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Press release: Q1 2016 results

HypoVereinsbank records decent performance in the first quarter despite difficult market environment

- Stable operating income
- Big decline in operating costs thanks to systematic cost management
- Rise in operating profit benefits from weak year-ago result
- Poor results in Corporate & Investment Banking cushioned by decent performance in Commercial Banking
- Consolidated profit before and after tax at year-ago level
- Focus remains on growing core business activities and enhancing efficiency in back offices

HVB Group (also referred to as HypoVereinsbank) performed well in the first quarter of 2016 in the face of high market volatility, low interest rates and geopolitical uncertainties. In this setting, operating income remained stable at €1,140 million (Q1 2015: €1,161 million). Net operating profit increased by 18.1 percent in the first three months of the year to €215 million, although the strong growth benefited from the weak year-ago total (Q1 2015: €182 million). The profit before tax of €210 million was close to the year-ago figure of €197 million. After income taxes, there was a surplus of €138 million, which also represents a stable development compared with the year-ago total of €131 million.

UniCredit Bank AG
Presseabteilung
Arabellastr. 12
81925 München
Telefon: (089) 378-25801

“The first quarter proved much harder for banks – including HypoVereinsbank – than had been anticipated as recently as the end of 2015. Even if HypoVereinsbank put in a decent quarterly performance overall, the impact is hard to overlook in net trading income,” comments Dr Theodor Weimer, Spokesman of the Management Board of HypoVereinsbank.

Moderate growth in lending and deposit volumes with core customers

HypoVereinsbank succeeded in boosting the volume of lending with its core customers to a moderate extent in the first three months of the year. In this context, positive developments were observed in new loans extended to companies and self-employed professionals in particular. This means that the Bank managed to buck the industry-wide trend of a decline in new loans written. The lending volume amounted to €116.1 billion at 31 March 2016, which is 2.3 percent up on the total at year-end 2015. Customer deposits also rose by 6.0 percent to €114.1 billion despite a further worsening of the low interest rate environment. The balanced ratio of lending and deposit volumes represents a solid basis for our lending activities.

Robust net interest and solid net fees and commissions cushion market-driven decline in net trading income

HypoVereinsbank’s net interest proved extremely robust in the face of a further fall in interest rates in the first quarter of 2016, totalling €642 million (Q1 2015: €652 million). The Bank generated net fees and commissions of €291 million (Q1 2015: €302 million). The slight decline compared with the year-ago total is down to the sale of PlanetHome AG that was completed in the second quarter of 2015. Within operating income, the robust net interest and the solid net fees and commissions cushioned the market-driven decline in net trading income. The net trading income of

€104 million was 42.2 percent below the total for the equivalent period last year due notably to large market fluctuations.

Timely efficiency measures prompt falling costs

Operating costs fell by 4.6 percent to €875 million (Q1 2015: €917 million), with HypoVereinsbank benefiting from a sustained positive impact on its costs from the repositioning of the retail banking activity that was completed at year-end 2015 under its strict cost management regime.

HypoVereinsbank maintained its conservative risk policy even in the face of the difficult market environment. Net write-downs of loans and provisions for guarantees and commitments amounted to €50 million in the first quarter of 2016 (Q1 2015: €62 million), thus reaffirming the good quality of the loan portfolio.

Poor results in Corporate & Investment Banking cushioned by decent performance in Commercial Banking

Both operating segments again made positive contributions to the operating performance of HypoVereinsbank in the first quarter of 2016.

The Commercial Banking business segment, which encompasses the retail and corporate banking activities, generated a good net operating profit of €109 million in the first three months of the year. This represents an increase of €62 million over the €47 million reported for the equivalent period last year. Besides the weak first quarter of 2015, the total benefited notably from the sharp decline in net write-downs of loans and provisions for guarantees and commitments. The segment’s operating activities profited from the much stronger demand than last year for real estate loans on both the residential and commercial side.

The corporate banking activity succeeded in boosting the volume of lending slightly ahead of both the market and last year while keeping margins practically the same, despite the restrained demand for credit market-wide. In the face of an ever-tougher marketplace, the existing credit risk and lending standards were kept in place unchanged, thus underscoring HypoVereinsbank's conservative risk policy. The focus remains on exports, internationalisation and corporate succession as areas of growth. The advance of digitalisation in Corporate Banking is expected to provide additional stimulus.

The retail banking activity performed well during the course of the modernisation and quality offensive in the first quarter. In this context, business was stimulated by securities activities and an expanded, higher quality advisory offer in particular. In addition, the activity is profiting from additional positive cost effects in the wake of the completed repositioning.

The fast-expanding Private Banking & Wealth Management unit recorded further growth in terms of both the number of customers served and assets under management in the mandated business in the first quarter, thus similarly delivering a sustained contribution to profits.

The Corporate & Investment Banking business segment generated a net operating profit in the first quarter of 2016 which, at €63 million, was a significant 52.3 percent down on the €132 million reported at this point last year. Among other things, this development can be attributed to heavy valuation losses in the held-for-trading portfolio and the higher net write-downs of loans and provisions for guarantees and commitments in this business segment. Market conditions led to a 7.5 percent decline in income in Corporate & Investment Banking, although this was less than the industry average. The expansion of market share notably in the Financing & Advisory (F&A) unit failed to offset the decline in the market overall.

Liquidity and capital base still excellent

HypoVereinsbank continues to enjoy an excellent liquidity and capital base. The Tier 1 ratio amounted to 23.5 percent at 31 March 2016 (31 December 2015: 25.1 percent). The decline in what is still an excellent Tier 1 ratio is largely attributable to the increase in risk-weighted assets associated with the rise in total assets stemming from the expansion of business activities in the first quarter of 2016. The equity funds ratio was 24.1 percent (31 December 2015: 25.8 percent).

The leverage ratio, defined as the ratio of core capital to the overall risk position (total exposure values of all assets and off-balance-sheet items) amounted to 6.1 percent at 31 March 2016 after 5.9 percent at 31 December 2015.

The liquidity coverage ratio was again over 100 percent at the reporting date, much higher than the minimum of 70 percent required under Basel III for 2016.

“The financial strength we enjoy on the liquidity and capital side allows us to approve any economically reasonable loan. Furthermore, our stable earnings performance and low dependence on the financial markets makes us a reliable finance partner. Both of these factors are helping us to expand our share of the market and strengthen our core bank status, without having to soften our conservative risk policy or our margins in the process,” comments HypoVereinsbank CFO Francesco Giordano.

Focus remains on growing core business activities and enhancing efficiency in back office units

Implementation of the 2016–18 Strategic Plan announced by HypoVereinsbank last year is progressing as planned. The aim is to boost market share and profitability in the Private Banking & Wealth Management, Unternehmer Bank and Corporate &

Investment Banking units in particular and to continue the successfully commenced turnaround in the retail banking activity. At the same time, efficiency is to be constantly enhanced by streamlining the back office units as already commenced and systematically advancing the digitalisation of processes and structures across all of the Bank’s units. The restructuring costs that are deemed necessary in this context from today’s viewpoint were already recognised in full in 2015.

“In light of the worsening underlying conditions, all banks will have to up their games if they want to achieve the goals they’ve set for themselves,” states Dr Theodor Weimer.

To download the complete Interim Report for the first quarter of 2016, please go to the Investor Relations website at www.hvb.de/ir.

Contacts for the press:
Marion Nagl
Phone +49 89 378-25554; marion.nagl@unicredit.de

Nicholas Wenzel
Phone +49 89 378-44959; nicholas.wenzel@unicredit.de

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