HypoVereinsbank Member of UniCredit

Clear answers for real benefits.

2012 Annual Report

HypoVereinsbank Member of UniCredit

Customer testimonials are the common thread of this year's annual report to illustrate the concrete solutions we provide every day. These true stories were told first-hand and collected by the colleagues who worked with them to offer real benefits.

Each story lends an authentic voice to how we are having a positive impact on our stakeholders. We are making a difference by recognizing everyday challenges and opportunities, and by contributing to the economic, social and cultural well-being of the communities we serve.

This report's creative concept reflects our commitment by displaying two pieces that fit together. This represents the union between the real-life needs of our clients and the practical solutions that we offer.

Above all, we believe that being a commercial bank means engaging in meaningful dialogue with those with whom we come into contact. This enables us to provide simple, quick and effective responses that perfectly meet customer needs.

Inside you will find some of these stories. We hope the next one will be yours.

2012 Annual Report

UniCredit Bank AG Profile

- UniCredit Bank AG (HVB) is one of the **leading financial institutions** in Germany. Our core competencies cover retail banking, corporate banking for small, medium-sized and large, internationally active corporate customers, private banking and international capital markets.
- At the start of 2013, we set up **three new business segments** in order to achieve a greater regional focus and a stronger entrepreneurial orientation: Private Clients Bank, Unternehmer Bank, and Corporate & Investment Banking.
- **Customer** satisfaction is the focal point of all our activities. We are committed to providing our customers with excellent, innovative and fast solutions across all business segments.
- HVB belongs to UniCredit, a pan-European banking group that holds a leading position in the wealthiest regions and fastest-growing markets in Europe, notably also in central and eastern Europe. HVB is the corporate **centre of competence for all UniCredit capital market operations.**
- Germany plays an important role in the corporate group. We are committed to our regional origins. At the same time, as a fully integrated member of UniCredit and a leading European bank, we want to develop a strong **cultural identity**. In this context, the company name was changed from Bayerische Hypo- und Vereinsbank Aktiengesellschaft to UniCredit Bank AG in 2009 to reflect the UniCredit identity and branding. We are also committed to our **corporate citizenship**, promoting the common good in the countries where we operate.
- We offer our people excellent opportunities to further their careers throughout Europe, thereby strengthening an entrepreneurial spirit. At the same time, we ensure strict compliance with the group-wide **Integrity Charter**, which encompasses the basic values our staff is expected to observe. We integrate our staff through Integrity Charter workshops and regular staff surveys. We also have a coherent corporate mission statement. Among other things, this **Mission Statement** includes the self-imposed obligation to create customer benefits and generate lasting value.

Financial Highlights

Key performance indicators

	2012	2011
Net operating profit	€1,807m	€1,935m
Cost-income ratio (based on operating income)	58.1%	62.1%
Profit before tax	€2,058m	€1,615m
Consolidated profit	€1,287m	€971m
Return on equity before tax[1]	9.2%	7.2%
Return on equity after tax[1]	5.8%	4.3%
Earnings per share	€1.55	€1.16

Balance sheet figures

	31/12/2012	31/12/2011
Total assets	€348.3bn	€372.3bn
Shareholders' equity	€23.3bn	€23.3bn
Leverage ratio[2]	15.0x	16.5x

Key capital ratios compliant with Basel II

	31/12/2012	31/12/2011
Core capital without hybrid capital (core Tier 1 capital)	€19.1bn	€19.9bn
Core capital (Tier 1 capital)	€19.5bn	€20.6bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€109.8bn	€127.4bn
Core capital ratio without hybrid capital (core Tier 1 ratio)[3]	17.4%	15.6%
Core capital ratio (Tier 1 ratio)[3]	17.8%	16.2%

	31/12/2012	31/12/2011
Employees (in FTEs)	19,247	19,442
Branch offices	941	934

1 return on equity calculated on the basis of average shareholders' equity according to IFRS
2 ratio of total assets to shareholders' equity compliant with IFRS
3 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk

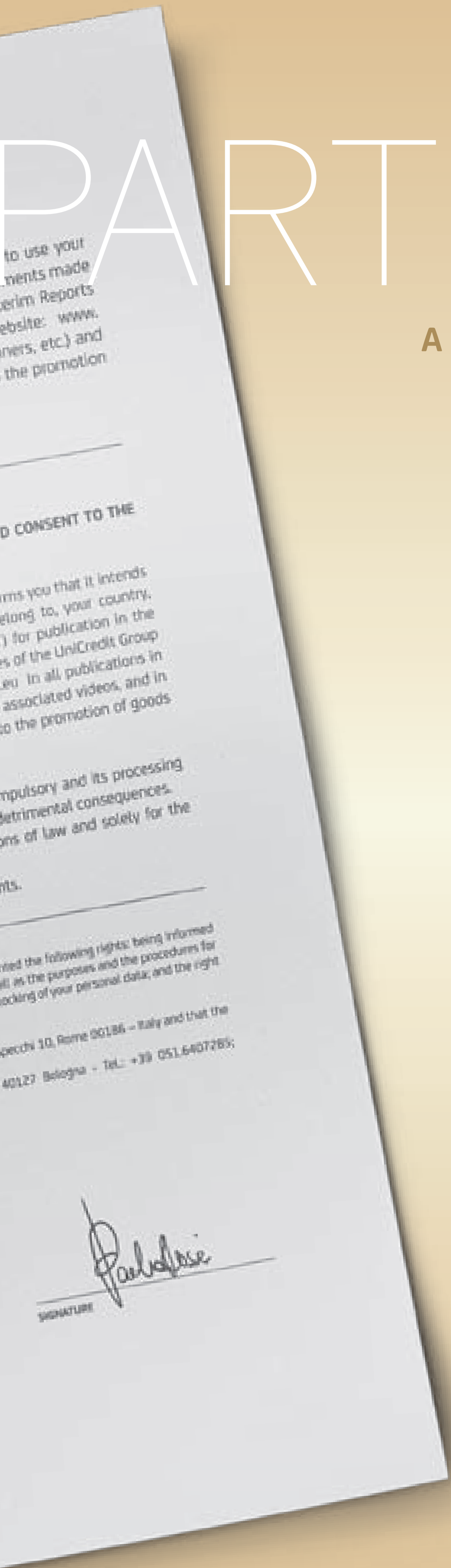
Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Moody's	A3	P-2	negative	C–	6/6/2012	Aaa	Aa1	8/6/2012
Standard & Poor's	A	A-1	negative	bbb+	8/8/2012	AAA	—	4/3/2013
Fitch Ratings	A+	F1+	stable	a–*	9/10/2012	AAA	AAA	11/3/2013/ 21/12/2012

* as of 20 July 2011 Fitch uses the Viability Rating, thus replacing the previous Individual Rating

PARTNERSHIP

A new, versatile and flexible, investment concept



HVB Private Banking Vermögensportfolio Flex Select is a new kind of joint investment with a long-term investment horizon.
It is based on the idea that the customer and the Bank invest together in an investment fund ("Private Banking Vermögensportfolio Flex Select 70 PI"; launched by the capital investment company, Pioneer Investments KAG mbH, Munich). The Bank has injected €20 million of its own capital in the fund and through the joint investment both the Bank and its customers participate in the performance of the respective unit classes.

*Only the sales prospectus is binding, as well as the Key Investor Document, which you can receive free of charge in German from UniCredit Bank AG, Arabellastrasse 12, Munich.

Contents

PROTECTION

Supporting communities in critical times

“After one of our town’s largest employers closed its doors, our local communities went through a very tough time. UniCredit worked closely with government officials on an innovative initiative that helped those who had lost their jobs, like me, gain prompt access to unemployment benefits. The bank quickly facilitated funding for entitlements, protecting families from collapse.”

Franco F., customer of UniCredit in Italy

Strategy and Results

Letter from the Supervisory Board Chairman

FEDERICO GHIZZONI
Supervisory Board Chairman

"UniCredit Bank AG (HVB) has thus consolidated its reputation as one of Germany's most competitive and cost-efficient banks."

Ladies and Gentlemen

As in 2011, the global economy lost momentum towards the end of 2012. The eurozone has remained in the grip of a sovereign debt crisis. Despite this, signs of improvement have been visible. European capital markets were particularly volatile. However, after the announcement by the European Central Bank, which opened the door to unlimited bond purchases, the continent's stock markets generally improved. This was seen in the performance of key indices including the EUROSTOXX 50 and DAX 30.

The German economy performed well on the wake of a sustained surge in exports, though losing some of its dynamism towards the end of the year. Yet the country's banks continued to suffer from structural problems such as overbanking and fragmentation. Many financial institutions experienced weak revenues and rising risk.

Viewed in this context, UniCredit Bank AG's good performance can be described as commendable. Our profit before tax was significantly higher than in 2011. All divisions delivered favorable results, particularly Corporate & Investment Banking. At the same time, operating costs were slightly lower.

UniCredit Bank AG (HVB) has consolidated its reputation as one of Germany's most competitive and cost-efficient banks. Its strong market position reflects a diversified business model. And its excellent capitalization and solid liquidity position provide a stable operational base for future success.

Together, HVB's Management Board and its employees have achieved good results. I would like to thank them for their consistently excellent work in a challenging environment.

HVB is and will remain a core part of UniCredit, one of Europe's leading banking networks. While fully integrated into our Group, it possesses a strong regional identity reflected in the HypoVereinsbank brand.

The new organizational structure implemented by UniCredit in January 2013 through the Group Organization Leaner Design (GOLD) project is designed to make our Group more efficient, less complex, and moves even closer to customers. It provides greater autonomy to the regional banks within UniCredit while also increasing their accountability. At the same time, it strengthens the holding company's role in matters of steering and control.

In keeping with this new regional emphasis, HVB's organizational structure has been modified with effect from January 14, 2013. In order to align the bank more closely with customer needs, three new business segments have been formed: the Unternehmer Bank, the Private Clients Bank, and Corporate & Investment Banking.

This new structure is integral to UniCredit's ongoing strategic plan to increase operational efficiency and sustainable returns throughout the Group. This effort entails increasing our investments in product and service innovation and instituting stronger risk management controls.

UniCredit continues to be a major player in some of Europe's wealthiest regions. It is also a leading bank in much of Central and Eastern Europe, as well as in such emerging markets as Turkey. And after executing a capital increase of €7.5 billion in early 2012, UniCredit is one of Europe's best-capitalized banks.

Germany remains a key market for UniCredit, and we are firmly committed to maintaining a strong presence in Europe's leading economy. Moreover, HVB's market position, operating efficiency and low funding costs offer continuing benefits for our Group as a whole. The company's new structure will expand its ability to utilize these competitive advantages, and I am confident that HVB will continue to be a profitable and cost-efficient financial institution.

Sincerely

Federico Ghizzoni

Letter from the Management Board Spokesman

DR THEODOR WEIMER
Management Board Spokesman

"We achieved very good results in a difficult environment, not least when seen against our competitors."

Dear Customers, Investors and Partners
Ladies and Gentlemen

When looking back at last year, I get a sense of déjà vu. For the underlying economic conditions were no less volatile in 2012 than they had been in the previous year. The global economy lost momentum during the course of 2012, with even emerging markets like China enjoying only modest growth. The eurozone remained in the grip of the sovereign debt crisis and high unemployment, especially in the crisis-hit countries on its southern periphery.

The relative strength of the German economy was one of the more pleasant invariables in 2012. The healthy trend was built around rising exports and stable domestic consumption coupled with a consistently high level of capacity utilisation in industry and falling unemployment. However, the economy lost much of its vigour towards the end of the year. Although the picture was thoroughly mixed, the situation on the European capital markets improved considerably as of the third quarter of 2012 in the wake of the ECB's announcement to buy sovereign bonds issued by crisis-hit countries. This upturn was also reflected in the development of benchmark indices, with the EUROSTOXX 50 rising 13% while the DAX ended the year up a good 30%.

To come straight to the point, we achieved very good results in a difficult environment, not least when seen against our competitors. In doing so, we once more demonstrated our ability to master adverse conditions in 2012.

The pre-tax profit of HVB Group rose by 27.4% year-on-year to €2,058 million compared with €1,615 million in 2011. At the same time, we increased our consolidated profit by 32.5% to €1,287 million (2011: €971 million) despite high income taxes. This means we have recorded one of the best results in the history of HVB.

We are also pleased with the lasting success of our cost management programme. Operating costs fell to €3,516 million (2011: €3,611 million). The cost of materials declined considerably while payroll costs rose slightly (please refer to the Financial Review for more information about the annual results).

All our business units have once more contributed to our good results, albeit to varying extents. As in previous years, our Corporate & Investment Banking division accounted for the lion's share of our commercial success, recording a pre-tax profit of €1,574 million (2011: €1,092 million). The main earnings driver was net trading income, where we benefited from the reversal of the credit value adjustments that had depressed the year-ago total. The results of the other divisions were shaped by the low level of interest rates coupled with the ongoing caution on the part of investors. The pre-tax profit of the Family & SME division totalled €10 million (2011: €126 million), while the Private Banking division achieved a total of €38 million (2011: €74 million).

Last year, we re-evaluated our business model in light of the rapidly changing economic and regulatory environment and decided to make fundamental changes. The purpose of these changes is to regionalise our banking operations in Germany and increase their entrepreneurial orientation. This will allow us to ensure the greatest possible proximity to our customers and define clear responsibilities for results and leaner decision-making processes. The move is intended to boost both the profitability and efficiency of HVB.

As of January 2013, HVB's structure has been divided into three business segments: Unternehmer Bank, Private Clients Bank, and Corporate & Investment Banking. The Private Clients Bank serves both conventional retail customers and private banking clients. This enables us to create value across both customer segments and exploit synergies at the same time. The new Unternehmer Bank is geared to Mittelstand enterprises together with business and real estate customers. The goal here is to provide a full service to the generally owner-managed enterprises while simultaneously catering for the personal wealth issues of the entrepreneurs. Our investment banking offerings are embedded in the new Corporate & Investment Banking business segment. This is built around the principle of the integrated value chain, centring on the expertise of product specialists.

Unternehmer Bank and Private Clients Bank activities will both be conducted in six regions. The heads of these regions will pursue an entrepreneurial approach and will ensure a uniform presence for the Bank and professional customer care at local level.

Allow me please to state the following in this regard. We are initiating these changes from a position of strength. They reflect the constant refinement of our approach that we need to maintain to remain competitive and pave the way for profitable growth at an early stage.

Our strengths also include an efficient risk management programme, which has enabled us to keep loan-loss provisions in constant check over recent years.

Added to this is that we are frugal as a matter of principle, as a glance at the development of operating costs over recent years will confirm. We succeeded in reducing our cost-income ratio further during the reporting period to 58.1%. One of our key operating strengths is definitely our capital base. Our core capital ratio of 17.4% and high level of liquidity make us one of the most stable banks in Europe. The same holds true for our leverage ratio (ratio of total assets to shareholders' equity shown in the balance) which, at 15.0x, is rock solid. Finally, our liquidity base is more than adequate.

Based on the very good results coupled with the Bank's strong and expanding capital base, we have decided to propose to the Shareholders' Meeting that a record dividend of €2,462 million be paid to UniCredit.

Another key factor underpinning the success of HVB is our membership of UniCredit, one of the leading banking networks in Europe. This enables us to offer our corporate customers access to cross-border markets especially in the countries of central and eastern Europe, where UniCredit enjoys a leading market position. We also benefit from the division of labour across the corporate group, with responsibility for the highly profitable yet volatile investment banking activities resting with HVB.

Further advantages stemming from the international network are found in IT integration and the exploitation of economies of scale in back office functions. In this context, a number of services – including purchasing, facility management and IT operating – were already transferred to the new service provider, UniCredit Global Business Services in 2011 (see also the chapter entitled Global Banking Services).

The decision to streamline our structures and make use of alternative distribution channels relates in part to the modification of our headcount. Against this backdrop, we too are constrained to make cutbacks, albeit at a moderate rate by present industry standards. Adapting staffing levels to reflect the changed environment and business model will account for around a thousand posts, of which some 400 relate to the optimisation of our mass-market operations. In light of the changed patterns of customer behaviour and the creation of popular new distribution channels, we have decided to streamline our branch network and close 45 branches. At the same time, the Bank is creating around 300 new positions mainly in units like Compliance, Risk Management, Finance and Internal Audit, in response for the most part to rising regulatory requirements.

It goes without saying that we always make every effort to ensure that downsizing is carried out in as socially responsible a manner as possible. At this point, I would like to mention the constructive co-determination processes involving the employee representatives; we work together to find solutions that serve the interests of the workforce and the company in equal measure. In addition, we are leveraging all the instruments of personnel planning – fluctuation, part-time working, partial retirement and so on – in an attempt to align the necessary efficiency enhancements with the interests of our employees (see also the chapter entitled Human Resources).

We have a direct responsibility towards our employees and an indirect responsibility towards the communities in which we live. As a bank, we have a dual commitment to the environment: as a consumer and as an issuer of sustainable investments. We fund a number of charitable projects; furthermore, we have been committed to climate protection for many years (see also the chapter entitled Corporate Sustainability).

2013 promises to be just as varied a year as 2012. On the one hand, parts of the global economy might finally recover from the financial crisis, especially in the United States. On the other hand, factors like the sovereign debt crisis and the effects of fiscal austerity in the crisis-hit countries of the eurozone could have a negative impact on the European Union as a whole.

Although I believe the German economy will not be spared the consequences of the crisis, our domestic market will almost certainly remain a bulwark of stability, enjoying what we expect to be moderate economic growth this year. At the same time, the German banking industry is suffering from not only weak earnings but also regulatory pressure. The issues to watch in this regard include Basel III and the bailing in of creditors in the event of bank losses as well as the plans to segregate commercial and investment banking.

To sum up, we achieved a very good result – or even an outstanding result seen against our competitors – in 2012, which proved to be a difficult year for banks. This once again demonstrates our ability to stand firm in a volatile capital market environment, something of which we can rightly be proud. In light of the odd dark cloud or two on the horizon, there are many reasons to remain commercially cautious with regard to 2013, although there are only a few reasons why we should look ahead with confidence.

I would like to wish all of you – our customers, our investors, our business partners and all our well-wishers – a successful financial year and that touch of good fortune that even the boldest of us needs.

Best regards

Dr Theodor Weimer
Munich, 18 March 2013

Summary of Results

Corporate & Investment Banking (CIB)

- This division comprises three global product lines – Markets, Financing & Advisory, and Global Transaction Banking – that act as providers of innovative, specialised products
- 2012: much bigger pre-tax profit thanks to higher net trading income
- Operating costs down slightly

Family & SME division (F&SME)

- Family & SME (F&SME) division serves business customers with annual revenues of up to €50 million and retail customers with assets of up to €500,000
- 2012: much lower pre-tax profit because of investor caution and restructuring changes
- Net write-downs of loans reduced again

Private Banking (PB)

- Demand-compliant relationship management for wealthy customers complete with personal advice
- 2012: pre-tax profit down year-on-year due to weak customer demand

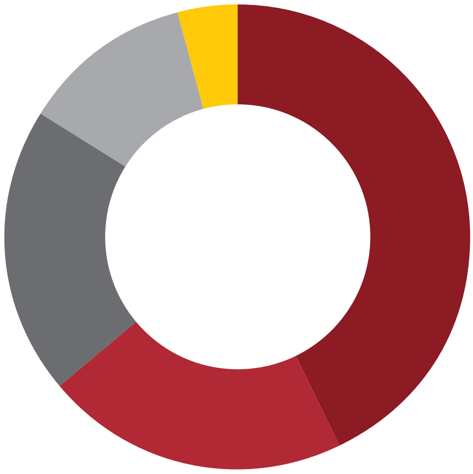
A detailed presentation of the results can be found together with comments in the segment report section of the notes to the consolidated financial statements.

Divisional highlights

(€ millions)

	CORPORATE & INVESTMENT BANKING	FAMILY & SME	PRIVATE BANKING	OTHER/ CONSOLIDATION
OPERATING INCOME				
2012	3,838	1,668	234	310
2011	3,248	1,828	265	471
Operating costs				
2012	(1,565)	(1,607)	(165)	(179)
2011	(1,585)	(1,623)	(161)	(242)
Net write-downs of loans				
and provisions for guarantees				
and commitments				
2012	(952)	(8)	(15)	248
2011	(316)	(30)	(1)	81
NET OPERATING PROFIT				
2012	1,321	53	54	379
2011	1,347	175	103	310
PROFIT BEFORE TAX				
2012	1,574	10	38	436
2011	1,092	126	74	323

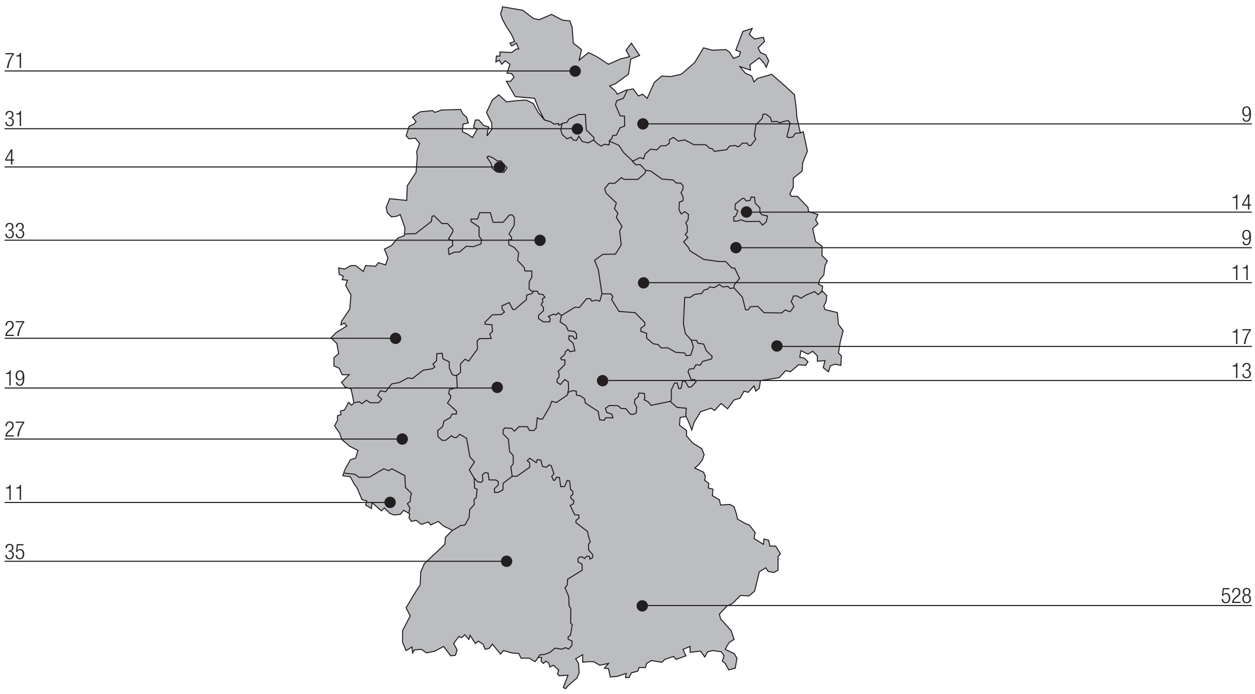
Employees[1] by division



- Family & SME 44%
- Group Corporate Centre 25%
- Corporate & Investment Banking 17%
- Global Banking Services 10%
- Private Banking 4%

1 total of 19,247 employees, calculated as full-time equivalents (FTEs)

Facilities in Germany

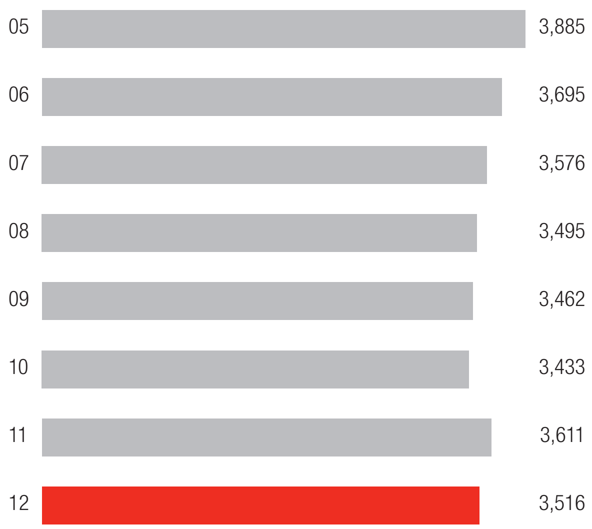


Global Banking Services

Global hubs tap synergies and increase customer focus
Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success for UniCredit Bank AG (HVB). The departments subsumed under GBS (1,900 employees) include Organisation, Insurance, Data Protection, Workout Services, Security and Service Management & Governance, which oversees relations with the back office and IT functions outsourced to UniCredit Group. In addition, the UniCredit Global Business Services subsidiary (UGBS) comprises the units Real Estate Management, HR Service Centre, Purchasing and Operations for Markets & Treasury Products.

Cost optimisation project yields further reductions in operating costs
As in previous years, HVB again succeeded in improving its cost base by further streamlining its internal workflows and continually enhancing its processes, and through the cost optimisation project "Mindset 440" launched at the end of 2012 in cooperation with UniCredit. Operating costs were reduced to €3,516 million (2011: €3,611 million), thanks to the excellent performance of our employees.

Operating costs of HVB Group (€ millions)



Advice from Data Protection unit ensures appropriate data protection level
In the year under review, we submitted various proposals to the Management Board for measures to improve the level of data protection, which were commissioned accordingly. Support from the Management Board generates a high level of awareness among staff for data protection concerns in both day-to-day operations and projects.

The Data Protection unit provides advice in response to specific enquiries and in conjunction with projects, taking into account the relevant legal, technical and banking requirements, while offering approaches for improving data protection processes. This includes regular consultations with the responsible contacts at foreign branches and domestic subsidiaries, so that data protection is positioned as a quality yardstick for customers and employees alike throughout the corporate group.

Integrated security organisation provides greater protection for banking operations
In the year under review, the integrated security organisation concept that was implemented in 2011 enabled the Bank to network its security processes and thus establish a comprehensive overview of potential threat situations. This resulted in improvements in control mechanisms in the areas of strategic security and IT security as well as business continuity and crisis management. With the steadily escalating threat of cybercrime, protection of the Bank's computer systems is becoming increasingly important. We address the risk of unauthorised access to the Bank's data through the use of virus scanners, firewalls and intrusion prevention systems. Security is also enhanced through the restrictive approach to granting access privileges to systems. In that regard, we initiated an "Access Right" programme in 2012 that will permit central management and monitoring of access privileges in the future.

The measures have been a major factor in placing UniCredit Bank AG far above the industry average for its level of protection in such areas as internet security and phishing.

Service Management & Governance safeguards standardised management of back office services

The Service Management & Governance unit oversees the internal and external back-office and IT service providers in terms of cost, quality and risk targets, thus ensuring the Bank's ability to function properly. It acts as an interface serving to implement the sales units' requirements and, as the centre of competence for outsourcing, monitors compliance with all legal and regulatory requirements arising particularly from Section 25a of the German Banking Act (Kreditwesengesetz – KWG) and the relevant regulations defined in the Minimum Requirements for Risk Management (MaRisk). The responsibility of the centre of competence as a tracking office begins in the run-up to planning and implementing any outsourcing project.

Back office service providers

The customer-account-partner back office services (core banking) and real estate loan servicing have been performed by UniCredit group subsidiaries since 2009, and by UniCredit Business Integrated Solutions (UBIS) since 2011. The projected cost cuts were again achieved in 2012 without compromising the consistently high standard of quality.

ICT services

The ICT services for the Bank are provided mainly by the group company UniCredit Business Integrated Solutions (UBIS). To steer these services, the Bank and UBIS have worked together under the CRESCENDO project to cater for the changes resulting from the rollout in 2010 of EuroSIG, the group-wide IT platform, while steadily expanding the control system. In 2013, the control system will be further expanded and improved to exploit the potential for improvements identified in 2012 and utilise knowledge gained from audits.

To optimise the services of UBIS in 2013, the Bank plans to deliver some portions of the services portfolio jointly with third-party providers in such areas as data centre operations and in parts of application support (NEWTON project). The Service Management & Governance unit is involved in these projects.

Outsourcing of securities settlement

CACEIS Bank Deutschland has carried out the back office activities for the Bank's cash securities activities since 1 January 2008. The settlement of derivatives (OTC derivatives, listed derivatives, FX/MM, repos & lending, and so on) and structured loans was outsourced to UniCredit Global Business Services (UGBS) on 1 November 2011.

Payment services

Betriebs-Center für Banken has handled all payment services since 2007. A VISA Infinite credit card was launched as a new premium product built around UniCredit's own credit card platform that was created in 2011. Other credit card products for this platform are in preparation.

Banking support services

The Banking Support unit manages the purchasing services outsourced to UGBS, the Cross Medial Products Competence Centre (formerly Forms and Print Management), and mobility management for all divisions of UniCredit Bank AG and defined UniCredit Group units. It carries out financial accounting and is the centre of competence and the process owner for the Bank's correspondent bank accounts. Further services outsourced to UGBS in the area of account reconciliation were integrated into the management processes.

Along with the IT services mentioned above, the NEWTON project will also affect HR administration tasks (HR Shared Service Centre). The responsible management unit is heavily involved in this change process.

Real estate management

GBS manages the Group's own real estate centrally. Within HVB, this is the responsibility of the Bank's Real Estate unit (GRE) and the HVB subsidiaries HVB Immobilien AG and, since 1 August 2011, UGBS, engaged by HVB Immobilien AG on the basis of an operating contract.

GRE was set up within the Bank for corporate governance reasons, as it bears responsibility for ensuring strategic decision-making and for exercising owner interests for the group's own real estate.

Global Banking Services (Continued)

The units listed above are responsible for the administration of real estate required for operations (e.g. administration buildings or group-owned branches) and of real estate not used by the Bank.

In connection with the real estate portfolio used by the Bank, the GEMINI concept for the headquarters buildings in Munich and Hamburg was established in 2010 and 2011 and continued in 2012. The facility plans in Hamburg and Munich call for the optimisation of space utilisation, renovation and sale of buildings, and for HVB to vacate the empty buildings, along with the relocation of the affected units.

Utilisation of the Bank's own real estate portfolio takes precedence over rental of third-party properties. The Bank continues to pursue this strategy when making changes in the use of floor space or meeting the space requirements of the Bank's units.

Portfolio reduction remains the priority for the properties not used by the Bank. Various portfolio management measures (such as the cancellation of rent guarantee obligations, tenant management and renovations) are being implemented to achieve the maximum value for the Bank through the sale of these properties.

Central management of insurance cover

In its function as a central internal service provider, GBS ensures that the required insurance cover is in place. It does so in close cooperation with an insurance brokerage that ensures access to national and international insurance markets.

Identified banking risks that are insurable and worth insuring are transferred to insurance cover in a defined process involving the individual divisions, the offices concerned and the Operational Risk department. Appropriate, economically efficient insurance cover helps to reduce some of the banking risk (see also the Risk Report in this Annual Report).

Workout services

Workout services are required on the lending side if financial or legal difficulties arise in the customer relationship.

The classic workout function is called for whenever all of the restructuring measures in a debtor/creditor relationship have failed. The aim is to obtain as much of the amounts receivable from the borrower as possible by liquidating the collateral provided and, if necessary, exercising all possible measures such as foreclosures and sequestrations. At the same time, however, it is important to work with the administrator and other creditors to find a solution that is acceptable for the company and the employees.

The Special Advisory department is responsible for all legally sensitive topics arising in the customer relationship, including lending products and activities involving derivatives and investment funds. The department's mission is to clarify different opinions and interpretations of contractual and legal positions, if necessary with reference to court rulings on fundamental issues.

With a high recovery rate for non-performing loans as well as appropriate regulation of legal positions, this unit plays a vital role in minimising risks and defaults for the Bank.

Global Markets Business Support: support independent of the Trading department and increased monitoring of trading activities

The international financial market is undergoing massive changes in the area of derivatives trading. The increased regulatory requirements are resulting in greater needs for transparency in trading through clearing and reporting, and for more extensive transaction monitoring.

The Global Markets Business Support – Middle Office unit operates independently of the Trading department and provides it with operational support for various activities, above all in connection with controlling. This includes verification, amendment and cancellation of transactions under internal and external guidelines, but also regular reconciliation of trading systems with one another. The unit provides services for international market transactions (money market and foreign exchange, derivative products and securities) for the trading units in London, Milan, Munich and Vienna.

New Tax Competence Centre initiates transition of the tax project into the line departments

The new Tax Implementation & Operation department has set the goal of ensuring prompt and comprehensive tax services for customers of UniCredit Bank AG (HVB), while leaving the Bank the manoeuvring space to attract new customers. For this purpose, Tax Implementation & Operation assumes responsibility for central process analysis, implementation and operational support with regard to all tax-related issues relevant to customers within HVB.

Again this year, one of the main priorities is the mailing of tax certificates. Tax Implementation & Operation not only wishes to build on last year's achievements, but also, in addition to mailing the certificates in time, to successfully complete the transition from project mode into the line organisation. This will result in substantial savings in external project expenses.

Outlook: continuation of strict productivity management and cost optimisation

In view of the rising market pressures and intensifying competition, HVB will continue to focus in 2013 on optimising internal workflows and improving service quality for customers. The restructuring of various back-office processes in the context of the service provider UGBS and the group-wide service provider UBIS comprises a clear framework for realising further advances in productivity.

In view of the continuing eurozone financial crisis and its impact on the earnings potential on banking operations, GBS will continue to prioritise measures to reduce operating costs. Furthermore, GBS is aiming to generate as many synergies as possible and to increase operating efficiency by streamlining organisational functions and standardising workflows.

Human Resources

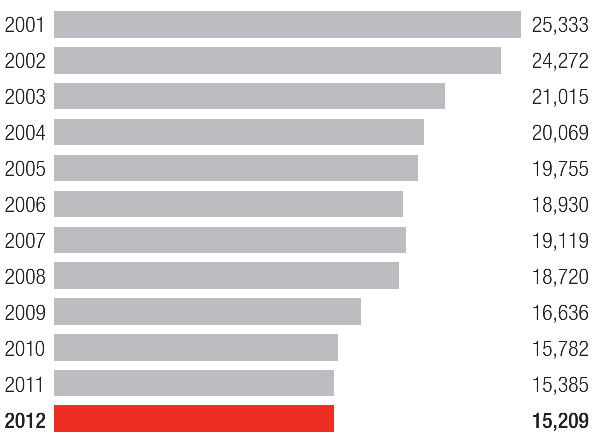
Solid performance under challenging conditions

The German banking sector had a generally difficult year in 2012. Bank results were negatively affected by the debt crisis and low interest rates which squeezed lending margins. As part of cost-cutting programmes, many banks continued to reduce staffing levels. Although HVB Group performed relatively well set against its competitors, it nevertheless felt the effects of the volatile market environment and the margin pressures.

We have already made good progress with the streamlining of our cost structures approved as part of the multi-year plan adopted for 2011–2015. This relates to both the cost of materials and our staff. The multi-year plan called for approximately 700 positions to be eliminated by 2015, mainly in administrative and back office units. In that regard, we achieved our entire target for 2012. To carry out the reductions in the most socially responsible manner possible, we used staff turnover, which amounted to 6.7% in the year under review.

As we are also creating new positions in units like Compliance, Risk Management, Finance and Internal Audit in order to meet greater regulatory requirements, opportunities are arising for many people to complete internal transfers. In this context we offer the affected employees redeployment advice as well as continuing professional development measures.

HVB workforce[1]



1 calculated as full-time equivalents (FTEs)

HVB Group's workforce (measured in FTEs) decreased slightly to 19,247 (2011: 19,442). The workforce at UniCredit Bank AG (HVB) decreased from 15,385 in 2011 to 15,209 in 2012.

