject to civil law and tax law relating to the customer case were terminated.

In a Preliminary Investigation (Ermittlungsverfahren) against the client and others (including former and current employees of HVB), the General Public Prosecutor (Generalstaatsanwaltschaft) Frankfurt am Main searched inter alia the premises of HVB. HVB is fully cooperating with the prosecutor and the tax police (Steuerfahndung). The General Public Prosecutor has initiated proceedings against HVB for an administrative fine according to the German Administrative Offences Act (Ordnungswidrigkeitengesetz – OWiG). There is a risk that HVB could be subject to penalties, fines and profit claw backs, and/or criminal exposure. At this time it is not possible to assess the timing, extent, scope or impact of the decision.

In addition, HVB has notified the competent domestic and foreign (tax) authorities of the possibility of certain proprietary trading of HVB undertaken in domestic and foreign equities and equity derivatives close to dividend dates (so-called cum/ex trades) and related withholding tax credits claimed or applications for refund of related taxes by HVB in Germany and elsewhere. In response to the client case, the Management Board had commissioned an internal investigation of the events with the assistance of external advisors; also in this context, the Supervisory Board of HVB has commissioned an investigation of such events by external advisors. These investigations were supported by UniCredit without reservation.

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

In the course of the open regular tax audits for 2005 to 2008, the Munich tax authorities and the German Central Federal Tax Authority (Bundeszentralamt für Steuern) are currently especially examining above mentioned proprietary transactions close to dividend dates in which withholding tax credits were claimed or applications for refund of related taxes have been made. Also in this respect, HVB with the support of external advisors is actively reviewing all aspects as well as supporting the tax audit and has an ongoing dialogue and exchange of information with the relevant tax authorities.

The Cologne Public Prosecutor (Staatsanwaltschaft) has opened a Preliminary Investigation against former employees of the Bank with regard to applications for refunds vis-à-vis the Central Federal Tax Authority. The Munich Public Prosecutor (Staatsanwaltschaft) has also opened a Preliminary Investigation against former and current employees of the Bank with regard to withholding tax credits claimed in the corporate tax returns and has furthermore initiated a proceeding against HVB for an administrative fine according to the German Administrative Offences Act. In addition, HVB has notified foreign (tax) authorities insofar as potential consequences of transactions in domestic and foreign equities and equity derivatives are concerned. HVB has declared full cooperation with the prosecutors and competent authorities in all of these cases.

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

The impact of any review by the competent domestic and foreign (tax) authorities regarding above mentioned proprietary trades is currently open. In this connection, HVB could be subject to tax, liability and interest claims, as well as penalties, fines and profit claw backs, and/or other consequences. At this time, it is not possible to assess the timing, extent, scope or impact of any decisions. In addition, HVB could be exposed to damage claims from third parties.

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

Risk Report (Continued)

Lawsuits in connection with Primeo-linked notes
HVB issued several tranches of notes whose potential return was to be calculated by reference to the performance of a synthetic hypothetical investment in the Primeo fund. The nominal value of the notes issued by HVB is around €27 million. Three legal proceedings have been commenced in Germany in connection with the issuance of said Primeo-linked notes, which also named HVB as a defendant. One case was ruled against HVB in second instance, but this is not final and binding as of today. A second case was ruled in favour of HVB in second instance and the German Federal Court of Justice has rejected an appeal against denial of leave to appeal by the plaintiff. The third case has been abandoned by the plaintiff.

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

In a ruling dated 31 January 2008, Munich Regional Court I declared the resolutions of approval passed at the Extraordinary Shareholders' Meeting on 25 October 2006 null and void solely for formal reasons. The court did not decide on the issue of the allegedly inadequate purchase price paid for the purchased units. By way of a decision dated 1 April 2015, Munich Higher Regional Court overturned the ruling of Munich Regional Court I and rejected the suits; the ruling issued by Munich Higher Regional Court is not yet legally binding. The court has not permitted the appeal against the ruling. Some plaintiffs have filed an appeal against the denial of leave to appeal.

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

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

Investigations into tax evasion
In mid-March 2015, the Cologne Public Prosecutor opened a Preliminary Investigation against individual employees of the Bank and its subsidiary in Luxembourg; according to the information provided, there are justified grounds for believing that they had aided and abetted tax evasion committed by several of their customers in the period from 2004 to 2010. Furthermore, the Cologne Public Prosecutor has opened an administrative offence procedure against HVB and the same subsidiary pursuant to the German Administrative Offences Act (OWiG). When similar allegations against other banks became public at the end of February 2015, the Management Boards of both companies decided to adopt a proactive approach, started to conduct negotiations and agreed to collaborate in full with the public prosecutor and the relevant authorities regarding all circumstances of the case. There is a risk that the banks involved could be subject to penalties, fines and profit claw backs, and/or other criminal exposure. Even though the banks have taken a proactive and cooperative approach, it is not possible to assess the outcome of the proceedings in any detail.

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
The VaR, without taking account of diversification effects between the risk types, increased by €8 million to €789 million in the first half of 2015. The lower equity costs are driven primarily by the increased capital requirements. The fully diversified economic capital for the business risk of HVB Group amounted to €309 million at 30 June 2015 (31 December 2014: €302 million).

Real estate risk
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 2014 was on measures targeting current fair value and cost optimisation together with a realignment for the branch properties used by the Bank. No additional purchases are planned for 2015, except where they would serve the interests of HVB Group (in other words, in exceptional circumstances only). The longer term orientation for strategic real estate corresponds with the Bank's strategy of preferring Bank-owned properties over rented properties for own use and making such properties available for the banking operations of HVB Group at market terms on a cost-optimised basis. As a result, around one-third of the properties currently used by the Bank are owned by HVB Immobilien Group, including almost all of the buildings housing central functions.

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

In terms of the central locations, in 2015 this relates primarily to the major renovation project aimed at turning the HVB Tower (Z2) in Munich into a green building. Implementation is running as planned and will continue until around 2019.

Risk Report (Continued)

There will be changes to the branch locations in 2015 as part of the Kompass project (restructuring of the Private Clients Bank). Affected by this are both the branches to be modernised, some of which are located in Group-owned buildings, and the branches to be consolidated which will subsequently no longer be used as a property by the Bank.

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

The VaR, without taking account of diversification effects between the risk types, remains unchanged at €461 million at 30 June 2015. The figure is based on a portfolio worth €2,916 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Strategic real estate	1,484	1,484	50.9	50.9
Non-strategic real estate	1,432	1,431	49.1	49.1
HVB Group	**2,916**	**2,915**	**100.0**	**100.0**

The fully diversified economic capital for real estate risk at HVB Group amounted to €344 million (31 December 2014: €346 million). Apart from a few transactions involving additions and disposals, the real estate portfolio of HVB Group remained largely unchanged in the first half of 2015. The main geographical focus is on the Munich area, which accounts for 38.6% of the total.

Again for the second half of 2015, it is planned to further reduce the holding of non-strategic real estate by selling properties. The situation on the real estate markets will again depend on economic developments in the second half of 2015. The demand from investors for core real estate continues to increase. The extent to which the demand for other locations evolves remains to be seen.

Financial investment risk

All the investments to be included in the financial investment risk are either considered strategic and allocated to a business segment or competence line, or deemed non-strategic and can thus in principle be eliminated through disposals, mergers or liquidation.

In terms of risk measurement, fluctuations in the value of individual investments are simulated as part of a Monte Carlo simulation for all financial investments, irrespective of whether they are listed or not, and the ensuing losses aggregated to form the portfolio VaR. The same economic correlations between the value drivers are assumed in the simulation as in the credit portfolio model. Existing residual payment obligations to private equity funds are included in the calculation of financial investment risk. The different method previously used for the listed investments was eliminated to ensure that uniform methods are applied. Furthermore, diversification effects are systematically incorporated.

The VaR, without taking account of diversification effects between the risk types, fell by €159 million in the first half of 2015 to total €228 million at 30 June 2015. The fully diversified economic capital of HVB Group amounts to €176 million (31 December 2014: €304 million). The lower risk figures in the first two quarters of 2015 is partially attributed to the sale of financial investments, such as Planet Home Group and Wüstenrot & Württembergische AG.

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Private equity funds	121	150	42.4	31.4
Private equity investments	32	69	11.4	14.4
Other holdings[1]	132	259	46.2	54.2
HVB Group	**285**	**478**	**100.0**	**100.0**

1 listed and unlisted investments

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

Reputational risk

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

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

Risk Report (Continued)

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

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

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

Strategic risk

The statements made in the 2014 Annual Report regarding strategic risk remain basically valid. Changes in general economic trends and information regarding the development of HVB's ratings are shown in the Financial Review in the section entitled "Economic report".

Pension risk

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

The risks described are calculated and monitored at regular intervals in our risk management programme using a model devised specifically for pension risk. A risk figure is determined periodically using calculations based on changes in key risk parameters for both the various capital investments and the cash flows on the obligation side. The model was revised during the regular review process in the first half of 2015 and modified in several points. These adjustments led to a higher figure being stated for the risk (approx. €237 million). A figure of €879 million was determined at 30 June 2015 (31 December 2014: €657 million) for the total pension risk of HVB Group; this is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the internal capital.

Low interest rates continue to be seen as the main negative factor for both the amount of the pension commitments disclosed and the amount of the income that can be generated from the capital investment with acceptable risk. It is perfectly conceivable that, should low interest rate levels persist for a longer period of time, the discount rate will have to be lowered again (a reduction to 2.35% was carried out at year-end 2014; at 30 June 2015 there was a slight adjustment to 2.45%), thus causing the pension obligations to rise further. Additional adjustments to the risk model applied are currently under discussion. Depending on the final structure of the model with regard to the various risk factors applied, the pension risk might again significantly increase after a further adjustment. Furthermore, uniform European rules for the measurement of pension risk do not exist at present. This gives rise to further uncertainty regarding the future development of the disclosed pension risk.

Risks arising from outsourcing activities

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

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

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

No material new outsourcing arrangements were set up in the first half of 2015.

