Munich, 4 August 2016

Press release: Results for the first half of 2016

HypoVereinsbank increases profit despite market turmoil

- Slight increase in operating income
- Much lower operating costs thanks to consistent cost management, creating space for investment
- Sharp rise in operating profit, market and growth opportunities exploited mainly in the second quarter
- Strong performance in Commercial Banking offsets weaker results in Corporate & Investment Banking
- Higher consolidated profit before and after tax year-on-year
- Implementation of the 2016–18 Strategic Plan on track

HVB Group (also referred to as HypoVereinsbank) increased its consolidated profit year-on-year in the first half of 2016, despite continuing difficult underlying conditions and considerable market turmoil. In this context, there was a slight rise in operating income to €2,439 million (H1 2015: €2,428 million). The net operating profit increased by 10.4 percent to €542 million in the first six months of the year (H1 2015: €491 million). Market and growth potential was exploited mainly in the second quarter. At €568 million, the profit before tax was up 15.9 percent year-on-year (H1 2015: €490 million). After income taxes, there remained a consolidated profit of €371 million, up 13.8 percent on the year-ago total of €326 million.

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"The first half of the year was more difficult than expected for the banking industry. Despite all the turmoil on the markets, we succeeded in increasing our consolidated profit year-on-year. We've exploited growth opportunities and further reduced our costs. We're now reaping the benefits of already responding to the structural changes in the market two or three years ago. In particular, the prompt strategic decision we took to reposition our retail banking activity complete with large-scale branch restructuring is now paying dividends," comments Dr Theodor Weimer, Spokesman of the Management Board of HypoVereinsbank.

Growth in credit and deposit volumes mainly with core customers

In an environment characterised by low interest rates and stagnating markets, HypoVereinsbank succeeded in expanding the volume of both loans and deposits in the first half of 2016, thus reducing its dependence on the financial markets for funding even further. New lending operations performed particularly well. At 30 June 2016, the lending volume amounted to €119.2 billion, up 5.0 percent on the total at year-end 2015. Customer deposits also expanded by 9.3 percent to €117.7 billion, despite an environment of even lower interest rates.

Healthy net interest, slight rise in net fees and commissions, weaker net trading income due to market-related weakness in the first quarter of 2016

Even though interest rates fell even further from an already extremely low level in the first half of this year, we succeeded in keeping net interest stable at €1,317 million compared with the year-ago figure (H1 2015: €1,320 million). Net fees and commissions performed well, rising by a slight 1.4 percent to €567 million (H1 2015: €559 million).

This results mainly from a positive development in lending operations, primarily on the back of large exposures. In this context, it is important to note that the figure in the first half of 2015 still contained the commission income of PlanetHome AG and its subsidiaries that were sold in the second quarter of 2015. By contrast, HVB was not able to compensate for the weak net trading income of the first quarter, despite a strong second quarter, as a result of which the net trading income of €342 million recorded in the first half of 2016 was 24.0 percent below the total for the equivalent period last year.

Consistent cost management creates space for investment

Operating costs fell by 4.4 percent to €1,746 million (H1 2015: €1,827 million). The year-on-year decline in costs results primarily from the implemented efficiency measures coupled with the concluded repositioning of the retail banking activity. Positive effects can be observed notably in payroll and building costs as well as marketing and consulting expenses. This helped the cost-income ratio to improve from 75.2 percent in the first half of 2015 to 71.6 percent in the year to date.

Although net write-downs of loans and provisions for guarantees and commitments were higher than the year-ago total (H1 2015: €110 million), they were still at a low level of €151 million. Among other things, the rise results from the need to carry out higher write-downs in the second quarter of 2016 to reflect the worsening situation in the shipping industry. Despite this increase, HypoVereinsbank has retained a high quality portfolio and maintained its conservative risk policy for new business written.

Strong performance in Commercial Banking offsets weaker result in Corporate & Investment Banking

All operating segments again made positive contributions to the operating performance of HypoVereinsbank in the first half of 2016.

The Commercial Banking business segment, which encompasses the retail and corporate banking activities, generated a strong net operating profit of €250 million in the first six months of the year. This represents an increase of 58.2 percent over the figure reported for the equivalent period last year.

The corporate banking activity succeeded in boosting the volume of lending slightly above both the market and last year while keeping margins practically the same. 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. HypoVereinsbank went on expanding mainly in the classical SME business and commercial real estate finance. Corporate succession, a strategic growth field in the Unternehmer Bank unit, also performed well, and further shares of the market were gained in the exports and internationalisation operations. It also proved possible to maintain the momentum in investment banking solutions for SME customers. The advance of digitalisation in Corporate Banking provided additional stimulus.

The fast-expanding Private Banking & Wealth Management unit continued to perform well in the first six months, in terms of both the number of customers served and assets under management in the mandated business. Above all the close relationship between the Unternehmer Bank and Private Clients Bank units is paying off in this context. Customer satisfaction levels remain very positive when compared with our peers.

The retailing banking activity put in a healthy performance during the course of the modernisation and quality offensive in the first half of the year. Growing customer numbers and new business helped notably to boost market share in the core customer segment. Business was stimulated by securities activities and an expanded, higher quality advisory offer in particular. The Bank continued to enjoy a stable financing volume with practically unchanged margins in private real estate finance. In addition, the activity is profiting from additional positive cost effects in the wake of the completed repositioning.

The Corporate & Investment Banking business segment generated a healthy net operating profit of €283 million in a difficult market environment in the first half of 2016, which is 13.7 percent below the year-ago total of €328 million. Within this total, net write-downs of loans and provisions for guarantees and commitments increased to €175 million (H1 2015: €36 million) due in part to the need to carry out higher write-downs in the second quarter of 2016 to reflect the worsening situation in the shipping industry. The decline in net operating profit is additionally down to valuation losses in the held-for-trading portfolio, which was not fully offset by a very strong second quarter. By contrast, the Financing & Advisory (F&A) and Markets units performed well in the second quarter, while Global Transaction Banking and Trade Finance gained further shares of the market.

Capital and liquidity base still excellent

HypoVereinsbank continues to enjoy an excellent capital and liquidity base and a solid funding structure. The core capital ratio (CET1 fully loaded) at 30 June 2016 was 22.1 percent (31 December 2015: 24.7 percent). The decline in what is still an excellent Tier 1 ratio is attributable to both the lower core capital and the increase in risk-weighted assets. One of the reasons for the increase in risk-weighted assets is the growth in total assets, which can be attributed in part to the expansion of business in the first half of 2016.

The (fully loaded) 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 5.7 percent at 30 June 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.

“Our liquidity and capital base is one of the best in the banking sector both by national and international standards. HypoVereinsbank’s stable earnings performance over the last quarters and its consistent cost management have given us the space we need to invest in growth and digitalisation,” comments HypoVereinsbank CFO Francesco Giordano.

<u>Focus remains on boosting efficiency and profitability</u>

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 successful performance of 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 provided for in full in 2015.

“Uncertainty about our future earnings performance stems from the markets, not our business model. We have a clear strategy, first stage wins behind us, the strength and speed we need, a committed team, and the backing and incentive of our customers. 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. Low interest rates, digitalisation and regulation make an ability to innovate strongly and respond quickly more important then ever before, as well as demonstrating staying power,” states Dr Theodor Weimer.

To download the complete 2016 Half-yearly Financial Report, please go to the Investor Relations website at www.hvb.de/ir.

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