Flexible working time and performance-related pay

For many years we have utilised the potential for making working time more flexible:
- At 24.2%, the proportion of part-time workers at HVB was somewhat higher than in 2011.
- 59 employees took advantage of the partial-retirement scheme in the year under review.

In terms of flexible working time, the available partial-retirement scheme, as well as areas like remuneration, staffing adjustments and internal transfers, our HR managers have enjoyed a trustful relationship with the employee representatives for many years. This applies particularly to the Central Works Council and the Speaker's Committee for Senior Executives. Together with the employee representatives, it was possible to find amicable solutions for even complex issues. We would like to express our gratitude at this point to all those involved in this process.

The regulatory requirements for the remuneration systems of larger financial institutions were specified and tightened at the end of 2010 based on the relevant legislation (Instituts-Vergütungsverordnung). We have adapted and refined our remuneration systems in accordance with the new regulations. This applies in particular to our senior managers. We have introduced longer retention periods for variable remuneration and higher proportions of stock for senior executives in order to strengthen long-term incentives.

We continued to apply our cost management measures in 2012. At €1,839 million, the payroll costs for HVB Group were only slightly higher than in 2011 (€1,819 million).

Corporate culture development and health-promotion measures

At HVB, we like to think of ourselves as a working family, a community of employees cooperating with one another. As a member of UniCredit, one of the leading banks in Europe, HVB puts great faith in cross-divisional and cross-company networks and multinational organisation teams.

Promoting the corporate culture within the Bank is an important priority for us. In 2012 the Bank was again selected for an award by the independent CFR Institute, which certifies the best employers in Germany.

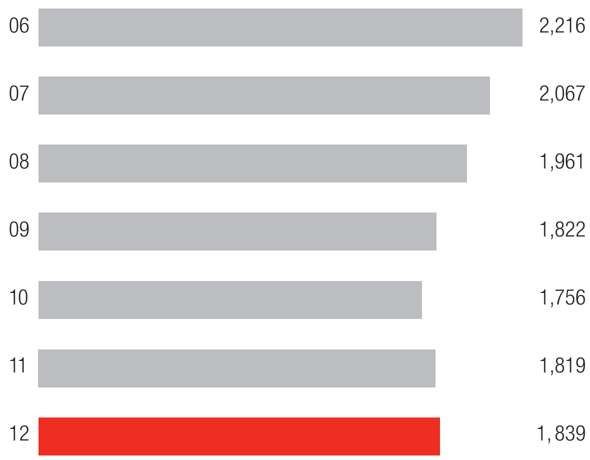
The Country Chairman's Leadership Club which was set up in 2009 makes an important contribution to the working family. This is a programme to cultivate leadership skills. In the year under review, the second generation of about 40 managers embarked on the programme. In addition, the Bank hosts town hall meetings at locations all over Germany, in which employees can participate. At these gatherings, members of the Management Board present the Bank's strategy and discuss specific issues with the employees.

Our self-image as a working family also encompasses promoting a healthy work-life balance. HVB has been certified several times by the non-profit Hertie Foundation under its Work and Family Audit. We have also been active in the "Erfolgsfaktor: Familie" initiative of the German Ministry for Family Affairs, Senior Citizens, Women and Youth since 2008.

Our employees continue to make use of the extended period of parental leave and also receive allowances for child care. In recent years, the share of male employees claiming parental leave has continued to increase. Our Family Service provides advice on issues concerning child care and caring for elderly dependants. Employees also have the opportunity to take a sabbatical – a period of unpaid leave lasting between 12 and 24 months.

Promoting the health of our employees is also an important issue for us. HVB's Healthy Company project was launched in 2010/11 with a view to raising awareness of work-related medical conditions and devising appropriate solutions. The project's components ranged from a touring exhibition on the issue of burn-out and depression to a stress resource test and anti-stress workshops and a management survey. Various other activities also took place, including a leadership workshop on topics such as stress prevention and causes of burn-out syndrome as well as many presentations at works meetings and executive events.

HVB Group payroll costs almost stable (€ millions)



The Bank's Health Forum acts as a health management platform promoting links across the company. Its mission is to devise and implement all health-related measures. Involved in the Forum are all departments and companies for which health issues are relevant, including the social services, the company medical service, the health and safety team, the works council, the Speaker's Committee, HVB Club, the company health-insurance provider and our in-house caterer, Food&More. The Forum is the platform for a number of offerings: health events and workshops on stress management, back exercises and preventive medicine. The Forum also creates awareness among prospective executives for these matters and provides them with advice where necessary. In the year under review, some 3,000 employees made use of the preventive measures and advisory services offered by the Health Forum. In addition, the stress resources test was accessed more than 2,500 times on the intranet.

Our sports and leisure club, known as HVB Club, has around 8,000 members, 4,500 of whom are in Munich and 3,500 in regional branches including Hamburg, Regensburg and Nuremberg. The Club provides a range of facilities in the field of sports, wellness/fitness, and arts and culture.

Human Resources (Continued)

Improved results in People Survey; fostering employee commitment

The active involvement and support of all employees is crucial to HVB's success. UniCredit's annual People Survey, which was last carried out in November 2012, serves as an indicator of the status of the corporate culture and the satisfaction of the employees with the working conditions and management. The overall results for HVB have improved considerably, showing a stronger commitment of our employees to the Bank's goals and their sense of belonging as compared with the previous year.

Our employees are expected to meet high ethical standards. The Integrity Charter, which summarises the values of UniCredit to which all employees are bound across the entire corporate group, was drawn up with this in mind. The seventh UniCredit Day was held in 2012, this time with the key theme "Positive customer impact". Since 2007, employees of HVB Group have also had access to our system of ombudspeople – Bank-appointed mediators who work confidentially to resolve conflicts.

We also promote our employees' commitment to the public good:
– This takes place primarily in the form of our Corporate Volunteering Programme, which helps employees to perform voluntary work for the common good by granting them special leave, with additional support in the form of accompanying donations.
– Our Gift Matching programme – in which employee donations are topped up by the Bank – supports social concerns. In the year under review, more than 1,700 employees donated around €200,000 (see also Corporate Sustainability in this Annual Report).

Wide range of educational and development programmes

For many years – even under difficult economic conditions – HVB has invested in the training and development of talented junior staff. Apprentices made up 6.3% of the workforce in the year under review. In addition to dual-track vocational training, we offer university graduates challenging development prospects under our trainee programme. In the year under review, we matched the quota of roughly 1% for trainees in the workforce, as in 2011.

HVB has a comprehensive talent management programme aimed at developing talented specialists and managers in various phases of their careers. Our recruitment measures include a target university concept: graduates from international universities are specifically targeted through seminars and presentations at job fairs and informed about career prospects at HVB.

Furthermore, the Talent Centre offers an international internship programme with personal mentoring for advanced students. We now also use social media to establish contact with young target groups. For instance, we are represented on Facebook by the HVB First Contact fan page. In addition, the Hypo-Bank Stiftungsfonds provides support to young researchers in the field of bank management.

We run sophisticated continuing education and development programmes to support our employees across different skill levels and age groups. This applies particularly to young people:
– HVB fosters contact with its apprentices through the First Steps project. In 2012, a week-long event was held to prepare 465 new apprentices and dual-track students for their everyday workplace experience. It included participants from HVB Group and, for the first time, from Bank Austria. In addition to training on banking-related topics and leisure activities for the group, the agenda included meetings with the Bank's top management.
– UniCredit's UniQuest programme serves to further the careers of talented junior staff by giving them the chance to prepare for demanding tasks within UniCredit, for example by participating in international projects. This talent development programme was held for the seventh time in 2012.
– We promote the mobility of our people both within HVB and throughout the corporate group. Thus, the Young Bankers Go Europe programme gives apprentices the chance to work at other UniCredit companies for a set period of time.
– The JuniorTalents programme targets young employees pursuing specialist career paths in the Private Clients Bank business segment to further their personal and methodical expertise and to foster their development in their chosen area.

The UniFuture leadership development programme is designed for managers who demonstrate the potential to join UniCredit's leadership team. Added to this are processes serving to appraise potential and performance, like the Executive Development Plan and the Talent Management Review. Moreover, there is also a wide range of development instruments for managers in each of HVB's divisions. The spectrum of instruments includes change management and leadership skills training. We also promote life-long learning by our employees through a wide range of programmes and online training opportunities in the areas of language training, technical skills and compliance.

The focal point of our staff development strategy is the annual performance review. Employees discuss their personal performance and future prospects with their supervisors, with the outcome forming the basis for any continuing professional development activities to be undertaken. Starting in 2013, the performance review meeting will be replaced throughout the corporate group by a performance management tool. The objectives of this development tool include the transparent assessment of performance and reliable commitments to career advancement steps.

Fostering diversity as a corporate strategy

Diversity – which is synonymous with respecting and promoting variety – is one of the fundamental values of UniCredit. Promoting gender diversity is one of the top priorities for both UniCredit and HVB. This means intensively promoting the specific potential of talented women and integrating them into management.
We have set ourselves the ambitious goal of filling 30% of all senior positions at HVB with women by 2017. To achieve this goal, we have already introduced a number of measures:

– At least one woman must always be nominated in the selection procedure when management positions are being filled. In addition, we are endeavouring to reach a quota of at least 40% of female trainees.
– The UniCredit Women's International Network (UWIN) fosters the professional development of women in positions of leadership through workshops, seminars and forums where participants can exchange views. Around 100 managers now belong to the network.
– The Bank continued its mentoring programme in the year under review; female managers (mentees) were given guidance by mentors from the top management and supported through a tailored range of seminars. Furthermore, regular meetings and round tables took place with the top management.
– With 13 other companies, HVB belongs to the initial signatories of the Münchner Memorandum für Frauen in Führung (the Munich Memorandum for Women in Management), which aims to increase the number of women in management positions.

In 2009, HVB became the first bank in Germany to set up a Women's Council. This committee comprises 30 top-class female entrepreneurs and managers (see also the list of members in the chapter "Women's Council" in this Annual Report). The goals of the Women's Council include promoting female managers through mentoring, and generating ideas for the Management Board of HVB. Moreover, the council's members act as mentors for female managers in their career.

Outlook: generating synergies and fostering the potential of all employees

In 2013, we will optimise our business model by exploiting synergies in both sales and back office units. We are increasingly adapting to our customers' changing behaviour. They now expect to have access to advisory services through various channels and outside the regular opening hours of our branches. Consequently, existing branches are complemented by online branches and video consultations, and in some cases are being replaced.

Positions will be eliminated when branches are closed and advisory processes are simplified. To some extent, however, the job losses will be offset through the creation of new positions in other areas of the Bank. In total, this will mean the elimination of about 700 positions in 2013 and 2014. As in the past, we will work to ensure socially responsible solutions through redeployment and continuing education measures.

Our priorities will also include the expansion of the performance management tool, with which we will promote the further development of our employees not only within HVB, but throughout the corporate group. Moreover, we will also – against the backdrop of demographic trends – be increasing our activities under the heading of age diversity, providing support for older employees through pension schemes and continuing professional development programmes.

Corporate Sustainability

Our success is built on our reputation

Uncertainty is still tangible among consumers and investors alike due to their experiences in the ongoing financial and sovereign-debt crisis. In order to permanently secure their trust and confidence in us as a bank, it is necessary to act with integrity and have long-term business models.

Besides a solid financial foundation, UniCredit Bank AG (HVB) has built on its good reputation for years. We have focused on the expectations of our stakeholders in our business strategy. This approach is based on the firm conviction that we can only be successful in the long run if we combine our business objectives with our responsibility towards our stakeholders. We see this responsibility as creating value – for customers, employees, shareholders and the company. This aspiration is set down in the Mission Statement of UniCredit.

HVB's sustainability strategy

To implement our all-round stakeholder approach, we conduct consistent sustainability management. HVB has professed its commitment to the guiding principle of sustainable development since the beginning of the 1990s. We align our corporate activities with the three dimensions of sustainability: people, the environment and business.

We aim to assume responsibility in all three areas. A solid capital base is as much a part of this concept as ecologically and socially responsible lending or the development of sustainable investments. For us, further key sustainability issues are excellent customer service, treating our employees in a responsible manner, environmentally friendly banking operations and our commitment to a fair and forward-looking society.

HVB signs the German Sustainability Code

At the end of 2012, HVB became the first major bank in Germany to issue a statement of compliance with the German Sustainability Code. This is a voluntary standard of transparency that gives a concise overview of material information on the sustainability performance of a company – strategy, rules, processes and environmental and social indicators. The aim is to create greater reliability and comparability of companies' sustainability performance. The code was introduced at the beginning of 2012 by the German Council for Sustainable Development which has been advising the German government on sustainability issues since 2001. Besides HVB, 36 German companies had issued a statement of compliance by the end of 2012.

In 2012, we defined specific, timed objectives for all areas of action in a sustainability programme which will be continuously updated in future. Whether and how far we achieve these objectives will be documented in a sustainability report published on an annual basis. For the sake of transparency, HVB also issued a statement of compliance with the German Sustainability Code at the end of 2012.

Systematic reputation management

HVB determines the expectations of its stakeholders through systematic reputation management. We gain an impression of the reputation we enjoy among customers, employees and opinion leaders as well as of decisive reputation factors by conducting surveys on a regular basis. By so doing, we simultaneously identify new topics which we must tackle from a strategic or operational view in order to avoid risks but also to exploit the opportunities involved.

An important component of our stakeholder surveys is the Reputation Assessment Program (RepTrak). Based on the method devised by the independent Reputation Institute, we survey the emotional loyalty of all relevant stakeholder groups and the rational dimensions of performance, products and service, innovation, workplace, governance, citizenship and leadership every year. In 2012, HVB questioned a total of around 1,800 customers, non-customers, employees and opinion leaders. Compared with the previous year, our reputation increased by 2 index points, while our competitors' reputation improved an even better 4 index points. We are rated particularly well by our own customers. Our main strengths are perceived as trust and authenticity in the customer relationship, the quality of our products and services, efficiency, and the solidity of the company. Stakeholders still see room for improvement mainly in the areas of openness and transparency. On the basis of these results, we prepare action plans consisting of specific measures together with our business segments. HVB also conducts a survey of individual stakeholder groups such as employees and customers in great detail every year.

Governance and management of reputational risk

HVB's actions are embedded in a values-based corporate culture. With our Integrity Charter, which is applicable throughout the corporate group, we have a code of values which makes fairness, transparency, respect, reciprocity, freedom and trust the standards that guide the actions of all our employees. Building on this, specific management guidelines describe how we actually fulfil our responsibility towards the environment, employees and society.

For the purpose of good corporate governance, HVB complies with principles it has set for itself in addition to the applicable legislation. Our Code of Conduct defines binding rules for all employees and the Management Board on dealing with conflicts of interest, prevention of corruption and money laundering, and correct behaviour towards competitors. Our Compliance department ensures that legal regulations and regulatory rules are observed and our employees are trained on a regular basis.

HVB employs comprehensive reputational risk (RepRisk) management to manage and monitor ecological and social risks. As a basic principle, every employee at HVB is responsible for averting potential reputational risk from the Bank, with standards such as the Equator Principles providing guidance in this connection. As an initial signatory of the eponymous banking industry initiative, HVB complies with its strict ecological and social requirements when financing projects. As a basic rule, the social and ecological minimum standards defined by the World Bank or, if stricter, the respective national legislation are the crucial yardstick for our lending activities. In cooperation with NGOs we have developed our own industry sector policies in sensitive areas like the armaments and defence industry through which we exclude certain transactions. UniCredit bases its actions on the Universal Declaration of Human Rights and to this end introduced the "Undertaking to Respect Human Rights" within the Bank in 2012.

If reputational risks cannot be clarified with the existing rules, the Corporate Sustainability department has the transaction examined by specialists such as the Compliance unit or the Legal, Corporate Affairs & Documentation department and forwards the case to the Reputational Risk Council (RRC) together with its recommendation. This committee, comprising the Chief Risk Officer and the sales executive of the unit in question, decides upon the transaction. Starting in 2012, it has consulted the Management Board of HVB where there is a need to do so. It is also possible in exceptional cases to include the Executive Board of UniCredit in the decision. If the reputational risk involved in a transaction is too high, we avoid it. In 2012, the RRC decided upon 111 cases in total.

Sustainability as the path and the goal

We are aware that sustainability is a goal that cannot be achieved overnight. Our path towards it takes us through three stages:

– Managing risk: We protect our business processes and investments – and strengthen our foundation – by applying the comprehensive risk management of environmental, social and reputational issues and compliance with laws and regulations (compliance).
– Differentiation and positioning: We differentiate and position ourselves with our stakeholders by integrating sustainability in our business model.
– Creating value: We can proactively support our customers with new, forward-looking products and services if we understand the challenges of the future even better.

We are making good progress on the path we have taken. Within the financial world, HVB plays a leading role in terms of sustainable business operations thanks to its consistent strategic orientation over many years. This is also affirmed by numerous awards and good rating results: the sustainability rating agency oekom research AG has given HVB its "Prime" designation for eleven years in a row. We have been listed in the DJSI and FTSE4Good, the leading international sustainability indexes, for years through UniCredit.

Prime status for good sustainability performance

For many years now, the independent sustainability rating agency oekom research AG has certified HVB as having excellent sustainability performance in the financial industry. It has given us its "Prime" status for eleven years in a row, thus declaring HVB a sustainable company. By doing so, it has recognised our commitment in the field of sustainability, although HVB is not a listed company and is thus no longer rated as an independent entity by all the rating agencies. The banking rating published by oekom research in February 2012, which analysed the 73 largest commercial banks worldwide, also listed HVB yet again. On a scale of twelve from A+ (best grade) to D–, we achieved a rating of C+.

Incorporating sustainability into our core business

As a financial institution, we have a significant influence on ecologically and socially responsible development through our business operations. With a portfolio of €5.6 billion, HVB is one of the biggest financers of renewable energy in Europe and thus an important partner in the implementation of Germany's energy transition. Through UniCredit, we are shareholders in the Desertec Industrial Initiative and therefore promote one of the forward-looking projects in the field of renewable energy. Among other things, we advise our customers on the KfW development programmes for energy-efficient construction and renovation and on financing renewable energy at two centres of competence in Munich and Düsseldorf.

Corporate Sustainability (Continued)

On the investments side, HVB has been offering a wide-ranging portfolio of sustainable products for many years. This covers almost all investment needs and volumes, through things like mutual funds, sustainable asset management and pension products. HVB is one of the few European banks to have participated in the European Union's emissions trading scheme since its inception in 2005. This allows our customers to trade in carbon emission rights themselves or to benefit from related price changes through investment certificates. In addition, we join with external partners to help customers save energy at home.

HVB is constantly enhancing its advisory services with a view to creating value for our customers. In 2012, we introduced guidance with 30 specific advisory standards that convey to our employees how customers are to experience excellent service. We find out how they actually experience our service by making regular test purchases and inviting customers to use the Customer Experience Feedback to give their account manager feedback by e-mail immediately after a consultation. Our complaints management system records and processes 100% of the complaints we receive. Customer satisfaction is a significant component of the bonus system for all employees in the Family & SME division, accounting for 20% of the total.

In order to protect customers from ill-considered decisions, HVB has introduced product information sheets covering all financial products in the fields of investment, securities, payments, pensions and financing, many of which are in English and Turkish. By doing so, we go beyond what is required by law. Through our neutral financial education portal EURO.DE, we offer both customers and non-customers alike easily understandable answers to questions about topics such as pensions, investments and loans. We inform our customers about our understanding of sustainability and our specific services in a sustainability brochure, which has been on display at all HVB branches since autumn 2012.

Pioneers in corporate climate protection

Since the beginning of the 1990s HVB has been committed to environmental and climate protection in its own banking operations, and since 2006 it has employed a certified environmental management system to manage its own actions to protect the environment. In 2010, HVB already met the group-wide climate goal defined by UniCredit of reducing in-house carbon emissions by 30% (base year: 2008) before 2020. We obtain our electricity solely from renewable sources, and we offset our heating energy through the purchase and deactivation of carbon certificates. This means that all our buildings are run in a way that is climate-neutral, signifying an annual reduction totalling some 90,000 tons of CO_2. We have implemented 85% of our next project aimed at making our entire banking operations climate-neutral.

An important role in reducing our carbon footprint is played by our internal environmental standards, whether these relate to the organisation of events, the sending of letters and packages, the procurement of personal company vehicles or business travel. UniCredit's Green & Social Procurement Policy, which is valid throughout the corporate group, has acted as a guideline for procurement since 2010. Based on this policy, when the Bank selects suppliers, it gives preference to those who reduce their environmental impact, observe the standards of the International Labour Organization (ILO) and take account of effects on health and safety throughout the entire delivery chain. To cut back transport costs and the related exhaust emissions, service providers located in the vicinity are given priority. We check whether the defined minimum requirements are observed by obtaining voluntary information from the suppliers. Our managers for the individual commodity groups underwent in-house training on sustainable sourcing in 2012.

We are also reducing emissions in the area of our IT infrastructure which contributes considerably to our carbon footprint. What is called inline air-cooling, a new cooling system developed for IT rooms, has alone enabled an annual reduction of around 2,300 tons of carbon emissions since 2011.

HVB is committed to creating greater environmental awareness in society and the financial industry as an active member of various organisations. These include the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e. V. – VfU), the Forum for Sustainable Investments (Forum Nachhaltige Geldanlagen e.V.), the Munich for Climate Protection project (München für Klimaschutz) and the German Association of Environmental Management (Bundesdeutscher Arbeitskreis für Umweltbewusstes Management e.V. (B.A.U.M.)).

Committed to working for the common good locally

HVB has formulated its long-standing commitment to society in a corporate citizenship strategy. Our overriding goal is to enable everyone in Germany to participate in social and economic life. In terms of content, we concentrate on four focal points in this context: social welfare, financial education, the environment and culture. In these areas we have launched our own programmes for which we work together with external partners and benefit from their expertise.

One of our beacon projects is the "Wir für die Region" programme that we expanded to include 150 locations in 2012. Based on a "volunteering map", we have shown online where and how our employees have been volunteering since 2012. In addition, we support their volunteering by releasing them from their employment duties and making donations to the non-profit projects that they are involved in. 1,700 employees donated a total of €210,000 during 2012. As in previous year, the UniCredit Foundation matched this amount at the end of the year.

We also actively involve our employees into HVB's own corporate citizenship activities. We do so by means of gift matching or the "Rest Cent" initiative started at the beginning of 2012, whereby our employees can donate the cent amount in their monthly net salary. The total amount collected is then matched at the end of the year by the UniCredit Foundation. The money is distributed between four social institutions that our employees jointly select. In 2012, more than 4,700 employees took part in the "Rest Cent" initiative, with around €20,000 going to the organisations selected.

Wir für die Region

In its "Wir für die Region" programme, HVB bundles its social commitment at its various offices. The direction was set by an initiative launched by HVB's Nuremberg branch when it began to link the sale of motif EC cards with donations and the volunteering of employees in 2009. By the end of 2012, some 150 HVB branches had adopted the successful model. They cooperate with non-profit organisations in their vicinity and offer their employees the opportunity of doing voluntary work. In 2012, our employees performed a total of nearly 80,000 hours of voluntary work for non-profit purposes. HVB rewards their commitment within the framework of the "Ehrensache" employee volunteering programme with up to two days special leave per year and donations for projects that they become involved in. The combined efforts strengthen the feeling of solidarity within the Bank as well as our local relations in the individual regions and HVB's reputation outside the Bank.

The new HVB youth mentoring programme was also launched in 2012. In cooperation with the non-profit "Joblinge gAG" initiative, we intend to help young people with few or no qualifications to successfully start a career. Committed employees of HVB help them to do so over a period of six months. Over 30 tandems, consisting of one mentor and one young mentee, have already started working together in Munich and Leipzig, with more to follow at other locations.

In 2012, HVB expanded its involvement in the area of street football in order to better integrate young people with a migrant background or from socially disadvantaged backgrounds. Jointly with the UniCredit Foundation, it has already been supporting the "buntkickgut" initiative in Munich since 2009, which runs a street football league in Munich and teaches young people values in the game such as fairness, respect and personal responsibility. Through the "Fußball integriert" project, HVB now promotes the unifying force of street football throughout Germany.

Outlook: expansion of steering mechanisms and optimisation of sustainable banking operations

In our attempts to assume responsibility for people, the environment and business, our reputation management will again serve us as a compass in 2013. In the area of business sustainability, we will reorganise and expand the reputational risk management process based on regulatory requirements in the course of the risk-bearing capacity assessment. We will also introduce two new policies on mining and water infrastructure.

In order to better establish the topic of sustainability within the Bank, we intend to set up an in-house sustainability group consisting of the representatives of all the business segments, central departments and the works council. This steering group will have an advisory function. In cooperation with the sustainability rating agency oekom research, we will continue taking measures aimed at tapping new business areas in the field of sustainable investments.

In terms of in-house environmental protection, we aim to make our entire banking operations climate-neutral in 2013. To date, the buildings have been run in a way that is climate-neutral. The renovation of the Arabella high-rise building in Munich will be launched in 2013 as a beacon project. The HVB Tower, the name of our future company headquarters, will be renovated from the ground up by 2018 and converted into a green building based on the LEED standard (Leadership in Energy and Environmental Design).

We intend to consolidate and further build up our existing corporate social responsibility programmes. For instance, we are planning to expand the "Wir für die Region" programme to include further locations. We are extending our activities in the area of financial education into the real world: in addition to the EURO.DE online platform, we will be offering customers and non-customers workshops at our branches and video clips on financial issues from 2013.

A bank account that's always within a reach

FREEDOM

"The Pekao24Mobile app is user-friendly, quick and efficient. It's particularly handy when it comes to managing my account, such as checking my balance, following specific transactions and managing transfers or deposits. And its wheel-type interface is modern, eye-catching and very functional. I would say the app meets all my needs."

Daniel Lipski, customer of Bank Pekao in Poland

Financial Statements (1)

Management's Discussion and Analysis

Financial Review

Underlying conditions and general comments on the business situation

The global economy lost much of its momentum during the course of 2012. Alongside the slowing pace in industrialised countries, the stimuli also declined from emerging markets, and most notably China. In particular, the situation in the countries on the eurozone's southern periphery remained bleak on account of the in part drastic austerity measures initiated coupled with rising unemployment. On the other hand, despite a weak fourth quarter, the economy in the United States performed relatively well, driven by robust consumer spending by private households, ongoing stabilisation in the residential property market and persistently highly expansive fiscal and monetary policy. The Federal Reserve initiated a third round of quantitative easing (QE3) in the second half of 2012 with the open-ended purchase of an additional $40 billion of mortgage-backed securities each month.

The huge burdens arising from budgetary consolidation caused the economies in the heavily indebted countries of the eurozone to contract sharply during the reporting period. The main reason for this was weaker domestic demand due to the austerity measures that have been taken. The situation remains the most difficult in Greece, where the reform targets have continued to be missed by clear margins. Nevertheless, Greece's international creditors agreed to a further package of measures in November 2012 aimed at closing the financing gap through 2014 and reducing the debt-to-GDP ratio to a sustainable level in the long run. Even though the economies of the core eurozone countries also slowed considerably during the course of the year, the growth differences between the core and peripheral countries remain in place.

In Germany, industrial expansion remained remarkably robust up to and including the summer months, despite a previous massive decline in business sentiment. Exports were once again the pillar of growth in the third quarter together with consumption. By year-end, however, there had been a delayed, tangible correction. Industrial growth pointed sharply downwards in the fourth quarter. The persistently healthy situation on the labour market, on the other hand, had a stabilising effect on private consumption. All in all, the GDP contracted by 0.6% in the fourth quarter of 2012 compared with the previous quarter. This still yields annual growth of 0.9% for 2012 as a whole. Inflation averaged 2.0% over the course of the year.

The European Central Bank (ECB) supplies European banks with a high level of liquidity, although the funding required by banks in countries hit by the debt crisis fell slightly overall towards the end of the year. The negative TARGET2 balance of the crisis-hit countries – Spain, Italy, Greece, Ireland and Portugal – fell from a peak value of almost €1 trillion in August to less than €848 billion at year-end 2012. The easing stems mainly from the announcement made by the ECB in the third quarter of 2012 that it was willing, under certain conditions, to buy unlimited volumes of government bonds issued by crisis-hit states with a maturity of up to three years on the secondary market (Outright Monetary Transactions or OMT). For such an intervention under the European Stability Mechanism (ESM), the member state in question must agree to a set of conditions. Moreover, the member states in question must continue to have access to the capital market.

The European capital markets proved highly volatile in 2012. The positive trend in the first quarter, which could be attributed in part to the ECB's two three-year financing operations, was followed by a sharp correction in the second quarter as the sovereign debt crisis worsened. The situation on the capital market improved during the third quarter, triggered in turn by the ECB announcement to buy government bonds issued by crisis-hit countries. This positive trend continued through to the end of the year. As of the end of December 2012, Germany's benchmark index, the DAX 30, had gained 30.2% since year-end 2011, while its eurozone equivalent, the EUROSTOXX 50, was up 13.4%. The yield on ten-year German government bonds continued to fall. After 1.83% at year-end 2011, yields of 1.32% were recorded at the end of December 2012 after fluctuating greatly during the course of 2012, between brief jumps to over 2.0% and lows of 1.17%.

The ECB kept its benchmark rate at 1% in the first half of the year before lowering it to 0.75% at the start of July 2012. The deposit facility made available by the ECB does not currently attract any interest. As a result of the very low level of interest rates, the banking sector is faced with falling earnings in interest-driven activities. In addition, the measures taken by the financial industry to reduce risk-weighted assets served to depress interest income. The euro remained largely stable against the US dollar, British pound, Swiss franc and Japanese yen in the first three months of the year before losing ground heavily in the second quarter. The trend only reversed towards the end of July, when the euro started strengthening again, culminating in the currency almost reaching its high for the year in December. The high level of liquidity on the market led to a considerable narrowing of spreads on the credit markets in the first two months of 2012 in particular, especially for sovereigns and banks, although these did widen again as of March 2012. Only towards the end of July did a recovery set in, reinforced later in the year by the announcement of government bond purchases by the ECB and the approval of the ESM by the German Federal Constitutional Court (Bundesverfassungsgericht).

In a persistently difficult capital market environment, HVB Group generated a very good profit before tax of €2,058 million in the 2012 financial year and thus significantly surpassed the year-ago figure of €1,615 million by 27.4% or €443 million. Besides higher operating income, positive trends from changes in provisions affecting income and from net income from investments also contributed to this performance. Expenses for restructuring provisions had a negative impact. In the course of 2012, net write-downs of loans and provisions for guarantees and commitments progressively returned to normal and were thus up by €461 million to €727 million compared with the exceptionally low year-ago figure. In this context, however, it must be taken into account that, at €440 million, the "economic net-write downs of loans and provisions for guarantees and commitments" are much lower (see the section entitled "Net write-downs of loans and provisions for guarantees and commitments, and net operating profit" in the present Management's Discussion and Analysis). At €1,287 million, consolidated profit was €316 million higher than in 2011 after deducting income tax (€771 million). The profit available for distribution disclosed in the separate financial statements (compliant with the German Commercial Code (Handelsgesetzbuch – HGB)) of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €2,462 million. This consists of the net income of UniCredit Bank AG amounting to €1,462 million generated in the reporting year and a withdrawal of €1,000 million from other retained earnings. We will propose to the Shareholders' Meeting that a dividend of €2,462 million be paid in total to UniCredit S.p.A. (UniCredit), Rome, Italy. This reflects the very good operating profit in 2012 and is certainly justifiable and appropriate in light notably of the highest core Tier 1 ratio (17.4%) in the history of the Bank at year-end and high holdings of liquidity with the ECB (averaging around €16 billion in 2012).

The increase in operating income by €238 million to €6,050 million is largely due to the sharp rise of €1,000 million in net trading income to €1,190 million. The high net trading income in the reporting period can be attributed in part to a positive effect arising from the reversal of the credit value adjustments that it became necessary to take in 2011. By contrast, net interest substantially declined (down €664 million to €3,409 million); this development can be attributed to the decline in interest margins particularly in deposit-taking operations due to the low level of interest rates, lower volumes in lending operations and the non-recurrence of positive one-off effects included in last year's result. The decline in net fees and commissions (down €145 million to €1,163 million) was partly due to the continuing and growing reticence on the part of customers, who turned increasingly to products with lower margins. At €3,516 million, operating costs were a very pleasing 2.6% below last year's figure (€3,611 million) thanks to our consistent cost management. The cost-income ratio improved by 4.0 percentage points to 58.1% for the full year of 2012 (2011: 62.1%) and thus remained at a very good level by both national and international standards. The results achieved have more than met our expectations about the development of the profit before tax described in the Outlook in last year's Management's Discussion and Analysis. We exceeded the planned figures for profit before tax largely on the back of operating income which rose more strongly than planned coupled with the slightly lower operating costs than projected.

All the operating divisions again contributed to the very good profit before tax of HVB Group. The Corporate & Investment Banking (CIB) division increased its profit before tax by €482 million to €1,574 million, thanks in part to the much higher net trading income as a result of the effect from the credit value adjustments, reversals of provisions and strong net income from investments. The Family & SME (F&SME) and Private Banking (PB) divisions failed to quite match the results recorded in 2011 on account of lower operating income notably due to low interest rates and reticence on the part of investors. In addition, the expenses for restructuring provisions (€78 million) also adversely affected the F&SME division in particular, resulting in the profit before tax falling from €126 million in 2011 to €10 million. Profit before tax in the PB division declined from €74 million in 2011 to €38 million.

Financial Review (Continued)

HVB Group continues to have an excellent capital base. The core Tier 1 ratio in accordance with Basel II (ratio of core capital excluding hybrid capital instruments to the total amount of credit risk-weighted assets and equivalent risk-weighted assets for market risk and operational risk) increased to 17.4% as of 31 December 2012 (year-end 2011: 15.6%) thanks to a reduction in risk-weighted assets. Thus it remains at an excellent level by both national and international standards. This figure includes the decline in core capital excluding hybrid capital (core Tier 1 capital) following the withdrawal from HVB's other retained earnings (€1 billion). The core Tier 1 capital at year-end 2012 thus amounted to €19.1 billion (year-end 2011: €19.9 billion).

The shareholders' equity shown in the balance sheet remained practically unchanged (down €49 million or 0.2%) compared with year-end 2011. At the same time, the withdrawal from other retained earnings did not have any effect overall because this is retained in shareholders' equity as consolidated profit until the dividend is paid. The change in shareholders' equity compared with last year is also due to negative effects of €0.4 billion caused by adjusting pension and similar obligations, which affect other retained earnings. The dividend payment of €1.0 billion made in the second quarter of 2012 as resolved by the Shareholders' Meeting was more than offset by the consolidated profit of €1.3 billion generated in the reporting year. With total assets down by 6.4% compared with year-end 2011 to €348.3 billion, the leverage ratio (ratio of total assets to shareholders' equity shown in the balance sheet) amounted to 15.0x at the end of 2012 after 16.0x at year-end 2011.

HVB Group again enjoyed a very comfortable liquidity base and a solid financing structure at all times in the reporting period. In this context, it is worth mentioning that HVB Group did not participate in either of the ECB's three-year refinancing operations (in the fourth quarter of 2011 and in the first quarter of 2012) and has also placed a large part of its excess liquidity with Deutsche Bundesbank. The funding risk remained low on account of the diversification in our products, markets and investor groups, meaning that adequate funding of our lending operations was ensured at all times. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity.