Consolidated Income Statement

for the period from 1 January to 30 June 2015

Income/Expenses	NOTES	1/1–30/6/2015 € millions	1/1–30/6/2014 € millions	CHANGE € millions	CHANGE in %
Interest income		2,241	2,584	(343)	(13.3)
Interest expense		(921)	(1,244)	+ 323	(26.0)
Net interest	5	1,320	1,340	(20)	(1.5)
Dividends and other income from equity investments	6	13	49	(36)	(73.5)
Net fees and commissions	7	559	542	+ 17	+ 3.1
Net trading income	8	450	282	+ 168	+ 59.6
Net other expenses/income	9	86	77	+ 9	+ 11.7
Payroll costs		(924)	(884)	(40)	+ 4.5
Other administrative expenses		(803)	(789)	(14)	+ 1.8
Amortisation, depreciation and impairment losses					
on intangible and tangible assets		(100)	(141)	+ 41	(29.1)
Operating costs		(1,827)	(1,814)	(13)	+ 0.7
Net write-downs of loans and provisions					
for guarantees and commitments	11	(110)	(90)	(20)	+ 22.2
Provisions for risks and charges		(59)	39	(98)	
Restructuring costs		—	—	—	—
Net income from investments	13	58	74	(16)	(21.6)
PROFIT BEFORE TAX		**490**	**499**	**(9)**	**(1.8)**
Income tax for the period		(164)	(175)	+ 11	(6.3)
PROFIT AFTER TAX		**326**	**324**	**+ 2**	**+ 0.6**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS		**326**	**324**	**+ 2**	**+ 0.6**
Profit before tax from discontinued operations		—	14	(14)	(100.0)
Income tax from discontinued operations		—	(4)	+ 4	(100.0)
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS		**—**	**10**	**(10)**	**(100.0)**
CONSOLIDATED PROFIT OF FULL HVB GROUP		**326**	**334**	**(8)**	**(2.4)**
attributable to the shareholder of UniCredit Bank AG		321	330	(9)	(2.7)
attributable to minorities		5	4	+ 1	+ 25.0

Earnings per share

(in €)

	NOTES	1/1–30/6/2015	1/1–30/6/2014
Earnings per share from continuing operations (undiluted and diluted)	14	0.40	0.40
Earnings per share of full HVB Group (undiluted and diluted)	14	0.40	0.41

Consolidated statement of total comprehensive income for the period from 1 January to 30 June 2015 (€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Consolidated profit recognised in the income statement	**326**	**334**
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)	139	(237)
Non-current assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	(44)	74
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	14	2
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	(46)	32
Unrealised gains/(losses)	(7)	35
Gains/(losses) reclassified to the income statement	(39)	(3)
Changes in valuation of financial instruments (hedge reserve)	7	1
Unrealised gains/(losses)	—	—
Gains/(losses) reclassified to the income statement	7	1
Other changes	—	10
Taxes on income and expenses to be reclassified to the income statement in future periods	(2)	(9)
Total income and expenses recognised in equity under other comprehensive income	**68**	**(127)**
Total comprehensive income	**394**	**207**
of which:		
attributable to the shareholder of UniCredit Bank AG	389	203
attributable to minorities	5	4

Consolidated Income Statement (Continued)

for the period from 1 April to 30 June 2015

Income/Expenses	1/4–30/6/2015 € millions	1/4–30/6/2014 € millions	CHANGE € millions	CHANGE in %
Interest income	1,099	1,291	(192)	(14.9)
Interest expense	(431)	(608)	+ 177	(29.1)
Net interest	668	683	(15)	(2.2)
Dividends and other income from equity investments	7	43	(36)	(83.7)
Net fees and commissions	257	287	(30)	(10.5)
Net trading income	270	16	+ 254	>+ 100.0
Net other expenses/income	65	33	+ 32	+ 97.0
Payroll costs	(460)	(425)	(35)	+ 8.2
Other administrative expenses	(400)	(394)	(6)	+ 1.5
Amortisation, depreciation and impairment losses on intangible and tangible assets	(50)	(88)	+ 38	(43.2)
Operating costs	(910)	(907)	(3)	+ 0.3
Net write-downs of loans and provisions for guarantees and commitments	(48)	(12)	(36)	>+ 100.0
Provisions for risks and charges	(57)	(1)	(56)	>+ 100.0
Restructuring costs	—	2	(2)	(100.0)
Net income from investments	41	66	(25)	(37.9)
PROFIT BEFORE TAX	**293**	**210**	**+ 83**	**+ 39.5**
Income tax for the period	(98)	(72)	(26)	+ 36.1
PROFIT AFTER TAX	**195**	**138**	**+ 57**	**+ 41.3**
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**195**	**138**	**+ 57**	**+ 41.3**
Profit before tax from discontinued operations	—	7	(7)	(100.0)
Income tax from discontinued operations	—	(2)	2	(100.0)
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**—**	**5**	**(5)**	**(100.0)**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**195**	**143**	**+ 52**	**+ 36.4**
attributable to the shareholder of UniCredit Bank AG	192	141	+ 51	+ 36.2
attributable to minorities	3	2	+ 1	+ 50.0

Earnings per share

(in €)

	1/4–30/6/2015	1/4–30/6/2014
Earnings per share from continuing operations (undiluted and diluted)	0.24	0.17
Earnings per share of full HVB Group (undiluted and diluted)	0.24	0.18

Consolidated statement of total comprehensive income for the period from 1 April to 30 June 2015

(€ millions)

	1/4–30/6/2015	1/4–30/6/2014
Consolidated profit recognised in the income statement	**195**	**143**
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)	139	(237)
Non-current assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	(44)	74
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	6	2
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	(41)	7
Unrealised gains/(losses)	(9)	10
Gains/(losses) reclassified to the income statement	(32)	(3)
Changes in valuation of financial instruments (hedge reserve)	2	(2)
Unrealised gains/(losses)	—	—
Gains/(losses) reclassified to the income statement	2	(2)
Other changes	—	10
Taxes on income and expenses to be reclassified to the income statement in future periods	(1)	—
Total income and expenses recognised in equity under other comprehensive income	**61**	**(146)**
Total comprehensive income	**256**	**(3)**
of which:		
attributable to the shareholder of UniCredit Bank AG	253	(5)
attributable to minorities	3	2

Consolidated Balance Sheet

at 30 June 2015

Assets

	NOTES	30/6/2015 € millions	31/12/2014 € millions	CHANGE € millions	in %
Cash and cash balances		9,179	5,173	+ 4,006	+ 77.4
Financial assets held for trading	15	106,592	111,838	(5,246)	(4.7)
Financial assets at fair value through profit or loss	16	32,888	31,205	+ 1,683	+ 5.4
Available-for-sale financial assets	17	1,276	1,569	(293)	(18.7)
Investments in associates and joint ventures	18	51	77	(26)	(33.8)
Held-to-maturity investments	19	71	66	+ 5	+ 7.6
Loans and receivables with banks	20	44,100	32,654	+ 11,446	+ 35.1
Loans and receivables with customers	21	111,165	109,636	+ 1,529	+ 1.4
Hedging derivatives		523	753	(230)	(30.5)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		60	66	(6)	(9.1)
Property, plant and equipment		2,949	2,949	—	—
Investment properties		1,254	1,293	(39)	(3.0)
Intangible assets		468	478	(10)	(2.1)
of which: goodwill		418	418	—	—
Tax assets		1,548	1,695	(147)	(8.7)
Current tax assets		445	476	(31)	(6.5)
Deferred tax assets		1,103	1,219	(116)	(9.5)
Non-current assets or disposal groups held for sale		62	32	+ 30	+ 93.8
Other assets		1,486	858	+ 628	+ 73.2
Total assets		**313,672**	**300,342**	**+ 13,330**	**+ 4.4**

Liabilities

	NOTES	30/6/2015 € millions	31/12/2014 € millions	CHANGE € millions	in %
Deposits from banks	24	70,161	54,080	+ 16,081	+ 29.7
Deposits from customers	25	103,557	100,674	+ 2,883	+ 2.9
Debt securities in issue	26	26,607	28,249	(1,642)	(5.8)
Financial liabilities held for trading	27	83,152	87,970	(4,818)	(5.5)
Hedging derivatives		1,174	749	+ 425	+ 56.7
Hedge adjustment of hedged items					
in the fair value hedge portfolio		1,947	2,430	(483)	(19.9)
Tax liabilities		716	749	(33)	(4.4)
Current tax liabilities		629	660	(31)	(4.7)
Deferred tax liabilities		87	89	(2)	(2.2)
Liabilities of disposal groups held for sale		—	1	(1)	(100.0)
Other liabilities		3,869	2,534	+ 1,335	+ 52.7
Provisions	28	2,154	2,309	(155)	(6.7)
Shareholders' equity		20,335	20,597	(262)	(1.3)
Shareholders' equity attributable to the shareholder					
of UniCredit Bank AG		20,328	20,566	(238)	(1.2)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		7,769	7,660	+ 109	+ 1.4
Changes in valuation of financial instruments	29	40	81	(41)	(50.6)
AfS reserve		8	54	(46)	(85.2)
Hedge reserve		32	27	+ 5	+ 18.5
Consolidated profit 2014		—	627	(627)	(100.0)
Net profit 1/1–30/6/2015[1]		321	—	+ 321	
Minority interest		7	31	(24)	(77.4)
Total shareholders' equity and liabilities		**313,672**	**300,342**	**+ 13,330**	**+ 4.4**

1 attributable to the shareholder of UniCredit Bank AG

The 2014 profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the appropriation of profit, amounts to €627 million. On 20 May 2015, the Shareholders' Meeting adopted a resolution to pay the consolidated profit of €627 million as a dividend of €627 million to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.78 per share after around €0.94 in 2013.

Statement of Changes in Shareholders' Equity

at 30 June 2015

			OTHER RESERVES	
	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2014	**2,407**	**9,791**	**7,920**	**(648)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**(151)**	**(163)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	(163)	(163)
Reserve arising from foreign currency translation	—	—	2	—
Other changes	—	—	10	—
Total other changes in equity	**—**	**—**	**3**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	3	—
Capital decreases	—	—	—	—
Shareholders' equity at 30/6/2014	**2,407**	**9,791**	**7,772**	**(811)**
Shareholders' equity at 1/1/2015	**2,407**	**9,791**	**7,660**	**(1,245)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[4]	**—**	**—**	**109**	**95**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial gains/(losses) on defined benefit plans	—	—	95	95
Reserve arising from foreign currency translation	—	—	14	—
Other changes	—	—	—	—
Total other changes in equity	**—**	**—**	**—**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	—	—
Capital decreases	—	—	—	—
Shareholders' equity at 30/6/2015	**2,407**	**9,791**	**7,769**	**(1,150)**

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

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS						
AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	PROFIT 1/1–30/6[2]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[3]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
63	**25**	**756**	**—**	**20,962**	**47**	**21,009**
—	**—**	**—**	**330**	**330**	**4**	**334**
23	**1**	**—**	**—**	**(127)**	**—**	**(127)**
26	—	—	—	26	—	26
(3)	1	—	—	(2)	—	(2)
—	—	—	—	(163)	—	(163)
—	—	—	—	2	—	2
—	—	—	—	10	—	10
—	**—**	**(756)**	**—**	**(753)**	**22**	**(731)**
—	—	(756)	—	(756)	(3)	(759)
—	—	—	—	—	—	—
—	—	—	—	3	25	28
—	—	—	—	—	—	—
86	**26**	**—**	**330**	**20,412**	**73**	**20,485**
54	**27**	**627**	**—**	**20,566**	**31**	**20,597**
—	**—**	**—**	**321**	**321**	**5**	**326**
(46)	**5**	**—**	**—**	**68**	**—**	**68**
(9)	—	—	—	(9)	—	(9)
(37)	5	—	—	(32)	—	(32)
—	—	—	—	95	—	95
—	—	—	—	14	—	14
—	—	—	—	—	—	—
—	**—**	**(627)**	**—**	**(627)**	**(29)**	**(656)**
—	—	(627)	—	(627)	(1)	(628)
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	(28)	(28)
8	**32**	**—**	**321**	**20,328**	**7**	**20,335**

Consolidated Cash Flow Statement (abridged version)

(€ millions)

	2015	2014
Cash and cash equivalents at 1 January	5,173	10,626
Net cash provided/used by operating activities	5,596	(3,790)
Net cash provided/used by investing activities	272	121
Net cash provided/used by financing activities	(1,862)	(1,907)
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at 30 June	9,179	5,050

Accounting and Valuation

1 Accounting and valuation principles

IFRS basis

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

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

We have applied the same accounting, valuation and disclosure principles in 2015 as in the consolidated financial statements for 2014 (please refer to the HVB Group Annual Report for 2014, starting on page 122).

