Press release Munich, 12 November 2015

HypoVereinsbank records good earnings performance
Multi-year plan links growth in the business segments with cost-cutting programme on the administrative side

- Net operating profit up by 16.1% year-on-year in the first nine months of 2015
- Both business segments with strong growth in strategic customer and commercial activities
- Operating income up 5.5% year-on-year: solid net interest, fees and commission, strong net trading income
- Costs at year-ago level despite investment in growth fields
- Strategy yields results: growth with corporate customers and in Private Banking & Wealth Management; modernisation of retail banking activity with positive impact on results
- Multi-year plan: growth strategy continued and additional measures to boost efficiency in the back office by 2018

In what remains a challenging market environment, HVB Group (also referred to as HypoVereinsbank) succeeded in increasing its operating income after nine months by 5.5%, or €183 million, to €3,514 million. At €737 million, the net operating profit is some €102 million, or 16.1%, higher than the total for the equivalent period last year. All in all, this means that HypoVereinsbank recorded a profit after tax of €461 million, which represents an increase of 5.3% over the first three quarters of last year.

"HypoVereinsbank has grown strongly across both business segments in the first nine months of the year, despite low interest rates and the investments we've made in expanding activities at the same time. The strong operating performance reinforces our

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belief that we have made the right strategic decisions," says Dr Theodor Weimer, Board Spokesman of HypoVereinsbank.

Higher volumes of lending and deposits, stable net interest, fees and commissions, expanded net trading income

HypoVereinsbank's strong operating performance in the first nine months of 2015 was driven among other things by higher volumes of both lending and deposits. Loans and receivables with customers rose by 2.1% from €109.6 billion to €111.9 billion, with customer deposits increasing by 4.9%, from €100.7 billion to €105.6 billion, at the same time.

Net fees and commissions proved stable during the reporting period, while net trading income rose a sharp €146 million, or 42.2%, to €492 million. At €805 million, net fees and commissions nearly matched the year-ago total of €820 million. Despite the historically low interest rates, net interest only fell a slight 1.2%, or €24 million, to €1,964 million.

Stable costs despite investment in expanding activities and stricter regulatory requirements

HypoVereinsbank succeeded in keeping its operating costs stable at the same level as last year – €2,710 million compared with €2,701 million – thanks to consistent cost management and initial savings from the modernisation of the retail banking activities. This was achieved despite increased marketing expenses relating to the new advertising campaign and higher IT expenses. The latter result among other things from the implementation of much stricter regulatory requirements and investments to expand digital sales channels.

Net write-downs of loans and provisions for guarantees and commitments remain at a very low level. After nine months, a net addition of only €67 million had been posted. In the equivalent period last year, it had proved possible to recognise reversals of €5 million.

Stable results in Commercial Banking with low risk profile

Both segments contributed tangible earnings growth to HypoVereinsbank’s positive operating performance.

The Commercial Banking business segment, which encompasses the retail and corporate banking activities, generated a profit before tax of €299 million at 30 September 2015, down €13 million on the year-ago total (30 September 2014: €312 million). Among other things, this can be attributed to the €25 million rise in operating costs due to the investment to modernise the retail banking activities and the higher charge for the EU bank levy than last year.

By contrast, the business segment increased its net operating profit by 5.6% to €339 million. Operating income expanded by 2.9% to €1,900 million, with net interest in particular proving robust enough to exceed the year-ago level despite historically low interest rates.

HypoVereinsbank enjoyed growth in its corporate banking activities in the first three quarters of 2015, notably through business involving its Real Estate unit and companies with international operations. It also expanded its volume of lending and succeeded in keeping its margins stable at the same time, despite intensifying competition.

In Private Banking & Wealth Management, HypoVereinsbank posted significant growth in its lending and securities activities in particular.

In its retail banking activity, the Bank has seen the cost and earnings sides start to benefit from the modernisation of its customer-facing units. This includes a reduction of 7.5% alone in payroll costs in the retail banking activity during the first nine months of the year, while rental costs for branches have declined by around 20%. Cost cuts are expected to accelerate over the coming years due among other things to expiring contracts. At the same time, the volume of investments rose during the first three quarters of the year, with activities involving securities and real assets performing notably well. Above-average growth was also recorded in private building loans. A significant rise in customer satisfaction levels among the core target group was also recorded.