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. UniCredit Bank AG (HVB) will build on these advantages by adjusting its business model as announced in the fourth quarter of 2012 to reflect the rapidly changing economic and regulatory environment and push further growth through a regional organisational structure and a stronger entrepreneurial focus. In the process, HVB will realign its structure from 2013 to create three business segments – Unternehmer Bank, Private Clients Bank, and the reorganised Corporate & Investment Banking – which will replace the previous operating divisions. In its German activities, HVB will rely on more entrepreneurship in the regions and the new structure will consistently strengthen its regional presence. In this context, HVB is taking further measures serving to ensure the competitiveness of its mass-market operations in the years to come. In addition to setting up new distribution channels – heavily in demand by customers – this also requires a streamlining of today's branch network and an alignment of personnel capacities with the change in customer behaviour. All in all, HVB Group set up restructuring provisions of €102 million in the 2012 annual financial statements.

We would like to expressly 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 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 Management's Discussion and Analysis refer to the structure of our segmented income statement (see Note 28, "Income statement broken down by segment") which we set out below. By doing so, we are following the Management Approach incorporated into our segment reporting.

Income/Expenses	2012 € millions	2011 € millions	CHANGE € millions	 in %
Net interest	3,409	4,073	(664)	(16.3)
Dividends and other income from equity investments	147	150	(3)	(2.0)
Net fees and commissions	1,163	1,308	(145)	(11.1)
Net trading income	1,190	190	+ 1,000	>+ 100.0
Net other expenses/income	141	91	+ 50	+ 54.9
Operating income	**6,050**	**5,812**	**+ 238**	**+ 4.1**
Payroll costs	(1,839)	(1,819)	(20)	+ 1.1
Other administrative expenses	(1,499)	(1,593)	+ 94	(5.9)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(178)	(199)	+ 21	(10.6)
Operating costs	**(3,516)**	**(3,611)**	**+ 95**	**(2.6)**
Operating profit	**2,534**	**2,201**	**+ 333**	**+ 15.1**
Net write-downs of loans and provisions for				
guarantees and commitments	(727)	(266)	(461)	>+ 100.0
Net operating profit	**1,807**	**1,935**	**(128)**	**(6.6)**
Provisions for risks and charges	195	(251)	+ 446	
Restructuring costs	(102)	(108)	+ 6	(5.6)
Net income from investments	158	39	+ 119	>+ 100.0
Profit before tax	**2,058**	**1,615**	**+ 443**	**+ 27.4**
Income tax for the period	(771)	(640)	(131)	+ 20.5
Profit after tax	**1,287**	**975**	**+ 312**	**+ 32.0**
Impairment on goodwill	—	(4)	+ 4	(100.0)
Consolidated profit	**1,287**	**971**	**+ 316**	**+ 32.5**

Financial Review (Continued)

Net interest

In the 2012 financial year, net interest fell by €664 million, or 16.3%, to €3,409 million, resulting from all the divisions alike.

In this context, the low level of absolute interest rates in the year under review resulted in a substantial decline in interest margins particularly in deposit-taking operations compared with the previous year. Lower volumes in lending operations led to a reduction in net interest. Furthermore, net interest fell in part because the income from special effects generated in the Multinational Corporates unit included in the Corporate & Investment Banking division last year did not recur in 2012 to the same extent. The significant year-on-year increase in non-interest-bearing liquidity reserves at central banks also had an adverse effect on net interest.

Dividends and other income from equity investments

Income generated from dividends and other income from equity investments, which resulted mainly from dividends paid by private equity funds, declined by €3 million, to €147 million, compared with last year.

Net fees and commissions

At €1,163 million, net fees and commissions were €145 million, or 11.1%, lower than the year-ago figure. This figure contains a decline of €94 million, to €555 million, in fee and commission income from management, brokerage and consultancy services. This trend is mainly due to a weaker securities business and can be attributed particularly to investors' restraint in connection with the difficult financial market environment and customers turning to products with lower margins, which was compensated only in part by the successful sale of individual innovative investment products. In addition, there was a decrease in fee and commission income from lending operations (down €41 million to €382 million) as a result of customers' subdued demand for credit, and contributions to earnings from other service operations (down €8 million to €10 million) while the fee and commission income from collection and payment services, at €216 million, remained at last year's level (€218 million).

Net trading income

HVB Group generated net trading income of €1,190 million in 2012 (2011: €190 million). It should be taken into account that this development benefited primarily from the reversal of €395 million of the credit value adjustments in the first quarter of 2012, although these credit adjustments had adversely affected the fourth quarter of 2011 by €397 million. Adjusted for this effect, net trading income would stand at €795 million in the year under review and at €587 million in 2011, which is equivalent to an adjusted increase of €208 million. Furthermore, valuation effects accrued in 2012 on the financial liabilities held for trading in the portfolio resulting from the inclusion of own credit spread, serving to reduce net trading income by €177 million; in 2011 there was a positive change in the own credit spread of €187 million.

The Corporate & Investment Banking division generated net trading income of €1,054 million during the reporting period (up €885 million), assisted by the income from credit value adjustments described above. In adjusted terms, this signifies an increase of only €93 million year-on-year in the Corporate & Investment Banking division. Despite difficult market conditions, the Rates trading unit (interest-related products) and trading with structured credit products and the FX trading unit (currency-related products) contributed higher earnings than 2011 to the division's earnings, while Equity Derivatives (equity and index products, certificates) made a good contribution to the total.

To optimise the capital structure of HVB Group, buybacks of hybrid capital instruments and supplementary capital were carried out. The gains generated from this were allocated to the Other/consolidation segment for which we report net trading income of €132 million.

Net other expenses/income

Net other expenses/income increased by €50 million to total €141 million in 2012. Net other expenses/income includes the bank levy to be paid in Germany in both years (2012: €108 million, 2011: €101 million). The year-on-year rise in net other expenses/income can be mainly attributed to a much higher profit generated from disposal of loans and receivables.

Operating costs

For years, operating costs have been reflecting our very successful cost management. In the reporting year, operating costs, at €3,516 million, are significantly lower than the level at the time of HVB's integration into UniCredit Group (2005: €3,885 million). Compared to last year, operating costs declined by 2.6%, or €95 million, to €3,516 million. Although payroll costs rose, partly on account of increases in standard-rate and non-standard-rate wages and salaries by 1.1% overall to €1,839 million, other administrative expenses fell by 5.9% to €1,499 million despite higher expenses for implementing regulatory and legal requirements and an inflation rate of around 2% in Germany. Among other things, this decline is due to lower expenses for marketing and advertising measures and lower costs for foreign bank levies. Amortisation, depreciation and impairment losses on intangible and tangible assets declined by 10.6% to €178 million. Within this figure, the amortisation of software and other intangible assets fell by €9 million to €63 million and the depreciation and impairment losses taken on tangible assets by €12 million to €115 million.

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)

Operating profit rose by a substantial €333 million, or 15.1%, to €2,534 million in the reporting period, mainly on account of the high net trading income. The cost-income ratio (ratio of operating expenses to operating income) improved by four percentage points to 58.1% in the reporting period and is thus still at a very good level for a universal bank (2011: 62.1%).

Net write-downs of loans and provisions for guarantees and commitments, and net operating profit

Net write-downs of loans and provisions for guarantees and commitments amounted to €727 million in the reporting year. This figure includes an addition in connection with the construction of an offshore wind farm. A write-down of €240 million was taken for this exposure as part of the credit extended for which adequate provisions for risks and charges had already been set up last year and which is why a corresponding net reversal of other provisions of €240 million was carried out for this exposure in the reporting year. Furthermore, net write-downs of loans and provisions for guarantees and commitments contain a further €47 million in additions for which we had also set up a provision in 2011 in order to shield against legal risks from derivatives. There is also a corresponding reversal of provisions at the same amount in this connection. Without these two net additions of €240 million and €47 million, "economic net-write downs of loans and provisions for guarantees and commitments" of €440 million are left remaining, which is still at a relatively low level. An exceptionally low level of €266 million was posted in 2011 for net write-downs of loans and provisions for guarantees and commitments. In gross terms, the expenses of €1,705 million for additions in the current reporting period (2011: €1,625 million) are partly offset by releases and recoveries from write-offs of loans and receivables amounting to €978 million (2011: €1,359 million). Adjusted for the effects totalling €287 million not recognised in income described above, there was a gross addition of €1,418 million in the reporting period.

Despite the higher operating income, net operating profit declined by €128 million, or 6.6%, to €1,807 million, due to the factors serving to increase higher net write-downs of loans and provisions for guarantees and commitments described above.

Provisions for risks and charges

A net gain of €195 million was recorded from net reversals/net additions to provisions for risks and charges during the current reporting period. The largest individual item within the net reversals in the reporting period amounted to €240 million and is related to the net addition described above for an exposure in connection with the construction of an offshore wind farm. There was also a reversal of a provision to shield against risks from derivatives of €47 million which equals the amount described above in connection with the addition to net write-downs of loans and provisions for guarantees and commitments. Provisions for risks and charges mainly include provisions for legal risks, which are described in greater detail in the Risk Report of the Management's Discussion and Analysis under the operational risk section.

In 2011, the net additions to provisions for risks and charges amounted to €251 million. The largest part of the provisions for risks and charges also related to various legal risks.

Financial Review (Continued)

Restructuring costs

In the year under review, restructuring costs totalled €102 million (2011: €108 million). These costs in 2012 arose almost entirely from the set-up of restructuring provisions for measures in connection with the changes in the organisational structure of HVB Group during the introduction of the three business segments Unternehmer Bank, Private Clients Bank and Corporate & Investment Banking and the consistent strengthening of the Bank's regional presence as well as for measures serving to ensure the competitiveness of its mass-market operations in the years to come. In addition to setting up new distribution channels – heavily in demand by customers – this also represents a streamlining of today's branch network and an alignment of personnel capacities with the change in customer behaviour. These restructuring provisions mainly include provisions for severance payments but also costs for the closure of individual branch offices.

Net income from investments

In the 2012 financial year, net income from investments amounted to €158 million compared with €39 million in the previous year. In the reporting period, net income from investments chiefly results from gains of €220 million, which were partially offset by expenses of €62 million for write-downs and value adjustments. Of the gains, €134 million relate to available-for-sale financial assets mainly originating from the sale of private equity funds and to the gains on the disposal of land and buildings of €49 million in connection with the sale of properties in central locations at the Bank's facilities in Munich as part of a programme to optimise office usage and costs in Bank-owned real estate. The write-downs and value adjustments are particularly due to private equity funds.

Last year, net income from investments was almost exclusively generated from gains on the disposal of available-for-sale financial assets, which were partially offset by expenses for write-downs and value adjustments on investment properties.

Profit before tax, income tax for the period and consolidated profit

With a very good profit before tax of €2,058 million, HVB Group managed to surpass the year-ago result (€1,615 million) by €443 million, or 27.4%, despite the challenging market conditions. Income tax amounted to €771 million in 2012 partly as a result of the good operating performance, up €131 million on the figure in 2011. Furthermore, provisions were set up for proceedings relating to German tax credits (see the section of the Risk Report entitled "Legal risks"), which are offset by value adjustments on deferred tax assets on tax losses carried forward. After deducting income tax, HVB Group generated a consolidated profit of €1,287 million in the 2012 financial year, which is significantly higher than last year's consolidated profit (€971 million).

Appropriation of net income

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €2,462 million. This consists of the net income of UniCredit Bank AG amounting to €1,462 million generated in the reporting year and a withdrawal of €1,000 million from other retained earnings. We will propose to the Shareholders' Meeting that a dividend of €2,462 million be paid in total to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.07 per share after €1.27 last year. Last year, the profit disclosed in the annual financial statements of UniCredit Bank AG totalled €1,017 million. This was paid to UniCredit in accordance with the resolution passed by the Shareholders' Meeting on 10 May 2012.

Segment results by division

The segments contributed the following amounts to the profit before tax of €2,058 million of HVB Group:

Corporate & Investment Banking	€1,574 million
Family & SME	€10 million
Private Banking	€38 million
Other/consolidation	€436 million

Starting from the first quarter of 2012, the expenses for the bank levies previously allocated in full to the Group Corporate Centre were allocated to the operating divisions CIB, F&SME and PB and the costs for pension funds were distributed between all the segments. In addition, there were a few minor adjustments in the allocation of operating expenses as the year went on. The figures for the previous year and previous months have been adjusted accordingly.

The income statements for each segment and comments on the economic performance of the individual segments are provided in Note 28, "Income statement broken down by segment", in these consolidated financial statements. The tasks and objectives of each division are described in detail in Note 27, "Notes to segment reporting by division".

Financial situation

Total assets

The total assets of HVB Group amounted to €348.3 billion at year-end 2012, representing a decline of €24.0 billion, or 6.4%, compared with the end of 2011. It is important to note in terms of total assets that, in accordance with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the positive and negative market values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty (CCP). The year-ago figures have been adjusted accordingly. Derivatives classified as both held for trading and hedge derivatives are affected by this. Accordingly, the positive market values for trading derivatives and hedging derivatives have decreased by €16 billion (2011: €11 billion) and €4 billion (2011: €2 billion) respectively, and negative market values of trading derivatives and hedging derivatives by €18 billion (2011: €12 billion) and €2 billion (2011: €1 billion) respectively.

On the assets side, loans and receivables with customers fell by €14.3 billion to €122.2 billion compared with year-end 2011 due chiefly to decreases of €5.3 billion in repurchase agreements, €3.1 billion in the volume of mortgage loans, €1.2 billion in holdings of reclassified securities and €5.4 billion in other receivables. There was also a decline of €8.0 billion to €36.3 billion in loans and receivables with banks, primarily due to a lower volume of investments (down €2.7 billion), lower balances on current accounts (down €2.7 billion) and a reduction in volumes of bonds (down €2.0 billion). At the same time, financial assets held for trading declined by €7.4 billion to €131.0 billion due primarily to a decline of €5.1 billion in financial assets carried in the balance sheet, notably on account of fixed-income securities, together with a decrease of €2.4 billion in positive fair values from derivative financial instruments. Furthermore, financial assets at fair value through profit or loss and held-to-maturity investments decreased – also largely in respect of fixed-income securities – by €3.8 billion to €24.3 billion and by €2.2 billion to €0.3 billion respectively. By contrast, cash and cash balances increased by €11.4 billion to €15.7 billion. This reflects our very comfortable liquidity base and the placement of our high liquidity reserves with Deutsche Bundesbank. Partly as a result of this high liquidity reserve, we continue to see ourselves more than adequately prepared to face the difficult situation on capital and financial markets which is likely to persist in 2013.

On the liabilities side, deposits from banks fell by €12.6 billion to €45.2 billion compared with year-end 2011, primarily due to a decline in reverse repos. At the same time, financial liabilities held for trading decreased by €7.4 billion year-on-year to €121.5 billion, due to lower negative fair values of derivative financial instruments (down €3.6 billion) and other financial liabilities held for trading (down €3.8 billion). There were declines of €6.8 billion, to €35.9 billion, in debt securities on account of issues due and €0.9 billion, to €3.4 billion, in other liabilities. By contrast deposits from customers rose by €2.8 billion to €110.3 billion. Within deposits from customers, there were increases of €6.9 billion in credit balances on current accounts and €1.0 billion in savings deposits, while time deposits fell by €5.1 billion.

Financial Review (Continued)

At €23.3 billion, shareholders' equity remained almost unchanged (down €49 million) compared with year-end 2011. In this context, other reserves fell by €1.6 billion; this includes negative effects of €0.4 billion arising from adjustments to pensions and similar obligations and a withdrawal of €1.0 billion. This withdrawal from reserves does not have any effect overall because it is retained in recognised consolidated profit of €2.5 billion under shareholders' equity until the dividend is paid. The dividend payment of €1.0 billion for the 2011 financial year disbursed in the second quarter of 2012 as resolved by the Shareholders' Meeting served to reduce the total accordingly. The available-for-sale reserve rose by €0.2 billion.

The contingent liabilities and other commitments not included in the balance sheet amounted to €55.9 billion at year-end 2012 (2011: €58.8 billion). This figure includes contingent liabilities in the form of financial guarantees amounting to €19.9 billion, which fell by €1.1 billion compared with 2011. These contingent liabilities are offset by contingent assets at the same amount. Other commitments of €36.0 billion (2011: €37.7 billion) primarily consist of irrevocable credit commitments which fell year-on-year by €1.6 billion to €37.2 billion.

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 on the basis of Basel II (German Banking Act/Solvency Regulation – KWG/SolvV) amounted to €109.8 billion at 31 December 2012 (31 December 2011: €127.4 billion), which represents a decrease of €17.6 billion compared with year-end 2011.

In the process, the risk-weighted assets for credit risks (including counterparty default risk in the trading book) determined by applying partial use decreased by €9.3 billion to €83.1 billion as a result of declines of €7.4 billion in risk assets at HVB and of €2.4 billion at UniCredit Luxembourg S.A. HVB's credit risk fell by €6.2 billion as a result of improved risk weightings caused mainly by reclassifying the volume of receivables under the exposure class relating to central governments and the counterparty risk by €1.5 billion through declines in exposures as well as improved ratings in the derivatives business. The risk-weighted assets of UniCredit Luxembourg S.A. can be attributed almost exclusively to a decline in receivables from companies.

The risk-weighted assets for market risk fell by €10.9 billion to €12.9 billion. This development is mainly due to an intentional complete reduction in the correlation trading portfolio together with changes in the ratings of CDOs as well as a reduction in the holding of Italian government bonds.

By contrast, there was a €2.6 billion increase to €13.8 billion in the risk-weighted equivalents for operational risk, mainly at companies subject to the Advanced Measurement Approach (AMA). Apart from risk-sensitive adjustments based on standalone calculations and back-testing with realised operational losses, operational risk is allocated under the AMA primarily on the basis of the proportion of gross earnings (3-year average) contributed by the companies subject to the AMA. The rise in risk-weighted asset equivalents for operational risk mentioned is primarily caused by the higher share of gross earnings of HVB Group in the total gross earnings of the UniCredit group companies subject to the AMA.

At 31 December 2012, the core capital of HVB Group compliant with the German Banking Act excluding hybrid capital (core Tier 1 capital) fell by €0.8 billion to €19.1 billion compared with year-end 2011. The withdrawal of €1.0 billion from other retained earnings is included in this total. As a result of the decline in total risk-weighted assets, the core Tier 1 ratio (ratio of core capital excluding hybrid capital instruments to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) nevertheless rose to 17.4% at 31 December 2012 (31 December 2011: 15.6%). The core capital of HVB Group (Tier 1 capital) amounted to €19.5 billion at 31 December 2012 (31 December 2011: €20.6 billion). Due to the decline in total risk-weighted assets, the core capital ratio under Basel II (Tier 1 ratio; including market risk and operational risk) rose to 17.8% (31 December 2011: 16.2%). The equity capital amounted to €21.2 billion at 31 December 2012 (31 December 2011: €23.4 billion). The equity funds ratio was 19.3% at the end of December 2012 (31 December 2011: 18.4%).

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 the ratio is at least 1.00. At HVB, this figure increased to 1.38 at the end of December 2012 compared with year-end 2011 (1.26). A detailed description of the liquidity situation is provided in the section of the Risk Report in Management's Discussion and Analysis entitled "Liquidity risk".

Requirements and impact of Basel III on HVB Group
In 2010, the Basel Committee on Banking Supervision of the Bank for International Settlements (BIS) published a set of reforms with a view to strengthening the resilience of the banking sector by enacting stricter global rules for equity capital and liquidity. The Basel III reform essentially comprises more stringent qualitative and quantitative capital requirements complete with additional liquidity standards comprising a short-term (Liquidity Coverage Ratio) and a long-term ratio (Net Stable Funding Ratio) as well as a non-risk-sensitive debt ratio (Leverage Ratio). Furthermore, the reforms include an expansion of the content of the monitoring process and the disclosure rules.

The Basel reform measures are implemented at European level by the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD IV). CRD IV is a guideline that the individual member states are required to translate into national law. The CRR is a regulation that is immediately binding on all EU financial institutions without having to be translated into national law. This means that the CRR has immediate binding effect for all German financial institutions. The Basel reform package called for implementation in national and European law to take place in 2012 and the requirements to take effect from 1 January 2013. A transition period through to 2018 is permitted for certain requirements in order to give the banks enough time to adapt to the stricter requirements. In December 2012, the Basel Committee published a revised reform proposal regarding the new Liquidity Coverage Ratio (LCR). The LCR is intended to ensure that enough high-quality liquid assets are on hand to cope with a one-month stress scenario. To satisfy the LCR, the high-quality liquid assets to net cash outflows must be at least 100%. This new proposal eases the qualitative requirements. It includes a graduated increase in the minimum requirement from 2015 to 2019 that requires a level of at least 60% to be achieved in 2015 and 100% in 2019.

There was no agreement at EU level (EU commission, European Parliament and the Council of the European Union) in 2012 on the implementation of the Basel reforms. In light of this, the new regulatory requirements have not been adopted at either EU level or at national level, and hence did not come into force in January 2013.

HVB Group enjoys a very strong capital base. At 31 December 2012, the core capital ratio without hybrid capital amounted to 17.4%. This means that HVB Group not only comfortably surpasses the current regulatory requirements, it would also satisfy the regulatory minimum capital ratios implemented by Basel III in full. In light of this strong capital foundation and solid liquidity base, HVB Group is well-prepared for the Basel III requirements. It already met the liquidity ratios redefined under Basel III – Liquidity Coverage Ratio and Net Stable Funding Ratio – by more than 100% at year-end 2012.

Ratings
In the course of the ongoing sovereign debt crisis, the major international rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings re-examined their assessments of banks' credit standings in 2012. Both Fitch (A+) and Standard & Poor's (A) retained their long-term ratings for UniCredit Bank AG. Only Moody's chose to downgrade our long-term rating one notch from A2 to A3 when reassessing the whole German banking industry. In this context, most of the banking industry was reassessed by Moody's and largely downgraded.

Financial Review (Continued)

In February 2012, rating agency Standard & Poor's modified the rating for our corporate parent, UniCredit S.p.A., to match the long-term rating for Italy (BBB+). Moody's followed in July 2012 with a downgrade of the long-term rating to Baa2, while Fitch Ratings confirmed its A– rating in February 2012 in line with its assessment of the Italian state.

Corporate acquisitions and sales, and other major investment projects

The companies Cameron Granville 2 Asset Management Inc., Cameron Granville 3 Asset Management Inc. and Cameron Granville Asset Management (SPV-AMC) Inc. were sold in August 2012 and thus left the group of companies included in consolidation. The companies HVB Capital LLC VIII and HVB Funding Trust VIII similarly left the group of companies included in consolidation after the hybrid financial instruments included in them were repurchased by HVB in the first quarter of 2012. This resulted in these two companies no longer having a business purpose so they were liquidated in the second quarter of 2012.

The assets and liabilities of the company The Trans Value Trust Company Ltd. – SFCG "REC Loan ABL" Trust (SFCG), Tokyo, were transferred to Chiyoda Fudosan GK, Tokyo. SFCG was liquidated once the transfer was completed and thus left the group of companies included in consolidation in December 2012.

On 30 November 2012, we acquired HJS 12 Beteiligungsgesellschaft mbH, Munich. The purchase entailed the indirect acquisition of all shares in Ocean Breeze Energy GmbH & Co. KG and other affiliated companies (Perikles 20092 Vermögensverwaltung GmbH, Munich; Ocean Breeze Asset GmbH & Co. KG, Munich; and Ocean Breeze GmbH, Munich). Ocean Breeze Energy GmbH & Co. KG had already been added to the group of companies included in consolidation in 2008 as a special purpose entity pursuant to SIC 12. The acquisition of HJS 12 means that HVB now also has decision-making powers regarding wind farm assets as well as the economic opportunities and risks. The other companies listed above are consolidated with effect from 31 December 2012.

Other changes in the group of companies included in consolidation are listed in Note 5, "Companies included in consolidation".

Starting in 2013, the HVB Tower in Munich is being turned into a green building that meets the requirements for a facility strategy geared to sustainability and environmental compatibility, to be completed by 2015 in the case of the tower itself and the South building and 2018 in the case of the North building. The main aims of the renovation work are to improve energy efficiency and reduce carbon emissions. At the same time, the office spaces will be revamped to meet the requirements of modern communication systems and the existing areas rearranged to allow more efficient use of space at the same time as enhancing the working environment by applying innovative office concepts. HVB carried out a pilot project called Smart Working in 2012 to examine a future-looking office landscape with this in mind. If it proves successful, this concept will then be incorporated in the HVB Tower. Once completed, the HVB Tower will become the Bank's future corporate headquarters and seat of the Management Board. The building at Kardinal-Faulhaber-Straße 1 previously hosting the Management Board was already sold in 2012.

Usage of the central buildings at our Hamburg location has been restructured. As a result of space reductions in Hamburg and the ensuing sale of the Alter Wall, a modified space concept was implemented for all facilities in Hamburg hosting central unit functions.

HVB Group already set up restructuring provisions in 2012 to accommodate the modification of the business model together with measures aimed at optimising the branch and office network and expanding our multichannel sales strategy. With these steps, HVB Group aims to expand its market position in a rapidly changing economic and regulatory environment and accelerate growth through a regional organisational structure and a greater entrepreneurial orientation. To do so, HVB will undergo a restructuring during the 2013 financial year to create three business segments known as Unternehmer Bank, Private Clients Bank, and Corporate & Investment Banking that will replace the previous operating divisions. HVB is looking to build on more entrepreneurialism in the regions in its Germany business going forward, systematically reinforcing its regional presence with the new structure.

Corporate structure

Legal corporate structure

UniCredit Bank AG 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, which is headquartered in Munich. HVB has been an affiliated company of UniCredit S.p.A. (UniCredit), Rome, Italy, since November 2005 and hence a major part of 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 in September 2008, UniCredit has held 100% of the capital stock of HVB. Thus, trading in HVB shares officially ceased. HVB does, however, remain listed on securities exchanges as an issuer of debt instruments such as Pfandbriefs, bonds and certificates.

Organisation of management and control and internal management

The Management Board is the management body of HVB. It 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 and 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. 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.

The Management Board consisted of seven members until 31 December 2012. In addition to the Board spokesman, the Management Board included the heads of the Corporate & Investment Banking, Family & SME and Private Banking operating divisions as well as the Chief Financial Officer, the Chief Risk Officer and the Head of Human Resources Management, who is also responsible for Global Banking Services. At the extraordinary meeting of the Supervisory Board on 7 December 2012, Dr Andreas Bohn was elected to the Management Board of HVB with effect from 1 January 2013. Since 1 January 2013 the Management Board has thus consisted of eight members. In the course of adjusting the business model to reflect the rapidly changing economic and regulatory environment (see also the section of the Financial Review entitled "Adjustment of the business model from 2013"), HVB realigned its organisational structure. With effect from 14 January 2013, three business segments were created and responsibilities on the Management Board were reallocated accordingly. Since then, Mr Diederichs has been the member of the Management Board responsible for the Unternehmer Bank business segment, Mr Buschbeck and Mr Danzmayr for the Private Clients Bank business segment (the latter focusing on private banking) and Dr Bohn for the Corporate & Investment Banking business segment. Other responsibilities on the Management Board have remained unchanged.

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.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given in the consolidated financial statements under Note 90, "Members of the Supervisory Board", and Note 91, "Members of the Management Board".

HVB Group's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the principle of overall bank management based on the determination of regulatory and economic capital requirements and risk-taking capability. This is explained in the Risk Report (please refer to the sections "Integrated overall bank management" and "Implementation of overall bank management" under "Overall bank management at Group level").

Financial Review (Continued)

Human resources

HVB Group had a workforce of 19,247 (in full-time equivalents) at 31 December 2012 (2011: 19,442). The fluctuation rate that has been falling for years amounted to 6.7% during the reporting period. For many years, we have utilised the potential for making working time more flexible. At 24.2%, the proportion of part-time workers at HVB was somewhat higher than in 2011 (23.1%).

At HVB, we like to think of ourselves as a working family. As a member of UniCredit, one of the leading banks in Europe, HVB puts great faith in cross-divisional and cross-company networks and multinational organisation teams. In this context, we have initiated a series of measures and programmes aimed at developing our managers and staff. These include things like the Country Chairman's Leadership Club, a programme to cultivate leadership skills. The UniFuture leadership development programme is designed for managers who demonstrate the potential to join UniCredit's leadership team. Added to this are processes serving to appraise potential and performance, like the Executive Development Plan and the Talent Management Review. Moreover, there is also a wide range of development instruments for managers in each of HVB's divisions. We also employ staff-development programmes like JUMP! for junior talents, First Steps for apprentices and UniQuest to further the careers of talented junior staff.

The regulatory requirements for the remuneration systems of larger financial institutions were specified and tightened at the end of 2010 based on the relevant legislation (Instituts-Vergütungsverordnung). We have adapted and refined our remuneration systems in accordance with the new regulations. This applies in particular to our senior executives. In order to strengthen long-term incentives, we have introduced longer retention periods for variable remuneration and higher proportions of stock.

Promoting the health of our employees is also an important issue for us. In 2010, HVB's five-year Healthy Company project was launched with a view to creating an awareness of work-related medical conditions and devising solutions. Our self-image as a good employer also encompasses promoting a healthy work-life balance. HVB has been certified several times by the not-for-profit Hertie Foundation under its Work and Family Audit. We have also been active in the "Success Factor: Family" initiative of the German Ministry for Family, Senior Citizens, Women and Youth since 2008.

The active involvement and support of all employees is crucial to HVB's commercial success. UniCredit's annual People Survey, which was last carried out in November 2012, serves as an indicator of the status of the corporate culture and the satisfaction of the employees with the working conditions and management. The overall results for HVB have improved satisfactorily, showing a stronger commitment of our employees to the Bank's goals and their sense of belonging as compared with the previous year.

Diversity – which is synonymous with respecting and promoting variety – is one of the fundamental values of UniCredit. Promoting gender diversity is one of the top priorities for both UniCredit and HVB. This means intensively promoting the specific potential of talented women and integrating them into management. We have set ourselves the ambitious goal of filling 30% of all senior positions at HVB with women by 2017. To achieve this goal, we have already introduced a number of measures, including: a selection procedure for filling management positions; fostering the professional development of women in management positions through the UniCredit Women's International Network; and a mentoring programme for female managers. Furthermore, in 2009 HVB became the first bank in Germany to set up a Women's Council. This committee comprises 30 top-class female entrepreneurs and managers.

Sustainability

Uncertainty is still tangible among consumers and investors alike due to their experiences in the ongoing financial and sovereign-debt crisis. In order to permanently secure their trust and confidence in us as a bank, it is necessary to act with integrity and have long-term business models. HVB has professed its commitment to the guiding principle of sustainable development since the beginning of the 1990s.

Besides a solid financial foundation, HVB has built on its good reputation for years. To implement our all-round stakeholder approach, we conduct consistent sustainability management aligned with the three dimensions of sustainability: people, the environment and business. A solid capital base is as much a part of this concept as ecologically and socially responsible lending or the development of sustainable investments. For us, further key sustainability issues are excellent customer service, treating our employees in a responsible manner, environmentally friendly banking operations and our commitment to a fair and forward-looking society. In 2012, we defined specific, timed objectives for all areas of action in a sustainability programme which will be continuously updated in future. Whether and how far we achieve these objectives will be documented in a sustainability report published on an annual basis. For the sake of transparency, HVB also issued a statement of compliance with the German Sustainability Code at the end of 2012.

HVB determines the expectations of its stakeholders through systematic reputation management. We gain an impression of the reputation we enjoy among customers, employees and opinion leaders as well as of decisive reputation factors by conducting surveys on a regular basis. By so doing, we simultaneously identify new topics which we must tackle from a strategic or operational view in order to avoid risks but also to exploit the opportunities involved. The section of the Risk Report entitled "Reputational risk" contains comments on the definition, strategy, measurement, monitoring and controlling of social and ecological risks as part of reputational risk management.

As a financial institution, we have a significant influence on ecologically and socially responsible development through our business operations. HVB is one of the biggest financers of renewable energy in Europe and thus an important partner in the implementation of Germany's energy transition. Among other things, we advise our customers on the KfW development programmes for energy-efficient construction and renovation and on financing renewable energy at two centres of competence in Munich and Düsseldorf. At the same time, HVB has been offering a wide-ranging portfolio of sustainable products for many years and has participated in the European Union's emissions trading scheme since its inception in 2005.

With a view to creating value for our customers, HVB is making every effort to constantly adapt and enhance its advisory services to reflect changing requirements.

In order to protect customers from ill-considered decisions, HVB has introduced product information sheets covering all financial products in the fields of investment, securities, payments, pensions and financing, many of which are in English and Turkish. This exceeds our statutory obligations. Through our neutral financial education portal EURO.DE, we offer both customers and non-customers alike easily understandable answers to questions about topics such as pensions, investments and loans. We inform our customers about our understanding of sustainability and our specific services in a sustainability brochure, which has been on display at all HVB branches since autumn 2012.

HVB has employed a certified environmental management system to manage its own actions to protect the environment since 2006. In 2010, HVB already met the climate goal of reducing in-house carbon emissions by 30 percent (base year: 2008) before 2020. We obtain our electricity solely from renewable sources, and we offset our heating energy through the purchase and deactivation of carbon certificates. This means that all our buildings are run in a way that is climate-neutral, signifying an annual reduction totalling some 90,000 tons of CO^2. We have implemented 85 percent of our next project aimed at making our entire banking operations climate-neutral. In terms of in-house environmental protection, we aim to make our entire banking operations climate-neutral in 2013.

Within the financial world, HVB plays a leading role in terms of sustainable business operations thanks to its consistent strategic orientation over many years. This is also affirmed by numerous awards and good rating results: the sustainability rating agency oekom research AG has given HVB its "Prime" designation for eleven years in a row. We have been listed in the DJSI and FTSE4Good, the leading international sustainability indexes, for years through UniCredit.

Financial Review (Continued)

Main products, sales markets, competitive position and facilities in the 2012 financial year
As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, and international companies. This range extends, for example, from mortgage loans, consumer loans, savings-and-loan and insurance products as well as banking services for private customers, business loans and foreign trade financing for corporate customers through to funds products for all asset classes, advisory and brokerage services, securities transactions, liquidity and financial risk management, advisory services for affluent customers and investment banking products for corporate customers. HVB Group has a well-developed network of branches in Germany via which it serves its customers. Because of its past, the Bank is particularly strong in Bavaria as well as in Hamburg and the surroundings.

HVB Group is a universal bank with considerable strengths in traditional and modern corporate banking. On account of these strengths, it became the centre of competence for the international markets and investment banking activities of the entire UniCredit corporate group. The Corporate & Investment Banking division serves around 46,500 corporate customers in its national and international sales network. The business model focuses on different customer groups and the customer relationship as a decisive factor in the allocation of resources while the structures reflect the requirements in a hard-fought market in a continual process of adjustment.

The business success of the Corporate & Investment Banking division is based on the close cooperation and coordination between the sales, service and product units as well as on its collaboration with other countries and divisions of UniCredit. The three global product lines – Markets, Financing & Advisory and Global Transaction Banking – are integral parts of the division's integrated value chain. They support customers in strategic, transaction-based activities, solutions and products. In the light of the change in markets and increase in market risks, we are seeking to closely support customers. We also cover all the corporate banking needs of our customers, including in areas like restructuring, growth and internationalisation. This requires up-to-date knowledge of specific branches and markets which also meets the growing demands on a finance provider. Until the end of 2012, the Corporate & Investment Banking division served corporate customers with annual revenues of more than €50 million. Our customer segmentation criteria and sales channel differentiations are based on various challenges, demand structures and processing standards.

We want to be the first port of call for our customers in terms of advisory expertise, product and process quality as well as creation of value. At the same time, we seek to build stable, strategic business partnerships in the long-term and to bolster our position as a core bank for customers in commercial and investment banking. The Corporate & Investment Banking division supports our customers in their positioning, growth and internationalisation by acting as an intermediary to the capital market. An integrated value-added chain consisting of a service network and product specialists ensures high-quality advisory services with a creative, solution-based approach. In 2012, it focused on customer-related operations, an expansion of the integrated value-added chain in Financing & Advisory through Capital Markets solutions (transfer of the Capital Market units from Markets to Financing & Advisory), transactions with a low absorption of risk assets and optimised liquidity management. In addition, some employees were transferred to strengthen our core business and to reduce unprofitable units.