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

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

2 Companies included in consolidation

The following company was added to the group of companies included in consolidation in the first half of 2015:
– Elektra Purchase No. 40 Limited, Dublin

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

In addition, the shares held in the company consolidated at equity Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Istanbul were sold.

Segment Reporting

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

Method of segment reporting
The same principles are being applied in the 2015 financial year as were used at year-end 2014. We use risk-weighted assets compliant with Basel III as the criterion for allocating tied equity capital. The core capital allocated to the business segments of HVB as a proportion of risk-weighted assets compliant with Basel III was raised from 9% to 10% at the beginning of 2015. The interest rate used to assess the equity capital allocated to companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) was 2.80% in 2014. This interest rate was redetermined for 2015 and has been 2.38% since 1 January 2015.

A minor change in the organisational structure of a unit in the Other/consolidation business segment in the second quarter of 2015 led to some securities being reallocated to the Corporate & Investment Banking business segment. The resulting reorganisation led to a shift in the net interest and net fees and commissions in the Other/consolidation and Corporate & Investment Banking business segments.

Last year’s figures and those of previous quarters have been adjusted accordingly.

3 Income statement, broken down by segment

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

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	809	539	(28)	1,320
Dividends and other income from equity investments	1	8	4	13
Net fees and commissions	408	154	(3)	559
Net trading income	48	395	7	450
Net other expenses/income	(11)	8	89	86
OPERATING INCOME	**1,255**	**1,104**	**69**	**2,428**
Payroll costs	(369)	(246)	(309)	(924)
Other administrative expenses	(639)	(471)	307	(803)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(5)	(35)	(60)	(100)
Operating costs	**(1,013)**	**(752)**	**(62)**	**(1,827)**
OPERATING PROFIT	**242**	**352**	**7**	**601**
Net write-downs of loans and provisions				
for guarantees and commitments	(62)	(36)	(12)	(110)
NET OPERATING PROFIT/(LOSS)	**180**	**316**	**(5)**	**491**
Provisions for risks and charges	(36)	(29)	6	(59)
Restructuring costs	—	—	—	—
Net income from investments	36	2	20	58
PROFIT BEFORE TAX	**180**	**289**	**21**	**490**

Income statement, broken down by segment for the period from 1 January to 30 June 2014 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	803	527	10	1,340
Dividends and other income from equity investments	5	42	2	49
Net fees and commissions	421	129	(8)	542
Net trading income	14	258	10	282
Net other expenses/income	9	(2)	70	77
OPERATING INCOME	**1,252**	**954**	**84**	**2,290**
Payroll costs	(362)	(238)	(284)	(884)
Other administrative expenses	(606)	(459)	276	(789)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(5)	(70)	(66)	(141)
Operating costs	**(973)**	**(767)**	**(74)**	**(1,814)**
OPERATING PROFIT	**279**	**187**	**10**	**476**
Net write-downs of loans and provisions				
for guarantees and commitments	(44)	(62)	16	(90)
NET OPERATING PROFIT	**235**	**125**	**26**	**386**
Provisions for risks and charges	2	25	12	39
Restructuring costs	2	—	(2)	—
Net income from investments	2	71	1	74
PROFIT BEFORE TAX	**241**	**221**	**37**	**499**

Segment Reporting (Continued)

Income statement of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	1/1–30/6/ 2015	1/1–30/6/ 2014	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest	809	803	412	398	387	395	404
Dividends and other income from equity investments	1	5	—	1	5	2	4
Net fees and commissions	408	421	192	215	186	197	207
Net trading income	48	14	41	7	7	(1)	4
Net other expenses/income	(11)	9	6	(16)	2	3	3
OPERATING INCOME	**1,255**	**1,252**	**651**	**605**	**587**	**596**	**622**
Payroll costs	(369)	(362)	(182)	(187)	(188)	(185)	(177)
Other administrative expenses	(639)	(606)	(317)	(322)	(310)	(318)	(301)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(5)	(5)	(3)	(3)	(3)	(3)	(3)
Operating costs	**(1,013)**	**(973)**	**(502)**	**(512)**	**(501)**	**(506)**	**(481)**
OPERATING PROFIT	**242**	**279**	**149**	**93**	**86**	**90**	**141**
Net write-downs of loans and provisions for guarantees and commitments	(62)	(44)	(29)	(33)	(61)	(3)	(13)
NET OPERATING PROFIT	**180**	**235**	**120**	**60**	**25**	**87**	**128**
Provisions for risks and charges	(36)	2	(33)	(3)	3	(16)	—
Restructuring costs	—	2	—	—	(2)	—	2
Net income from investments	36	2	36	—	(1)	—	—
PROFIT BEFORE TAX	**180**	**241**	**123**	**57**	**25**	**71**	**130**
Cost-income ratio in %	80.7	77.7	77.1	84.6	85.3	84.9	77.3

Development of the Commercial Banking business segment

In the first half of 2015, the Commercial Banking business segment increased operating income by 0.2%, or €3 million, to €1,255 million compared with the equivalent period last year. Net interest of €809 million, which surpassed the year-ago figure by €6 million, contributed to this result. This increase is also attributable to the strong new business in real estate finance and consumer-credit business in retail banking operations and a slight recovery in the demand for credit in the corporate banking business. By contrast, deposit-taking operations are still impacted by the persistently extremely low level of interest rates.

At €408 million, net fees and commissions did not achieve the good year-ago figure (€421 million) because the consumer-credit business is no longer conducted through third parties in retail banking operations. No commission income has been received for this business in 2015 for this reason. Instead, lending is conducted through HVB directly and is reflected in net interest.

In contrast, net trading income rose a sharp €34 million to €48 million as a result of the favourable development in currency transactions and reversals of credit value adjustments.

The 4.1% increase in operating costs to €1,013 million compared with the first half of 2014 can be attributed primarily to higher other administrative expenses. This essentially results from the realignment of the retail banking activities and the associated investments in the branches, the multi-channel approach and staff training.

The cost-income ratio rose by 3.0 percentage points to 80.7% after 77.7% in the year-ago period on account of an increase in operating costs.

Compared with the same period last year, net write-downs of loans and provisions for guarantees and commitments rose by €18 million to what is still a low level of €62 million.

After taking account of provisions for risk and charges totalling €36 million, largely resulting from legal and tax risks (first half of 2014: €2 million reversal) and a substantial rise in net income from investments due to the sale of our holdings in Wüstenrot & Württembergische AG and PlanetHome AG to €36 million (first half of 2014: €2 million), the Commercial Banking business segment generated profit before tax totalling €180 million in the first half of 2015 (first half of 2014: €241 million). In this context, it should be kept in mind that the profit before tax in the first quarter of 2015 was depressed by the expenses of €23 million accruing in connection with the European bank levy.

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

INCOME/EXPENSES	1/1–30/6/ 2015	1/1–30/6/ 2014	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest	539	527	271	269	245	255	278
Dividends and other income from equity investments	8	42	3	5	12	24	37
Net fees and commissions	154	129	62	91	78	85	84
Net trading income	395	258	221	174	128	63	11
Net other expenses/income	8	(2)	16	(7)	144	(21)	(19)
OPERATING INCOME	**1,104**	**954**	**573**	**532**	**607**	**406**	**391**
Payroll costs	(246)	(238)	(124)	(121)	(103)	(124)	(107)
Other administrative expenses	(471)	(459)	(237)	(235)	(188)	(211)	(235)
Amortisation, depreciation and impairment losses							
on intangible and tangible assets	(35)	(70)	(17)	(18)	(18)	(18)	(53)
Operating costs	**(752)**	**(767)**	**(378)**	**(374)**	**(309)**	**(353)**	**(395)**
OPERATING PROFIT/(LOSS)	**352**	**187**	**195**	**158**	**298**	**53**	**(4)**
Net write-downs of loans and provisions							
for guarantees and commitments	(36)	(62)	(1)	(35)	(130)	81	(4)
NET OPERATING PROFIT/(LOSS)	**316**	**125**	**194**	**123**	**168**	**134**	**(8)**
Provisions for risks and charges	(29)	25	(29)	—	2	(18)	(5)
Restructuring costs	—	—	—	—	—	—	—
Net income from investments	2	71	(5)	6	45	11	65
PROFIT BEFORE TAX	**289**	**221**	**160**	**129**	**215**	**127**	**52**
Cost-income ratio in %	68.1	80.4	66.0	70.3	50.9	86.9	101.0

Development of the Corporate & Investment Banking business segment

The Corporate & Investment Banking business segment generated operating income of €1,104 million in the first half of 2015, which represents an increase of €150 million compared with the same period last year (first half of 2014: €954 million).

The rise in operating income can be attributed primarily to net trading income which improved by €137 million to €395 million (first half of 2014: €258 million). This total contains a higher year-on-year result in currency-related operations. In the business with equity derivatives, a good result was generated which matched last year's level. Significant contributions to the profit were also generated in operations involving loan securitisations, fixed-income securities, interest rate derivatives and money trading, which were, however, lower than the year-ago total. Net trading income benefited from reversals of credit value adjustments and valuation effects accruing on own credit spread.

There was a slight improvement in net interest on account of a year-on-year increase of €12 million to €539 million (first half of 2014: €527 million) caused by an €18 million rise in trading-induced interest. The persistently very low level of interest rates generally had an adverse effect on the results in interest-related operations so that net interest fell both in deposit-taking operations on account of the lower margins generated compared with the same period last year and also in lending operations, which likewise fell slightly. In addition, there was a substantial decline of €34 million to €8 million in dividend income (first half of 2014: €42 million) resulting from lower payments from private equity funds. The holdings of private equity investments have been greatly reduced in response to the focus on core activities and in anticipation of regulatory changes. With income of €154 million, net fees and commissions were up by €25 million (first half of 2014: €129 million). This pleasing development is due above all to the trading-related commission business. Net other expenses/income amounted to €8 million in the first half of 2015 and thus rose by €10 million (first half of 2014: net expense of €2 million).