Since August 2014, HypoVereinsbank has invested over €300 million in the modernisation of 341 branches, the expansion of digital sales channels completed with over 35 innovations and the further training of its account managers. At the same time, it has closed 234 of what were originally 575 branches, pared back its product portfolio 40% and largely implemented the approved elimination of 1,500 full-time positions in the retail banking activity. All this has enabled HypoVereinsbank to gear its offer to demanding customers who want their main bank to provide a broad range of services. The modernisation of the customer-facing units will be completed by the end of 2015 as planned.

Corporate & Investment Banking with strong growth

The Corporate & Investment Banking business segment increased its profit before taxes by €4 million in the reporting period to €353 million on the back of a good operating performance. The net operating profit improved a significant 48.1% to €385 million, with operating income increasing by 10.8% to €1,509 million. This stems from a solid result in net interest, fees and commissions coupled with a strong performance in net trading income.

Balance sheet figures and capital ratios reflect Bank's strength

The total assets of HypoVereinsbank increased by €7.7 billion, or 2.6%, to €308.0 billion in the reporting period compared with year-end 2014. This can be attributed predominantly to the increase in loans and receivables with banks.

Total risk-weighted assets fell by €5.9 billion compared with year-end 2014 to €79.8 billion, due mainly to a reduction in risk-weighted assets from credit risk (down €4.3 billion) and market risk (down €1.7 billion).

Furthermore, HypoVereinsbank continues to enjoy an excellent capital base. Both the Tier 1 ratio and the Common Equity Tier 1 (CET1) capital ratio amounted to 23.8% at the end of September 2015 compared with 22.1% at year-end 2014. The equity funds ratio totalled 24.5% 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 30 September 2015 after 6.1% at 31 December 2014.

Multi-year plans links growth in the business segments with cost-cutting programme in the back office

“HypoVereinsbank has performed well to date in a difficult market environment. In order to secure our earnings and returns levels for the long term, however, we need to respond to structural changes on the market by making our back office units leaner and more efficient. In our core business activities, by contrast, we have a clear goal: we want to grow with our customers and gain market share,” comments Dr Weimer.

Following the annual review of its multi-year plan, HypoVereinsbank is to continue pursuing its strategy of growth. Assuming that the market environment remains stable, the Bank is seeking to achieve a cost-income ratio of at the most 65% and a return on allocated capital (after tax) of more than 9% by the end of 2018. It aims to go on providing a significant contribution to profits within UniCredit and earn a return on capital that is greater than its cost of capital.

To achieve this, the aim is to greatly increase our market share with corporate customers and in Private Banking & Wealth Management over the coming years. In its retail banking activity, HypoVereinsbank will continue down its path towards sustainable profitability. The goal in Corporate & Investment Banking is to make even better use of the strong international network and synergies with Commercial Banking and to selectively expand the network. At the same time, the digitisation of processes and structures is to be systematically continued across all areas of the Bank.

With a view to securing the envisaged earnings and return targets, HypoVereinsbank has added further measures aimed at boosting both efficiency and earnings to its multi-year plan. These measures are scheduled for implementation during the period from 2016 to 2018. This is the Bank's response to the structurally low interest rates and the increase in costs caused by greater regulatory requirements.

This action plan centres on the administration units of HVB and its subsidiaries. The objectives are to reduce complexity, make greater use of synergies and boost efficiency. To achieve this, processes and structures are to be simplified, the administration functions further digitised and staffing levels adjusted in the administration units. The Bank has already started negotiations with the Central Works Council regarding implementation of the workforce reduction.

The goal in concrete terms is to eliminate a total of 1,200 back office positions in the Bank and its subsidiaries over a period of three years. The Bank has the express intention of avoiding compulsory redundancies and relying on natural fluctuation together with internal retraining measures to complete the programme by the end of 2018. The employer and employee sides are aiming to reach agreement on the details before the end of the year. As was already the case in the past, HypoVereinsbank is looking to come to amicable solutions with the employees concerned.

In addition to the elimination of 1,200 back office positions, the reduction of 800 posts from downsizing programmes that are already running in the retail banking activity and elsewhere is still under way, whereby contractual agreements have already been reached with the employees concerned. This means that, all in all, the number of full-time equivalents at HypoVereinsbank and its subsidiaries will fall by 2,000 by the end of 2018. Including the measures that have already been implemented since the end of 2014, the workforce is projected to contract by 2,900 full-time equivalents by the end of 2018.

To download the complete Interim Report at 30 September 2015, please visit HVB's Investor Relations website at www.hvb.de

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