In the Family & SME (F&SME) division, we served around three million customers at the end of 2012 who are divided into the following strategic target groups: mass-market, affluents, small and medium-sized enterprises including business customers. These customer groups were served on the basis of different service models that reflect their individual needs. Our main aim in the mass-market target group is to increase the penetration of attractive customer groups, offer a lean and demand-based product range and promote the acquisition of new customers. In the affluents target group, we are building on greater use of mandated products (such as asset management) and the systematic development of customer contacts with the aim of winning new customer funds. To do so, we are continuing to invest in systematic customer contact, constantly refining both our needs-based approach and our products. For business customers, we focus on borrowing requirements in connection with customer-friendly loan processes, the development of customers' needs for private purposes and the continued expansion of our specialisation in the target groups: public sector, health care professions, insolvency administrators and agriculture. Besides traditional sales via our branches, we offer business customers all of the classic services for the self-employed and tradespeople via a hotline with a personal customer contact. In addition, HVB also offers video consultations for retail customers outside branch office opening hours as the first national branch bank in Germany to do so. This will enable the extent of advice provided and the flexibility to again be considerably improved regardless of the size of the branch in the course of further expansion. In the field of medium-sized enterprises, we build on a high standard of quality in our advisory services for companies and, by incorporating government subsidies and payments solutions, tailored financing solutions which also serve to optimise the working capital management, in addition to offering classic cash management services.

The primary objective of the Family & SME division is a consistent customer orientation based on an optimum service culture. This was achieved by providing a high standard of advice and service, by optimising the product range and expanding multi-channel management. Professional advisory tools ensure consistent quality standards and individual advisory services at a high level. For medium-sized companies, this is safeguarded by a strategic dialogue supported with business advisory tools. Specialists for advice on real estate finance, succession planning and pensions as well as tailored advice on securities help us to implement our quality strategy.

HVB Group has a good positioning in private banking. With 46 offices, around 45,400 customers served and a market share of around 5% in the affluent retail business segment in Germany, the Private Banking division was one of the market leaders in this business segment at the end of 2012. In the wealthiest regions of Germany, Bavaria and the Hamburg area, HVB has an excellent competitive position due to its historically strong local presence and proximity. HVB Group has set itself the goal of significantly bolstering this business, which requires little capital and is thus highly attractive. Positioned under Private Banking, Private Wealth Management, which serves very wealthy affluents, will be or rather was significantly expanded through an increase in facilities and staff so that the market potential that is identified can be tapped in the best way possible. Consequently, the preconditions are being put in place for the long-term growth of Private Banking, which is founded on a comprehensive range of products and solutions, and includes the clearly defined internal cooperation with the F&SME and CIB divisions. Based on a clear strategic orientation with a focus on the most attractive private-banking customer segments and an all-round personalised relationship model, HVB Group has succeeded in expanding its position among the leading private-banking players in Germany.

Adjustment of the business model from 2013

HVB is adjusting its business model in 2013 to reflect the rapidly changing economic and regulatory environment and pushing further growth through a regional organisational structure and a stronger entrepreneurial focus. From 2013, HVB will realign its structure to create three business segments: Unternehmer Bank, Private Clients Bank, and Corporate & Investment Banking. In its German activities, HVB will rely on more entrepreneurialism in the regions and the new structure will consistently strengthen its regional presence.

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Private Clients Bank will serve all private customers, ranging from typical retail customers to private banking clients. The medium and long-term changes and trends in customer behaviour are playing an ever greater role for both retail and private banking customers which means that closer integration in the development of innovative sales channels and services can create added value for both customer segments. At the same time, the structure will allow tailored services that meet the special requirements of the top customer segment.

The Mittelstand of small and medium-sized enterprises forms the backbone of the German economy. Going forward, HVB's Unternehmer Bank will provide extensive services to these customers together with its business and real estate customers. With its new structure HVB is continuing to consolidate its position as a bank for entrepreneurs. Today, HVB is already the second largest lender in Germany with a lending volume of over €60 billion. Our aim is to establish a true entrepreneurs' bank that combines the advantages afforded by regional proximity with those of an international bank and serves companies ranging from freelancers and small family-owned companies to large corporate customers. Entrepreneurs should benefit even more strongly from regional advantages and an all-round service. In future, the Unternehmer Bank will serve business, corporate and real estate customers. At the same time, the service concept will remain the same. Due to the close correlation with businesses, the complex assets of entrepreneurs and customers with an entrepreneurial background, meaning their private financial matters, will be managed in the Unternehmer Bank. In the process, we will focus on providing a comprehensive service to entrepreneurs through personalised solutions, particularly portfolio solutions and advice at institutional level as well as special products but also tailored finance, asset consolidation and foundation consultancy services.

Unternehmer Bank and Private Clients Bank activities will both be conducted in six regions. The heads of these regions will pursue an entrepreneurial approach in the development of their region and will ensure a uniform presence for HVB and professional customer care at local level.

From 2013, the Corporate & Investment Banking business segment will be responsible for investment banking, institutional and select multinational corporations as well as large companies engaged in capital market activities (referred to as "corporates"). These customers will be supported by an integrated added value chain consisting of a service network and product specialists. In future, the Corporate & Investment Banking business segment will also cover the Markets and Financing & Advisory (F&A) product lines and product factories, operations with financial service providers and private equity funds as well as Global Transaction Banking (GTB). The Corporate & Investment Banking business segment ensures high-quality advice with a tailored and solution-based approach and acts as an intermediary to the capital market. HVB Group continues to be the centre of competence for the international markets and investment banking operations of the entire UniCredit corporate group. In addition, the Corporate & Investment Banking business segment also acts as a product factory for the Private Clients Bank and the Unternehmer Bank.

In this way, HVB is creating an excellent position for further successful growth in the German market. As HVB considers it essential to maintain a stable partnership between customer and relationship manager, customers will retain their existing relationship managers when the new structure is implemented.

HVB Group is part of an international banking group which offers its financial services on the European market in particular. This enables us to combine our regional and divisional strength and local competence with the potential and know-how provided by an international banking group. Our integration into UniCredit is an ideal basis for swiftly and effectively exploiting market opportunities and cushioning risks. The future of HVB Group also lies in consistently leveraging the advantages gained from economies of scale and other strategic assets resulting from our integration into UniCredit. UniCredit has a well-balanced business model in divisional and regional respects with bases in 22 countries. Apart from the domestic markets of Germany, Austria, Poland and Italy, it is one of the leading banks in the countries of central and eastern Europe. In particular, it is our corporate customers who benefit from this international diversification.

A breakdown of the offices of HVB Group by region is shown in Note 88 "Offices" in the notes to the consolidated financial statements.

Events after 31 December 2012

At the extraordinary meeting of the Supervisory Board held on 7 December 2012, Dr Andreas Bohn was appointed to the Management Board of HVB with effect from 1 January 2013. He will assume responsibility for the Corporate & Investment Banking business segment (see also the section of this Financial Review entitled "Organisation of management and control, and internal management").

The modifications to the business model described above take effect from January 2013. This represents the start of implementing the new organisational structure at HVB with a stronger regional and entrepreneurial orientation and clearer lines of responsibility for customers regionally. Among other things, the next steps in establishing the Unternehmer Bank and Private Clients Bank business segments consist of staffing the team leader positions in the Unternehmer Bank, setting up the specialist organisation and making adjustments to the central competence lines and lending units.

In order to enhance the capital structure of HVB Group, we carried out a further buy-back of hybrid capital instruments with a nominal amount of €287 million during the first quarter of 2013. After this buy-back, the outstanding hybrid capital instruments totalled a nominal amount of less than €50 million.

Outlook

Management's Discussion and Analysis and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by information available to us at the present time. We assume no obligation to update these statements in the light of new information or future events. Known or unknown risks and uncertainties may be entailed in forward-looking statements, and the actual results and developments may thus differ significantly from those expected at present. Such discrepancies may result particularly from changes to the general economic situation and the competitive situation, developments on international capital markets, the possible default of borrowers or contracting parties in commercial transactions, the implementation of restructuring measures, amendments to national and international laws relating to supervisory and tax regulations, the reliability of our risk-management procedures and methods as well as other risks, some of which are described in detail in the Risk Report.

General economic outlook and sector development in 2013

The global economy and the international financial markets will continue to face a high degree of uncertainty in 2013. However, we believe that there is a good chance of a moderate recovery in the global economy in the course of the coming year for the following three reasons:

First, the Chinese economy should gain some momentum in view of the moderate stimulus generated by monetary and fiscal policy moves and the major structural deficiencies that still remain to be overcome.

Second, the fiscal austerity measures in the majority of crisis-ridden eurozone countries will gradually ease, as significant progress has been made in cutting deficits in many jurisdictions.

Third, fears of a eurozone break-up have greatly abated since the ECB announced its OMT programme.

In the United States, the postponement of a long-term solution to the immense public financing shortfall represents a clear downside risk. The politicians still have to reach agreement in the coming months on raising the debt ceiling and on massive, long-term spending cuts in order to avoid jeopardising the increasingly robust economic recovery. Buoyed above all by the steady recovery on the labour market and the upward trend in the housing market, we expect growth to total 2.1% in 2013.

Despite recent trends pointing to an easing of the sovereign debt crisis in the eurozone, a final conclusion to the situation is not yet foreseeable. The weak economy will necessitate further cost-cutting measures in most countries. This will continue to weigh down the

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domestic economy in the coming quarters. Still particularly uncertain and therefore challenging are the prospects for Greece, where the situation continues to spiral downward, with no end in sight. By contrast, Italy appears set to move out of recession by the spring, with relatively minor additional burdens in its domestic economy. Higher burdens than last year are again expected for Spain, which means that its recession should continue until mid-year.

Following the weakness in core eurozone countries at the end of 2012, we expect the growth trend to gradually return in early 2013 on the back of an improved outlook for the global economy. In 2013, we project eurozone GDP to decrease by a slight 0.1% year-on-year in real terms.

As for the German economy, we believe that it can achieve GDP growth of 0.8% in 2013 despite the slowdown at the end of 2012. Exports will gradually return to an upward trend, while domestic demand should remain stable. The activities of German exporters will receive a boost from the emerging Asian economies, a gradual improvement in the eurozone and a stable US economy. Although German companies are unlikely to undertake substantial increases in capacity amid the continuing serious uncertainty, domestic demand should generally prove relatively robust. In view of the wage increases already agreed for 2013, consumer spending will be backed by increases in income. Although companies have recently scaled back their hiring plans, on the whole we expect the labour market to move sideways at a healthy level in 2013. A second source of support for solid domestic demand remains the residential property market, fuelled by low unemployment, prevailing fears of inflation and interest rates at record lows. A renewed flare-up of the eurozone crisis could put heavy pressure on German exports and investment activity. Exports to eurozone countries remain the bread and butter of German companies, accounting for around 38% of the total. A waning appetite for risk could have a further negative impact on investment activity, as companies could shy away from long-term commitments due to the high level of uncertainty.

The announcement of unlimited purchases of government bonds by the European Central Bank, subject to certain conditions, and the favourable ruling on the European Stability Mechanism (ESM) by the German Constitutional Court in the third quarter of 2012 had a very positive impact on the general funding options available to banks. This situation can be expected to continue in 2013, although the risk of occasional volatility, triggered by political events, is far from negligible. Despite this improvement in the funding environment, reinforced by the ECB's long-term tenders, the banking sector still faces significant challenges, from both the overall economic environment and pending regulatory initiatives by banking supervisors.

The plentiful liquidity made available to the banking sector only addresses the symptoms and not the causes of the structural problems in the financial markets. Efforts to fight those causes have since been launched, but will need time before fully taking effect. Until then, the level of debt will probably increase in many countries in the short term. Moreover, the austerity measures have negatively affected economic growth and led to rating downgrades, so that rising risk provisions and decreases in income can be expected. At the same time, the structural transformation of the banking sector will lead to adaptive measures that will generally result in additional restructuring expense.

The effects of the new regulations, such as the required adjustments arising from Basel III, are not yet entirely foreseeable, although the main outlines are in place. Equity capital will be subject to stricter standards in terms of quality and quantity, which is likely to lead to lower profitability. Moreover, banks classified as systemically important will be required to hold more equity capital. In addition, banks face the permanent burden of banking levies and the future financial transaction tax. Questions remain regarding the final form of the EU Crisis Management Directive, which will regulate the share of creditors in bank losses at the European level, alongside the Markets in Financial Instruments Directive (MiFID) as well as the EU Directive on Deposit Guarantee Schemes.

In February 2013, the federal cabinet in Germany approved draft legislation on banking regulation, including plans requiring banks to segregate certain trading activities (segregation of commercial and investment banking), regulations requiring banks to submit their own recovery and resolution plans, and stricter liability rules for managers:
– The key factors in this draft legislation regarding the separation of proprietary trading activities to a separate legal entity are: the financial assets held for trading and AfS financial instruments exceed a threshold of €100 billion or these positions represent more than 20% of the balance sheet and total assets have exceeded €90 billion over the past three years. On the basis of the existing wording of the draft legislation, we cannot rule out the possibility that HVB Group will be affected.
– Systemically important banks, both at the global and national levels, will be required to draw up restructuring plans for crisis situations, specifying courses of action for specific scenarios.
– The draft legislation also calls for new penalties to be introduced in Section 54a KWG, under which managers may face up to five years' imprisonment or fines if it is determined that the viability of a bank or its corporate group as a going concern is jeopardised by a failure to have in place the strategies, processes, functions or concepts required by the German Banking Act.

The draft legislation described above was discussed and approved by the German cabinet at the beginning of February 2013 with the next step now being the parliamentary legislative process. At present, it is not possible to assess the effects of this bill on the assets, liabilities, financial position, and profit or loss of HVB. In addition, it is not sufficiently clear to us – or the financial sector as a whole - whether and to what extent the recommendations in the Liikanen Report, in particular on the introduction of mandatory separation of proprietary trading activities to a separate legal entity, will be implemented in the European Union.

Equally difficult to assess at present are the effects on the European banking sector of the single supervisory mechanism in the eurozone, which was agreed by European leaders in December 2012. This will take effect as of March 2014, applying to banks with assets in excess of €30 billion or 20% of domestic GDP.

General economic outlook and sector development in 2014

The global economic recovery expected for 2013 should continue into the next year, in particular with a further alleviation of the stresses in the countries affected by sovereign debt crises. The emerging economies will probably drive global growth, helped by a further slight increase in the growth rate in the United States. On the back of the anticipated 1.5% GDP growth in Germany, overall economic output in the eurozone should also increase by 1.2%.

Assuming a further easing of the eurozone debt crisis and a return to economic growth, the banking sector can expect to enjoy a healthier income situation in 2014 than in recent years – even after taking into account the burden imposed on earnings by the constant increase in supervisory requirements.

Financial Review (Continued)

Development of HVB Group

HVB Group earned a very good profit before tax of €2,058 million in 2012 despite the challenging market conditions. A major contributing factor was the very high net trading income, which reflected a positive effect amounting to €395 million from the reversal of the credit value adjustment as well as the overall market trend.

With the difficult market conditions forecast to continue in 2013, HVB Group does not expect to match the very good result from the reporting period, in particular because the 2012 figures reflected the positive effect from credit value adjustments. Due to 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 fairly unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that we will again be able to generate a good profit before tax in 2013. In this "stable scenario", we expect to generate a pre-tax result in 2013 roughly equalling the level of 2012 (adjusted for one-off effects).

HVB Group expects a year-on-year decline in operating income in 2013, in particular due to a significant decrease in net trading income. It should be noted, however, that the good figure posted for net trading income in 2012 benefited from the non-recurrent effect from the reversal of credit value adjustments mentioned above. Interest income should be close to the previous year's total, as interest rates appear likely to remain very low. Interest margins will remain under pressure again in 2013 owing to the low interest rates. Further negative effects on interest income will result from the low return on equity, which is falling in line with the prevailing interest rates, and the high non-interest bearing liquidity reserves with central banks. By contrast, we expect a pleasing year-on-year increase in commission income earned across all operating divisions, which should be generated in particular from management, brokerage and advisory services as well as the lending business. Operating costs should remain close to their 2012 level, despite the anticipated inflation rate of 1.8%, as a result of the strict cost management that we have been practising for several years now. In particular, a slight decrease in payroll costs should offset a moderate rise in other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets to a large extent. We expect net write-downs of loans and provisions for guarantees and commitments in 2013 to be slightly higher than the 2012 total of €440 million adjusted for the technical effect of €287 million (see also the section "Net write-downs of loans and provisions for guarantees and commitments, and net operating profit") but still at a moderate level.

The expectations concerning the performance of HVB Group for the 2014 financial year are much more difficult to formulate. Provided that the underlying economic conditions develop favourably both in Germany and worldwide and there is no sharp economic downturn, we assume that the profit before tax of HVB Group will develop favourably, while operating income will rise, particularly due to net trading income and net interest, while operating costs will remain stable.

The results trends at HVB Group in 2013 and 2014 for the individual operating divisions are as follows:
HVB Group's performance in the 2013 financial year will again depend in large part on the operating performance of the Corporate & Investment Banking (CIB) division, and in particular its earnings and net write-downs of loans and provisions for guarantees and commitments. We expect CIB's operating income to decline in 2013, mainly related to a fall in net trading income, which benefited in the year under review from the above-mentioned effect from the reversal of credit value adjustments. We expect a slight decrease in net interest as compared with the reporting period despite a planned increase in credit volumes, as margins will remain under pressure due to the low interest rates. CIB has budgeted for a strong increase in net fees and commissions in all departments, primarily from advisory services related to the expansion of lending business. In the F&A product unit,

this is to be achieved through a focus on our strong market positioning (for example in global capital markets) and the expansion of advisory mandates. In GTB, the goal is to expand the customer base and engage in systematic customer planning (interplay between product line and sales in terms of cross selling, repricing and generating new business, particularly in trade finance). In Markets, we plan to expand the product portfolio, particularly in the Corporate Treasury Sales unit, which should also result in an increase in income from fees and commissions. The operating costs should remain stable, with payroll costs lower than in the reporting period. We also expect net write-downs of loans and provisions for guarantees and commitments to be down significantly in 2013. We expect profit before tax in the 2013 financial year to be slightly higher than the 2012 figure, adjusted for the special effect in net trading income.

We assume that the division will achieve a good operating performance in 2014 on the back of a significant increase in operating income and a slight decline in operating costs.

We expect the Family & SME division to record a moderate rise in operating income in the 2013 financial year, to be achieved mainly through the significant budgeted increase in net fees and commissions. The focus will remain on the development of the mandate-based securities business – and thus the stabilisation of commission income – and on financial services. By contrast, the division's interest-linked business will continue to suffer under the low interest rates, but should probably match the 2012 results. The budgeted moderate increase in operating costs is anticipated as a result of an increase in other administrative expenses. We expect a slight decline in payroll costs. On the back of the anticipated trend in operating income, the profit before tax in 2013 should exceed the 2012 figure, which was depressed by restructuring costs. The restructuring measures we have implemented are intended to streamline our branch network while investing in the expansion of our multi-channel offerings, including online branches, to address changing customer expectations. Consequently, the positive trend in results should continue in 2014, with a further rise in operating income. We therefore expect the profit before tax to improve again in 2014, accompanied by a slight rise in operating costs.

We also expect the Private Banking division to record higher operating income in 2013, particularly on the back of an expected rise in net fees and commissions. In addition, the growth strategy will be pursued with a focus on stabilising income. This will build primarily on the Depot Global pricing model, which was launched very successfully in 2012, and the further expansion of asset management products. In terms of net interest, the margin on deposits will probably remain under pressure, as interest rates appear likely to remain low. Consequently, interest income could be slightly lower than in the reporting period. All in all, the profit before tax should increase due to the anticipated rise in operating income, although operating costs will also be up slightly. The upward trend in operating income will continue in 2014, and operating costs will then decline slightly. Consequently, we should again be able to post a year-on-year improvement in profit before tax in 2014.

The financial markets will continue to be affected by the unresolved sovereign debt crisis in particular. Consequently, the performance of HVB Group will depend on the future development of the financial markets and the real economy as well as on 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.

Financial Review (Continued)

Opportunities and risks in terms of future business policy and corporate strategy, performance and other opportunities and risks

HVB Group is an important part of one of the largest, best-positioned banking groups in Europe: UniCredit. It is one of the largest financial institutions in Germany and has core competence for all UniCredit customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB Group operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries worldwide that continues to have a financial rating of AAA. Hence, HVB Group, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers. The business model of HVB Group focuses on sustainability and – with the establishment in 2013 of the new business segments Unternehmer Bank, Private Clients Bank and Corporate & Investment Banking – meets the demands of a rapidly changing economic and regulatory environment. Combined with an excellent capital base, this means that HVB Group stands for reliability, stability and safety. This results in the opportunities and risks described below:

- The Corporate & Investment Banking and Unternehmer Bank segments will be strengthened by expanding products with a low level of equity and liquidity requirements and by winning deposits. The strategic focus is placed on consistent pricing in line with risk, a more intensive creation of value for customers to generate earnings and the further development of strategic customer transactions and solutions in investment banking. We offer top quality advisory services under a creative, solution-based approach by means of an integrated value chain consisting of network and product specialists. These business segments are well equipped to build on a sustained, long-term customer relationship. Even though investment banking activities are exclusively attuned to customers, the results in Corporate & Investment Banking naturally remain relatively volatile.
- The Private Clients Bank focuses on serving retail and private banking customers. The medium- to long-term changes and trends in customer behaviour are increasingly relevant for these customer groups, so that joint efforts to develop innovative sales channels and services can generate added value for both. Moreover, closer networking and cooperation in the development of products and services helps to exploit synergy effects. At the same time, the structure allows the type of highly individual service needed to meet the special demands of top-level private banking customers. If the uncertainty of customers and the resulting restraint in their investment behaviour persists, coupled with the tendency to switch to lower-margin products, the earnings situation of this business segment could be negatively affected.
- The Private Clients Bank is an essential part of HVB Group's strategy as a German universal bank. In addition to consistently endeavouring to further industrialise processes and thus enhance efficiency, we intend to achieve strong retail customer operations partly by winning new customers. At the same time, we will constantly adapt to medium- and long-term trends in customer behaviour and, for instance, not only significantly expand our multi-channel range but also create added value for our customers in our traditional branch operations via excellent advice and innovative services and processes. Among other things, we intend to achieve this with an innovative service model, an optimisation of our branch network and branch format as well as through efficient sales management. Although the outlook for GDP growth is generally favourable, particularly in our domestic market in Germany, a downturn in economic growth could depress the earnings situation in this business segment through higher unemployment levels, a rise in insolvency rates and persistently low interest rates in particular.
- In our private banking activities, which are part of the Private Clients Bank, we will generate further growth through our good positioning in the business with affluent customers. In the process we will benefit from our appearance as a strong local bank with 46 locations in Germany and the close proximity and high frequency of communications. More new customers can be won in the new financial year

through our structured, comprehensive advisory approach and our excellent service quality. However, competition in the market for very affluent customers will be much fiercer than in the past.
- HVB Group will proactively exploit opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany. Due to the uncertainty of the consolidation and concentration in the German banking sector, it remains questionable as to how future earnings potential will be distributed between competitors and at what expense market shares can be won. Fiercer competition associated with this situation could negatively affect the earnings situation of HVB Group.
- HVB Group can respond swiftly and flexibly to expansion opportunities arising on the market. On account of its excellent capital base, it is already well equipped for any tightening of regulatory requirements and will be able to actively operate in the market even in that kind of scenario. If the statutory and regulatory framework should continue to become even more stringent as a consequence of the sovereign debt crisis and financial crisis, this could also lead to further expenses for the technical implementation of these additional requirements as well as higher capital costs.
- HVB Group continues to exploit further cross-selling potential in all customer groups and the opportunities to support customers demanding cross-border financial services in other markets where UniCredit is represented, and to further improve operating income by creating and using new products for all customer segments through tailored solutions.
- For years, HVB Group has been developing into a bank with strong and consistent cost management. The ability to manage costs is well developed throughout the Bank. It is seeking to further improve operating costs in the coming years, in part by utilising synergies through the rationalisation of overlapping functions and optimising settlement processes, and by boosting efficiency by centralising IT functions throughout UniCredit.
- HVB Group has opportunities of winning highly qualified employees and managers as an attractive employer. Both the size of UniCredit and the strategic positioning of HVB Group have a beneficial impact on the recruitment of managers and employees. Supporting female managers at junior level is an explicit part of the business strategy.

We see further potential for opportunities in our long-term orientation to customers and other stakeholders, which is manifested in our Mission Statement.

Our Mission Statement:
- We UniCredit people are committed to generating value for our customers.
- As a leading European bank, we are dedicated to the development of the communities in which we live, and to being a great place to work.
- We aim for excellence and we consistently strive to be easy to deal with.
- These commitments will allow us to create sustainable value for our shareholders.

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 or foregoing gains 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 profit-oriented management of business and risk transactions 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 segments and functions. These activities are the precondition for providing adequate capital backing and maintaining an adequate liquidity base.

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.

The structure of the Risk Report was modified during the preparation of the 2012 consolidated financial statements. At the same time, the risk types have been regrouped as described below. Where there have been changes to the methods used to measure the risk types, these are described under the individual risk types concerned.

Risk types

Credit risk is defined as potential losses arising from a customer default or a downgraded credit rating. It arises mainly in the Corporate & Investment Banking (CIB) and Family & SME (F&SME) divisions.

Market risk is defined as the potential loss arising from an adverse change in the value of positions in the trading and banking books. The companies that conduct trading activities or have significant capital market positions are primarily exposed to such risk. Alongside UniCredit Bank AG (HVB), these are the subsidiaries DAB bank AG, HVB Capital Partners AG, UniCredit Capital Markets LLC and UniCredit Luxembourg.

Every business activity entails liquidity risk, operational risk, business risk, strategic risk and reputational risk. Consequently, they are relevant for all companies included in HVB Group's risk management programme.

Liquidity risk is defined as the risk that the Bank will not be able to meet its payment obligations in full or on time. 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.

The Bank defines **operational risk** as the possibility of suffering losses from inadequate or failed internal processes, systems or external events, and human error. This definition includes legal risk.

We define **reputational risk** as a present or future risk to the earnings or capital situation of the Bank due to a negative perception of the Bank by customers, creditors, rating agencies, employees and regulatory authorities or other interest groups such as private associations and the media.

Business risk is defined by the Bank as losses from unexpected adverse changes in business volume and margins that cannot be attributed to other risk types. **Strategic risk** is a non-quantifiable portion of business risk that results from management being slow to recognise significant developments or important trends in the banking sector or drawing false conclusions about such developments and trends. This may result in policy decisions that may prove after the event to be disadvantageous in terms of the Bank achieving its long-term goals; in the worst case, some of these may be hard to reverse.

HVB Group classifies risks arising from our own real estate portfolio and from our shareholdings/financial investments as **other risks.** **Risks arising from the real estate portfolio** exist primarily in the HVB Group companies that have their own portfolio of real estate. We classify potential losses resulting from market fluctuations of our real estate portfolio under this risk type. **Risks arising from our shareholdings/financial investments** are potential losses resulting from fluctuations in the prices of our listed and non-listed shareholdings, financial investments and corresponding fund shares.

Integrated overall bank management

Background

The ICAAP requirements are derived from the Minimum Requirements for Risk Management (MaRisk) and are being constantly refined. By the end of the reporting period, HVB Group had largely implemented the expanded regulatory requirements for an integrated overall bank management process that were published in December 2010 as part of the third amendment to the MaRisk rules. Implementation was completed during January 2013 with the approval of the strategies for the 2013 financial year.

The consultation for the fourth amendment to the MaRisk rules commenced at the start of 2012, with the final version published on 14 December 2012. The impact of the new features and additions on methods and processes was already analysed during their drafting. This made it possible to implement large parts of the rules before the end of 2012. Among other things, the approach used to limit and monitor risk and related concentrations of risk was refined. Risk tolerances for 2013 were derived from the risk-bearing capacity and approved by the Management Board in January 2013. The analysis of the information content of the risk measurement methods was extended to cover the whole ICAAP and a process was adopted to enhance the overview of the methods and procedures employed by subsidiaries. Responsibilities and implementation plans were defined for the remaining requirements, such as the implementation of a process for planning the future capital requirement over a period of several years.

Risk management

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

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

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

Functional separation

In addition to Bank-wide risk management, integrated overall bank management is accompanied by comprehensive risk monitoring, which is functionally and organisationally independent.

Risk controlling

Risk controlling is defined as the operational implementation of the overall risk strategy and the divisional risk strategies. The Senior Risk Management (SRM) unit is responsible for managing default risk for the CIB and Private Banking (PB) divisions and the Credit RR F&SME Germany (KRI) unit in the F&SME division. The senior risk managers and the credit specialists (KRI) take the lending decisions for exposures. 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. The Trading Risk Management unit is responsible for controlling market risk, while the operational risk managers in the individual divisions are responsible for controlling operational risk. Controlling of the financial investments is in the hands of the divisions to which they are assigned in each case and the Asset Liability Management unit in the Chief Financial Officer (CFO) organisation is responsible for controlling liquidity risk. Real estate risk is controlled by the Real Estate Management UniCredit Bank (GRE) and Real Estate Management UGBS (IME) units.

Risk Report (Continued)

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 risk control functions for the following risk types are grouped together in the Market Risk unit: market risk, operational risk, reputational risk and liquidity risk. The Credit Risk Control & Economic Capital (CEC) unit monitors credit risk, business risk, real estate risk and investment risk and consolidates all quantifiable risk types, with the exception of liquidity risk, for the determination of the economic capital requirement.

Parallel to these activities, the available financial resources are defined, quantified and compared with the risk capital for the analysis of the risk-bearing capacity. A qualitative approach is used to monitor and manage risks that cannot be quantified.

Divisions and committees
Chief Risk Officer
The control and cross-divisional management of risk at HVB Group fall within the competence of the CRO. This is where all the key functions involved in the identification, analysis, assessment and reporting of risk are performed together with the ongoing tracking, handling, monitoring and controlling of risk. These activities are supported and complemented by various CFO units, notably with regard to liquidity risk.

The CRO organisation is divided into units that deal with lending business in the back office. The main functions of these units include:
– operational functions in the credit-decision and monitoring processes for the risk-relevant lending business, complete with monitoring of the issuer and counterparty limits
– data management for the restructuring and workout portfolio
– restructuring activities with a view to minimising potential losses for the Bank
– the resolution of all loans for which the measures taken in the restructuring phase were not successful

At the same time, there are units that cover operational and strategic aspects of risk monitoring. Their main functions include:
– the development, enhancement, validation, parameterisation and calibration of the rating models used to determine the probability of our customer defaulting
– the development of concepts used to identify and control credit risk and concentrations, including country risk
– responsibility for and refinement of the measurement methods and systems for market risk, reputational risk and operational risk, and their measurement
– the implementation of a homogeneous stress test culture in HVB Group together with UniCredit and communication with the HVB Group companies
– the determination of the internal capital and the economic capital base
– ensuring ICAAP compliance and compliance with the MaRisk rules as part of the responsibility for credit risk and economic capital
– ensuring compliance with regulatory rules regarding internal and external reports
– risk reporting

Chief Financial Officer
The Finance and Regional Planning & Controlling units from the CFO organisation play a major role in risk monitoring. These units notably cover the management of short- and long-term liquidity at HVB Group (Asset Liability Management) acting in concert with the front office units and Asset Liability Management. They have also been tasked with central business management, cost controlling and equity capital management. The CFO units are responsible for the preparation of income budgets and income projections. They also prepare and validate the segment report in accordance with IFRS that is published externally. Furthermore, the division-related controlling departments for the operating divisions CIB, F&SME and PB are included here.

Asset Liability Management

The Finance department controls Asset Liability Management by managing short-term and long-term liquidity within HVB Group (HVB, UniCredit Luxembourg S.A., DAB bank AG, Bankhaus Neelmeyer AG and UniCredit Leasing GmbH). Its main objectives are to ensure that the Bank has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and refinancing requirements. As part of liquidity risk management, for instance, it defines underlying conditions, limits and processes, specifies responsibilities and oversees funding activities together with the front office units. The internal cost of funds for the lending and deposit-taking business is continually reviewed for appropriateness and regularly adjusted to reflect the market situation. The measures implemented in connection with these functions serve to support HVB Group´s return targets.

Risk Committee

Strategic issues are discussed and decided on by the Risk Committee (RC) in its function as a management and decision-making body with responsibility for all areas. The role of the RC has no effect on the final decision-making authority of the Management Board on matters that cannot be delegated and on those related to the MaRisk.

During its monthly meetings, the RC deals with risk type-specific topics, the HVB Group risk strategies, credit portfolio reviews and measures, the definition of the risk tolerance, risk classification procedures, principles of the credit organisation and risk-related aspects of process and handling standards in the lending business.

Asset Liability Committee

The Asset Liability Committee (ALCO) makes decisions at its monthly meetings on the asset/liability management of HVB and sets guidelines for HVB Group. The committee pursues the following key goals:

– establishment of uniform asset/liability management methods for HVB Group
– optimum utilisation of liquidity and capital resources
– coordination between the requirements of the divisions for financial resources and the business strategy

Stress Testing Council

To provide management with additional analysis for bank management purposes, HVB Group has significantly improved the quarterly process for carrying out stress tests since 2011. For this purpose, the Management Board, as the body responsible for bank management, delegated stress testing to the RC and the Stress Testing Council (STC) as a specialist committee. The tasks of the STC include:

– coordination of all stress testing activities within HVB Group, including the development of the stress testing methodology
– definition and coordination of stress scenarios encompassing all risk types, including the validation of the underlying parameters
– analysis and presentation of stress testing results and their use to prepare recommendations for management

Reputational Risk Council

The Reputational Risk Council (RRC) takes decisions regarding potential reputational risk resulting essentially from business transactions. Starting in 2013, further potentially risk-bearing activities and transactions undertaken by the Bank will be submitted to the RRC for decisions, notably arising from:

– projects and outsourcing activities
– the development of new products and the exploitation of new markets
– the creation of special purpose vehicles (SPVs) and related transactions

The Management Board will be involved in critical instances. The planned Reputational Crisis Council will deal with reputation events that have already occurred.

Loan Loss Provision Committee

The Loan Loss Provision Committee (LLPC) is kept informed about the latest developments in the watchlist and the restructuring/workout portfolio of HVB Group. It takes decisions within HVB Group regarding:

– all allowances in excess of €5 million
– all impairment losses in excess of a competence value of €100 million

Risk Report (Continued)

Implementation of overall bank management

System of strategies
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 risk strategies encompass the relevant risk types, the risk strategies of the divisions CIB, F&SME and PB, the Industry Credit Risk Strategy and the risk strategies of the relevant subsidiaries.

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 divisions.

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 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 and outsourcing are also defined 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. Also supplementing the risk strategy are the risk strategies of the operating divisions CIB, F&SME and PB, which makes the risk strategy more specific with relevant content within the individual divisional environment.

The relevant subsidiaries are incorporated in the strategies listed above to ensure integrated risk management.

The strategies approved by the Management Board are reviewed on both an ad hoc and a regular basis and, where necessary, modified.

2012 strategy
The modification to the business strategy in the CIB division that was approved at the end of 2011 and implemented in 2012 was based on the assumption that the financial markets would continue to be affected by the as-yet unresolved sovereign debt crisis, possibly leading to negative consequences for the real economy.