Operating costs fell by €15 million to €752 million in the reporting period compared with the first half of 2014 (first half of 2014: €767 million). While payroll costs rose by €8 million to €246 million (first half of 2014: €238 million) and other administrative expenses by €12 million to €471 million (first half of 2014: €459 million), the amortisation, depreciation and impairment losses on intangible and tangible assets were reduced by half to €35 million (first half of 2014: €70 million) as higher amortisation and depreciation was contained in connection with the BARD Group in 2014. Due to the increase in operating income with operating costs remaining almost stable, the cost-income ratio improved by 12.3 percentage points to 68.1% after 80.4% in the first half of 2014.

Segment Reporting (Continued)

At €36 million, net write-downs of loans and provisions for guarantees and commitments remained at a very low level; it fell by €26 million compared with the first half of 2014 (first half of 2014: €62 million). In the first half of 2015, the provisions for risks and charges amounted to €29 million which accrued mainly in connection with legal risks. In the year-ago period, however, a positive balance of €25 million in provisions for risks and charges resulted notably from the reversal of provisions relating to derivatives operations. In the first half of 2015, net income from investments came to €2 million. In the equivalent period last year, a net income of €71 million was achieved mainly due to the sale of holdings in private equity funds and direct investments. The CIB business segment thus generated a profit before tax of €289 million in the first six months of 2015, which is €68 million higher than in the first half of 2014 (first half of 2014: €221 million). In this context, it should be borne in mind that the total includes the charge of €47 million for the new European bank levy covering 2015 as a whole.

Income statement of the Other/consolidation business segment (€ millions)

INCOME/EXPENSES	1/1–30/6/ 2015	1/1–30/6/ 2014	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest	(28)	10	(15)	(15)	23	(2)	1
Dividends and other income from equity investments	4	2	4	—	1	(1)	2
Net fees and commissions	(3)	(8)	3	(4)	(2)	(4)	(4)
Net trading income	7	10	8	(1)	2	2	1
Net other expenses/income	89	70	43	44	53	44	49
OPERATING INCOME	**69**	**84**	**43**	**24**	**77**	**39**	**49**
Payroll costs	(309)	(284)	(154)	(156)	(151)	(147)	(141)
Other administrative expenses	307	276	154	154	135	149	142
Amortisation, depreciation and impairment losses on intangible and tangible assets	(60)	(66)	(30)	(29)	(32)	(30)	(32)
Operating costs	**(62)**	**(74)**	**(30)**	**(31)**	**(48)**	**(28)**	**(31)**
OPERATING PROFIT/(LOSS)	**7**	**10**	**13**	**(7)**	**29**	**11**	**18**
Net write-downs of loans and provisions for guarantees and commitments	(12)	16	(18)	6	35	17	5
NET OPERATING PROFIT/(LOSS)	**(5)**	**26**	**(5)**	**(1)**	**64**	**28**	**23**
Provisions for risks and charges	6	12	5	1	15	—	4
Restructuring costs	—	(2)	—	—	20	—	—
Net income from investments	20	1	10	11	16	3	1
PROFIT BEFORE TAX	**21**	**37**	**10**	**11**	**115**	**31**	**28**
Cost-income ratio in %	89.9	88.1	69.8	129.2	62.3	71.8	63.3

Development of the Other/consolidation business segment

The operating income of this business segment came to €69 million in the first six months of 2015 compared with €84 million in the year-ago period. This €15 million decline can be primarily attributed to net interest, which fell €38 million to minus €28 million due partly to the lower return on investments because of the fall in the level of interest rates. By contrast, net other expenses/income rose by €19 million to €89 million, largely as a result of the non-recurrence of expenses contained in the equivalent period last year from services provided in previous years.

With operating costs down by €12 million to €62 million, the operating profit fell €3 million to €7 million in the reporting period (first half of 2014: €10 million).

In the reporting period, net write-downs of loans and provisions for guarantees and commitments amounted to €12 million after a net reversal of €16 million was posted in the equivalent period last year.

The net income from investments amounted to €20 million in the reporting period (first half of 2014: €1 million) and can be mainly attributed to gains on the sale of investment properties. After the recognition of the net reversal of €6 million in the provisions for risks and charges (first half of 2014: net reversal of €12 million), the profit before tax totalled €21 million after €37 million in the same period last year.

4 Balance sheet figures, broken down by segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Loans and receivables with banks				
30/6/2015	658	43,061	381	44,100
31/12/2014	712	28,190	3,752	32,654
Loans and receivables with customers				
30/6/2015	76,249	35,234	(318)	111,165
31/12/2014	75,425	35,335	(1,124)	109,636
Goodwill				
30/6/2015	130	288	—	418
31/12/2014	130	288	—	418
Deposits from banks				
30/6/2015	3,111	60,576	6,474	70,161
31/12/2014	3,183	44,734	6,163	54,080
Deposits from customers				
30/6/2015	72,466	26,080	5,011	103,557
31/12/2014	71,187	24,626	4,861	100,674
Debt securities in issue				
30/6/2015	766	3,024	22,817	26,607
31/12/2014	916	3,084	24,249	28,249
Risk-weighted assets compliant with Basel III				
(including equivalents for market risk				
and operational risk)				
30/6/2015	28,382	46,052	6,891	81,325
31/12/2014	28,435	45,047	12,286	85,768

Notes to the Income Statement

5 Net interest

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Interest income from	**2,241**	**2,584**
lending and money market transactions	1,574	1,794
other interest income	667	790
Interest expense from	**(921)**	**(1,244)**
deposits	(182)	(318)
debt securities in issue and other interest expenses	(739)	(926)
Total	**1,320**	**1,340**

Net interest attributable to related parties

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

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Non-consolidated affiliated companies	55	51
of which: UniCredit S.p.A.	15	24
Joint ventures	2	—
Associated companies	6	—
Other participating interests	—	—
Total	**63**	**51**

Besides the amounts attributable to UniCredit S.p.A., the net interest of €55 million (first half of 2014: €51 million) from non-consolidated affiliated companies includes interest income of €40 million (first half of 2014: €27 million) attributable to sister companies.

6 Dividends and other income from equity investments

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Dividends and other similar income	8	47
Companies accounted for using the equity method	5	2
Total	**13**	**49**

7 Net fees and commissions

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Management, brokerage and consultancy services	293	253
Collection and payment services	101	111
Lending operations	149	164
Other service operations	16	14
Total	**559**	**542**

This item comprises the balance of fee and commission income of €713 million (first half of 2014: €734 million) and fee and commission expenses of €154 million (first half of 2014: €192 million).

Net fees and commissions from related parties

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

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Non-consolidated affiliated companies	42	33
of which: UniCredit S.p.A.	2	(10)
Joint ventures	—	—
Associated companies	7	27
Other participating interests	—	—
Total	**49**	**60**

Besides the amounts attributable to UniCredit S.p.A., the net fees and commissions of €42 million (first half of 2014: €33 million) from non-consolidated affiliated companies include €40 million (first half of 2014: €43 million) from sister companies.

8 Net trading income

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Net gains on financial assets held for trading[1]	397	262
Effects arising from hedge accounting	30	(32)
Changes in fair value of hedged items	413	(495)
Changes in fair value of hedging derivatives	(383)	463
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	29	49
Other net trading income	(6)	3
Total	**450**	**282**

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

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 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.

9 Net other expenses/income

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Other income	251	280
Other expenses	(165)	(203)
Total	**86**	**77**

Net other expenses/income attributable to related parties

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

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Non-consolidated affiliated companies	50	14
of which: UniCredit S.p.A.	17	(16)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**50**	**14**

Besides the amounts attributable to UniCredit S.p.A., the net other expenses/income of €50 million (first half of 2014: €14 million) attributable to non-consolidated affiliated companies include €33 million (first half of 2014: €30 million) attributable to sister companies.

Notes to the Income Statement (Continued)

10 Operating costs

Operating costs of related parties

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

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Non-consolidated affiliated companies	(335)	(302)
of which: UniCredit S.p.A.	(9)	(1)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(335)**	**(302)**

Besides the amounts attributable to UniCredit S.p.A., the operating costs of €335 million (first half of 2014: €302 million) attributable to non-consolidated affiliated companies include €326 million (first half of 2014: €301 million) attributable to sister companies.

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

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Additions/releases	**(134)**	**(116)**
Allowances for losses on loans and receivables	(172)	(110)
Allowances for losses on guarantees and indemnities	38	(6)
Recoveries from write-offs of loans and receivables	**25**	**26**
Gains/(losses) on the disposal of impaired loans and receivables	**(1)**	**—**
Total	**(110)**	**(90)**

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

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

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Non-consolidated affiliated companies	—	—
of which: UniCredit S.p.A.	—	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	1
Total	**—**	**1**

12 Provisions for risks and charges

There was a net expense of €59 million from net additions/net reversals of provisions in the first half of 2015, which primarily stem from legal risks. The legal risks of HVB Group are described in detail in the section entitled “Operational risk” in the Risk Report of this Interim Management Report.

By contrast, net income of €39 million from net reversals/provisions for risks and charges, resulting particularly from derivative transactions, was posted in the first half of 2014.

13 Net income from investments

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Available-for-sale financial assets	44	66
Shares in affiliated companies	5	—
Companies accounted for using the equity method	(10)	—
Held-to-maturity investments	—	4
Land and buildings	—	—
Investment properties[1]	19	4
Total	**58**	**74**

1 gains on disposal, impairments and write-ups

Net income from investments breaks down as follows:

(€ millions)

	1/1–30/6/2015	1/1–30/6/2014
Gains on the disposal of	**53**	**87**
available-for-sale financial assets	46	80
shares in affiliated companies	5	—
companies accounted for using the equity method	(10)	—
held-to-maturity investments	—	4
land and buildings	—	—
investment properties	12	3
Write-downs, value adjustments and write-ups on	**5**	**(13)**
available-for-sale financial assets	(2)	(14)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
investment properties	7	1
Total	**58**	**74**

14 Earnings per share

	1/1–30/6/2015	1/1–30/6/2014
Consolidated profit from continuing operations attributable to the shareholder (€ millions)	321	320
Average number of shares	802,383,672	802,383,672
Earnings per share from continuing operations (€)	0.40	0.40

	1/1–30/6/2015	1/1–30/6/2014
Consolidated profit of full HVB Group attributable to the shareholder (€ millions)	321	330
Average number of shares	802,383,672	802,383,672
Earnings per share of full HVB Group (€)	0.40	0.41

Notes to the Balance Sheet

15 Financial assets held for trading

(€ millions)

	30/6/2015	31/12/2014
Balance-sheet assets	**35,595**	**31,178**
Fixed-income securities	10,059	9,829
Equity instruments	10,877	9,430
Other financial assets held for trading	14,659	11,919
Positive fair value from derivative financial instruments	**70,997**	**80,660**
Total	**106,592**	**111,838**

The financial assets held for trading include €225 million (31 December 2014: €259 million) in subordinated assets at 30 June 2015.

