

One Bank
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2018

Half-yearly Financial Report at 30 June 2018

Banking that matters.

 **HypoVereinsbank**

Member of  **UniCredit**

Risk Report (CONTINUED)

Real-estate financing

In various cases, customers dispute their obligation to repay their property loan agreements because they are of the opinion that HVB gave insufficient advice about the intrinsic value of the acquired property and the expected rent. In the last few years only a small number of new lawsuits has been filed. In the light of the experience gained, HVB assumes that there are no significant risks expected in this context.

Derivative transactions

The number of complaints and lawsuits filed against HVB by customers in connection with inadequate advice in the context of the conclusion of derivative transactions is declining. Among other things, the arguments raised are that the Bank allegedly did not sufficiently inform the customer with respect to potential risks related to such transactions and especially did not inform the customer about a potential initial negative market value of the derivative. Experience gained so far show that the characteristics of the relevant product and the individual circumstances of each case are decisive. In particular, the statute of limitations, the client's economic experience and risk tolerance, and the actual investment advice given may be relevant aspects.

Proceedings related to claims for withholding tax credits

On 31 July 2014, the Supervisory Board of HVB concluded its internal investigation into the so-called "cum-ex" transactions (the short selling of equities around dividend dates and claims for withholding tax credits on German share dividends) at HVB. The findings of the Supervisory Board's investigation indicated that the Bank sustained losses due to certain past acts/omissions on the part of individuals. The Supervisory Board has submitted a claim for compensation against three individual former members of the Management Board, not seeing reasons to take any action against the current members. These proceedings are ongoing.

In addition, criminal investigations have been instigated against current or former employees of HVB by the Prosecutors in Frankfurt on the Main, Cologne and Munich with the aim of verifying alleged tax evasion offences on their part. HVB cooperated – and continues to cooperate – with the aforesaid Prosecutors who investigated offences that include possible tax evasion in connection with cum-ex transactions both for HVB's own book as well as for a former customer of HVB. Proceedings in Cologne against HVB and its former employees came to a conclusion in November 2015 with, among other things, the payment by HVB of a fine of €9.8 million. The investigations by the Frankfurt on the Main Prosecutor against HVB under section 30 of the Administrative Offences Act (Ordnungswidrigkeitengesetz) came to a conclusion in February 2016 by the payment of a fine of €5 million. The investigation by the Munich Prosecutor against HVB also came to a conclusion in April 2017 following the payment of a forfeiture of €5 million. At present, all criminal proceedings against HVB have been terminated.

The Munich tax authorities are currently performing a regular field audit of HVB for the years 2009 to 2012 which includes, among other things, review of other transactions in equities around the dividend record date. During these years HVB performed, among other things, securities-lending with different domestic counterparties which include but are not limited to different types of securities transactions around the dividend date. It remains to be clarified whether, and under what circumstances, tax credits can be obtained or taxes refunded with regard to different types of transactions carried out close to the distribution of dividends, and what the further consequences for the Bank will be in the event of different tax treatment. The same applies for the years 2013 until 2015 following the current regular tax audit mentioned above. It cannot be ruled out that HVB might be exposed to tax-claims in this respect by relevant tax offices or third-party claims under civil law. HVB is in constant communication with relevant regulatory authorities and competent tax authorities regarding these matters. HVB has made provisions deemed appropriate.