The core elements of the strategy remain in place. These include:
– a focus on customer-related activities with low charges to risk-weighted assets (RWA)
– a focus on the core market
– the definition of a non-core portfolio, which is intended to release around €25 billion from risk-weighted assets to be invested in expanding customer-related activities by cutting back other business

The ring-fenced portfolios were reduced in line with the strategy. These include:
– ship and aircraft loans
– project loans in Asia and the Americas
– renewable energy in the CIB division
– the leveraged buyout portfolio
– risk concentrations with individual borrowers

The concentration risk in the leveraged buyout portfolio and the automotive industry were successfully reduced, benefiting from the greatly improved receptiveness of the debt and equity markets. The better than expected operating performance of the companies also played a major role here. The Bank aims to continue reducing its concentration risk.

Outside of the focus portfolios listed above, the risk structure of the corporates portfolio developed healthily, as the "profitability before growth" strategy was implemented systematically.

The Bank's risk result is determined to a large part by the structural weakness of the shipping finance market and ring-fenced project loans in Asia and the Americas. On the other hand, the risk development in the strategic, customer-related portfolio was pleasing.

Overall bank management at Group level

The metrics relevant for the overall bank management of HVB Group are derived from the business strategy in the annual budgeting process. Earnings, risk, liquidity and capital targets are defined in the budgeting process together with the targeted risk-bearing capacity at overall Bank level. The limits for the internal capital are defined and monitored in order to ensure the Bank's risk-bearing capacity. For the purposes of divisional controlling, 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.

Furthermore, the economic yield expectations have been calculated since 2010 using the allocated capital principle that UniCredit introduced across its entire organisation. Within the scope of this principle, it is ensured that at least the expected return on the basis of the regulatory capital requirement is met. This means that regulatory capital is allocated to the divisions that is expected to yield an appropriate return, which is derived from the expectations of the capital market and which has to be earned by our business units.

In the planning process for 2013, the internal capital is used to calculate the allocated capital for all divisions and for HVB Group as a whole in accordance with the principle of dual control.

In line with the parameters defined in the business strategy and the risk strategy, the defined targets are broken down to division 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 Group. 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 in accordance with the Basel rules, and in order to meet the stricter European regulatory requirements for systemically important financial institutions or groups of institutions, the divisions are required to have core capital backing for credit, market and operational risk equal to an average of 9% of equivalent risk-weighted assets. Furthermore, the expected return on investment is derived from the average absorbed core capital.

Management of regulatory capital adequacy requirements

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

- Tier 1 ratio (ratio of core capital to risk-weighted assets arising from credit risk positions and equivalent risk-weighted assets from market and operational risk positions)
- Core Tier 1 ratio (ratio of core capital, excluding hybrid capital instruments, 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)

Risk Report (Continued)

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 Annual Report.

To determine the appropriate capital funding, we have essentially defined the following process: 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 Banking Act (Kreditwesengesetz – KWG).

HVB and UniCredit S.p.A. agreed with the relevant regulators beyond the statutory minimum requirements that HVB would not fall below an equity funds ratio of 13%. This agreement remains in force until the measures required to remedy findings from earlier audits of annual financial statements and regulatory requirements regarding statutory and regulatory requirements in Germany have been implemented. The equity funds ratio of HVB Group was 19.3% at the end of December 2012 (2011: 18.4%).

The measures listed above have been successfully advanced since 2010 as part of a Bank-wide project carried out with top priority to a strict methodology and adequately resourced. Their main contents reflect the breadth of the constantly increasing regulatory requirements for the structure of the risk management system and the internal control system. Building on the progress made in the previous year, the targeted goals were achieved in 2012 by successfully completing several complex implementation projects. The targeted improvements are reviewed constantly in everyday operations and refined in order to ensure that the requirements are permanently met.

Economic capital adequacy

HVB Group determines its internal capital on a quarterly basis. The internal capital is the sum total of the economic capital of all quantified risk types with the exception of liquidity risk and the economic capital for small legal entities. A confidence level of 99.97% and a holding period of one year are assumed consistently in the calculation for all risk types.

When the economic capital is determined, risk-reducing portfolio effects are taken into account and parameters and correlations applied that include economic downturns. On account of the low risk content, the economic capital for small legal entities of HVB Group is calculated 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-bearing capacity, as shown in the following table.

Internal capital after portfolio effects (confidence level 99.97%)

	2012		2011	
Broken down by risk type	€ millions	in %	€ millions	in %
Market risk	2,186	15.7	1,278	9.7
Credit risk	7,963	57.1	5,436	41.3
Business risk	382	2.7	734	5.6
Operational risk	1,967	14.1	1,262	9.6
Risks arising from our own real estate portfolio	379	2.7	329	2.5
Risks arising from our shareholdings/financial investments	988	7.1	739	5.6
Aggregated economic capital	**13,865**	**99.4**	**9,778**	**74.3**
Cushion	—	—	3,315	25.2
Economic capital of small legal entities	80	0.6	62	0.5
Internal capital of HVB Group	**13,945**	**100.0**	**13,154**	**100.0**
Available financial resources of HVB Group	**21,008**		**22,675**	
Risk-bearing capacity of HVB Group, in %	**150.6**		**172.4**	

Aggregated economic capital[1] after portfolio effects (confidence level 99.97%)

	2012		2011	
Broken down by segment	**€ millions**	**in %**	**€ millions**	**in %**
Corporate & Investment Banking	9,811	70.4	7,136	72.5
Family & SME	2,160	15.5	1,053	10.7
Private Banking	241	1.7	216	2.2
Other/consolidation	1,733	12.4	1,434	14.6
Aggregated economic capital of HVB Group	**13,945**	**100.0**	**9,839**	**100.0**

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

The internal capital increased by a total of €0.8 billion. The individual changes are listed in the sections regarding the respective risk types. The changes in methods in the individual risk types together with the correlation matrix for risk aggregation modified and updated to reflect the MaRisk rules obviated the need for the previously included cushion employed to cover cyclical fluctuations, possible model risks and specific risks (year-end 2011: €3.3 billion). This has no longer been applicable since the start of 2012 accordingly.

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 capital adequacy and for profitability as a proportion of risk and liquidity. 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-bearing capacity under a gone-concern approach. In other words, the risk-bearing 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-bearing 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-bearing capacity and the regulatory core capital backing.

Risk-bearing capacity

In a quarterly analysis of our risk-bearing capacity, we measure our internal capital against the available financial resources. Furthermore, a monthly update has been carried out since August 2012 for the two biggest risk types – credit risk and market risk – and a monthly analysis of the available financial resources for the purpose of systematically monitoring the risk-bearing capacity. Moreover, the risk-bearing capacity is analysed as part of our planning process with an appropriate internally defined forecast period of one year.

Effective 31 December 2011, HVB Group introduced an updated internal definition for the measurement of the available financial resources, based on a consistent liquidation approach ("gone concern"). Under this approach, the risk-bearing capacity is defined by comparing maximum potential losses (internal capital) with the ability to absorb losses using the available equity (available financial resources). When determining the available financial resources, the available economic capital is considered. 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 €21.0 billion at 31 December 2012 (31 December 2011: €22.7 billion).

Risk Report (Continued)

With internal capital of €13.9 billion, the risk-bearing ability, defined as the available financial resources divided by the internal capital, is approximately 151% (year-end 2011 before changes of method: 172%). We see this as a comfortable value. The decline of 22 percentage points for HVB Group compared with 31 December 2011 can be attributed to the increase of €0.8 billion or 6% in internal capital together with the reduction of €1.7 billion or 7% in the available financial resources in 2012. The reduction in the available financial resources results from different and, in some cases, contrary developments in individual components, notably including the much higher dividend payment for 2012, the expiry of limited-term subordinated capital instruments and the buy-back of hybrid capital instruments. These developments are only partially offset by the decline in undisclosed charges.

Limit concept

HVB Group's limit concept consists of limits for internal capital, limits for specific risk types and limits for concentration risk. This limit system is based on the risk strategy and the risk appetite and ensures compliance with the risk-bearing capacity. The risk limits are approved annually by the Management Board of HVB as part of the strategy process.

The internal capital at HVB Group is limited and managed by setting limits for the divisions. The following risk types are included in the division limits:
– Credit risk
– Market risk
– Operational risk
– Business risk
– Real estate risk
– Investment risk

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 quarterly basis.

A refinement of the limit system for internal capital is being implemented as part of the strategy process for 2013. This involves distributing the limits to the divisions of HVB and subsidiaries by risk type, where they are used for controlling purposes.

Stress tests

The MaRisk rules call for stress tests to be carried out regularly using various scenarios. These stress tests were refined by HVB Group in 2012 as a major component of the risk management toolbox. Besides modifying the models for various risk types, the process and the stress test documents were further standardised as well. The stress test scenarios are now prepared uniformly by UniCredit Research in standard formats, for example, serving as the starting point for all risk types.

Various macroeconomic downturn scenarios and a historic scenario were calculated for the cross-risk-type stress tests in 2012:
– Sovereign Tension scenario – escalation scenario for the sovereign debt crisis, but without contagion to other countries (used until March 2012)
– Contagion scenario – sovereign debt crisis becomes systemic and other countries are infected
– Grexit scenario – disorderly departure of Greece from the eurozone
– Recession scenario – due to a massive decline in global demand
– Historical scenario – based on 2009 financial crisis

The cross-risk-type stress tests were presented and analysed in the STC on a quarterly basis and, where necessary, appropriate management measures were proposed to the RC. The risk-bearing capacity would currently be ensured, even if the stress scenarios listed above were to materialize.

Furthermore, an inverse stress test was carried out for the first time. 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 interviews that are conducted regularly as part of the risk inventory and the Bank's risk structure. The hypothetical events analysed included fraud by a trader, rating downgrades, a bank run or default by the biggest customers. The STC discussed the most serious events at length and examined whether such events were already covered by the Bank's risk management programme. As this was the case, no further measures were considered necessary.

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. Concentrations 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.

In 2013, the risk management processes for concentrations will be 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 divisions, products or regions represents a business-strategy risk for the Bank. Starting in 2013, risk arising from concentrations of earnings will be identified regularly by the Bank's internal reporting, as its avoidance is an important indicator of sustainable diversification and hence the viability of the business model in crisis situations.

Risk inventory
The existing annual risk self-assessment for HVB Group was revised and expanded in 2012. The newly drafted process for the risk inventory was tested and refined during a pilot project within HVB and selected subsidiaries.

As of 2013, a comprehensive risk inventory will be implemented at HVB Group to examine and scrutinize both present and potential new risks by means of structured interviews with numerous managers at the Bank, among other things. The larger subsidiaries will adapt this approach as appropriate for their situation, while the smaller subsidiaries will use a simplified procedure to determine the relevant risks. The results will be presented to the RC and included in the calculation and planning of the internal capital following approval.

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 on a monthly basis and to the Audit Committee of the Supervisory Board at least on a quarterly basis and also ad hoc. In addition, further monthly risk reports are created focusing on specific divisions, products or industries, to be communicated to the RC and the units involved with risk management, among others.

Risk types in detail

1 Credit risk

Definition
Credit risk is defined as potential losses arising from a customer default or a downgraded credit rating. We distinguish between the risk categories credit default risk, counterparty risk, issuer risk and country risk, for which the credit risk strategy provides the guidelines.

Categories
Credit default risk
Credit default risk is defined as the potential losses arising from commercial lending operations. It is taken into account by recognising allowances for losses on loans and advances in the balance sheet whenever specific indicators of a default have arisen (incurred loss). More details on net write-downs of loans and provisions for guarantees and commitments can be found in Notes 38, 51, 52 and 53 in this Annual Report.The abstract expectation that customers could default in the future (the concept of expected loss and credit value-at-risk) must be seen separately from this.

Counterparty risk
Counterparty risk is defined as the potential losses arising from the default or downgraded credit ratings of counterparties with whom we have engaged in derivative transactions involving interest rates, foreign exchange, equities/indices, or other futures or derivative transactions. Counterparty risk can be broken down into settlement

Risk Report (Continued)

risk, replacement risk and cash risk. For the Bank, there is a settlement risk whenever payments are exchanged and, when processing the transaction, we make advance payments without being certain at the time of payment that the counterparty will make the corresponding payment. Replacement risk is defined as the risk that the Bank must replace a transaction under less favourable market conditions following a default by the counterparty. Cash risk consists of the risk that the counterparty will not repay loans (taken out in cash). In the case of treasury products, cash risk is relevant in money trading.

Issuer risk
Issuer risk reflects the risk of an issuer defaulting or suffering a downgraded credit rating. It relates notably to the purchase of securities for own account, securities issuance and placement transactions, and credit derivatives.

Country risk
The classical country risk perspective is defined as the risk of losses arising from transfer/conversion restrictions, the credit risk of governments and central banks defaulting (sovereign risk) and default through state interference in the delivery contract (delivery risk). It encompasses transactions that represent cross-border business from the standpoint of the office disbursing the loan and are denominated in a foreign currency from the customer's standpoint.

Country risk in the narrow sense relates exclusively to the classical country risk perspective mentioned above. Distinct from this is the concentration risk perspective for the countries of the eurozone, which we introduced in 2012 in order to reflect what from our point of view is the continued lack of forecasting certainty in the eurozone. We show the development of exposure in eurozone countries broken down by risk type in detail under "Quantification and specification" below. At the start of 2013, the Bank introduced regional and/or country-specific concentration limits for all countries outside of the eurozone.

Strategy
A risk strategy has been approved for HVB Group that operationalises the strategic controlling of credit risk. This is done by setting targets and limits for different metrics as needed. Controlling using economic capital together with volume and risk metrics is particularly important in this regard. The planning of the targets and limits is embedded in the Bank's annual plan, similarly taking into account ceilings arising from the requirements regarding the capital base. The limits are intended to leave some leeway for implementing the business plan while they also set ceilings, notably with regard to the economic capital.

Systematic controlling and setting of limits for credit risk are essential for sustaining the Bank's strategic orientation. The risk strategies are intended to make it possible for both the sales controlling and risk management functions to back transactions with concrete, measurable and hence applicable criteria in order to optimise the risk profile of the credit portfolio. To achieve this, the expected and unexpected losses of a given borrower are determined. These form the basis for drawing up limits and in some cases target portfolios for the different risk types, exposures and risk metrics.

The macroeconomic scenario underlying the strategy process in 2012 materialized in a weakened form, with the impact in the most important core market of Germany being more moderate than in the rest of Europe.

HVB Group's successful strategy in recent years of strictly limiting risk and managing the Bank in a risk-conscious manner was continued again in 2012. By selectively writing new business, employing active portfolio management and expanding its professional restructuring and workout capacity, HVB Group has evolved into a bank that has a lower than average risk profile for the industry. The goal was to continue this trend and stabilise the overall portfolio at a sustainable level.

Industry-specific controlling of credit risk had a positive effect, leading to a deliberate reduction of the portfolio in defined industries. The details of industry-specific controlling are specified in the Industry

Credit Risk Strategy. This strategy includes an assessment of the opportunities and risks for every industry, from which controlling signals and quantitative ceilings for new business are derived.

Active management of the exposure in the countries badly affected by the eurozone crisis also contributed to the positive development described above. The strategy of HVB Group in its role as a universal bank was to concentrate on strong regional core markets like Switzerland, the UK, Belgium and France that have been less badly hit by the crisis alongside the domestic market of Germany. The markets in Spain, the Netherlands and Scandinavia are being transferred to the responsibility of a different UniCredit bank. Apart from key multinational customers which will continue to be served by HVB Group, the portfolio will be successively reduced. At the same time, the Markets unit in the CIB division will enter into credit risk and market risk subject to clearly defined standards in UniCredit's core countries as a result of the corporate function as UniCredit's investment bank.

Limit system

The following types of risk are included in the credit risk limit system of HVB Group:
– credit default risk
– counterparty risk
– issuer risk in the banking book and partially also the trading book
– country risk

The credit risk strategy defines limits for risk metrics and risk types for individual portfolios. These are allocated at the following level:
– HVB Group
– HVB
– divisions of HVB Group and HVB
– products and special portfolios
  (Leverage, Project, Aircraft Finance (LPAC))

The following criteria are analysed with regard to the performing portfolio: exposure, expected loss and risk density (expected loss as a proportion of the performing exposure). An overshoot is not generally permitted.

In order to avoid concentrations of risk in credit default risk, counterparty risk and, in specific aspects, also issuer risk, the following concentration limits and, where appropriate, target portfolios are used for controlling purposes:
– Single name concentrations
  The references unit for setting limits on single name concentrations are economic or legal borrower groups with an unsecured exposure of more than €50 million.
– Industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB Group.
– Concentration limits for eurozone countries
  Exposures in eurozone countries are exposed to the risk of a sovereign default and hence possibly related problems in the financial system. The concentration limit restricts the credit risk of all borrowers in a given country. In addition to the portfolio components listed above, the Shipping portfolio is also excluded from the limit system as the credit default risk is not correlated with the customer's country of origin in this portfolio. The Shipping portfolio is, however, included in monitoring. Every eurozone country has been assigned a limit that reflects the risk appetite and strategic orientation (expand, reduce or maintain) of HVB Group.
– Country risk (transfer and conversion risk)
  Volume limits are used to set limits. These are divided into sub-limits at product and maturity level. The limit system is exposed to credit default risk taking account of realisable collateral, counterparty risk and issuer risk in the banking book. The exposure underlying the limit system is the maximum of externally committed credit lines and credit disbursed less realisable collateral and the exposure in the trading positions.

Effective escalation processes have been defined in the event of the limits being exceeded, defining corresponding responsibilities and thus ensuring the permanent controlling effect of the limits.

Risk Report (Continued)

Reduction
In new lending, the Bank pursues the strategy of applying all types of loan collateral that would present an economic benefit to the Bank in the event of default.

For the reduction of credit default risk, only such collateral is used as meets the requirements of the Basel II Internal Ratings Based (IRB) advanced approach. An essential point in the formulation of collateral agreements and internal processes is ensuring that the collateral is legally enforceable.

Methods have been implemented to value collateral that meet the requirements of Basel II. Empirically determined rates for realisation proceeds and costs are employed in the valuation together with realisation periods. At the same time, special simulation methods for valuing collateral were devised for collateral type with a low default history. In the case of securities, the Bank resorts to its own haircut calculations based on historical data. In addition, collateral is taken into account using a substitution approach if permissible under the German Solvency Regulation.

The most significant collateral types in terms of value are land charges, guarantees and pledges of financial collateral, which together account for approximately 90% of all valued collateral.

Measurement
We use the following risk measurement methods and metrics to assess our credit risk.

Probability of default (PD)
The internal customer-segment-specific rating and scoring methods of HVB Group that are available for all significant credit portfolios form the basis for the measurement of credit risk. The reliable determination of our customers' PD is critical for credit decisions, pricing and core capital backing under Basel II as well as for our internal credit risk model. Consequently, we place particular emphasis on the further development and refinement of our internal rating analysis instruments.

The PDs determined on the basis of the rating and scoring methods lead to classification to a rating class in a ten-point scale. The rating classes 1–7 are set aside for performing loans and classes 8–10 for non-performing loans.

Reconciliation of HVB rating classes to external rating agencies

HVB rating class	S&P's rating	Moody's rating	Fitch rating
1+	AAA	Aaa	AAA
1+	AA+	Aa1	AA+
1	AA	Aa2	AA
1–	AA–	Aa3	AA–
2+	A+	A1	A+
2	A	A2	A
2–	A–	A3	A–
3	BBB+	Baa1	BBB+
3–	BBB	Baa2	BBB
4+	BBB–	Baa3	BBB–
4–	BB+	Ba1	BB+
5	BB	Ba2	BB
6+	BB–	Ba3	BB–
6–	B+	B1	B+
7–	B	B2	B
8+	B–	B3	B–
8	CCC+/CCC/CCC–/CC	Caa1/Caa2/Caa3/Ca	CCC+/CCC/CCC–/CC
8–/9/10	C/R/SD/D	C	C/DDD/DD/D

Loss given default (LGD)
The LGD indicates what proportion of the underlying portfolio of receivables would almost certainly be lost in the event of a default. The expected proceeds from the collateral used to reduce credit default risk have a major influence on the amount of the LGD. At the same time, the amount of the LGD is determined by borrower-related criteria. The reliable determination of our customers' LGD is critical for credit decisions, pricing and core capital backing under Basel II (advanced IRB approach) as well as for our internal credit risk model. Consequently, we place particular emphasis on the further development, refinement and annual validation of our LGD estimation methods.

Exposure at default (EaD)
The EaD is the expected amount of the claim at the time of default. It covers current arrears together with the probable future utilisation by the borrower. These probable future utilisations are determined on the basis of historical data and validated on an annual basis. Off-balance-sheet exposures such as unused, externally committed credit lines are employed as the reference point for the EaD parameters. The EaD parameters are also incorporated in the credit decision, pricing, core capital backing under Basel II (advanced IRB approach) and the internal credit risk model.

The credit-default-risk-oriented calculation of exposures and limits was again carried out for issuer risk. This involves calculating a market-value-oriented exposure for the individual positions in the trading book, which shows and limits the maximum potential market value loss without taking account of residual values. A credit-default-risk-oriented, nominal-value-based exposure is used to limit the banking book and ABS positions. Netting effects are taken into account when the limits are set.

In terms of counterparty risk, the simulation procedure used to determine future exposure values for pre-settlement risk was expanded during 2012. This created the opportunity to simulate potential market values at 50 future dates. The simulation is carried out for each calculated date on the basis of 3,000 market data scenarios. In this context, the simulation of future collateral positions in the event of existing collateral agreements to hedge non-exchange-traded derivatives was introduced. This method forms the foundation for an internal model used to back counterparty risk with core capital.

Expected loss (EL) (standard risk costs)
The expected loss reflects the default losses expected from the current loan portfolio over the next 12 months, taking into account the assigned ratings and collateral on hand. Among other things, it is used for risk identification, as both an absolute and a relative value in pricing, for profitability calculations and for limitation purposes.

Unexpected loss (credit value-at-risk, credit VaR)
The credit VaR provides information about the maximum negative deviation of an actual loss from the expected loss (99.97% probability) within one year. This potential loss provides a figure that makes the risk inherent in the various sub-portfolios transparent. It is also used in pricing and the Bank's profitability calculations. In addition, the credit VaR is backed by economic capital as a safety cushion, taking portfolio effects into account.

Internal credit risk model
A standard credit portfolio model is used within UniCredit to measure credit risk, by means of which the default-related credit default risk, counterparty risk and issuer risk in the banking book of HVB Group is quantified and assessed. The model reflects the specific characteristics of the HVB Group portfolio and is validated by HVB independently of UniCredit. At present, the portfolio model determines the unexpected loss should a borrower default. In addition, the risk arising from value fluctuations on account of rating changes (migration risk) is determined using the maturity-dependent, regulatory premium factors in accordance with Basel II. The implementation of an optimised approach to migration risk modelling was drawn up and realised by year-end 2012. Country risk is integrated using appropriate PD premiums. The credit portfolio model follows a net asset value approach, based on a granular multi-factor model that adequately reflects the specific portfolio structure of HVB Group. The parameters PD, LGD and EAD are used as inputs.

Risk Report (Continued)

Risk measurement from the country risk perspective
Country risk measurement takes account of credit default risk complete with risk arising from realisable collateral, counterparty and issuer risk in the banking book and the trading book. This is shown as a total for each country and also aggregated across regions. The following types of receivable are excluded from country risk considerations:
– claims against supranational organisations not tied to a specific country
– receivables for which no specific allowances have been set up
– the assumption of risk in the corporate group for local lending business of HVB subsidiaries and for business brokered by UniCredit Luxembourg S.A.
– settlement risk
– any exchange-traded financial instruments (with regard to counterparty risk)
– investments
– lending business of HVB's international branches

The exposure used for measurement is the maximum of externally committed credit lines and credit disbursed less realisable collateral and the exposure of the trading positions (jump to default). The exposures are aggregated for each risk country.

Risk-based and market-oriented pricing
Pricing methods and tools are used to manage risk and profitability in the lending business that take into account all cost components – in particular the expected standard risk costs and the cost of capital – and that are each adjusted to reflect the current parameters and bank management. Lending decisions are made under risk/return considerations that are determined in the obligatory pre-calculation prior to a transaction being concluded.

Monitoring and controlling
Risk monitoring takes place at the level of individual exposures. In addition, various instruments are used at the portfolio level.

Individual exposures are monitored in both lending and trading operations with the aid of classical monitoring systems, such as rating analysis and early warning systems. Individual exposure limits serve to limit the risks assumed.

In order to avoid cluster risk, HVB Group defines limits for concentrations of credit risk on the basis of borrower groups in line with the probability of default. Monitoring and reporting of any limit overshoots takes place on a monthly basis.

Special features of counterparty risk and issuer risk
We employ limit systems as a key element of our risk management and control of counterparty risk and issuer risk to prevent an increase of our risk position that does not comply with the strategy. These systems are available online at all key HVB Group facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate timeframe. For counterparty risk, this applies to both replacement risk and settlement risk. For the latter, the risk for the future value date is limited and monitored right from the time the Bank enters into the transaction so that a concentration of payments on a single value date is prevented beforehand. Good system availability ensures that each trader has a tool on hand to check limit utilisation and lets the risk controller perform prompt limit monitoring for each counterparty or issuer. To reduce counterparty risk relating to financial institutions, HVB is making greater use of derivative exchanges in its function as a central counterparty.

Special features of country risk
Country risk is monitored and controlled on the basis of the measurement methods and exceptions described above, with the aid of volume limits for each country. In taking this approach, we are striving to limit country risk while implementing risk-oriented portfolio management and flexible exposure management based on transaction potential. In the event of a limit overshoot, the risk management function decides upon measures to be taken for instance to reduce the portfolio or shift limits.

Quantification and specification

Credit default, counterparty and issuer risk

The economic capital for credit risk at HVB Group without taking account of diversification effects between the risk types amounts to €8.2 billion, which is €2.4 billion higher than the total at 31 December 2011 (€5.9 billion). Among other things, the increase results from the fact that the economic capital at 31 December 2012 mentioned above includes migration risk for the first time on account of the expansion of the portfolio model methodology.

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 excluding the remaining exposures assigned to the former Real Estate Restructuring segment. These are excluded from the analysis because the portfolio, which has already been reduced considerably in recent years to €1.1 billion (2011: €1.6 billion), is earmarked for elimination without any new business being written. The aggregate credit default, counterparty and issuer exposure is called credit default 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.

Breakdown of expected loss and credit value-at-risk by segment

(€ millions)

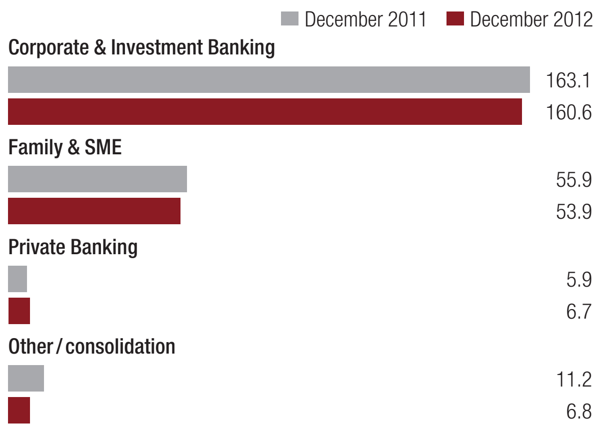
	EXPECTED LOSS		CREDIT VALUE-AT-RISK	
Breakdown by segment	**2012**	**2011**	**2012**	**2011**
Corporate & Investment Banking	513	611	6,078	4,498
Family & SME	147	188	1,313	613
Private Banking	9	10	89	39
Other/consolidation	49	69	743	740
HVB Group	**718**	**878**	**8,223**	**5,890**

A reduction in the expected loss is evident at HVB Group during 2012. This development is attributable to a general improvement in the probabilities of default and a healthier risk structure overall, as can be seen in the table entitled “Breakdown of credit default risk exposure by rating class”.

Furthermore, the reduction in the exposure to UniCredit and its subsidiaries (upstream exposures) in the CIB and Other/consolidation segments, the content of which is covered in more detail in the segment report in Note 27 in the Notes to the Consolidated Financial Statements, led to a reduction in the expected loss.

When the Group Credit Portfolio Model was rolled out in 2012, the correlation matrix was adjusted and premiums for migration risk included. This caused HVB Group’s credit VaR to rise sharply. This is offset by a reduction in the credit VaR due to the decrease in upstream exposure and the associated fall in concentration risk.

Breakdown of credit default risk exposure by segment (€ billions)

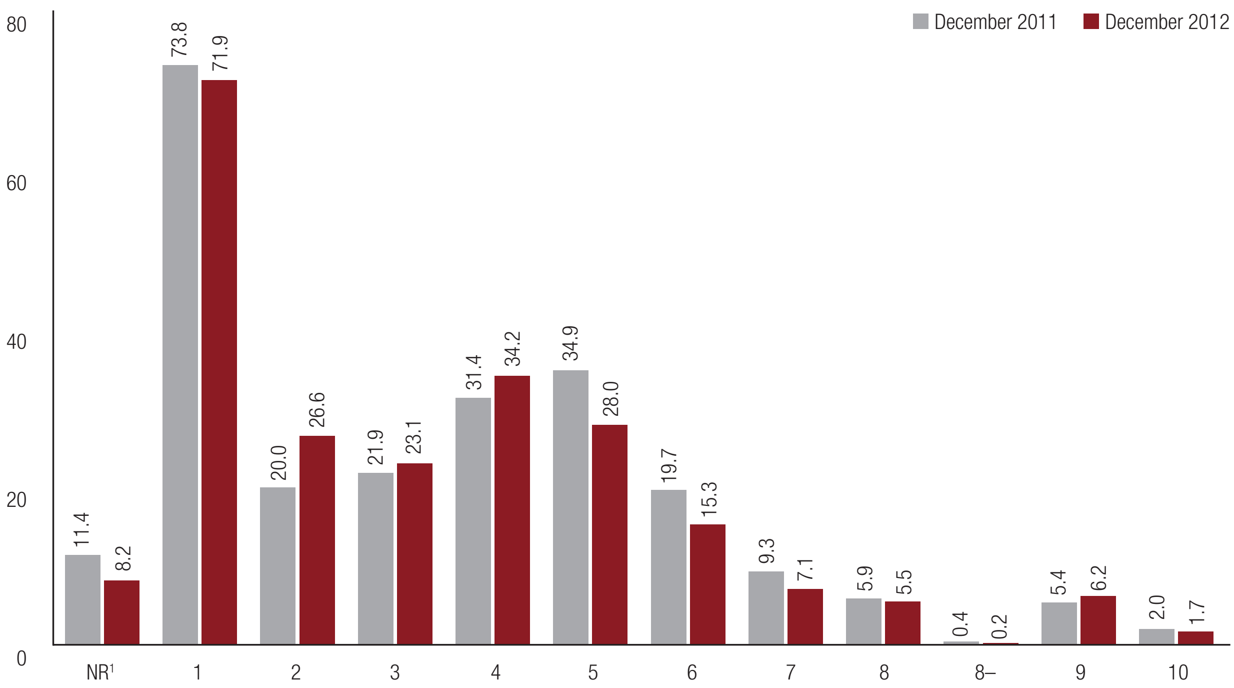


Risk Report (Continued)

Two contrary developments could be observed in the credit default risk exposures of the CIB division in 2012: HVB Group's excess liquidity was increasingly placed with Deutsche Bundesbank, while the upstream exposure was considerably reduced. The decline in exposure in the Other/consolidation segment similarly results mainly from the decrease in upstream exposure.

A slight decline in exposure was recorded in the F&SME division as well. This can be attributed primarily to the decline in real estate loans to private individuals. The expansion of new business also only served to slow the decline in the portfolio. The SME portfolio, on the other hand, was kept largely stable.

Breakdown of credit default risk exposure by rating class (€ billions)



1 not rated

As of June 2012, the rating classes are shown broken down into non-rated partners (NR), the rating classes 1–7 for performing loans and the rating classes 8 –10 for non-performing loans, with the rating classes 8–, 9 and 10 representing default classes.

The downgrading of many banks and sovereigns in 2012 is reflected in a migration of exposure from rating class 1 to rating class 2. Furthermore, the effect described above from the placement of excess liquidity with Deutsche Bundesbank and the reduction in upstream exposure also had an impact on rating class 1.

The risk structure improved compared with year-end 2011. With the exposure in rating classes 2 to 4 rising at the same time, the exposure in the rating classes 5 to 8– fell in response to a general improvement in the probabilities of default.

Breakdown of credit default risk exposure by industry group

(€ billions)

Industry group	2012	2011
Banks, Insurance Companies	58.1	56.4
Public sector	30.0	33.6
Real estate	24.0	23.5
Energy	12.5	13.8
Special products	9.9	10.1
Machinery, Metals	9.4	9.3
Chemicals, Pharmaceuticals, Health	9.3	9.1
Shipping	8.1	8.4
Automotive Industry	6.6	7.6
Construction, Wood	5.6	5.9
Services	5.5	5.6
Consumer goods	5.3	5.0
Food, beverages	4.8	4.3
Transport, Travel	4.8	3.8
Telecom, IT	3.2	2.7
Media, Paper	2.5	2.8
Agriculture, Forestry	2.0	2.1
Electronics	1.8	2.2
Tourism	1.6	1.9
Textile Industry	1.5	1.8
Retail	21.5	26.2
HVB Group	**228.0**	**236.1**

The presentation of industry groups was switched with effect from the reporting date of 30 June 2012 from the classification used in the official statistics to the internal management system and now shows the SRM industries. The prior-year figures for 2011 have been adjusted accordingly.

The portfolio has a balanced structure without any concentration risk. The Banks, Insurance Companies portfolio is dominated by the liquidity placed with Deutsche Bundesbank.

The following discussion provides an overview of the developments in selected industries and the drivers in each case.

Banks, Insurance Companies

Year-on-year development of selected parameters for the Banks, Insurance Companies sector

	2012	2011	Difference
EaD (€ billions)	58.1	56.4	1.7
EL (€ millions)	50	100	(50)
Average PD (BPS[1])	44	66	(22)
Risk density (RD[2], in BPS)	9	18	(9)

1 BPS = basis points
2 RD = EL/performing exposuree

The risk profile of the portfolio improved significantly during 2012, which can be attributed to the effects detailed below. We will continue to apply our conservative risk strategy going forward.

Concentration risk in the Banks, Insurance Companies portfolio results from the placement of most excess liquidity with Deutsche Bundesbank.

In the past financial year, the banking industry remained very much in the focus of the rating agencies. A global trend for rating downgrades could be observed among financial institutions overall. Consequently, the affected banks are facing ever greater challenges in terms of liquidity and capital procurement.

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 within the banking sector. In the event of rating downgrades, measures are taken to reduce the risk arising from bank exposures.

In anticipation of a further deterioration of the credit standing in the bank portfolio, unused credit lines were considerably reduced and their durations shortened. As a result of HVB Group's role as centre of competence for markets and investment banking within UniCredit, derivatives account for a large portion of the replacement risk in the portfolio. The rule in this respect is that derivative contracts are generally only concluded on a secured basis. Where this is not legally enforceable, limited durations are applied.

Furthermore, special risk strategies that place large restrictions on new business are applicable for counterparties in the weaker eurozone countries. Local Greek banks were transferred to restructuring.

Risk Report (Continued)

At the start of 2012, HVB Group started placing larger parts of its excess liquidity with Deutsche Bundesbank and only to a limited extent with UniCredit. This contributed to a significant increase in the exposure in the Banks, Insurance Companies industry. The changes in exposure with regard to both UniCredit and Deutsche Bundesbank led to high volatility overall in the bank portfolio during the course of the year.