Financial assets held for trading of related parties

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

(€ millions)

	30/6/2015	31/12/2014
Non-consolidated affiliated companies	16,620	19,579
of which: UniCredit S.p.A.	10,631	12,660
Joint ventures	15	22
Associated companies	525	403
Other participating interests	14	15
Total	**17,174**	**20,019**

Besides the amounts attributable to UniCredit S.p.A., the financial assets held for trading of €16,620 million (31 December 2014: €19,579 million) attributable to non-consolidated affiliated companies include financial assets of €5,989 million (31 December 2014: €6,919 million) attributable to sister companies (mostly derivative transactions involving UniCredit Bank Austria AG).

16 Financial assets at fair value through profit or loss

(€ millions)

	30/6/2015	31/12/2014
Fixed-income securities	31,614	29,935
Equity instruments	—	—
Investment certificates	—	—
Promissory notes	1,274	1,270
Other financial assets at fair value through profit or loss	—	—
Total	**32,888**	**31,205**

The financial assets at fair value through profit or loss include no subordinated assets (31 December 2014: €324 million) at 30 June 2015.

17 Available-for-sale financial assets

(€ millions)

	30/6/2015	31/12/2014
Fixed-income securities	949	1,071
Equity instruments	106	113
Other available-for-sale financial assets	49	42
Impaired assets	172	343
Total	**1,276**	**1,569**

Available-for-sale financial assets at 30 June 2015 included €222 million (31 December 2014: €266 million) valued at cost.

The available-for-sale financial assets contain a total of €172 million (31 December 2014: €343 million) in impaired assets at 30 June 2015 for which €3 million impairments (first half of 2014: €13 million) were taken to the income statement during the period under review.

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

The available-for-sale financial assets include €178 million (31 December 2014: €200 million) in subordinated assets at 30 June 2015.

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

(€ millions)

	30/6/2015	31/12/2014
Associated companies accounted for using the equity method	51	77
of which: goodwill	11	29
Joint ventures accounted for using the equity method	—	—
Total	**51**	**77**

19 Held-to-maturity investments

(€ millions)

	30/6/2015	31/12/2014
Fixed-income securities	71	66
Impaired assets	—	—
Total	**71**	**66**

The held-to-maturity investments at 30 June 2015 include no subordinated assets, as was also the case at 31 December 2014.

The held-to-maturity investments at 30 June 2015 included no impaired assets, as was also the case at 31 December 2014.

20 Loans and receivables with banks

(€ millions)

	30/6/2015	31/12/2014
Current accounts	2,357	1,345
Cash collateral and pledged credit balances	9,923	10,680
Reverse repos	21,586	7,155
Reclassified securities	923	1,255
Other loans to banks	9,311	12,219
Total	**44,100**	**32,654**

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

The loans and receivables with banks include €11 million (31 December 2014: €24 million) in subordinated assets at 30 June 2015.

Notes to the Balance Sheet (Continued)

Loans and receivables with related parties

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

	30/6/2015	31/12/2014
Non-consolidated affiliated companies	4,573	6,964
of which: UniCredit S.p.A.	2,387	4,567
Joint ventures	253	165
Associated companies	140	110
Other participating interests	43	27
Total	**5,009**	**7,266**

Besides the loans and receivables with UniCredit S.p.A., the loans and receivables of €4,573 million (31 December 2014: €6,964 million) with non-consolidated affiliated banks include loans and receivables of €2,186 million (31 December 2014: €2,397 million) with sister companies (mainly UniCredit Bank Austria AG).

21 Loans and receivables with customers

(€ millions)

	30/6/2015	31/12/2014
Current accounts	6,796	7,737
Cash collateral and pledged cash balances	2,631	2,832
Reverse repos	691	708
Mortgage loans	41,269	40,663
Finance leases	2,096	2,057
Reclassified securities	1,944	2,128
Non-performing loans and receivables	3,225	3,839
Other loans and receivables	52,513	49,672
Total	**111,165**	**109,636**

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

Loans and receivables with customers include an amount of €2,323 million (31 December 2014: €2,171 million) funded under the fully consolidated Arabella conduit programme. This essentially involves buying short-term accounts payable and medium-term receivables under lease agreements from customers and funding them by issuing commercial paper on the capital market. The securitised loans and receivables essentially reflect loans and receivables of European borrowers, with a majority of the loans and receivables relating to German borrowers.

The loans and receivables with customers include €639 million (31 December 2014: €650 million) in subordinated assets at 30 June 2015.

Loans and receivables with related parties

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

	30/6/2015	31/12/2014
Non-consolidated affiliated companies	1	97
Joint ventures	31	—
Associated companies	53	39
Other participating interests	373	377
Total	**458**	**513**

The loans and receivables of €1 million (31 December 2014: €97 million) with non-consolidated affiliated companies include loans and receivables of €0 million (31 December 2014: €34 million) with sister companies and €1 million (31 December 2014: €56 million) with subsidiaries.

22 Application of reclassification rules defined in IAS 39.50 et seq.

No further reclassifications have been carried out since 2010. The intention to trade no longer exists for the assets reclassified in 2008 and 2009, 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.

The following table shows the development of the reclassified holdings:

(€ 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 31/12/2008	13.7	11.8	14.6
Balance at 31/12/2009	9.0	8.0	9.7
Balance at 31/12/2010	6.5	5.9	7.0
Balance at 31/12/2011	4.7	4.0	5.0
Balance at 31/12/2012	3.4	3.0	3.6
Balance at 31/12/2013	2.5	2.3	2.6
Balance at 31/12/2014	1.9	1.9	2.0
Balance at 30/6/2015	1.6	1.6	1.8
Reclassified in 2009			
Balance at 31/12/2009	7.3	7.4	7.4
Balance at 31/12/2010	4.6	4.5	4.6
Balance at 31/12/2011	3.2	3.2	3.3
Balance at 31/12/2012	2.4	2.5	2.5
Balance at 31/12/2013	2.0	2.1	2.1
Balance at 31/12/2014	1.6	1.9	1.8
Balance at 30/6/2015	1.5	1.7	1.6
Balance of reclassified assets at 30/6/2015	**3.1**	**3.3**	**3.4**

1 before accrued interest

The fair value of the financial instruments reclassified as loans and receivables with banks and customers amounts to a total of €3.3 billion at 30 June 2015. If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (including realised disposals) would have given rise to a net loss of €36 million in net trading income in the first half of 2015. A net gain of €227 million (2014), €286 million (2013), €498 million (2012), €96 million (2011), €416 million (2010) and €1,159 million (2009) would have arisen in net trading income in the financial years 2014, 2013, 2012, 2011, 2010 and 2009, while a net loss of €1,792 million would have accrued in net trading income from the reclassified holdings in 2008. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification.

In the first six months of 2015, we took write-downs of €33 million on reclassified holdings. Write-downs of €92 million were taken in the 2014 financial year, €31 million in 2012, €3 million in 2011, €8 million in 2010, €80 million in 2009 and €63 million in 2008, while write-downs of €10 million on reclassified holdings were reversed in the 2013 financial year. 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 matured or been partially repaid gives rise to an effect of €16 million in the first half of 2015 (whole of 2014: €34 million, 2013: €38 million, 2012: €66 million, 2011: €100 million, 2010: €160 million, 2009: €208 million, 2008: €127 million), which is recognised in net interest.

A gain of €4 million (whole of 2014: €2 million, 2013: €0 million, 2012: €21 million, 2011: €14 million, 2010: €19 million, 2009: €83 million) on reclassified securities that had been sold was recognised in the income statement in the first six months of 2015.

In the first half of 2015, the reclassifications carried out in 2008 and 2009 resulted in a profit before tax that was €23 million higher. Between the date when the reclassifications took effect and the reporting date, the cumulative net impact on the income statement from the reclassifications already carried out totalled minus €262 million before tax (first half of 2015: €23 million, whole of 2014: minus €283 million, 2013: minus €238 million, 2012: minus €442 million, 2011: plus €15 million, 2010: minus €245 million, 2009: minus €948 million, 2008: plus €1,856 million).

Notes to the Balance Sheet (Continued)

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

Analysis of loans and receivables (€ millions)

Balance at 1/1/2014	**3,373**
Changes affecting income[1]	110
Changes not affecting income	(201)
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	—
Use of existing loan-loss allowances	(170)
Effects of currency translation and other changes not affecting income	(31)
Non-current assets or disposal groups held for sale	—
Balance at 30/6/2014	**3,282**
Balance at 1/1/2015	**2,859**
Changes affecting income[1]	172
Changes not affecting income	(76)
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	—
Use of existing loan-loss allowances	(137)
Effects of currency translation and other changes not affecting income	61
Non-current assets or disposal groups held for sale	—
Balance at 30/6/2015	**2,955**

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

24 Deposits from banks

(€ millions)

	30/6/2015	31/12/2014
Deposits from central banks	**9,440**	**6,137**
Deposits from banks	**60,721**	**47,943**
Current accounts	2,208	2,524
Cash collateral and pledged credit balances	12,229	13,079
Repos	29,444	17,730
Term deposits	7,193	5,138
Other liabilities	9,647	9,472
Total	**70,161**	**54,080**

Amounts owed to related parties
The following table shows the breakdown of deposits from banks involving related parties: (€ millions)

	30/6/2015	31/12/2014
Non-consolidated affiliated companies	5,189	6,288
of which: UniCredit S.p.A.	1,831	2,148
Joint ventures	10	7
Associated companies	64	144
Other participating interests	28	19
Total	**5,291**	**6,458**

Besides the deposits from UniCredit S.p.A., the deposits of €5,189 million (31 December 2014: €6,288 million) from non-consolidated affiliated companies include deposits of €3,358 million (31 December 2014: €4,140 million) from sister companies; the largest single item relates to UniCredit Bank Austria AG.

25 Deposits from customers

(€ millions)

	30/6/2015	31/12/2014
Current accounts	59,123	56,335
Cash collateral and pledged credit balances	1,410	1,489
Savings deposits	14,510	14,639
Repos	7,205	7,774
Term deposits	15,618	15,142
Promissory notes	4,085	3,854
Other liabilities	1,606	1,441
Total	**103,557**	**100,674**

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

	30/6/2015	31/12/2014
Non-consolidated affiliated companies	379	269
Joint ventures	4	1
Associated companies	11	17
Other participating interests	239	299
Total	**633**	**586**

The deposits of €379 million (31 December 2014: €269 million) from non-consolidated affiliated companies include deposits of €5 million (31 December 2014: €15 million) from subsidiaries and €374 million (31 December 2014: €254 million) from sister companies.