HVB Group greatly reduced its upstream exposure (credit risk exposure to UniCredit S.p.A. and other UniCredit companies) again in 2012. At year-end 2012, the upstream exposure still totalled €10.3 billion gross or €7.7 billion net. The reduction during the current financial year of a gross €15.2 billion results mainly from the budgeted reduction of a gross €7.8 billion in the liquidity placed with UniCredit companies together with the conclusion of a standard security annex to the netting master agreement for OTC derivative transactions (Credit Support Annex) with UniCredit S.p.A. and other companies.

€6.8 billion of the gross upstream exposure (before collateral) results from the strategic orientation of HVB Group as UniCredit's investment bank and other business activities (such as export finance and guarantees).

A gross upstream exposure of €3.5 billion is true upstream exposure that results from the fact that HVB Group placed excess liquidity with UniCredit companies within the upstream group. To cover this exposure, UniCredit S.p.A. has provided asset-backed securities and bonds issued by banks, industrial enterprises and communal issuers with a total value of €2.5 billion to HVB Group as collateral. This means that the net total of this exposure after collateral at year-end 2012 totalled €1.0 billion.

Real Estate

Year-on-year development of selected parameters for the Real Estate sector

	2012	2011	Difference
EaD (€ billions)	24.0	23.5	0.5
EL (€ millions)	40	49	(9)
Average PD (BPS[1])	166	202	(36)
Risk density (RD[2], in BPS)	18	22	(4)

1 BPS = basis points
2 RD = EL/performing exposure

No concentrations of risk exist with regard to the security provided and the conservative lending standards that have been applied for years.

The real estate market in Germany proved extremely robust in 2012 thanks to historically 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.

Notably in residential property, there are signs of overheating in the core markets (among others Berlin, Munich and Hamburg). Since demand has outpaced new construction for years, there will be no excess supply for the foreseeable future and selling prices will rise. The pressure on rents will increase later.

In accordance with the risk strategy for 2012, HVB Group aimed for growth in the portfolio of residential properties. At the same time, loans for office space together with industry and production facilities were reduced. These moves systematically implemented the targeted shift in emphasis from commercial to residential, non-cyclical real estate. In this context, we have focused exclusively on Germany and, in Germany, on our core markets. Risk-limiting parameters continued to be implemented at the same time by tightening the lending terms, increasing the equity requirements and raising standards regarding the quality of the individual properties involved. Partly as a result of the conservative, forward-looking risk strategy for the real estate industry that has been applied for years, the portfolio of existing properties in Germany was robust and again low risk in 2012.

In keeping a very close and consistent eye on the German sub-markets, we do not expect the market to collapse in the foreseeable future. We want to grow (in quality terms) overall, but with very conservative lending parameters, high quality requirements for individual properties and exclusively in the German core markets.

Energy

The Energy portfolio is a growth driver for the Bank.

Year-on-year development of selected parameters in the Energy sector

	2012	2011	Difference
EaD (€ billions)	14.3	13.8	0.5
EL without extraordinary factor (€ millions)	38	40	(2)
Average PD without extraordinary factor (BPS[1])	102	120	(18)
Risk density (RD[2], in BPS)	31	32	(1)

1 BPS = basis points
2 RD = EL/performing exposure

This portfolio includes a facility that is discussed in greater detail in the section entitled "Special focus facilities". When this special factor is excluded, the presentation provides a realistic picture of the portfolio's development. This facility represents the only significant concentration of risk in the Energy industry portfolio.

Despite the rapidly changing underlying conditions, we aim to grow in this segment alongside our core customers. The dramatic effects of the legislation enacted with the German Renewable Energy Act (Erneuerbare-Energien-Gesetz – EEG) and intensive price competition made it necessary to focus specifically on producers and equipment providers in the field of renewable energy. Furthermore, the strategy for project finance was modified.

In accordance with the defined industry strategy, we generally focus on short-term business with major international corporations. The exposure to companies that fail to meet our financing conditions is actively reduced or the risk limited by means of structural financing elements. In the case of project loans, we concentrate on projects in countries with a stable regulatory environment and monitor compliance with our financing standards.

The financing of intermediary electricity dealers or brokers (speculative transactions) is normally avoided.

Shipping

Year-on-year development of selected parameters in the Shipping sector

	2012	2011	Difference
EaD (€ billions)	8.1	9.1	(1.0)
EL (€ millions)	107	67	40
Average PD (BPS[1])	559	427	132
Risk density (RD[2]), in BPS)	164	84	80

1 BPS = basis points
2 RD = EL/performing exposure

HVB Group is pursuing a strategy of "reduction along the maturity profile" for its Shipping portfolio that is relatively small compared with the portfolio as a whole. Consequently, we expect the non-performing portfolio (31 December 2012: €1.5 billion) to develop moderately, for which adequate loan-loss provisions have already been set up. This assessment is backed by valuations that have been carried out. The German Federal Financial Supervisory Authority (BaFin) has announced an audit of the shipping portfolios of all German banks. We believe that our processes and valuations will also pass this audit.

The industry remains dogged by overcapacity, which is hindering rapid, lasting recovery in freight rates in many segments. Furthermore, shipping companies are suffering from high fuel prices. Prices on the market for new ships and the secondary market remained under pressure in the second half of 2012 during the course of the ongoing crisis. This is reflected by persistently high risk costs for the Bank. The medium-term goal is to significantly reduce the portfolio. We anticipated this development in our portfolio strategy at an early stage, meaning that this trend came as no surprise to us. We do not expect the market situation to change much over the medium term.

The relatively small decrease in the exposure between December 2011 and December 2012 can be attributed to changes in the exchange rate of the US dollar against the euro. Repayments were partially offset by currency-related rises in US dollar volumes. We assume that the performing portfolio of €6.0 billion at 31 December 2012 will fall by half by 2016 as a result of repayments.

Risk Report (Continued)

Automotive Industry

Year-on-year development of selected parameters in the Automotive sector

	2012	2011	Difference
EaD (€ billions)	6.6	7.6	(1.0)
EL (€ millions)	25	40	(15)
Average PD (BPS[1])	111	146	(35)
Risk density (RD[2], in BPS)	40	54	(14)

1 BPS = basis points
2 RD = EL/performing exposure

Automotive production and vehicle sales increased again globally in 2012. All of the world's main regions contributed to this development, with the exception of Europe, where the recession has led to lower consumer confidence and in places also a sharp decline in sales. The worst affected by this are those car-makers and suppliers that have a significant proportion of their sales in Europe. By contrast, the three German car-makers grew again in 2012, albeit at a slower pace starting as of summer 2012.

In accordance with our risk strategy, the portfolio of automotive manufacturers and their supplies was not expanded, while a strategy of reduction was continued unchanged for the car dealers that are dependent on the saturated German market.

Utilisation of credit lines fell further in 2012 thanks to the good liquidity situation of the manufacturers and their major suppliers. This was aided by a significant decline in credit default risk exposure with a major industry counterparty, which enabled concentration risk to be reduced.

These factors resulted in the Automotive portfolio declining from €7.6 to €6.6 billion.

The difficult market conditions in Europe are forecast to continue in 2013. Since German companies have improved their financial stability greatly since 2010, we expect less risk and lower default rates than in the crisis years of 2008 and 2009 with a possible weakening of demand. The Bank has prepared for this expected market trend by tightening the conditions for new loans to automotive suppliers and defining individual credit ceilings for all customers in this industry.

Special finance facilities

The special finance facilities are included in the credit default risk exposure of the individual industry groups. The specific financing structures are controlled separately in line with the Bank's risk strategy.

Year-on-year development of selected parameters for leveraged buyouts (LBO)

	2012	2011	Difference
EaD (€ billions)	5.3	6.7	(1.4)
EL (€ millions)	42	68	(26)
Risk density (RD[1], in BPS[2])	78	101	(23)

1 RD = EL/performing exposure
2 BPS = basis points

The market for LBOs declined in 2012 compared with the previous year. The portfolio reduction from scheduled and early repayments was only partially offset by new transactions for which we ensure compliance with our standards regarding financing structures and financial ratios. All in all, the portfolio benefited from rating upgrades, especially among major exposures. Concentration risk management was stepped up in 2012 and notable successes were achieved. In accordance with the strategy, no new business was written in Greece, Ireland, Portugal or Spain, and reduction strategies were defined for Spanish transactions.

Year-on-year development of selected parameters for global project finance (GPF)

	2012	2011	Difference
EaD (€ billions)	5.1	5.3	0.5
EL (€ millions)	19	12.3	6.7
Risk density (RD[1], in BPS[2])	37	23	14

1 RD = EL/performing exposure
2 BPS = basis points

In terms of new project loans, we concentrate on projects in the infrastructure sector without traffic risk in economically stable regions in our core markets and on projects in the energy sector with connections to our core market or key customers. The main goals for 2013 are to increase the granularity of the portfolio and enhance the regional portfolio structure.

Special focus facilities

Among other things, the HVB Group portfolio includes exposures relating to the completion of an offshore wind farm. The Bank has undertaken to finance this offshore wind farm located in the North Sea, around 100 kilometres off the German coast. Risk ensued in particular from delays to the completion of the wind farm in both 2010 and 2011. Consequently, HVB restructured its commitment to the general contractor commissioned to deliver the wind farm on a turnkey basis in 2011 by way of a restructuring loan.

The construction work ran largely to plan in 2012 and the erection of the wind farm was and is advancing with a view to completion towards the end of 2013 or start of 2014. Given the dimensions of this unprecedented project for the offshore industry, however, there remains a risk of deviations from plan, driven by the dependence of erection work on the weather as well as technical problems in individual components, some of which were sourced from external suppliers.

Should the ongoing, close monitoring of the project indicate any need to revise the risk assessment, the measures required to ring-fence and limit the risk will be initiated and implemented promptly, and corresponding loan-loss provisions will, if necessary, be set up.

Exposure development of eurozone countries by risk type

The following table shows the exposure of HVB Group to customers based in eurozone countries (excluding Germany). Borrowers/counterparties based in these countries are included. Compared with the 2011 Risk Report, an aggregate total for issuer risk in the trading book has been added. The of-which position relates to this aggregate total 2012 accordingly. The tables and charts for credit risk in eurozone countries at 31 December 2012 show exposures without the remaining exposures assigned to the former Real Estate Restructuring segment and with reference to the country where the risk partner has its registered office.

Exposure development of eurozone countries, broken down by risk type (€ millions)

	LENDING BUSINESS		COUNTERPARTY RISK		ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL		OF WHICH SOVEREIGN
EaD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Belgium	30	151	76	25	35	210	102	48	243	434	9
Estonia	9	9	—	—	—	—	6	—	15	9	—
Finland	112	100	39	25	15	15	101	228	267	368	2
France	2,450	1,713	1,851	653	1,790	1,459	892	2,058	6,983	5,883	1,156
Greece	579	796	102	46	—-	35	2	22	683	899	2
Ireland	1,274	2,099	64	654	715	2,470	295	89	2,348	5,312	7
Italy	1,480	3,028	1,730	5,825	4,859	7,057	3,656	6,522	11,725	22,432	3,720
Luxembourg	4,873	4,380	1,430	995	2,029	326	424	602	8,756	6,303	7
Malta	243	358	6	2	—	—	2	1	251	361	—
Netherlands	2,951	3,871	307	321	1,302	1,302	311	861	4,871	6,355	23
Austria	1,413	1,269	228	282	1,365	3,572	902	719	3,908	5,842	705
Portugal	116	244	64	20	72	112	25	273	277	649	31
Slovakia	67	133	95	57	2	—	45	—	209	190	45
Slovenia	39	50	106	46	17	10	6	8	168	114	6
Spain	1,374	1,809	92	52	1,762	1,450	130	837	3,358	4,148	418
Cyprus	204	208	2	3	—	—	2	—	208	211	—
HVB Group	**17,214**	**20,218**	**6,192**	**9,006**	**13,963**	**18,018**	**6,901**	**12,268**	**44,270**	**59,510**	**6,131**

Risk Report (Continued)

The portfolios in the weaker eurozone countries were actively managed in 2012, albeit with different strategies. Differentiated reduction strategies exist for certain countries, including Greece, Portugal and Spain. New business written in the FIBS portfolio (financial institutions, banks and sovereigns) in the weaker countries is actively managed by means of specific product and maturity targets. This automatically leads to less new business being written.

The weaker eurozone countries no longer represent core markets for HVB Group overall. The existing portfolios have been identified for reduction for various reasons and concrete objectives to that effect have been formulated and agreed.

The developments in selected countries, including countries with an active reduction strategy, and the respective drivers are outlined below.

France
HVB Group has expanded its exposure in France, as this represents a growth market for the Bank.

Greece
The reduction strategy for Greece that was already initiated in May 2010 continued to be systematically implemented. New business in Greece was completely discontinued, which led to a decline of €216 million in exposure. The sovereign exposure was reduced to €2 million (31 December 2011: €31 million). A working group was set up in the first half of 2012 to analyse the legal, tax and payment-related consequences of Greece leaving the eurozone (Grexit) as well as the risk issues. The results were as follows:
– A Greek exit does not represent an additional risk for the Shipping portfolio in Greece.
– The structural elements of the toll-road and wind-energy projects are stable and do not presently indicate insolvency in the Grexit scenario.
– For the business customer portfolio, guarantees have been obtained from companies from our core markets with immaculate credit ratings and the purely Greek companies also have cash flow sources outside of Greece.

Italy
The relatively large portfolio involving Italy results from the HVB sub-group's role as UniCredit's investment bank. This portfolio is also being run with a view to reduction and managed in accordance with market standards (such as CSA for derivatives contracts). 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 portfolio).

Luxembourg
The exposure in Luxembourg, which is not subject to a reduction strategy, increased as a result of a major finance facility granted to a subsidiary of a listed company with an investment grade rating.

Portugal
Measures aimed at reducing the Portugal portfolio were also initiated and successfully implemented, as reflected in the decline in exposure.

Spain
Spain is not one of HVB Group's core markets. Nevertheless, we do support a few multinational corporates with connections to Germany. The Spain exposure still arising from the previous strategic orientation is being reduced as planned. We do not see any increased risk with regard to the credit standing of customers who only generate a small portion of their cash flows in Spain. Maturing loans are extended again by a different UniCredit company outside of HVB Group rather than being rolled over. The exposures in the construction sector have been greatly reduced. A stress test was carried out for positions in Spanish covered bonds (multi-seller cedulas). This indicated no acute need for action, even under extreme assumptions, meaning that we retained our strategy of reduction at maturity.

These measures helped to greatly reduce the exposure in Spain in the first three quarters of 2012.

Cyprus
A reduction strategy was also implemented in August 2012 for the relatively insignificant Cyprus portfolio.

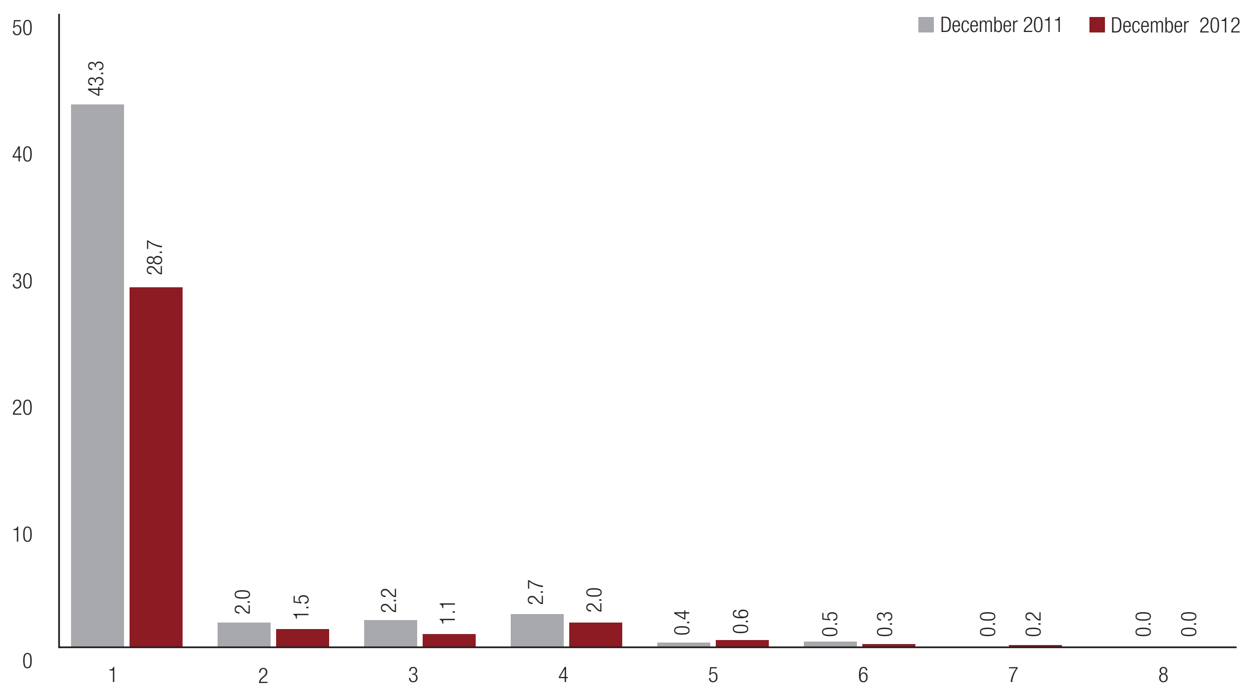
Development of exposure to country risk
At 31 December 2012, the exposure of HVB Group to country risk totalled €34.4 billion, down by a considerable €16.7 billion (33%) compared with 31 December 2011. The reduction is due mainly to money trading activities. The UK above all has a lower trading volume (€12.1 billion), which should be viewed among other things in connection with the volatile liquidity management of HVB Group's branch operations.

At 92%, the largest part of the portfolio has investment grade ratings, down slightly on 2011 (94%). This is connected with the lower trading volume in the countries with investment grade ratings.

Within eastern Europe, Hungary was under observation by the "radar screen for financial institutions/banks". The exposure has been reduced from €495 million (2011) to €342 million. New business with banks is only written selectively. There is currently only an issuer risk in the trading book of €3 million with the government of Hungary (sovereign). Furthermore, the exposure in the North Africa sub-region has been reduced from €340 million (2011) to €210 million. Special approval processes are applicable here on a case-by-case basis, reflecting the political upheaval in some countries in conjunction with economic failures. The exposure to sovereigns in this region, including central banks, totals €11 million for lending business and €7 million for issuer business in the trading book.

In non-eurozone countries, HVB Group focuses on supporting its key customers in international markets, primarily in Switzerland and the UK as well as Asia and the Americas.

Country exposure[1] by rating class (€ billions)



1 without eurozone countries; net of collateral

Risk Report (Continued)

Country exposure[1] by region and product category

(€ millions)

	LENDING BUSINESS		COUNTERPARTY RISK		ISSUER RISK		TOTAL		ISSUER RISK IN TRADING BOOK
EaD Region	2012	2011	2012	2011	2012	2011	2012	2011	2012
Western Europe	7,248	7,728	4,760	19,552	803	789	12,811	28,069	1,748
Asia/Pacific	2,165	2,485	7,844	3,730	117	272	10,126	6,487	91
North America	803	1,214	4,749	7,269	359	686	5,911	9,169	535
Eastern Europe	2,326	3,092	1,195	1,555	14	81	3,535	4,728	295
of which Hungary	11	20	331	419	—	55	342	495	10
Central and South America	510	729	708	425	447	850	1,665	2,004	49
Africa	263	547	132	110	—	—	395	657	11
of which North Africa	182	297	28	43	—	—	210	340	10
HVB Group	**13,315**	**15,795**	**19,388**	**32,641**	**1,740**	**2,678**	**34,443**	**51,114**	**2,729**

1 without eurozone countries; net of collateral; excluding transactions with loan-loss provisions

HVB Group: top ten countries by exposure[1]
at 31 December 2012

(€ millions)

	EXPOSURE	
Country	2012	2011
UK	6,149	20,199
USA	5,150	7,819
Switzerland	5,045	5,726
Hong Kong	3,808	1,882
Singapore	2,978	1,547
Turkey	1,321	1,479
Japan	1,187	195
Russian Federation	1,108	1,933
Cayman Islands, offshore	838	524
Denmark	766	888
HVB Group	**28,350**	**42,192**

1 without eurozone countries; net of collateral; excluding transactions with loan-loss provisions

Financial derivatives

Financial derivatives are used primarily 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, they 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 essentially relevant for purposes of 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 economically equivalent transactions in the event of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB Group at year-end totalled €109.4 billion (31 December 2011: €111.0 billion).

In accordance with the banking supervision regulations under Basel II (German Banking Act/Solvency Regulation), risk-weighted assets for HVB Group amounted to €12.9 billion at 31 December 2012 (31 December 2011: €14.2 billion) with so-called partial use based on individual risk weightings and the risk-reducing effects of existing, legally enforceable, bilateral netting agreements as well as the collateral provided by borrowers.

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

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE[1]			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2012	2011	2012	2011	2012	2011
Interest rate derivatives	**1,029,091**	**1,170,196**	**935,483**	**3,134,770**	**3,326,548**	**96,352**	**88,061**	**95,934**	**86,844**
OTC products									
Forward rate agreements	190,361	6,165	—	196,526	145,485	72	68	43	33
Interest rate swaps	644,787	996,315	758,475	2,399,577	2,540,604	90,077	77,868	88,596	77,455
Interest rate options									
– purchased	44,547	88,221	86,126	218,894	265,072	5,622	9,860	240	103
– written	32,123	67,013	89,431	188,567	227,891	347	201	6,913	9,184
Other interest rate derivatives	27,017	—	—	27,017	24,430	234	64	142	69
Exchange-traded products									
Interest rate futures	40,668	11,885	1,208	53,761	63,131	—	—	—	—
Interest rate options	49,588	597	243	50,428	59,935	—	1	—	—
Foreign exchange derivatives	**201,592**	**29,770**	**582**	**231,944**	**317,891**	**2,995**	**5,284**	**2,816**	**6,012**
OTC products									
Foreign exchange forwards	163,318	21,600	116	185,034	213,787	2,428	3,868	2,173	4,605
Foreign exchange options									
– purchased	19,111	4,099	252	23,462	51,728	349	977	240	467
– written	19,145	4,071	214	23,430	52,342	218	439	403	940
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	18	—	—	18	34	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,936**	**137,985**	**76,680**	**250,601**	**254,022**	**5,077**	**6,207**	**5,649**	**6,794**
Equity/index derivatives	**63,442**	**43,219**	**7,867**	**114,528**	**123,340**	**3,211**	**5,104**	**3,608**	**6,064**
OTC products									
Equity/index swaps	4,546	6,320	735	11,601	12,056	200	235	293	236
Equity/index options									
– purchased	8,529	8,721	359	17,609	23,752	1,269	2,582	32	4
– written	33,679	13,567	5,968	53,214	48,192	69	56	1,724	2,845
Other equity/index derivatives	2,169	1,220	—	3,389	2,353	213	192	1	2
Exchange-traded products									
Equity/index futures	2,751	7	—	2,758	5,179	—	—	—	—
Equity/index options	11,768	13,384	805	25,957	31,808	1,460	2,039	1,558	2,977
Credit derivatives[2]	**52,457**	**86,508**	**6,062**	**145,027**	**222,915**	**1,592**	**5,384**	**1,486**	**5,434**
Other transactions	**3,670**	**2,981**	**722**	**7,373**	**9,169**	**211**	**1,161**	**264**	**1,407**
HVB Group	**1,386,188**	**1,470,659**	**1,027,396**	**3,884,243**	**4,253,885**	**109,438**	**111,201**	**109,757**	**112,555**

1 compliant with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the offsetting positive and negative fair values at currency level were netted for OTC derivatives concluded with the same central counterparty. The same principle was applied for the disclosures in the table “Derivative transactions by counterparty type” below

2 for details of credit derivatives, please see the tables “Credit derivatives” and “Credit derivatives by reference asset” below

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €576,506 million at 31 December 2012 (thereof credit derivatives: €13,061 million).

Risk Report (Continued)

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2012	2011	2012	2011
Central governments and central banks	4,489	3,564	2,474	1,712
Banks	90,770	90,633	93,584	95,154
Financial institutions	10,748	12,844	12,310	14,255
Other companies and private individuals	3,431	4,160	1,389	1,434
HVB Group	**109,438**	**111,201**	**109,757**	**112,555**

Credit derivatives

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2012	2011	2012	2011	2012	2011
Banking book	**74**	**367**	**—**	**441**	**872**	**7**	**73**	**10**	**68**
Protection buyer									
Credit default swaps	49	267	—	316	446	7	73	4	—
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	25	100	—	125	426	—	—	6	68
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Trading book	**52,383**	**86,141**	**6,062**	**144,586**	**222,043**	**1,585**	**5,311**	**1,476**	**5,366**
Protection buyer									
Credit default swaps	27,019	41,466	2,971	71,456	104,672	851	4,799	622	363
Total return swaps	58	78	—	136	184	70	—	—	1
Credit-linked notes	732	1,929	125	2,786	2,303	73	159	26	14
Protection seller									
Credit default swaps	24,469	42,367	2,953	69,789	114,003	585	352	809	4,928
Total return swaps	—	—	—	—	61	—	—	—	1
Credit-linked notes	105	301	13	419	820	6	1	19	59
HVB Group	**52,457**	**86,508**	**6,062**	**145,027**	**222,915**	**1,592**	**5,384**	**1,486**	**5,434**

Credit derivatives by reference asset

(€ millions)

	NOMINAL AMOUNT				
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT LINKED NOTES	TOTAL 2012	TOTAL 2011
Public sector bonds	48,903	58	969	**49,930**	**54,091**
Corporate bonds	85,466	—	2,233	**87,699**	**155,744**
Equities	13	—	—	**13**	**15**
Other assets	7,304	78	3	**7,385**	**13,065**
HVB Group	**141,686**	**136**	**3,205**	**145,027**	**222,915**

Business involving credit derivatives in connection with iTraxx and CDX underlyings was pared back in 2012. This affected both the CDS on indices and the CDO business that are also largely referenced to these indices in the Bank.

Since the indices concerned largely comprise corporate bonds, a decline in the corresponding category for the reference assets occurred in parallel.

Furthermore, some of the decline results from single-name CDS business involving a standalone underlying in the form of a corporate bond.

All in all, the volume of regularly achieved maturities identifiable for 2012 clearly exceeded the volume of new business written in 2012.

Single-name credit derivatives made up 71.3% of the total; multi-name credit derivatives, relating to baskets or indices, accounted for a share of 28.7%.

Stress test

By carrying out stress tests in the credit portfolio, the credit risk managers obtain information about the possible consequences of a deterioration in the underlying economic conditions in addition to the monthly analysis of the real portfolio development. The focus here is on the risk metrics of risk-weighted assets (RWA), expected loss and economic capital, and the changes in the portfolio quality. Sensitivity analyses, concentration stress tests and inverse stress tests are carried out alongside the stress tests based on macroeconomic scenarios (results of which are included in the cross-risk-type stress analysis). The approach based on the internal default risk model is supplemented by the opinion of experts from the SRM and the sales units.

Summary and outlook

It is safe to conclude that HVB Group continues to enjoy a positive risk situation.

Among other things, this can be attributed to the broadly diversified credit portfolio in conjunction with conservative risk management policies and a clearly focused credit risk strategy.

Changing the placement of HVB Group's excess liquidity to Deutsche Bundesbank was one of the factors contributing to the positive risk structure of the credit portfolio.

Risk positions and concentrations were identified at the start of the year and systematically controlled on the basis of the individual strategic objectives. In particular, this affected the weaker eurozone countries, Hungary, the countries of North Africa and the Shipping portfolio.

In order to ensure that positive development continues going forward, the risk strategy approved for 2013 clearly defines core markets, portfolios earmarked for reduction and controlling instruments amid the changing underlying economic conditions. This will ensure that credit risk is actively controlled and limited going forward, HVB Group will constantly refine its risk management programme in order to continue optimally meeting future changes and the ensuing requirements.

2 Market risk

Definition

Market risk is defined as the potential loss arising from an adverse change in value of positions in the trading and banking books. Market risk comprises the following risk categories: interest rate, foreign exchange, equity, credit spread and commodity risk, and also includes option risks.

Categories

We define interest rate risk as the risk of values changing on account of fluctuations in interest rates.

Foreign currency risk arises from fluctuations in exchange rates.

Stock and commodity risk is defined as the risk arising from changing rates on the stock and/or commodity markets.

The credit spread is the premium on the interest rate compared with a risk-free investment. Fluctuations in the credit spread give rise to credit spread risk.

The risk that results from changes in volatilities is subsumed in option risk.

Risk Report (Continued)

Strategy
Our market risk is essentially managed by the CIB division and to a lesser extent by our subsidiaries. As was already the case in 2011, the focus in 2012 was again on further consolidating risk-bearing transactions and concentrating on customer transactions. Following on from the closure of the cash-equity business for western Europe, the equivalent business in eastern Europe was also terminated.

The reduction of the credit correlation portfolios was largely completed by year-end 2012. A new electronic platform used to generate structured equity derivatives at specific customer request was successfully implemented for mass market activities. A reduction in the complexity of commodity activities was concluded with regard to both the complexity of the products and the number of markets and products covered. Around one-fifth of our market risk is located in the trading book, with the focus in the trading unit responsible for interest rate-related trades. Outside of the trading book, market risk is concentrated in legacy portfolios, bonds and Treasury. These activities are included in the limit system as part of market risk management.

Limit system
All transactions exposed to market risk in the trading and banking books of HVB Group are aggregated every day to form a total VaR and set against the risk limits. The Management Board approves and, if necessary, adjusts the risk limits every year. Limits are defined for trading books by using VaR limits, whereas limits are set for the combination of trading and banking books by VaR warning levels. Both groups of limits are equally binding and compliance is equally enforceable. In April 2012, the trading book limit for HVB Group was reduced from €80 million in 2011 to €50 million in line with the Bank's risk strategy. The VaR warning level used to limit all market risks was also greatly reduced. A VaR warning level of €130 million was set for 2012 instead of the limit of €173 million used in 2011.

Monitoring of the new regulatory metrics (stressed value-at-risk, incremental risk charge and comprehensive risk measure) to be used for the internal model is ensured by setting limits for the risk values that are reported on a weekly basis.

Alongside management using the VaR approach, the risk positions of a few key units are restricted by an additional bundle of granular limits. These limits relate to sensitivities, stress test results and nominal volumes in various risk classes.

Measurement
We use a VaR approach based on a historical simulation to determine market risk. In this context, the VaR is the maximum loss that, with a certain probability defined as the 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, controlling and risk limits.

The historical simulation is a simple method that 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. This approach encompasses the direct generation of the hypothetical distribution of the earnings (gains and losses) from a portfolio of financial instruments using the historical market price fluctuations over the last two years. As soon as the hypothetical distribution has been determined, the VaR is provided by determining the percentile of the 99% confidence level.

For the purposes of internal risk management, the new market risk metrics defined in the current German Solvency Regulation have been calculated and limited on a weekly basis since July 2011 alongside the VaR. The new requirements are the result of the revised Capital Requirements Directive (CRD III). The German Solvency Regulation requires these metrics to be included when determining the equity capital requirements as of December 2011.
– Calculation of the potential stressed VaR:
  The stressed VaR is calculated in the same way as the VaR, although the 12-month observation period with most significant negative market changes for the HVB Group portfolios is selected. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99%.

– Incremental risk charge (IRC) for non-securitised credit products:
  Internal approach used to determine the additional default and migration risk in the net interest positions. Both the change in ratings (migration) and the potential default on a credit product are taken into account. The calculated amount relates to a holding period of one year and a confidence level of 99.9% for both regulatory and internal reporting.
– Comprehensive risk measure (CRM) for the correlation trading book:
  Internal approach used to calculate the value change risk. Both the crisis scenarios required by the supervisory authorities and internal crisis scenarios must additionally be calculated by the risk system for the correlation trading book on a weekly basis. The calculated amount relates to a holding period of one year and a confidence level of 99.9% for both regulatory and internal reporting. We will cease using this approach at the start of 2013 on account of the reduction of the positions in the correlation trading book.
– Standard Approach for (re-)securitisations:
  Outside of the internal model, the regulatory Standard Approach for the specific interest rate risk is applied to securitised credit products that may not be held in the correlation trading portfolio (illiquid CDOs and resecuritisations).

The new risk metrics also started to be used for the purposes of the regulatory report as of 31 December 2011. The use of these new metrics was approved by BaFin in December 2011. We are currently addressing the outstanding findings determined by the audit.

Monitoring and controlling

The market risk positions in the trading and banking books are monitored using a hierarchical limit system that restricts the potential loss from market risk. This involves restricting the VaR totals from trading positions by setting trading book limits. At the same time, all positions, irrespective of the regulatory or IFRS classification, are limited by what are known as VaR warning levels.

The VaR figures are reported daily along with the limit utilisation and the earnings figures (P/L figures) to the Management Board and the responsible persons in the CIB division. Whenever trading book limits or VaR warning levels are exceeded, an escalation process is triggered immediately and the reduction of the positions in question monitored. In 2012, such reduction was, with a few exceptions, carried out within one day. If the specified limit was exceeded on the following day as well, the escalation process was again initiated immediately.

In addition to the market risk reported on a daily basis, there is also market risk arising from positions that are assigned directly to the Management Board. The VaR warning level used for these positions was left unchanged at €40 million in 2012.

Market Risk Controlling has direct access to the front-office systems used in trading operations. The supervision of trading activities is based on the prompt allocation to credit risk limits and the detailed check of the P/L on the following day. In this context, both the daily turnover and the P/L generated on intraday transactions are determined.

In addition to the daily reports, the management is informed on a weekly and monthly basis about the results of the risk analysis, including the results of the back-testing and stress tests as well as sensitivity ratios.

To determine and allocate the economic capital requirements for market risks, the maximum VaR of the last 250 days is scaled, like for other risk types to a confidence level of 99.97% and a holding period of one year, taking portfolio effects into account. Unlike in internal risk controlling, any hedge effect of the model book for equity is not included in the economic capital. Reclassified holdings ceased to be managed at the start of 2012.

Furthermore, market risk arising from the IRC, the CRM and the market risk standard approach is also included. This risk is also scaled appropriately to achieve a confidence level of 99.97%.

Risk Report (Continued)

Simulation of interest income

In addition, a dynamic simulation of interest income 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. Assuming a constant volume of business, a parallel interest shock of minus 100 basis points would result in a €191 million decrease in net interest income within the next twelve months (31 December 2011; minus 100 basis points: €88 million). The increase in the loss results from the very low level of interest rates under which the liabilities side hardly responds downwards to changes in interest rates.

Quantification and specification

The economic capital for the market risk of HVB Group without taking account of diversification effects between the risk types amounts to €2.9 billion, up by €1.0 billion on the figure at 31 December 2011 (€1.9 billion). The increase results from the additional inclusion of the new market risk metric and the addition of reclassified holdings in the banking book.

The following table shows the aggregated market risks of our trading positions at HVB Group over the course of the year. The decrease in market risk during the course of the year results from both the lower risk assumed in 2012 and declining volatility on the financial markets.

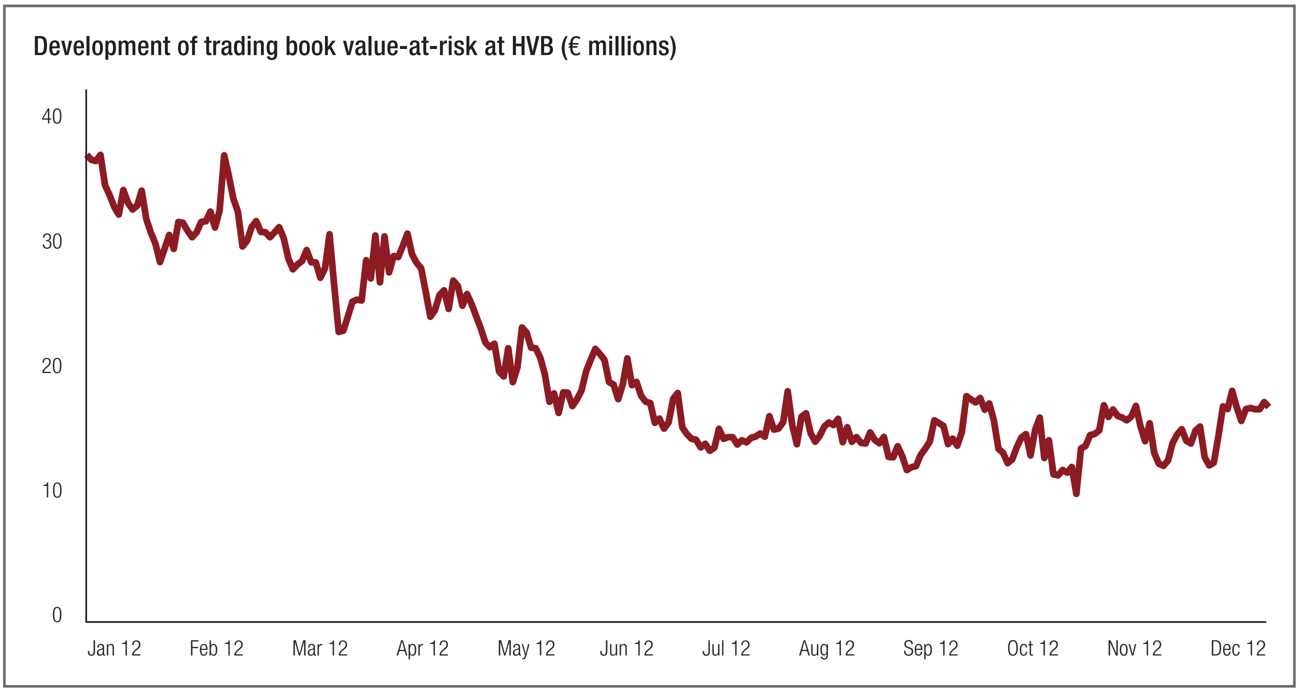
Market risk from trading positions of HVB Group (VaR, 99% confidence level, one-day holding period) (€ millions)

	AVERAGE 2012[1]	31/12/2012	30/9/2012	30/6/2012	31/3/2012	31/12/2011
Interest rate positions (incl. credit spread risks)	24	17	23	23	33	45
Foreign exchange derivatives	2	2	1	1	2	10
Equity/index positions[2]	7	4	5	6	11	7
Diversification effect[3]	(13)	(7)	(12)	(12)	(19)	(27)
HVB Group	**20**	**16**	**17**	**18**	**27**	**35**

1 arithmetic mean of the four 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 high diversification effect at the start of the year shows the strong netting effect of currency and equity transactions on interest rate risk.

The VaR development in 2012 shows a sharp decline in market risk in the trading book. The decline in the VaR figures is essentially driven by position reductions, especially in the credit correlation portfolio, and by reduced exposure to hedge fluctuations in the own credit spread. The decreased volatility on the financial markets helped to reduce the exposure.



The results of the new risk metrics also indicate a reduction during the course of the year. A large decline in the CRM figure is shown for the first and second quarters of 2012. This is consistent with the Bank's strategy of stepping up the reduction of the credit correlation portfolio. A significant step was taken in this direction in the months of April and May. The decrease in the IRC value between June and September essentially results from position reduction. The sharp decrease at 31 December 2012 arises from the expiry of positions that were originally entered into to hedge fluctuations in the own credit spread.

New regulatory metrics[1] at HVB (CRD III figures)

(€ millions)

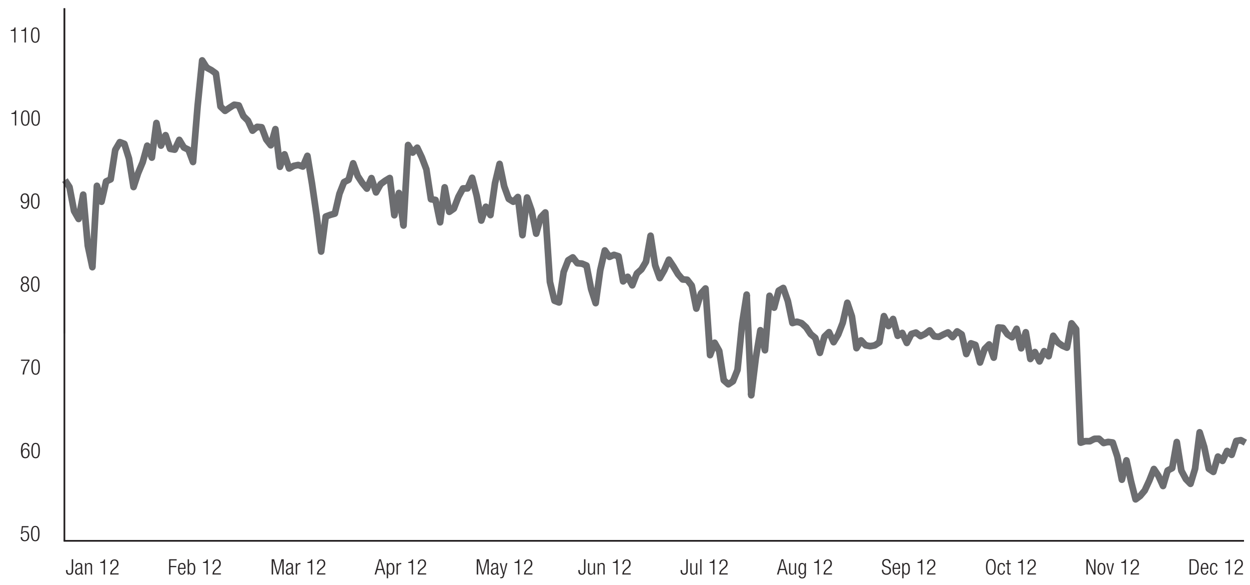
	31/12/2012	30/9/2012	30/6/2012	31/3/2012	31/12/2011
Stressed value-at-risk	22	24	24	38	31
Incremental risk charge	201	436	521	511	591
Comprehensive risk measure	—	21	26	165	360
Market risk Standard Approach	22	32	38	107	52

1 risk values based on internal reporting

Risk Report (Continued)

Alongside the market risk from trading books that is relevant for regulatory reporting, further market risk arises from positions in the banking book. All transactions exposed to market risk arises 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 division at HVB Group.

Market price risk of HVB Group (€ millions)



The chart "Market price risk of HVB Group" shows all the market price risk exposures arising from trading and banking book positions together with the market price risk exposure assigned directly to the Management Board.

In addition to calculating the value-at-risk, the risk profile of the banking book is examined using sensitivity analyses. A 10% depreciation of all foreign currencies (FX sensitivity) results in a decrease in the portfolio value by €48 millionen (0.2% of the regulatory capital) in the banking book of HVB Group (31 December 2011: a decrease of €4 million with an appreciation of foreign currency positions).

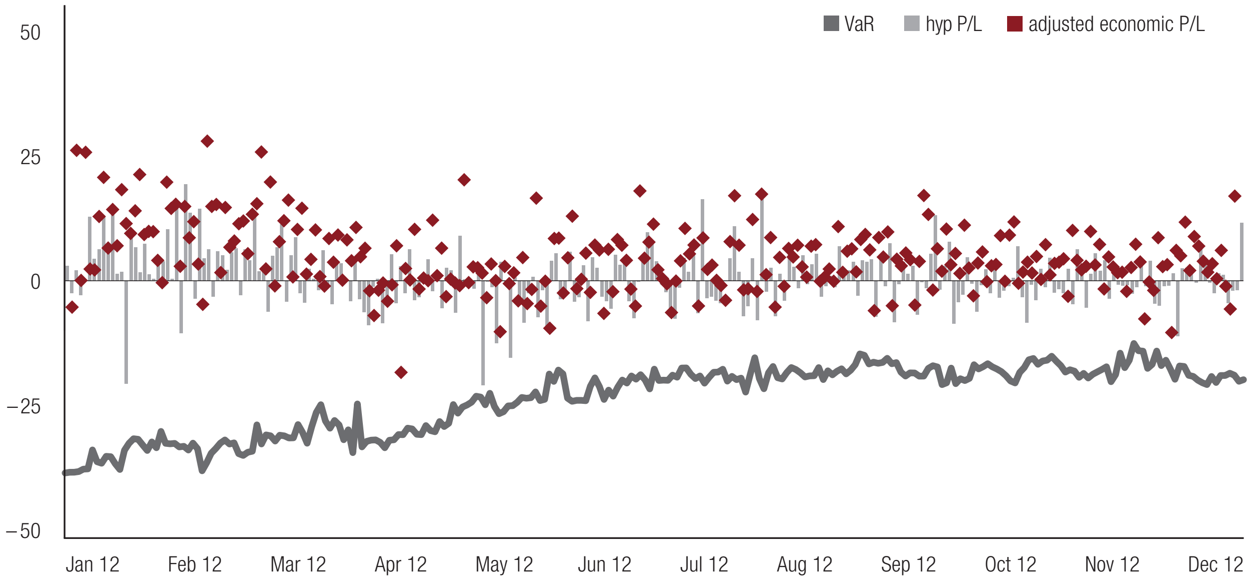
Value change in case of a 10% FX appreciation

at 31 December 2012 (€ millions)

HVB GROUP BANKING BOOK	
Total	(48.24)
USD	(58.08)
GBP	(3.07)
CHF	(7.65)
JPY	16.31
CAD	1.59
HKD	2.32

We check the appropriateness of the methods used to measure market risk by means of regular back-testing that compares the value-at-risk calculations with the hypothetical market value changes derived from the positions. In 2012, there were no back-testing exceptions to report (see chart "Back-testing of new internal model: HVB trading activities in 2012 (€ millions)"). On days with a back-test overshoot, the amount of the hypothetical loss would have been greater than the forecast value-at-risk. Starting in 2012, we have also used a back-test based on an adjusted economic P/L to validate the model alongside the back-test using the hypothetical P/L.

Back-testing of new internal model: HVB trading activities in 2012 (€ millions)



Market liquidity risk

Market liquidity risk (the risk that the Bank will be able to liquidate assets on the market only at a discount) is managed by the people responsible for the various portfolios as they perform their defined market-related tasks. Reference should essentially be made to the measurement and monitoring instruments listed for market risks. An appropriate stress test is used for quantification purposes.

Fair value adjustments (FVAs) are used to reflect valuation uncertainties related to the market liquidity of securities and derivatives in the accounts for both the trading book and the banking book. The FVAs include among other things a premium for close-out costs and non-liquid positions related to the assessment of fair values.

Risk Report (Continued)

In the course of stress tests, the risk from deteriorating market liquidity is analysed. In this regard, analysis is being carried out to determine the amount of losses that would result from the liquidation of trade and banking book positions in a market environment with greatly expanded bid-offer spreads. For December 2012, the tests showed a potential loss of €404 million (2011: €548 million).

Stress test

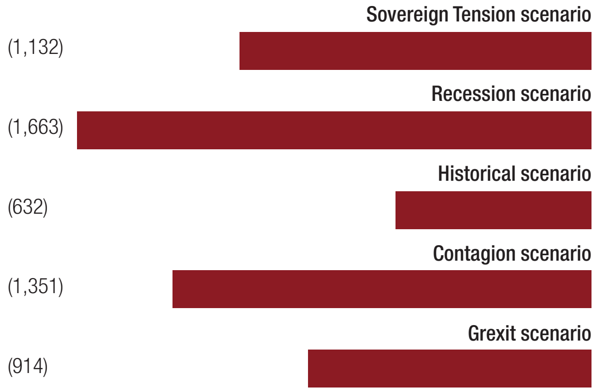
In addition to calculating the value-at-risk and the new risk metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered, such as a widening of credit spreads. We also analyse macroeconomic stress scenarios based on real market upheavals (historical stress tests) or current threats (hypothetical stress tests).

One example for a historical scenario used is based on experience gained from the financial crisis. To evaluate the effects of a financial crisis on a regular basis, we introduced the stress-test scenario "Financial crisis". This scenario reflects the trend in the financial crisis in the third quarter of 2008. To take into account the low market liquidity, the time horizon for this scenario was expanded to include a full quarter.

Further hypothetical scenarios are based on the potential market movements in the event of a worsening of the debt crisis in Europe or a negative demand shock in Germany (Recession scenario/Adverse Demand Shock). The expansion of the debt crisis is examined using the scenarios "Sovereign Tensions" and "Contagion". All are based on the assumption of a default by a euro sovereign with widespread escalation of the crisis to other euro states.

The most significant stress result from this package of stress test scenarios at 31 December 2012, with a potential loss of €1.7 billion (2011: €2.0 billion), results from the Recession scenario. This scenario is also used in the cross-risk-type stress tests, where it is analysed for risk-bearing capacity.

HVB Group stress testing at 31 December 2012 (€ millions)



As described in the section covering the implementation of overall bank management, inverse stress tests were performed for the first time in 2012. Risks resulting from market risk in the banking portfolio were also included in this analysis.

In compliance with the Circular issued on 9 November 2011 by the German Federal Financial Supervisory Authority (BaFin), the change in the market 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. We also carried out this valuation with and without the hedging effect from the equity capital model book. With a notional utilisation of 0.3% (31 December 2011: 0.6%), or 4.6%, excluding the model book (31 December 2011: 3.1%), of its regulatory equity capital at the end of June 2012, HVB Group is well below the 20% above which the banking supervisory authorities consider a bank to have increased interest rate risk. Without the valuation effects of the reclassified portfolios, the rate of equity capital utilisation is 0.4% (31 December 2011: 0.6%) or 4.6% without the model book (2011: 3.2%).

Summary and outlook

As was already the case in 2012, efforts will be again made in 2013 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

Definition

We define liquidity risk as the risk that the Bank will not be able to meet its payment obligations in full or on time. 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 (part of short-term liquidity risk), funding risk and market liquidity risk.

Categories

Short-term liquidity risk

HVB Group defines short-term liquidity risk as the risk of not being able to meet its payment obligations on time or in full.

Operational liquidity risk, which is part of the short-term liquidity risk

Operational liquidity risk, which is part of the short-term liquidity risk, may arise when a financial institution cannot meet its intraday payment obligations from current incoming and outgoing payment transactions.

Funding risk

We define funding risk as the risk of not being able to obtain sufficient liquidity at the expected interest rates or only at higher interest rates.

Market liquidity risk

This is defined as the risk that the Bank will not be able to liquidate assets on the market or only do so at a discount. The management of market liquidity risk is described in the section covering market risk.

Strategy

Liquidity management at HVB Group is divided into short-term liquidity management (less than one year) and long-term liquidity management. Risk drivers that may be the cause of potential liquidity outflows have been identified for the various business units.

Furthermore, various dimensions of liquidity risk management have been defined to which appropriate instruments and controlling mechanisms have been assigned depending on the type of risk involved.

The risk appetite is defined with regard to liquidity risk on the basis of the business activities and taking into account risk sources and risk drivers. This forms the foundation for the management and limit mechanisms, such as liquidity reports, projections and plans, and the definition of liquidity buffer to be maintained for unexpected outflows of liquidity during the day. Furthermore, a limit system has been set and triggers defined. The result is the specification of a minimum survival period that matches the risk appetite.

The risk appetite for long-term liquidity management is indicated in the form of a metric for the ratio of liabilities to assets, helping to avoid pressure on short-term liquidity management.

Limit system

For short-term liquidity risk, we have put in place a cash-flow-oriented limit system that tracks the relevant balances within HVB Group per working day and limits the positions appropriately.

The difference between the calculated potential liquidity requirement and the existing liquidity reserves is limited. Long-term liquidity risk is restricted by defining a limit for the ratio of liabilities to assets.

A limit was set for operational liquidity risk by implementing an intraday liquidity buffer by means of which additional liquidity is maintained to cover unforeseeable outflows.

We are able to cope with the effects arising from the change in funding spreads to a very large extent by limiting funding risk. In addition, the internal transfer prices for the lending and deposit-taking activities are continually reviewed for appropriateness and regularly adjusted to reflect the market situation.

Reduction

Among other ways of reducing liquidity risk, we set processes, implement an early warning system and a limit system, and manage the highly liquid assets made available as collateral.

Risk Report (Continued)

Measurement

Short-term liquidity risk

To measure short-term liquidity risk, cash flow profiles are produced on a daily basis. The resulting balances are compared with the available liquidity reserves, which consist primarily of the available highly liquid securities eligible at all times as collateral for central bank borrowings. The cumulative balance of the above-named components is backed with limits for all maturity buckets of up to three months for the relevant units of HVB Group.

Furthermore, stress scenarios based on the liquidity profiles of the units of HVB Group are simulated at regular intervals. These stress scenarios take into account internal influences (e.g. possible HVB Group-specific incidents), external factors (e.g. disruptions in global financial markets) and a combination of internal and external factors. A time horizon of up to two months is defined for the stress scenarios, during which the available liquidity reserves are expected to exceed the simulated outflows of liquidity. This ensures that countermeasures can be initiated promptly, if required.

In addition to this internal measurement methodology, HVB and its domestic subsidiaries engaged in banking activities are subject to the regulatory standards defined in the German Liquidity Regulation for short-term liquidity risk.

Funding risk

To measure funding risk, long-term funding needs are determined using a coordinated process which is based on the expected business development reported and updated as required. The long-term funding need, which is used to set the funding targets and is presented to the ALCO, additionally takes into account the assets and liabilities falling due in the period. Limiting maturity mismatches between the long-term assets and liabilities ensures a balanced funding structure in defined maturity buckets. The key assumptions underlying the risk measurement methods are reviewed on a regular basis to assess their appropriateness.

Monitoring and controlling

The monitoring of our liquidity situation has been entrusted to the Finance department of our CFO organisation. To all intents and purposes, it involves analysing and managing mismatches in the maturities of assets and liabilities, which are limited for defined maturity periods through limits and funding targets. Compliance with the limits allocated for short-term liquidity risk is monitored on a daily basis and the long-term funding ratios are monitored monthly. The stress scenarios are also calculated on a weekly basis.

For short-term liquidity risk, moreover, stress analyses based on various scenarios enable us to make projections on the impact of sudden disruptions on our liquidity position so that we are in a position to take the necessary management measures as early as possible.

HVB Group limits operational liquidity risk as part of short-term liquidity risk by monitoring positions constantly during the day and forecasting the relevant account balances. Furthermore, a minimum volume of unused liquidity must be kept available to cover any additional intraday liquidity required due to unexpected outflows of liquidity (intraday liquidity buffer).

The funding risk of HVB Group is well-balanced thanks to the diversification of our funding across products, markets and investor groups. The front-office units implement the volume and product parameters derived from the funding targets cost-efficiently upon consultation with the Finance unit.

CRO units calculate early warning indicators and present concentration risk at regular intervals.

The rules and principles of liquidity management are specified in a Liquidity Policy adopted by the Management Board of HVB. Depending on the defined risk appetite, the basic points set out in the policy are based on the ability to meet financial obligations at any time. The targets also include optimising the expected cash flows, limiting the cumulative liquidity gap, carrying out stress tests on a regular basis and limiting both short-term and operational liquidity risk.

The liquidity policy complete with the contingency plan and other supplementary provisions must be updated at least once a year. The liquidity policy is implemented by the operational business units and is coordinated and monitored for the relevant HVB Group units by the Finance department in the CFO organisation.

Operational liquidity risk

To monitor operational liquidity risk, HVB Group uses a minimum balance which must be met throughout the day. It is continually monitored and checked against the actual volumes in the relevant accounts.

The local treasury units are responsible for observing developments in their respective local markets. These units submit reports to the Finance department as needed.

The ALCO and the management are regularly informed of the current liquidity and funding situation. A contingency plan is in place to allow the impact of potential liquidity risk to be managed. This contingency plan describes and regulates the distribution of responsibilities, internal reporting requirements, decision-making powers and potential countermeasures.

Quantification and specification

Short-term liquidity risk

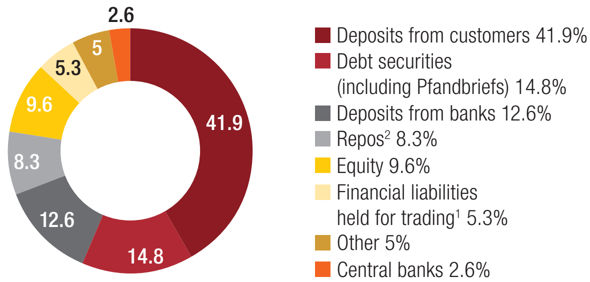
Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €39.5 billion in HVB Group for the next banking day at the end of December 2012 (2011: €23.7 billion). The increase in the volume is caused among other things by the reduction in risk-weighted assets and also an expression of the greater confidence in the German market. The portfolio of highly liquid securities eligible at short notice as collateral for central bank borrowings and available at short notice to compensate for unexpected outflows of liquidity amounted to €28.4 billion at year-end 2011 (2011: €20.6 billion).

The requirements of the German Liquidity Regulation (Liquiditätsverordnung – LiqV) were met at all times by the affected units of HVB Group during the year to date. The funds available to HVB Group exceeded its payment obligations for the following month by an average of €29.7 billion for HVB in 2012 (31 December 2011: €29.9 billion) and €33.2 billion at 31 December 2012. This means that we are comfortably above the internally defined trigger.

Funding risk

The funding risk of HVB Group was again quite low in 2012 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 €7.5 billion on the capital market during 2012. At the end of December 2012, 100.8% (2011: 98.3%) 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.

Breakdown of sources of funding of HVB Group (31 December 2012)



1 without the item "Negative fair values arising from derivative financial instruments"
2 repos from the items "Financial liabilities held for trading", "Deposits from customers" and "Deposits from banks"

Stress test

Stress analyses based on various scenarios are carried out at regular intervals, enabling us to make projections on the impact of sudden disruptions on our liquidity position so that we can initiate appropriate management measures as early as possible.

We include Bank-specific, market-wide and combined scenarios when conducting our stress tests. The calculations at year-end 2012 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded in each case.

Risk Report (Continued)

Summary and outlook

The banking industry again felt the effects of the European sovereign debt crisis in 2012. Various measures taken by the European Union in particular did not calm the markets much until towards the end of the year. It is not yet possible to predict for how long and to what extent the financial markets will be impacted by the debt crisis in some European countries together with risks arising from changes in interest and exchange rates.

HVB Group put in a solid performance in 2012 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 to remain very comfortable. HVB Group expects to see moderate economic growth in Germany in 2013 in response to a global economic recovery coupled with robust domestic demand. German exporters should benefits from restored dynamism in Asian emerging markets as well as a cyclical tailwind from the United States. Against this backdrop, it is safe to assume that the markets will tend to continue stabilising.

4 Operational risk

Definition

As a subsidiary of UniCredit S.p.A., HVB and its other subsidiaries have assumed its definition of operational risk. In accordance with the Bank of Italy and in line with the German Solvency Regulation (Solvabilitätsverordnung – SolvV), operational risk is therefore defined as the risk of losses resulting from failed internal processes or systems, external events and human error. This definition also includes legal risk but not strategic risk or reputational risk.

Strategy

The risk strategy for operational risk forms part of the HVB Group risk strategy which is updated and adopted by the Management Board of HVB on an annual basis. The risk strategy aims to reduce operational risk to a reasonable level from an economic standpoint (under cost/benefit considerations), taking into account the defined risk appetite. To make the risk strategy more specific, Bank-wide and division-specific action areas are defined on the basis of external and internal factors.

Limit system

Operational risk forms part of the internal capital, with limits set for HVB Group accordingly.

Reduction

HVB Group has a group-wide operational risk organisational structure. The individual divisions and each subsidiary of HVB Group are responsible for identifying, analysing and managing operational risk. Risk assessments are performed out to identify operational risk. These represent the core of the operational risk management process and are carried out systematically in the form of workshops, interviews and questionnaires. The main goal is to implement measures aimed at reducing or avoiding significant losses. This also helps to generate more sustainable earnings.

In order to efficiently manage the reduction of risk, HVB Group applies a decentralised approach that allows the operational risk managers to shape the management of operational risk individually in their personal areas of responsibility, modify the approach to reflect unit-specific features and implement their own processes. When a risk is identified, it is recorded centrally and a detailed analysis of the risk is carried in order to allow appropriate measures to subsequently be drawn up. The measures are assessed under cost/benefit considerations and discussed with senior management in the event of significant risks. The action areas defined in the strategy serve to set particular focal points. Operational risk that is potentially grave or could seriously damage the Bank must be subject to planning measures that go beyond mere profitability concerns.

Risks identified by HVB Group are concentrated mainly in selling risks and risks arising from settlement and process management. In terms of product groups, we are exposed especially to risk related to derivatives, which results in part from the associated legal actions by customers.

From an organisational standpoint, there is a concentration of risk in CIB. Partly for this reason, in 2011 HVB Group carried out an analysis and review of the trading processes notably in its trading activities, with a special focus on the Bank's control mechanisms. These wide-ranging investigations compared the Bank's trading activities with leading market standards. The results of this analysis project identified action areas for improving the control mechanisms. All relevant activities were prioritised and realised as part of a dedicated implementation programme. A major part of these measures was already implemented during 2012. Furthermore, a similar project was started in the Global Transaction Banking unit. There were no instances of fraud in the Bank's trading activities in 2012.

Furthermore, the methods used to assess operational risk were refined in projects and the new product process during 2012. Cross-segment risk was also monitored more closely.

Measurement

An internal model built around the Advanced Measurement Approach (AMA model) is used to calculate the operational risk of HVB Group for HVB and its major subsidiaries: Bankhaus Neelmeyer AG, DAB bank AG, HVB Immobilien AG, UniCredit Luxembourg S.A. and UniCredit Leasing GmbH (including subsidiaries). The standard approach is applied for all other minor subsidiaries.

The AMA model is a UniCredit group-wide loss distribution approach. It is based mainly on internal and external loss data. The loss distributions are determined for each Basel loss event category. Scenario data are used to round out the data records in rare yet extreme impact cases. The model is developed by UniCredit. HVB Group checks the plausibility of the 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 event categories as well as risk-reducing measures such as insurance. Finally, the VaR is modified to reflect the internal control and business environment factors.

Monitoring and controlling

Several instruments are used to monitor and control operational risk in HVB Group. Apart from the cost/benefit analysis, implementation dates are defined and monitored for the measures assigned to the identified risks. In order to facilitate prompt action in the event of a deterioration in the risk situation, risk traffic lights or indicators are assigned to all significant risks. Where a signal is triggered, risk-reducing measures can be initiated promptly in order to counter the risk situation.

Losses that occur are collected in a database. Internal and external loss events and risks are analysed, helping to draw up a risk profile of HVB Group.

Loss events and significant risks are reported to the Management Board, the RC and the Audit Committee of the Supervisory Board on a regular basis. Operational risk managers report losses and significant risks to their senior management locally on a quarterly basis. Significant risks and losses are additionally discussed with the senior management.

Employees from the Business Continuity Management, Outsourcing, Compliance and Legal departments perform specific risk-managing functions. They also have a risk controlling and monitoring function.

Business continuity management

The business continuity management function demonstrated its effectiveness and appropriateness in two genuine incidents. In both cases, the HVB crisis management team dealt with the situations so successfully that consequences could be minimised and losses avoided. The Bank's involvement in a simulation by the Bank of Italy together with internal exercises showed the handling of the processes in business continuity and crisis management is operating well.

Risk Report (Continued)

Outsourcing and IT projects
Outsourcing involves the transfer of activities and processes to external service providers. This also involves the transfer of some of the operational risk, while contractual risks arising from the outsourcing arrangement remain with the Bank. The respective project team and defined functional units (operational risk managers, Compliance, Legal, and Business Continuity Management) used a standard procedure to classify outsourcing arrangements as "not material", "material without considerable significance" and "material with considerable significance". An in-depth risk analysis covering the other risk types as well as operational risk is performed for the outsourcing arrangements classified as material. 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 in the processes defined for the risk types concerned. The operational risk managers and the central Operational Risk function help the project managers and heads of the RTOs to prepare and/or update the related risk analysis.

In order to make the presentation of the outsourcing and IT risk situation more transparent, work began in 2012 on expanding the existing methods and modifications to the required IT systems were commissioned.

The Outsourcing Tracking Office is the centre of competence for HVB responsible for managing the outsourcing process and enhancing the transparency of existing outsourcing activities. It forms part of the Global Banking Services (GBS) division.

The Bank's IT services are mostly provided by the Group company UniCredit Business Integrated Services S.C.p.A. (UBIS). The IT operating processes of HVB that were modified during the EuroSIG roll-out also required adjustments to be made to the internal control system for IT in order to be able to suitably monitor and manage all major IT risks. The development of appropriate metrics and review processes was started in winter 2011/2012 and implemented in various areas during the course of 2012. The control system will be expanded further and enhanced in 2013 in order to exploit the room for improvement identified in 2012 and incorporate findings from audits.

HVB completed an outsourcing deal classified as significant as defined by the MaRisk rules in 2012. The F&SME division opened a new sales channel via financial partner branches, which was subject at first to a test phase lasting several months. The purpose of the new distribution model analysed in depth in a new market process compliant with MaRisk is to facilitate fast, successful market entry in areas where HVB has not had a presence to date or only an insignificant presence. The financial partners are legally independent enterprises. They arrange services and products in the name of and for account of HVB and other product partners, and are managed by a RTO in the F&SME division.

In 2011, various GBS units, including the back office handling the settlement of derivatives, were transferred from HVB to UniCredit Global Business Services GmbH, a wholly owned subsidiary of HVB. Following the transfer, it was necessary to fine-tune a number of service level agreements and controlling instruments. This transitional issues project to adjust the controlling processes for Financial Market Services was completed on schedule in June 2012.

Compliance risk and legal risk
Legal risk and compliance risk (risk related to compliance with rules and regulations) are subcategories of operational risk that might represent a risk to the earnings position due to violations of the law, rights, regulations, agreements, obligatory practices or ethical standards.

The Compliance department is responsible for the management of compliance risk. It focuses primarily on the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and supporting rules and regulations. Among other things, Compliance carries out risk analyses at regular intervals. Besides the monitoring of employee transactions and the Bank's trading activities, this includes various second level controls for all units covered by Compliance. The results of the controls and audits are reported directly to the Management Board and the Supervisory Board together with compliance measures, problems and the current status of compliance in the Bank.

The Legal, Corporate Affairs & Documentation (LCD) department is responsible for managing legal issues for all HVB Group units. Excluded from this are tax law relating to the Bank's tax position, labour law (apart from legal disputes) and the legal areas falling under the heading of compliance.

Individual legal risks are discussed below:

Legal risks/arbitration proceedings
HVB and other companies belonging to the HVB subgroup 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 is required to deal appropriately with various legal and regulatory requirements in relation to issues such as conflict of interest, anti-money-laundering laws, privacy and data-protection rules. Failure to do so may lead to additional litigation and investigations and subject HVB and companies that are part of the HVB subgroup to damage claims, regulatory fines or other penalties. In many cases, there is a substantial uncertainty regarding the outcome of the proceedings and the amount of possible losses. 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 legal cases 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 IAS accounting principles applied by HVB.

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 in the Medienfonds fund, but granted loans to all private investors for a part of the amount invested in the fund; HVB assumed specific payment obligations of certain film distributors with respect to the fund.

The investors in the Medienfonds fund initially enjoyed certain tax benefits which were later revoked by the tax authorities. On 30 December 2011, Munich Higher Regional Court (Oberlandesgericht) stated that the prospectus was incorrect concerning the description of tax risks, loss risk and the fund´s forecast. The court further holds HVB liable along with the promoter of Medienfonds for such errors. HVB has appealed to the German Federal Court of Justice (Bundesgerichtshof). Any final decision in this proceeding will affect only a few pending cases since a general settlement has already been reached with the vast majority of the investors. Besides the civil proceedings, the fiscal courts have not yet published a final decision regarding whether the tax benefits were revoked rightfully. HVB and other German banks involved in said proceedings have proposed a settlement.

Furthermore, there are a number of separate lawsuits from investors pending regarding other closed-ended 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. With their claims the investors demand restitution of their equity contribution and offer in return the transfer of the related fund share to the Bank.

Risk Report (Continued)

Relating to one public fund with investment target in heating plants, a number of investors brought legal proceedings against HVB. In these cases some plaintiffs applied for a specific procedure pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz). Munich Higher Regional Court will deal with the issue relating to prospectus liability. HVB is currently reviewing the application.

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 (Bundesgerichtshof) established practice, the customer has to prove that the conditions for the lapse of his repayment obligation. Based on the experience gained to date, HVB assumes that legal risks will not arise from these cases.

Judgements from the German Federal Court of Justice also confirmed the already narrow conditions for a possible obligation on the part of HVB to give information and advice. Only in cases of institutionalised collaboration between the bank and persons acting on the part of the seller of the property, combined with deception of the customer by those persons, as well as in cases in which the bank has advised the customer on the acquisition of the property and received commission from the seller for selling the property the bank's liability cannot be ruled out. Based on its experience so far, HVB does not expect any negative effects for HVB in this respect either.

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. Consequently, the bank has no claim against the customer to repayment of the loan if it utilised the sales organisation of the agent arranging the sale of shares in the fund, the loan was disbursed directly to the fund, and the investor was misled when purchasing the shares, or if the borrower has a right of rescission. The borrower in each individual case would have to demonstrate that these prerequisites were met. From today's standpoint, HVB expects these circumstances to apply, if at all, only in exceptional cases.

Lawsuits related to financial instruments

On account of the persistently unstable conditions of the financial markets, the number of complaints from customers invested in securities that have been negatively affected by the financial crisis remains unchanged at a high level. 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 or alleged negative performance of securities of other transactions.

Complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative market value have also substantially increased. Among other things, the arguments made are that the Bank allegedly did not sufficiently inform the customer with respect to the relevant investment and potential risks related to such transactions. Generally, there has been a trend for investor-friendly judgments with respect to derivative-related lawsuits. Latest rulings confirm this trend but also demonstrate that the characteristics of the relevant product and the individual circumstances of each case are decisive. Thus the ruling of the courts is mixed whereat the application of Section 37a WpHG a.F. (Securities Trading Act earlier regulation) may be decisive.

A class action has been filed against several members of an underwriting consortium, including UniCredit Capital Markets, Inc. (UCCM). This class action is based on mortgage-backed securities issued by Bank of America. HVB is of the opinion that the claim is unfounded and UCCM will defend itself accordingly.

Proceedings related to German tax credits

During the period 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 circa €124 million. The client and his tax advisor are challenging the tax authorities' position. The client has also made a claim against HVB and is requiring a full indemnity from HVB.

While the client has the primary liability to pay, the tax authorities also served a secondary liability notice upon HVB demanding payment of the approximately €124 million sum on the basis of alleged issuer liability for tax certificates. HVB has challenged the notice. HVB has also issued claims against the client requiring full indemnification.

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. Up to now, an amount of around €120 million has been paid with respect to the amount stated in the liability notice. The dispute continues.

In a preliminary investigation against the client and others (including former and current employees of HVB) the Director of Public Prosecutions in Frankfurt am Main searched the Munich premises of HVB and its IT provider, among others. HVB is cooperating fully with the prosecutor and the tax police. There is a risk that HVB could be held liable for damages to the client in the civil proceeding or for payments to the tax authorities with respect to the outstanding claims of the tax authorities (especially on the basis of the liability notice and further interest and/or late payment penalties). In addition, HVB could be subject to other penalties, fines and profit claw backs, and/or criminal exposure.