Notes to the Balance Sheet (Continued)

26 Debt securities in issue

(€ millions)

	30/6/2015	31/12/2014
Bonds	**24,559**	**26,401**
of which:		
Registered mortgage Pfandbriefs	6,135	6,562
Registered public-sector Pfandbriefs	2,922	3,093
Mortgage Pfandbriefs	8,595	8,938
Public-sector Pfandbriefs	1,693	1,989
Registered bonds	2,251	2,229
Other securities	**2,048**	**1,848**
Total	**26,607**	**28,249**

Debt securities in issue, payable to related parties

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

(€ millions)

	30/6/2015	31/12/2014
Non-consolidated affiliated companies	253	250
of which: UniCredit S.p.A.	—	—
Joint ventures	7	15
Associated companies	218	252
Other participating interests	—	—
Total	**478**	**517**

The debt securities in issue of €253 million (31 December 2014: €250 million) attributable to non-consolidated affiliated companies include debt securities of €253 million (31 December 2014: €250 million) attributable to sister companies. There were no debt securities attributable to UniCredit S.p.A. at 30 June 2015 or at 31 December 2014.

27 Financial liabilities held for trading

(€ millions)

	30/6/2015	31/12/2014
Negative fair values arising from derivative financial instruments	68,516	76,400
Other financial liabilities held for trading	14,636	11,570
Total	**83,152**	**87,970**

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

28 Provisions

(€ millions)

	30/6/2015	31/12/2014
Provisions for pensions and similar obligations	585	751
Allowances for losses on guarantees and commitments and irrevocable credit commitments	197	232
Restructuring provisions	247	267
Other provisions	1,125	1,059
Payroll provisions	266	263
Provisions related to tax disputes (without income taxes)	51	61
Provisions for rental guarantees and dismantling obligations	134	133
Other provisions	674	602
Total	**2,154**	**2,309**

Provisions for pensions and similar obligations

At 30 June 2015, provisions for pensions and similar obligations were remeasured on the basis of updated actuarial assumptions and the fair values of the plan assets. Compared with year-end 2014, the provisions for pensions recognised in the consolidated balance sheet decreased by €166 million (down 22.1%) to €585 million.

The main reason for the decline in provisions for pensions was the rise of 10 basis points to 2.45% (31 December 2014: 2.35%) in the discount rate (weighted average) resulting from the capital market development in the first half of 2015. The capital market development is assessed on the basis of a consistently applied model. A higher discount rate results in higher discounting of the obligations from defined benefit plans and thus to a reduction in the defined benefit obligation.

The balance between the actuarial gains on the estimated present value of the defined benefit obligation (DBO) calculated at the reporting date and the gains on the current market valuation of the plan assets (difference between the normalised and actually realised income) produced a positive effect overall from remeasurements totalling €139 million, which was immediately recognised in shareholders' equity without affecting profit or loss and disclosed in other comprehensive income in the consolidated statement of total comprehensive income.

29 Change in valuation of financial instruments (Shareholders' equity)

The reserves arising from changes in the valuation of financial instruments recognised in equity totalled €40 million at 30 June 2015 (31 December 2014: €81 million). This decline of €41 million compared with year-end 2014 can be solely attributed to the €8 million decline in the AfS reserve to €46 million and results mainly from the sale of our holdings in Wüstenrot & Württembergische AG. The hedge reserve similarly included in the reserves arising from changes in the value of financial instruments recognised in equity increased by €5 million to €32 million compared with year-end 2014.

30 Subordinated capital

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

(€ millions)

	30/6/2015	31/12/2014
Subordinated liabilities	637	669
Hybrid capital instruments	58	53
Total	**695**	**722**

Other information

31 Contingent liabilities and other commitments

(€ millions)

	30/6/2015	31/12/2014
Contingent liabilities[1]	**21,439**	**22,527**
Guarantees and indemnities	21,439	22,527
Other commitments	**40,057**	**38,927**
Irrevocable credit commitments	40,008	38,821
Other commitments[2]	49	106
Total	**61,496**	**61,454**

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

Up until now, credit card lines granted to customers (limit for credit card usage) were carried under irrevocable credit commitments. Given the fact that the credit card agreement and hence the granted line of credit can be terminated at any time, the credit commitments are revocable, meaning they do not have to be disclosed. We have modified disclosure and adjusted the prior-year figures (€1,847 million) accordingly.

Contingent liabilities payable to related parties

(€ millions)

	30/6/2015	31/12/2014
Non-consolidated affiliated companies	1,336	1,309
of which: UniCredit S.p.A.	594	644
Joint ventures	58	156
Associated companies	—	—
Other participating interests	91	91
Total	**1,485**	**1,556**

Besides the contingent liabilities attributable to UniCredit S.p.A., the contingent liabilities of €1,336 million (31 December 2014: €1,309 million) attributable to non-consolidated affiliated companies include contingent liabilities of €683 million attributable to sister companies (31 December 2014: €665 million) and €59 million attributable to subsidiaries (31 December 2014: €0 million).

32 Notes to selected structured products

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

ABS-Portfolio

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

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

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

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

CARRYING AMOUNTS		30/6/2015 SENIOR	30/6/2015 MEZZANINE	30/6/2015 JUNIOR	30/6/2015 TOTAL	31/12/2014 TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**61**
Positions in third-party ABS transactions		**4,071**	**962**	**—**	**5,033**	**4,702**
Residential mortgage-backed securities (RMBS)		2,474	428	—	2,902	2,688
thereof:						
US subprime		—	—	—	—	—
US Alt-A		1	—	—	1	1
Commercial mortgage-backed securities (CMBS)		223	102	—	325	634
Collateralised debt obligations (CDO)		63	—	—	63	61
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		320	378	—	698	464
Consumer loans		744	34	—	778	647
Credit cards		150	—	—	150	98
Receivables under finance leases		57	15	—	72	101
Others		40	5	—	45	9
Total	**30/6/2015**	**4,071**	**962**	**—**	**5,033**	
	31/12/2014	**3,667**	**1,096**	**—**	**4,763**	
Synthetic collateralised debt obligations (CDO) (derivatives)	**30/6/2015**	**—**	**—**	**—**	**—**	
	31/12/2014	**—**	**—**	**—**	**—**	

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.

Other information (Continued)

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

		30/6/2015				
CARRYING AMOUNTS		EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**4,489**	**472**	**—**	**72**	**5,033**
Residential mortgage-backed securities (RMBS)		2,849	2	—	51	2,902
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		239	86	—	—	325
Collateralised debt obligations (CDO)		7	35	—	21	63
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		367	331	—	—	698
Consumer loans		763	15	—	—	778
Credit cards		150	—	—	—	150
Receivables under finance leases		69	3	—	—	72
Others		45	—	—	—	45
Total	**30/6/2015**	**4,489**	**472**	**—**	**72**	**5,033**
	31/12/2014	**4,317**	**366**	**—**	**80**	**4,763**
Synthetic collateralised debt obligations (CDO) (derivatives)	**30/6/2015**	**—**	**—**	**—**	**—**	**—**
	31/12/2014	**—**	**—**	**—**	**—**	**—**

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

CARRYING AMOUNTS		30/6/2015 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**515**	**3,198**	**1,320**	**5,033**
Residential mortgage-backed securities (RMBS)		227	1,851	824	2,902
thereof:					
US subprime		—	—	—	—
US Alt-A		—	1	—	1
Commercial mortgage-backed securities (CMBS)		4	245	76	325
Collateralised debt obligations (CDO)		—	7	56	63
thereof:					
US subprime		—	—	—	—
US Alt-A		—	—	—	—
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		48	345	305	698
Consumer loans		186	564	28	778
Credit cards		—	150	—	150
Receivables under finance leases		50	22	—	72
Others		—	14	31	45
Total	**30/6/2015**	**515**	**3,198**	**1,320**	**5,033**
	31/12/2014	**530**	**3,219**	**1,014**	**4,763**
Synthetic collateralised debt obligations (CDO) (derivatives)	**30/6/2015**	**—**	**—**	**—**	**—**
	31/12/2014	**—**	**—**	**—**	**—**

Other information (Continued)

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

CARRYING AMOUNTS		30/6/2015 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**—**	**—**
Positions in third-party ABS transactions		**253**	**19**	**4,509**	**102**	**150**	**5,033**
Residential mortgage-backed securities (RMBS)		105	8	2,748	—	41	2,902
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		57	—	258	—	10	325
Collateralised debt obligations (CDO)		—	6	36	21	—	63
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	—	—	—	—
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		—	5	532	69	92	698
Consumer loans		85	—	681	12	—	778
Credit cards		—	—	150	—	—	150
Receivables under finance leases		6	—	59	—	7	72
Others		—	—	45	—	—	45
Total	**30/6/2015**	**253**	**19**	**4,509**	**102**	**150**	**5,033**
	31/12/2014	**267**	**32**	**4,161**	**66**	**237**	**4,763**
Synthetic collateralised debt obligations (CDO) (derivatives)	**30/6/2015**	**—**	**—**	**—**	**—**	**—**	**—**
	31/12/2014	**—**	**—**	**—**	**—**	**—**	**—**

33 Fair value hierarchy

We show financial instruments measured at fair value and recognised at fair value in the balance sheet separately in a table with 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.

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	—	47
	Transfer from Level 2	164	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	350
	Transfer from Level 2	321	—
Available-for-sale financial assets			
	Transfer from Level 1	—	134
	Transfer from Level 2	36	—
Financial liabilities held for trading			
	Transfer from Level 1	—	10
	Transfer from Level 2	37	—

Within the scope of IFRS 13 disclosures, 1 January is considered the transfer date for instruments transferred between the levels in the first half of the reporting period (1 January to 30 June). 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.

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.

Other information (Continued)

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

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

PRODUCT TYPE	MEASUREMENT METHOD	SIGNIFICANT NON-OBSERVABLE PARAMETERS	RANGE
Fixed-income securities and other debt instruments	Market approach	Price	0%–198%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	83BSP–19%
		Residual value	24%–70%
		Default rate	1%–3%
		Prepayment rate	0%–30%
Equity derivatives	Option price model DCF method	Equity volatility	15%–120%
		Correlation between equities	(95)%–95%
		Dividend yields	0%–15%
Interest rate derivatives	DCF method Option price model	Swap interest rate	(5)BSP–1,000BSP
		Inflation swap interest rate	100BSP–230BSP
		Inflation volatility	1%–10%
		Interest rate volatility	10%–100%
		Correlation between interest rates	20%–100%
Credit derivatives	Option price model Hazard rate model	Credit spread curves	2BSP–219%
		Credit correlation	25%–85%
		Residual value	14%–75%
		Credit volatility	47%–81%
Currency derivatives	DCF method Option price model	Yield curves	(20)%–20%
		FX volatility	1%–40%
Commodity derivatives	DCF method Option price model	Swap interest rate	10%–130%
		Correlation between commodities	(95)%–95%
		Commodity price volatility	20%–120%
Hybrid derivatives	Option price model	Parameter correlation	(80)%–80%
		Parameter volatility	15%–120%

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 carried at fair value through profit or loss, the positive change in fair values at 30 June 2015 resulting from the use of possible appropriate alternatives would be €155 million (31 December 2014: €171 million), and the negative change would be minus €61 million (31 December 2014: minus €81 million).

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

(€ millions)

	30/6/2015		31/12/2014	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	1	(1)	2	(2)
Equities	6	(6)	17	(17)
Asset-backed securities (ABS)	2	—	1	—
Equity derivatives	108	(33)	119	(35)
Interest rate derivatives	4	(2)	8	(2)
Credit derivatives	32	(18)	22	(24)
Currency derivatives	1	(1)	1	(1)
Commodity derivatives	1	—	1	—
Hybrid derivatives	—	—	—	—
Other	—	—	—	—
Total	**155**	**(61)**	**171**	**(81)**

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

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity derivatives included in Level 3: spot prices for hedge funds, implicit volatility, dividends, implicit correlations and the assumptions regarding the interpolation between individual parameters observable on the market, such as volatilities.

For interest rate products, interest rates, interest rate correlations and implicit volatilities were varied as part of the sensitivity analysis. For credit derivatives, rating-dependent shifts in the risk premium curves for credit risk were assumed together with changes in implicit correlations and increases in default rates.

Foreign currency derivatives were varied in terms of interest rates and the implicit volatility.

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

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

(€ millions)

	2015	2014
Balance at 1/1	**64**	**80**
New transactions during the period	—	—
Write-downs	7	17
Expired transactions	—	—
Retroactive change in observability	—	—
Exchange rate changes	—	—
Balance at 30/6/2015 and 31/12/2014	**57**	**64**

Other information (Continued)

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

(€ millions)

	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)		FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)		FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET[1] (LEVEL 3)	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Financial assets recognised in the						
balance sheet at fair value						
Financial assets held for trading	22,645	19,308	82,278	90,521	1,669	2,009
thereof: derivatives	2,134	1,703	67,339	77,087	1,524	1,870
Financial assets at fair value through profit or loss	16,697	14,559	15,910	16,365	281	281
Available-for-sale financial assets[1]	340	619	673	645	41	39
Hedging derivatives	—	—	523	753	—	—
Financial liabilities recognised in the						
balance sheet at fair value						
Financial liabilities held for trading	5,379	4,462	75,433	82,493	2,340	1,015
thereof: derivatives	2,369	1,929	65,277	73,759	870	712
Hedging derivatives	—	—	1,174	749	—	—

1 available-for-sale financial assets include financial instruments of €222 million (31 December 2014: €266 million) valued at historical cost that are not included in these totals at 30 June 2015

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)

	2015			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2015	**2,009**	**281**	**39**	**63**
Additions				
Acquisitions	183	—	—	—
Realised gains[1]	163	1	—	—
Transfer from other levels	40	—	7	7
Other additions[2]	6	—	8	5
Reductions				
Sale/Repayment	(325)	—	(8)	(8)
Realised losses[1]	(315)	—	—	—
Transfer to other levels	(90)	—	—	—
Other reductions	(2)	(1)	(5)	—
Balance at 30/6/2015	**1,669**	**281**	**41**	**67**

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 1/1/2015	**1,015**	**—**
Additions		
Acquisitions/Issues	671	—
Realised gains[1]	152	—
Transfer from other levels	1,125	—
Other additions[2]	11	—
Reductions		
Buy-back/Repayment	(178)	—
Realised losses[1]	(173)	—
Transfer to other levels	(258)	—
Other reductions	(25)	—
Balance at 30/6/2015	**2,340**	**—**

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

(€ millions)

	2014			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2014	**1,323**	**576**	**230**	**—**
Additions				
Acquisitions	306	—	22	—
Realised gains[1]	251	—	1	—
Transfer from other levels	122	286	—	—
Other additions[2]	33	—	3	—
Reductions				
Sale/Repayments	(340)	(275)	(31)	—
Realised losses[1]	(61)	—	—	—
Transfer to other levels	(297)	—	(122)	—
Other reductions	(76)	—	—	—
Balance at 30/6/2014	**1,261**	**587**	**103**	**—**

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

Other information (Continued)

(€ millions)

	2014	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2014	**1,416**	**—**
Additions		
Acquisitions/Issues	739	—
Realised gains[1]	104	—
Transfer from other levels	519	—
Other additions[2]	43	—
Reductions		
Buy-back/Repayment	(269)	—
Realised losses[1]	(58)	—
Transfer to other levels	(410)	—
Other reductions	(22)	—
Balance at 30/6/2014	**2,062**	**—**

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

34 Fair values of financial instruments compliant with IFRS 7

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

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

(€ billions)

	30/6/2015		31/12/2014	
ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	9.2	9.2	5.2	5.2
Financial assets held for trading	106.6	106.6	111.8	111.8
Financial assets at fair value through profit or loss	32.9	32.9	31.2	31.2
Available-for-sale financial assets				
thereof: measured				
at cost	0.2	0.2	0.3	0.3
at fair value	1.1	1.1	1.3	1.3
Held-to-maturity investments	0.1	0.1	0.1	0.1
Loans and receivables with banks	44.1	44.5	32.7	33.1
Loans and receivables with customers	111.2	115.6	109.6	115.2
thereof: finance leases	2.1	2.1	2.1	2.1
Hedging derivatives	0.5	0.5	0.8	0.8
Total	**305.9**	**310.7**	**293.0**	**299.0**

(€ 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)	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	9.2	5.2	—	—
Held-to-maturity investments	—	—	—	—	—	—
Loans and receivables with banks	1.7	3.4	13.9	16.5	28.9	13.2
Loans and receivables with customers	1.2	1.8	14.8	15.8	99.6	97.6
thereof: finance leases	—	—	—	—	2.1	2.1

(€ billions)

LIABILITIES	30/6/2015		31/12/2014	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Deposits from banks	70.2	70.7	54.1	54.8
Deposits from customers	103.6	103.9	100.7	101.1
Debt securities in issue	26.6	29.7	28.2	32.0
Financial liabilities held for trading	83.2	83.2	88.0	88.0
Hedging derivatives	1.2	1.2	0.7	0.7
Total	**284.8**	**288.7**	**271.7**	**276.6**

(€ billions)

LIABILITIES	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)		FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)		FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3)	
	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014
Financial liabilities not carried at fair value						
in the balance sheet						
Deposits from banks	—	—	15.5	16.1	55.2	38.7
Deposits from customers	—	—	60.5	57.8	43.4	43.3
Debt securities in issue	6.2	7.4	7.7	8.1	15.8	16.5

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

The fair value calculation is built around the risk-neutral credit spread, which takes account of all relevant factors on the market. Further parameters besides the risk-neutral credit spread and the risk-free return on investment are not included. Provided the markets are liquid and no relevant market disruptions are evident, as is currently the case, the arbitrage between the markets on which credit risks are traded leads to a narrowing of the credit spreads. Accordingly, the credit default swap (CDS) market is defined as the relevant exit market for loans and receivables within the meaning of IFRS 13.

Other information (CONTINUED)

The fair value is calculated as the sum total of the discounted, risk-adjusted anticipated cash flows discounted on the basis of the swap curve (based on Libor). In this context, the anticipated, risk-adjusted cash flows are based on the survival probability and the loss given default. The survival probability is determined on the basis of the risk-neutral probability of default, while the proceeds upon realisation are determined on the basis of the internal loss given default parameters. In turn, the risk-neutral probability of default is determined on the basis of the internally calculated one-year default rate (real-world probability of default), the market risk premium and the correlation between the respective loan and the general market risk. The market risk premium represents a factor used to cover the difference between the real-world probability of default and the market's return expectations for the risk assumed.

In this context, the loan portfolio is divided into four sectors in order to take account of the specific features of each sector: sovereign loans, loans to banks, corporate loans and retail loans. For each of these sectors with the exception of retail loans, first of all the market risk premium is determined on the basis of a portfolio of specific, liquid CDS prices for the respective sector. Only for retail loans is the market risk premium derived from the market risk premiums for the other sectors due to the lack of a CDS market.

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

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. These instruments are allocated to Level 1. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows. The methods used to determine the fair value levels described in Note 33 are employed for this purpose.

The anticipated future cash flows of the other liabilities are discounted to the present value using current interest rates taking into account internally determined funding premiums. The funding premiums correspond to the parameters that the Bank uses when setting the prices for its own issues. These funding premiums represent internally determined parameters that are essential for the determination of the fair value; the other liabilities are allocated to Level 3 accordingly.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally accepted models used to calculate the price of options. The common Black & Scholes (equity, currency and index instruments) or lognormal models (interest instruments) are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters. The methods used to determine the fair value levels described in Note 33 are employed for this purpose.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed equity instruments cannot be reliably determined, such assets are recognised at cost.

At 30 June 2015 the difference in HVB Group between the fair values and carrying amounts totals €4.8 billion (31 December 2014: €6.0 billion) for assets and €3.9 billion (31 December 2014: €4.9 billion) for liabilities. The balance of these amounts is €0.9 billion (31 December 2014: €1.1 billion). When comparing carrying amounts and fair values for the hedged items, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

35 Disclosures regarding the offsetting of financial assets and liabilities

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

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

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 30/6/2015
Derivatives[1]	89,009	(17,489)	71,520	(47,876)	(5,192)	(8,533)	9,919
Reverse repos[2]	37,433	(3,187)	34,246	—	(33,799)	—	447
Loans and receivables[3]	84,737	(1,206)	83,531	—	—	—	83,531
Total at 30/6/2015	**211,179**	**(21,882)**	**189,297**	**(47,876)**	**(38,991)**	**(8,533)**	**93,897**

1 derivatives are covered in the notes covering financial assets held for trading and hedging derivatives
2 Reverse repos are covered in the notes covering 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 €11,969 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables, to banks and other loans and receivables, as covered in the notes covering loans and receivables with banks and loans and receivables with customers

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

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 30/6/2015
Derivatives[1]	85,660	(15,970)	69,690	(47,876)	(332)	(9,899)	11,583
Repos[2]	44,352	(3,187)	41,164	—	(34,807)	—	6,358
Liabilities[3]	88,948	(2,725)	86,223	—	—	—	86,223
Total at 30/6/2015	**218,960**	**(21,882)**	**197,077**	**(47,876)**	**(35,139)**	**(9,899)**	**104,164**

1 derivatives are covered in the notes covering 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 €4,515 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities, as covered in the notes covering deposits from banks and deposits from customers

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

				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 31/12/2014
Derivatives[1]	104,061	(22,648)	81,413	(55,825)	(3,134)	(11,550)	10,904
Reverse repos[2]	19,144	(1,412)	17,732	—	(17,489)	—	243
Loans and receivables[3]	86,585	(2,100)	84,485	—	—	—	84,485
Total at 31/12/2014	**209,790**	**(26,160)**	**183,630**	**(55,825)**	**(20,623)**	**(11,550)**	**95,632**

1 derivatives are covered in the notes covering financial assets held for trading and hedging derivatives
2 Reverse repos are covered in the notes covering loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €9,869 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other loans and receivables, as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Other information (Continued)

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 31/12/2014
Derivatives[1]	100,203	(23,054)	77,149	(55,825)	(311)	(13,025)	7,988
Repos[2]	28,900	(1,412)	27,488	—	(24,116)	—	3,372
Liabilities[3]	86,034	(1,694)	84,340	—	—	—	84,340
Total at 31/12/2014	**215,137**	**(26,160)**	**188,977**	**(55,825)**	**(24,427)**	**(13,025)**	**95,700**

1 derivatives are covered in the notes covering 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 €1,984 million.
3 only relates to current accounts, cash collateral or pledged credit balances and other liabilities, as covered in the notes covering deposits from banks and deposits from customers

We have adjusted the presentation of the variation margin in the table at 30 June 2015: The receivables and liabilities from variation margins are no longer shown under derivatives as a gross sum or set off in the line for derivatives but disclosed and offset in the lines containing receivables and liabilities. For the sake of transparency, we have increased the gross receivables/liabilities by other loans and receivables and by other liabilities not included therein to date to which the receivables or the liabilities from variation margins would be attributable. We have adjusted last year’s figures accordingly.

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

The column “Effects of master netting arrangements” shows the financial instruments that are subject to a legally enforceable master netting arrangement or a 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.

36 Information on relationships with related parties

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

HVB has been assigned the role of centre of competence for the markets and investment banking activities of the entire UniCredit corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB. Furthermore, HVB places excess liquidity efficiently with other UniCredit group companies.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services by means of a service level agreement. HVB incurred expenses of €275.5 million (first half of 2014: €247.9 million) for these services during the first half of 2015. This was offset by income of €4.6 million (first half of 2014: €5.6 million) from services rendered and internal charges. Moreover, software products worth €1.9 million (first half of 2014: €0.9 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €36.0 million (first half of 2014: €35.0 million) for these services during the first half of 2015.

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

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 receivables with, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows:

(€ thousands)

	30/6/2015			31/12/2014		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	2,760	3	9,399	2,791	3	7,620
Members of the Supervisory Board of UniCredit Bank AG	60	—	2,966	522	—	3,498
Members of the Executive Management Committee[1]	—	—	889	—	—	1,282

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

Loans and advances were granted to members of the Management Board and their immediate family members in the form of an overdraft facility with an interest rate of 0.77% falling due in 2015 and mortgage loans with interest rates of between 2.52% and 3.96% falling due in the period from 2016 to 2023.

The contingent liabilities assumed involved a fixed-term overdraft facility which had not been drawn by the reporting date.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of credit facilities with an interest rate of 6% and no fixed maturity, an overdraft facility with an interest rate of 11.15% with no fixed maturity, consumer loans with an interest rate of 9.071% falling due in 2017, and mortgage loans with an interest rate of 3.33% falling due in 2017.

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

Other information (Continued)

37 Members of the Supervisory Board

Federico Ghizzoni	**Chairman**
Peter König until 20 May 2015	**Deputy Chairmen**
Florian Schwarz since 20 May 2015	
Dr Wolfgang Sprissler	
Mirko Davide Georg Bianchi	**Members**
Aldo Bulgarelli until 20 May 2015	
Beate Dura-Kempf	
Klaus Grünewald	
Werner Habich	
Prof Dr Annette G. Köhler since 20 May 2015	
Dr Marita Kraemer	
Dr Lothar Meyer until 20 May 2015	
Gianni Franco Papa since 20 May 2015	
Klaus-Peter Prinz	
Jens-Uwe Wächter	

38 Members of the Management Board

Dr Andreas Bohn	**Corporate & Investment Banking**
Peter Buschbeck	**Commercial Banking/ Private Clients Bank**
Lutz Diederichs	**Commercial Banking/ Unternehmer Bank**
Peter Hofbauer until 31 May 2015	**Chief Financial Officer (CFO)**
Francesco Giordano since 1 June 2015	**Chief Financial Officer (CFO)**
Heinz Laber	**Chief Operating Officer (COO), Human Resources Management, Global Banking Services**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**

Munich, 4 August 2015

UniCredit Bank AG
The Management Board

Dr Bohn Buschbeck Diederichs Giordano

Laber Varese Dr Weimer

Declaration by the Management Board

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

Munich, 4 August 2015

UniCredit Bank AG
The Management Board

Dr Bohn | Buschbeck | Diederichs | Giordano

Laber | Varese | Dr Weimer

Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Net interest	668	652	655	648	683
Dividends and other income from equity investments	7	6	18	25	43
Net fees and commissions	257	302	262	278	287
Net trading income	270	180	137	64	16
Net other expenses/income	65	21	199	26	33
OPERATING INCOME	**1,267**	**1,161**	**1,271**	**1,041**	**1,062**
Operating costs	(910)	(917)	(858)	(887)	(907)
OPERATING PROFIT	**357**	**244**	**413**	**154**	**155**
Net write-downs of loans and provisions					
for guarantees and commitments	(48)	(62)	(156)	95	(12)
NET OPERATING PROFIT	**309**	**182**	**257**	**249**	**143**
Provisions for risks and charges	(57)	(2)	20	(34)	(1)
Restructuring costs	—	—	18	—	2
Net income from investments	41	17	60	14	66
PROFIT BEFORE TAX	**293**	**197**	**355**	**229**	**210**
Income tax for the period	(98)	(66)	(8)	(115)	(72)
PROFIT AFTER TAX	**195**	**131**	**347**	**114**	**138**
Impairment on goodwill	—	—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**195**	**131**	**347**	**114**	**138**
Profit before tax from discontinued operations	—	—	166	5	7
Income tax from discontinued operations	—	—	(3)	(5)	(2)
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**—**	**—**	**163**	**—**	**5**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**195**	**131**	**510**	**114**	**143**
attributable to the shareholder of UniCredit Bank AG	192	129	505	112	141
attributable to minorities	3	2	5	2	2
Earnings per share from continuing operations (€)					
(undiluted and diluted)	**0.24**	**0.16**	**0.43**	**0.14**	**0.17**
Earnings per share of full HVB Group (€)					
(undiluted and diluted)	**0.24**	**0.16**	**0.63**	**0.14**	**0.18**

Financial Calendar

Important Dates 2015[1]

Half-yearly Financial Report at 30 June 2015	6 August 2015
Interim Report at 30 September 2015	12 November 2015

1 dates planned

Contacts
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Financial Highlights – HVB Group

Key performance indicators

	1/1–30/6/2015	1/1–30/6/2014
Net operating profit	€491m	€386m
Cost-income ratio (based on operating income)	75.2%	79.2%
Profit before tax	€490m	€499m
Consolidated profit (from continuing operations)	€326m	€324m
Return on equity before tax	4.9%[1]	5.1%
Return on equity after tax	3.2%[1]	3.3%
Earnings per share (full HVB Group)	€0.40	€0.41

Balance sheet figures

	30/6/2015	31/12/2014
Total assets	€313,672m	€300,342m
Shareholders' equity	€20,335m	€20,597m
Leverage ratio[2]	6.0%	6.1%

Key capital ratios compliant with Basel III

	30/6/2015	31/12/2014
Common Equity Tier 1 capital	€19,030m	€18,993m
Core capital (Tier 1 capital)	€19,030m	€18,993m
Risk-weighted assets (including equivalents for market risk and operational risk)	€81,325m	€85,768m
Common Equity Tier 1 capital ratio[3]	23.4%	22.1%
Core capital ratio (Tier 1 ratio)[3]	23.4%	22.1%

	30/6/2015	31/12/2014
Employees (in FTEs)	16,890	17,980
Branch offices	590	796

1 return on equity calculated on the basis of average shareholders' equity according to IFRS and projected profit before tax or consolidated profit respectively at 30 June 2015 for the year as a whole
2 ratio sets core capital against the exposure value of all assets and off-balance-sheet items
3 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk

Consolidated Income Statement
for the period from 1 January to 30 June 2015

Income/Expenses	NOTES	1/1–30/6/2015 € millions	1/1–30/6/2014 € millions	CHANGE € millions	CHANGE in %
Interest income		2,241	2,584	(343)	(13.3)
Interest expense		(921)	(1,244)	+ 323	(26.0)
Net interest	5	1,320	1,340	(20)	(1.5)
Dividends and other income from equity investments	6	13	49	(36)	(73.5)
Net fees and commissions	7	559	542	+ 17	+ 3.1
Net trading income	8	450	282	+ 168	+ 59.6
Net other expenses/income	9	86	77	+ 9	+ 11.7
Payroll costs		(924)	(884)	(40)	+ 4.5
Other administrative expenses		(803)	(789)	(14)	+ 1.8
Amortisation, depreciation and impairment losses on intangible and tangible assets		(100)	(141)	+ 41	(29.1)
Operating costs		(1,827)	(1,814)	(13)	+ 0.7
Net write-downs of loans and provisions for guarantees and commitments	11	(110)	(90)	(20)	+ 22.2
Provisions for risks and charges		(59)	39	(98)	
Restructuring costs		—	—	—	—
Net income from investments	13	58	74	(16)	(21.6)
PROFIT BEFORE TAX		**490**	**499**	**(9)**	**(1.8)**
Income tax for the period		(164)	(175)	+ 11	(6.3)
PROFIT AFTER TAX		**326**	**324**	**+ 2**	**+ 0.6**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS		**326**	**324**	**+ 2**	**+ 0.6**
Profit before tax from discontinued operations		—	14	(14)	(100.0)
Income tax from discontinued operations		—	(4)	+ 4	(100.0)
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS		**—**	**10**	**(10)**	**(100.0)**
CONSOLIDATED PROFIT OF FULL HVB GROUP		**326**	**334**	**(8)**	**(2.4)**
attributable to the shareholder of UniCredit Bank AG		321	330	(9)	(2.7)
attributable to minorities		5	4	+ 1	+ 25.0

Earnings per share

(in €)

	NOTES	1/1–30/6/2015	1/1–30/6/2014
Earnings per share from continuing operations (undiluted and diluted)	14	0.40	0.40
Earnings per share of full HVB Group (undiluted and diluted)	14	0.40	0.41

Segment reporting

(€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	809	539	(28)	1,320
Dividends and other income from equity investments	1	8	4	13
Net fees and commissions	408	154	(3)	559
Net trading income	48	395	7	450
Net other expenses/income	(11)	8	89	86
OPERATING INCOME	**1,255**	**1,104**	**69**	**2,428**
Payroll costs	(369)	(246)	(309)	(924)
Other administrative expenses	(639)	(471)	307	(803)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(5)	(35)	(60)	(100)
Operating costs	**(1,013)**	**(752)**	**(62)**	**(1,827)**
OPERATING PROFIT	**242**	**352**	**7**	**601**
Net write-downs of loans and provisions				
for guarantees and commitments	(62)	(36)	(12)	(110)
NET OPERATING PROFIT/LOSS	**180**	**316**	**(5)**	**491**
Provisions for risks and charges	(36)	(29)	6	(59)
Restructuring costs	—	—	—	—
Net income from investments	36	2	20	58
PROFIT BEFORE TAX	**180**	**289**	**21**	**490**