In addition, HVB has notified the competent tax authorities of the possibility of certain proprietary trading of HVB undertaken close to dividend dates and related withholding tax credits claimed by HVB. In response to the customer case, the Management Board has already 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 internal review of such events by external advisors. The comprehensive investigation is supported by UniCredit without reservation. HVB expects to receive findings by mid-2013. An interim report by the external advisors carrying out the audit has concluded that there is evidence of trading patterns in the proprietary trading of HVB that are similar to the client case described above. In addition, the Management Board of HVB has been working with external advisors on all relevant aspects in the matter which includes a full review of the matters described above.

In the course of the open regular tax audits for past fiscal years the German Central Federal Tax Authority (Bundeszentralamt für Steuern) and the Munich tax authorities are currently especially examining such transactions close to dividend dates and related to withholding tax credits and refunds. 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

Although German tax authorities have recently denied withholding tax credits in certain types of trades undertaken near dividend dates, there is no clear guidance from the highest German tax court on the tax treatment of such transactions. At this time, the impact of the review by the competent tax authorities is unknown. In relation to the securities transactions described above.

In relation to the securities transactions described above, HVB could be subject to substantial tax and interest claims in relation to these matters, as well as penalties, fines and profit claw backs, and/or criminal exposure.

HVB is in communication with its relevant regulators regarding this matter.

Lawsuit 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. Legal proceedings have been commenced in Germany in connection with the issuance of said Primeo-linked notes, which also named HVB as a defendant.

Securitisation – financial guarantee
In 2011, a financial institution filed suit against HVB with regard to a securitisation transaction. The parties dispute the validity of an early termination notice served by HVB on the financial institution in question. In December 2012, the English court decided that the transactions were still ongoing and thus still valid and binding upon HVB. HVB is currently considering whether to appeal this decision.

Risk Report (Continued)

Insolvency of Landsbanki Islands
In 2008, HVB concluded money market deposit transactions with Iceland-based Landsbanki Islands, among others, which were duly settled. The Winding-up Board of Landsbanki has recently challenged in court the repayment at that time of the money borrowed and sued HVB for payment of a middle double digit million euro sum. HVB has filed statements demanding the dismissal of the claims.

Repo transactions
Two customers belonging to the same group of companies have recently filed claims against HVB with a total amount in dispute of €491.4 million (plus interest). The dispute results from the termination of their repo transactions with HVB. The claimants assert that the compensation paid by HVB to the clients following the clients' default was insufficient. The Bank is defending itself against said claims. In one of the two pending cases, a first-instance ruling has been issued partly going against the Bank; the Bank intends to appeal against this ruling.

Legal proceedings relating to the restructuring of HVB
Numerous (former) minority 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. The former minority shareholders filed their lawsuits on the basis of alleged deficiencies of formalities in connection with the invitation and conduct of the Extraordinary Shareholders' Meeting of 25 October 2006 and the allegedly inadequate, too low purchase price paid for the units sold.

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. HVB has appealed against this ruling.

The resolutions passed by the Extraordinary Shareholders' Meeting of 25 October 2006 were confirmed at HVB's Annual General Meeting of Shareholders on 29 and 30 July 2008. Suits were filed against said confirmatory resolutions which are mainly based on a too low and inadequate consideration.

In a ruling dated 29 October 2008, Munich Higher Regional Court suspended the appeal against the suits challenging the resolutions of approval of the Extraordinary Shareholders' Meeting of HVB of 25 October 2006 until such time as a final court decision is passed on the suits challenging the confirmatory resolutions adopted during the Annual General Meeting of HVB on 29 and 30 July 2008. On 10 December 2009 Munich Regional Court I dismissed the suits against the resolutions adopted at the Annual General Meeting on 29 and 30 July 2008, including the suits against the confirmatory resolutions adopted at this meeting. The ruling by Munich Higher Regional Court on 22 December 2010 in which the decision of Munich Regional Court was upheld, was suspended by the German Federal Court of Justice and the case has been remanded to Munich Higher Regional Court for further hearing and decision.

Other administrative proceedings
There has been increasing scrutiny of the financial institutions sector, especially by US authorities, with respect to combating money laundering and terrorist financing and enforcing compliance with economic sanctions. In March 2011 HVB received a subpoena from the

New York District Attorney's Office (NYDA) relating to historic transactions involving certain Iranian entities. HVB has provided data in response to NYDA and the US Treasury Department Office of Foreign Assets Control (OFAC) and continues to cooperate with those authorities, inter alia, by conducting an ongoing review of accounts and transactions subject to the investigation. In June 2012, the US Department of Justice (DOJ) opened an investigation of OFAC compliance by HVB generally, with which HVB is also cooperating. Although we cannot at this time determine the form, extent or the timing of any resolution with the US authorities, the investigation costs, remediation required and/or payment or other legal liability incurred could have a material adverse effect on the net assets, operating results and/or cash flows of HVB in any particular period.

In recent years, alleged violations of US sanctions have resulted in financial institutions paying substantial fines, penalties or settlements to the US authorities, depending on the individual circumstances of each case.

Quantification and specification

The economic capital for operational risk is calculated for all AMA subsidiaries of HVB Group as a whole and then distributed 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 €2.5 billion at 31 December 2012 (31 December 2011: €2.3 billion). Among other things, this slight increase in risk can be attributed to a higher number of expected loss events for selling risks and the related potential losses. The expansion of the group of companies included in consolidation also led to an increase in the economic capital.

Stress test

Operational risk is incorporated in the impact of macroeconomic scenarios as part of the cross-risk-type stress tests. This involves modifying the relevant parameters for the scenario of the internal model from the base scenario to a calculated stress value and then determining a stressed VaR. The same relative change from the stressed VaR is assumed for subsidiaries using simpler calculation methods.

Summary and outlook

The risk strategy defines the specific action areas that were identified to constantly raise awareness of operational risk in the Bank and to expand the management of operational risk. The control system will be extended and enhanced in 2013 particularly with regard to outsourcing- and IT-specific risks in order to collate the potential for improvement identified in 2012 and incorporate findings from audits.

5 Reputational risk

Definition

Reputational risk is defined as the present or future risk to the earnings or capital situation of the Bank due to a negative perception of the Bank on the part of its stakeholders. These include primarily customers, creditors, rating agencies, employees, regulatory authorities and other interest groups, such as private associations (NGOs) or the media and others.

Above all the risk arising from a negative perception by the relevant stakeholders can make it harder for HVB Group to maintain existing business relationships and enter into new ones. Constant access to sources of finance could also suffer.

Risk Report (Continued)

Reputational risk is multi-dimensional, can basically arise in any part of the Bank and reflects the perception of market participants or stakeholders. A risk to our reputation can be limited by implementing effective internal risk management processes.

The general definition of reputational risk is specified by the following criteria:
– Potential risk: Reputational risk can be viewed as a standalone source of risk, although it may also result from other (primary) risk types such as credit risk, operational risk or strategic risk. It arises primarily from the day-to-day business operations (customer-bank relationship) of HVB Group and other activities performed by the Bank, such as the roll-out of new products. At the same time, reputational risk also arises from banking operations (such as facility and environmental management).
– Event: Reputational risk becomes more specific when the expectations of a defined group of stakeholders are not met and they react negatively.
  Effect: Reputational risk is only deemed to exist when the reaction of stakeholders is likely to have a negative impact on HVB Group's earnings situation.

Strategy
In 2012, the Bank drew up a concept for enhancing the management and controlling of reputational risk. In addition to the assessment of reputational risk arising from new transactions and payments, further activities like projects, new products and new outsourcing arrangements will be included in the analyses in the future. Furthermore, the Bank's existing portfolios will be analysed for latent reputational risk starting in 2013. This will ensure that reputational risk is comprehensively assessed.

The objective for the Bank is to know the expectations of the various stakeholder groups and as far as possible to meet these expectations or avoid the corresponding reputational risk. To best achieve these objectives, UniCredit has developed a general Reputational Risk Governance Guideline. This has been calibrated for HVB Group and adopted by the Management Board of HVB.

The management of reputational risk is based on two pillars:
– Prevention: prevent the occurrence of reputational risks
– Damage limitation: respond as effectively as possible to any damage to reputation

Reduction
Sector policies are applied in our lending activities alongside the general credit policy. The objective of these policies is to implement a particularly sensitive approach in certain industries, such as defence (armaments), nuclear power, mining and water infrastructure. This means not entering into certain business transactions in doubtful cases. These policies are based on international standards like the International Finance Corporation Performance Standards of the World Bank with the related Environment Health & Safety Guidelines or the provisions of the Equator Principles. Some of the policies are also employed for other types of business, including asset management (in particular in the selection of investment funds) or other forms of investment.

The policies are developed in the course of a dialogue with non-governmental organisations such as the World Wide Fund for Nature (WWF). The Bank's objective is to take into account the interests of environmental and human rights organisations in addition to the economic interests of its customers.

By applying these policies, HVB Group is attempting to take into account the expectations of stakeholders and thus to rule out the possibility of damage to the Bank's reputation.

Measurement
Out of methodological considerations, we do not view quantitative measurement as suitable for reputational risk because reputational risk involves decisions or estimates that are considered impossible to measure due to their rather unique nature. The resulting quantitative effects are essentially covered in other risk types, especially liquidity risk or business risk. Consequently, reputational risk is assessed primarily using qualitative methods. Instances that could represent a potential reputational risk are either covered by a corresponding sector policy or are handled as individual cases or grey areas and documented by the Sustainability Management department. Computer-aided documentation is not currently envisaged. We retained this process also in 2012. A separate Reputational Risk Report is submitted to the Bank's Management Board on a quarterly basis.

Monitoring and controlling
The strategic objectives and action areas with regard to reputational risk are part of the HVB Group risk strategy.

Since July 2009, the assessment and management of ongoing reputational risk arising from business transactions and other Bank activities has been performed by the Reputational Risk Council. The Reputational Risk Council decides on applications for the assessment of reputational risks as follows:
– No significant reputational risk was identified
  → the transaction or activity is therefore approved.
– A significant but acceptable reputational risk was identified
  → submission to the Group Committee responsible at UniCredit to obtain a non-binding opinion.
– An unacceptable reputational risk was identified
  → the transaction is therefore rejected.

Furthermore, the different specialist departments are responsible for constantly tracking the national and international political and economic environment (such as environmental and social risk, embargos and sanctions, tax havens and so on) and drawing up appropriate measures regarding our strategic positioning as a result.

Summary and outlook
All existing portfolios and processes have been subject to an additional regular review as of 2012. In addition, appropriately expanded reporting to the RC and the Management Board has been implemented and reputational risk will be integrated in stress tests. The Operational Risk Control unit will have overall responsibility for the corresponding controlling in the future.

6 Business risk/strategic risk

Definition
Business risk
We define business risk as potential losses arising from unexpected negative changes in the business volume and/or margins that cannot be attributed to other risk types. It can lead to serious losses in earnings, thereby diminishing the market value of a 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 cost structure.

Strategic risk
Strategic risk results from management being slow to recognise important trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that may prove to be disadvantageous in terms of the Bank's long-term ex post goals; in addition, some of them may be difficult to reverse.

Strategy
Business risk
The strategy for business risk is based on the direction of business over the medium term and is reflected in planning. As part of its cost and income responsibility, each business unit is responsible for the operational management of business risk.

The strategic focus in 2012 was on consistent pricing in line with risks, more intensive value creation for the customer to generate earnings and the further development towards a sought-after market player for strategic customer transactions and solutions in investment banking.

Measurement
Business risk
The economic capital arising from business risk is measured using a value-at-risk approach. For this purpose, income and cost volatilities are determined at divisional level and, with due consideration given to correlations, a value-at-risk is calculated that represents the possible fluctuations associated with business risk.

Strategic risk
Strategic risk is measured primarily by qualitative methods. For this purpose, we continually monitor the domestic and international political and economic environment while subjecting our own strategic positioning to an ongoing review process.

Risk Report (Continued)

Monitoring and controlling

Business risk

The economic capital for business risk is calculated by the CEC unit and reported to the divisions, the CRO and the Audit Committee of the Supervisory Board.

The concentration of revenues in divisions, products or regions represents a substantial business strategy-related risk for the Bank. Risks from concentrations of revenues are addressed by such measures as regular monitoring because the avoidance of these risks is a key indicator of sustainable diversification and thus the ability of the business model to withstand crises. During the past years' difficult market environment, the broad diversification of HVB Group as a universal bank has proved particularly valuable.

Strategic risk

Strategic risk is monitored as part of the daily economic analysis and by the Management Board and its staff offices. Changes to the strategic parameters are discussed by the Management Board, and options are drawn up and implemented as appropriate. This is done during the weekly Management Board meetings as well as the Management Board conclaves that are held at least once a year.

Quantification and specification

Business risk

Various measures were employed at the start of 2012 to specifically enhance the data used to calibrate the business risk model.

The value-at-risk, without taking account of the diversification effects between the risk types, decreased by €0.2 billion to €0.8 billion during 2012. The fully diversified economic capital for the business risk of HVB Group amounted to €0.4 billion at the end of 2012 (31 December 2011: €0.7 billion). In addition to the effect arising from the update of the data series and the associated change in volatilities and correlations, this figure also includes the effect of the update of the correlation matrix between the risk types.

Strategic risk

Risk from overall economic trends

The strategic orientation of HVB Group is described in the Financial Review. The Bank provides customer-oriented products in its key business areas CIB, F&SME and PB, concentrating on its core market of Germany. Against this backdrop, the overall economic trend in Germany as well as developments on the international financial and capital markets is of great importance for the assets, liabilities, financial position, and profit or loss of HVB Group.

Germany has the biggest economy in Europe. Together with France, it has taken the leading role in the latest sovereign debt crisis in all attempts to rescue the euro and alleviate the situation on the financial markets in Europe. Nevertheless, factors like political upheavals and the continued euro crisis do contain additional downside risks. The uncertainty surrounding the development of the global economy has become marked the longer the debt crisis in Europe has worn on, and the risk of a global banking and economic crisis has not been averted. German exports would be badly affected by a slowdown in the global economy, which in turn would have an impact on investment and also employment levels in Germany. This could lead to falling demand for credit. At the same time, banks are increasingly parking their liquidity with the European Central Bank (ECB).

Against this backdrop, HVB Group views itself as a solid commercial bank with excellent customer relationships, putting it in a good position to continue operating successfully on the German market. However, should the measures aimed at stemming the euro crisis fail to succeed or further turmoil roil the financial markets on account of insolvencies in the financial sector or a default by individual sovereign borrowers (such as Greece), this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB Group.

Risks from the strategic orientation of HVB Group's business model

HVB Group is responsible for the regional management of the German market and is also the centre of competence for the markets and investment banking operations of the whole of UniCredit. This gives rise to a business model built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise.

The strategic objective of our CIB division is to be a leading, integrated European corporate and investment bank, offering our customers added value through specific relationship models geared to individual customers' needs. Despite the customer-oriented approach of our investment banking activities and the discontinuation of proprietary trading, income naturally remains relatively volatile. Although investment banking is very profitable in a normal market environment, it is subject to increased income risks in difficult market situations.

Risks from the consolidation of the banking market

Consolidation on the German and international banking and financial markets is continuing apace. As a result of the uncertainty surrounding the consolidation and concentration in the German banking sector, it remains unclear how potential earnings will be divided among competitors in the future and at what cost market share can be won. The assets, liabilities, financial position, and profit or loss of HVB Group could be affected by an associated increase in the market power of its competitors. HVB Group does, however, have a well-functioning and recognised business model, which proved its worth in the crisis, a strong capital base and adequate liquid funds that will enable it to actively exploit suitable opportunities quickly and flexibly.

Risks from modified competitive conditions in the German financial sector

The German financial services market as HVB Group's core market can readily be described as difficult for retail and corporate banking operations on account of the German banking system's three-pillar structure and strong competition. Overcapacity and market players which have different profitability requirements still exist on the retail side of the German market despite some mergers and acquisitions. In addition, the importance of retail banking activities is increasing rapidly, against the backdrop of the latest developments in the banking market (such as an increase in the significance of deposit-taking operations in response to Basel III), with more and more European and international players seeking to enter the German market. At the same time, uncertainty among customers remains relatively high, which means they are responding more sensitively to changes in sales pitches. The result is intensive competition for customers and market share, and HVB Group is facing a lasting trade rivalry.

The possibility cannot be excluded that a further intensification of competitive conditions in the financial sector could have a negative effect on the assets, liabilities, financial position and profit or loss of HVB Group.

Uncertainty about macroeconomic developments and risks from more stringent regulatory requirements

The macroeconomic developments in the European Union, and especially the discussions surrounding the deleveraging of heavily indebted countries and countries that have already been forced to utilise the EU's bail-out mechanism, form part of the daily economic analysis performed by HVB Group. Measures resulting from this, like public-sector haircuts on Greek sovereign bonds, had no tangible effect. Should it prove necessary to take further haircuts on sovereign bonds issued by for example Italy, Spain or Portugal, however, this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB Group.

The new and planned regulatory environment for banks is complex, and its cumulative effect is currently hard to assess. The legal framework in general will become tighter as a consequence of the sovereign-debt and financial crisis.

Besides increasing the cost of capital, the cost of implementing regulatory requirements and for updating IT systems accordingly will also rise in this context. Thanks to our strong capital base, we believe we are well prepared for the greater capital requirements.

Risk Report (Continued)

Risks from the introduction of new types of levies and taxes for the future stabilisation of the financial market and bank participation in the costs of the financial crisis

There are many approaches currently being discussed at the international level on how banks might contribute to the costs of future rescue measures or to the costs of the financial crisis. In Europe, bank levies already exist in Germany, Denmark, Austria, Hungary and the UK, being used in part to underpin stabilisation and restructuring fund, but mostly to generate budgetary funds. Furthermore, 11 EU states, including Germany, Austria, Italy and France, have agreed to introduce a tax on financial transactions. Similar taxes already exist in some countries, like France and the UK (stamp duty). Concrete laws are currently being proposed in a number of EU countries in a coordinated approach. Furthermore, the creation of an EU bank restructuring fund similar to the German restructuring fund is under discussion, to be resourced by funds from banks with cross-border activities. In addition to crisis prevention and support in the event of future bank crises, these EU measures are intended to make the financial sector bear some of the cost of the crisis. The measures also have a political purpose. The bank levy was charged to HVB Group for the first time in 2011 in Germany, Austria and the UK. The effects of the other tax initiatives remain to be seen.

Risks from a change in HVB Group's rating

HVB Group continues to enjoy a solid rating in the "Single A" range from the external rating agencies Standard & Poor's (S&P), Moody's and Fitch. As the financial and euro crisis has progressed, however, the outlook announced by S&P and Moody's has changed such that the possibility of a downgrade cannot be excluded. This would be based on a change in the parameters used by the rating agencies to rate HVB Group (especially the rating of UniCredit). Such a downgrade could make it harder to tap capital markets, with higher funding costs having a negative effect on the assets, liabilities, financial position and profit or loss of HVB Group.

Stress test

The impact of macroeconomic scenarios (such as Greece leaving the eurozone) on business risk is analysed as part of the cross-risk-type stress tests. This quarterly analysis provides information on the lower earnings than in base scenario that would arise should the scenario materialise. This is used as the basis for determining the change in the VaR.

Summary and outlook

The European sovereign debt crisis again had a considerable impact on the banking industry in 2012. Various measures taken to date notably by the European Union only served to calm the markets to a limited extent. It is not possible to predict for 2013 and later years how long and how badly the financial markets will be affected by the debt crisis in certain European states in particular and by risk arising from interest and exchange rate fluctuations.

HVB Group performed well in this challenging market environment in 2012. This was underpinned by a strong liquidity base, a solid funding structure and the measures undertaken to manage liquidity. Building on our forward-looking risk quantification and scenario analysis, we believe that our liquidity base will continue to remain very comfortable in the year 2013.

7 Other risks

The Bank groups together the risk arising from its own real estate portfolio and the risk arising from its shareholdings and financial investments under other risks. These two risk types are only discussed briefly on account of their relatively low share of internal capital. The definitions of the two risk types can be found under "Risk types" above.

Risks arising from our own real estate portfolio

A fundamental distinction is made in real estate risk between strategic and non-strategic real estate, although cost optimisation was the main focus across both portfolios in 2012. Besides the cost-optimised provision of real estate for HVB Group's banking activities, the operating and utilisation strategy for strategic real estate in 2012 consisted primarily of preferring Bank-owned properties over third-party properties. The medium- to long-term goal for the non-strategic real estate portfolio was again to sell the entire holding while protecting the carrying amounts in 2012.

Until 2011, a VaR approach based on the market values or carrying amounts of the individual properties and the volatilities of real estate indices was used to calculate real estate risk. In order to increase the information content of the indices by applying a more granular mapping method, the property type has been included since 2012 in addition to the geographical location. As a result of this, the individual properties are allocated to 20 real estate indices of various (and in some instances composite) segments. Since the beginning of 2012, the VaR has comprised a general VaR (calculated using the old method) and a specific VaR that was not analysed under the real estate risk model prior to 2011.

The CEC department determines the economic capital for real estate risk and reports this to the divisions, the CRO and the Audit Committee of the Supervisory Board.

The value-at-risk, without taking account of the diversification effects between the risk types, fell by €9 million during 2012 to total €0.5 billion at year-end 2012. The figure is based on a portfolio worth €3.1 billion, consisting of 53% strategic properties and 47% non-strategic properties. The economic capital for real estate risk at HVB Group taking into account diversification effects totals €0.4 billion (31 December 2011: €0.3 billion). This figure also includes the effects arising from the update of the correlation matrix. The real estate portfolio of HVB Group is assigned primarily to Munich, which accounts for 37% of the total.

Again for 2013, it is planned to further reduce the portfolio of non-strategic real estate. The situation on the real estate markets will again depend on economic developments in 2013. Should growth slow, the demand for space might decline as well. The demand from investors for core real estate is continuing to increase. It remains to be seen to what extent this rising demand will transfer to other classes of real estate.

Risks arising from our shareholdings/ financial investments

All the investments to be included in the risks arising from our shareholdings/financial investments are either considered strategic and allocated to a division or competence line, or deemed non-strategic and can thus in principle be eliminated through disposals, mergers or liquidation. In 2012, the number of strategic investments remained largely constant. There are no plans for major changes. Additional investments in private equity funds and co-investments/direct investments were also made only on a highly selective basis with the objective of achieving an appropriate risk/return balance with a broadly diversified portfolio. The reduction of the non-strategic portfolio is progressing as planned.

A distinction is made in risk measurement between listed and unlisted investments. In the first instance, the VaR is determined on the basis of market values, volatilities and correlations of the corresponding shares. In the second instance, fluctuations in the market value of individual investments are simulated as part of a Monte Carlo simulation and the ensuing losses aggregated to form the portfolio VaR. The same macroeconomic correlations are assumed in the simulation as in the credit portfolio model. Existing residual payment commitments to private equity funds are included in the calculation of investment risk.

CEC calculates the economic capital for shareholdings and financial investments, and reports it to the divisions, the CRO and the Audit Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual and budget figures.

The value-at-risk, without taking account of the diversification effects between the risk types, increased by €0.1 billion to €1.3 billion during 2012. The amount consists of 58.6% from private equity funds, 26.0% from private equity business and 15.4% from other investments. The fully diversified economic capital of HVB Group amounts to €1.1 billion (31 December 2011: €0.7 billion).

As in 2012, the Bank will continue to dispose of non-strategic shareholdings in 2013. It will also look into 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 our Bank and our Group.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definition and objectives

Section 315 (2) No. 5 of the German Commercial Code (Handelsgesetzbuch – HGB) requires capital-market-oriented companies as defined in Section 264d HGB to describe the main features of the internal control system (ICS) and risk management system (RMS) with respect to the financial reporting process.

The RMS is formulated in broad terms and relates above all to strategic management, the identification, quantification, assessment, monitoring and active management of risk. The ensuing coordination of risk-management, risk-controlling and risk-monitoring processes in our corporate group is presented in the Risk Report in the present Management's Discussion and Analysis. The respective risk types are described in detail in the sections entitled "Risk types" and "Risk types in detail".

With regard to the financial reporting process, the ICS encompasses the policies, processes and measures needed to ensure the financial reporting process and compliance with the applicable legal provisions as well as risk hedging and the recording of valuation units. They ensure that internal and external financial reports are correct and reliable and that the assets, liabilities and equity are classified, recognised and measured.

The purpose of the ICS in the financial reporting process is to implement controls that ensure with an adequate degree of certainty that the annual and consolidated financial statements together with the Management Report and Management's Discussion and Analysis are prepared in compliance with regulations despite the identified risks.

The method used for the introduction and risk assessment of processes is based on the international "Internal Control – Integrated Framework" standard issued by the Treadway Commission's Committee of Sponsoring Organizations (COSO) and thus on a solid methodological framework. The main task in this context is to define specific objectives to facilitate a control system and to monitor the effectiveness of the control system on this basis. The following objectives are pursued:
– Completeness: All transactions have been recorded and all assets and liabilities included in the financial statements.
– Measurement: The assets, liabilities and transactions are disclosed at their correct amounts in the financial reports.
– Presentation and disclosure: The financial reports are correctly classified and discussed with regard to recognition, structure and disclosures in the notes to the consolidated financial statements, and comply with the legal requirements.

However well the ICS is structured for the accounting process, the documented controls carried out for the relevant processes can provide no absolute certainty regarding the avoidance of mistakes or fraudulent actions. In this context, the costs and spending on the ICS must be in acceptable proportion to the benefits achieved.

Responsibilities for the ICS in connection with financial reporting
Responsibilities of the Management Board and Supervisory Board

The Management Board manages the Bank under its own responsibility and works with the Bank's other governing bodies and committees in a spirit of trust in the best interests of the Bank. The related responsibilities include overall responsibility for the preparation of the annual and consolidated financial statements and for the Management Report and Management's Discussion and Analysis. The Management Board states that, to the best of its knowledge and in accordance with applicable reporting principles, the annual and consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group. The Management Board determines the extent and orientation of the ICS specifically geared to the Bank under its own responsibility, taking measures to refine the systems and adapt them to changing conditions. It is supported in this task by the Internal Control Business Committee (ICBC) Germany, notably in terms of the consolidation and monitoring of all ICS-related projects and measures. Sets of values such as the Integrity Charter and the Code of Conduct, and compliance rules have been implemented in all UniCredit countries for many years, and hence also in HVB Group. These values form the basis for responsible action on the part of employees involved in the financial reporting process. Despite all of the risk-reducing measures set up within the framework of the ICS, even systems and processes designed to be appropriate and functional cannot ensure absolute certainty in the identification and management of risk.

Responsibility for the financial reporting process and, in particular, for the preparation of the annual and consolidated financial statements rests with the CFO organisation. The CRO is responsible for measuring financial instruments and receivables with support from the CFO. Global Banking Services (GBS) is responsible for ensuring the availability of the IT systems required for the financial reporting process.

It is the task of the Supervisory Board to monitor and regularly advise the Management Board as it conducts its business. It is directly involved in decisions that are of fundamental importance. To support it in the performance of its duties, the Supervisory Board set up an Audit Committee made up of four of its members tasked among other things with monitoring the financial reporting process. The Audit Committee looks at the development of the assets, liabilities, financial position and profit and loss, particularly in connection with the interim reports, half-yearly financial reports and annual financial statements on a regular and ongoing basis. To monitor the effectiveness of the ICS, the Audit Committee also examined these systems and the planned improvements in detail at two of its meetings in 2012 on the basis of documents and verbal explanations provided by the Management Board. In the process of preparing the annual and consolidated financial statements, the Supervisory Board is responsible for approving the annual financial statements and adopting the consolidated financial statements. To enable these tasks to be performed, the financial statement documents are submitted to the Supervisory Board complete with the Management Board's proposal for appropriation of profits together with the Auditors' Report. The Audit Committee examines these documents in great detail during a preliminary audit. At the preparatory meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the annual financial statements, the independent auditor reports on the material findings of the audit of the annual and consolidated financial statements, specifically including any significant weaknesses of the ICS in connection with the financial reporting process identified during the audit. In addition, the Management Board explains the annual and consolidated financial statements in detail at the meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the financial statements. The chairman of the Audit Committee also reports to that meeting on the results of the Audit Committee's audit of the documents. Based on the written reports and verbal explanations, the Supervisory Board determines at its meeting devoted to the financial statements whether it concurs with the findings of the audit by the independent auditor and whether objections are to be raised after its own examination of the annual and consolidated financial statements, the Management Report and Management's Discussion and Analysis and the proposal for the appropriation of net profit, and whether it approves the annual and consolidated financial statements prepared by the Management Board.

Position and function of Internal Audit

Internal Audit

The Internal Audit department is a process-independent instrument of the Management Board and is required to report directly to it. According to its internal regulations, the Management Board bears the overall responsibility for setting up the Internal Audit department and ensuring that it functions properly. In 2012, operational responsibility for the audit function was assigned to the Board Spokesman (CEO).

The Internal Audit department is responsible for the risk-oriented, process-neutral auditing and assessment of all activities and processes, regardless of whether they are outsourced or not. The outsourced activities may be audited by the internal audit function of the service provider.

For this purpose, Internal Audit carries out a risk-based selection of individual operating and business processes in order to set scheduling priorities. The German Minimum Requirements for Risk Management (MaRisk) stipulate that all operating and business processes must be audited at least every three years – if deemed useful and appropriate. In the case of activities and processes deemed to be of lower priority in terms of risk, it is permissible to deviate from the three-year cycle. Operating and business processes subject to especially high levels of risk are audited at least once a year. If the need arises or it is instructed to do so, the Internal Audit department may also carry out tasks in subsidiaries, taking into account the findings of any audits performed by internal audit departments in those subsidiaries.

The requested audits at the subsidiaries are carried out on the basis of service agreements or special audit assignments. The following variants exist:

- Support for the subsidiary's Internal Audit department in specific areas such as IT, HR and risk management or for economic considerations on behalf of and as discussed with the local management, mainly by assuming parts of the internal audit function.
- Complete assumption of the internal audit function under the terms of an outsourcing agreement.

Close cooperation is maintained with the Internal Audit department of UniCredit S.p.A., including joint audits, for example. HVB's Internal Audit department is involved on a regular basis in drawing up corporate audit regulations.

ICS – Internal Control System (Continued)

The Bank's Internal Audit department must audit and assess the following areas in particular:
- functionality, effectiveness, economic efficiency and appropriateness of the internal control system
- applications, functionality, effectiveness and appropriateness of the risk management and risk control systems, reporting, information systems, and finance and accounting
- compliance with legal and regulatory standards as well as other regulations
- observation of internal operational guidelines, ordinances and regulations
- correctness of operational and business processes
- regulations and measures to protect assets

While audit reports are submitted to audited units and the responsible Management Board members, the Management Board as a whole receives an annual report which includes a comprehensive overview of audit findings as well as major deficiencies, severe deficiencies and particularly severe deficiencies as defined in the MaRisk rules, the measures taken, and their current status.

The Board Spokesman and the head of the Internal Audit department give quarterly presentations at meetings of the Audit Committee of the Supervisory Board to report on the main findings of the audits carried out by Internal Audit and other significant aspects of its work.

Tasks and responsibilities of the independent auditors

The Supervisory Board commissioned the independent auditors KPMG AG Wirtschaftsprüfungsgesellschaft to audit the annual financial statements, including the account records, the Management Report and the risk early warning system in accordance with Section 91 of the German Stock Corporation Act (Aktiengesetz – AktG). In addition, the independent auditors were commissioned to audit the consolidated financial statements prepared by the Bank in accordance with the International Financial Reporting Standards (IFRS) and Management's Discussion and Analysis as well as the report by the Management Board on relations with affiliated companies in accordance with Section 313 AktG.

Italian law requires the independent auditors to be alternated every nine years. Consequently, UniCredit S.p.A. appointed Deloitte & Touche to act as independent auditors for UniCredit S.p.A. following an extensive selection process and recommended to its subsidiaries that they similarly propose Deloitte & Touche to act as their independent auditors. By way of a resolution adopted by the Shareholders' Meeting on 3 August 2012, HVB elected Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft (Deloitte) based in Munich to act as independent auditor of the annual and consolidated financial statements for the 2013 financial year.

Organisation and components of the internal control system and risk management system in connection with financial reporting

Organisational structure and tasks of the CFO organisation

For the purposes of the financial reporting processes, the Chief Financial Officer (CFO) organisation is essentially broken down into the following areas, from which the responsible Management Board member can draw on staff with the required skills and experience:
- A number of departments within the **Accounting, Tax and Shareholdings (CFF)** unit are assigned to deal with financial reporting processes. The financial reporting for HVB together with the financial reporting for the markets and investment banking activities are carried out by the CFA unit. In addition, this department has functional responsibility for the financial reporting systems used at HVB. At the same time, the CFA unit is responsible for fundamental accounting questions under IFRS and preparing the consolidated financial statements. Furthermore, it prepares the external reporting in the annual reports for HVB and HVB Group. The Accounting (CFA4) and Accounting Markets (CFA3) units and the Foreign Branches (CFM) department are responsible for accounting in the narrow sense. The Accounting Markets unit is responsible for the financial reporting on the markets and investment banking activities of HVB in Germany. The local accounting units in the foreign branches of HVB report to CFM. Responsibility for the management and administration of participating interests rests with the Shareholdings (CFS) department. The Tax Affairs (CFT) department is responsible for all tax-related concerns of HVB, including its foreign branches. The Regulatory Reporting (CFR) department submits reports to the banking supervisors. In particular, this includes the Common Solvency Ratio Reporting (COREP) report based on the German Solvency Regulation (Solvabilitätsverordnung – SolvV) and the report compliant with the German Liquidity Regulation (Liquiditätsverordnung – LiqV). This department is also responsible for monitoring and documenting large loans and loans to executives.
- For purposes of the financial reporting process, the **Data Governance (CFG)** department is essentially responsible for the operation, refinement (in conjunction with the functional units responsible and the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS)) and quality assurance of the accounting and controlling systems. Furthermore, this unit also has responsibility for the implementation of various projects (such as the creation of a data warehouse).

– **Finance** notably deals with liquidity management in close cooperation with the front office units and Asset Liability Management. Its tasks are described in the section of the Risk Report entitled "Divisions and committees".
– **Regional Planning & Controlling (CFC)** is tasked with central business management, cost controlling and equity capital management. Overall, this department is responsible for the preparation of income budgets and income projections. Moreover, CFC prepares and validates the segment report prepared in accordance with IFRS that is published externally.
– Furthermore, the **Planning & Analysis (CPA)** unit and the division-related controlling departments for the operational divisions CIB, F&SME and PB are assigned to CFC.

Process of accounting and preparing HVB's financial statements

HVB uses SAP's standard SAP Balance Analyzer and Business Warehouse software to prepare its annual financial statements. The SAP Balance Analyzer concept is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger).

The Accounting department collates the data relevant to the financial statements. It reconciles the positions delivered by the upstream systems, automatically checks the totals against the general ledger account balances, corrects errors and performs manual bookings of one-off transactions and closing entries. Adjustments and closing entries are entered by authorised persons in the CFA and CFM units in compliance with the principle of dual control. The figures presented in the balance sheet and income statement are validated using deviation analysis and on the basis of non-recurring effects in an ongoing process that is carried out over the entire course of the year under review as part of the process of preparing the monthly and quarterly financial statements.

Data from the foreign branches are posted and formatted at the individual branches and submitted to the accounting system via the central interface, validated centrally and supplemented with closing postings.

Accounting for HVB's trading transactions and securities portfolios in Germany is carried out by an independent department within the CFA organisation. This department is also responsible for the related valuation and booking standards as well as analysing and commenting on the results and coordination with the Product Control unit, which is assigned to the Regional Planning & Controlling department. The relevant transaction data are delivered by the systems managing the respective portfolios. The Risk Control department, which reports to the CRO, checks transactions to ensure compliance with market pricing. The allocation of transactions to the holding categories compliant with IFRS is governed by the orientation of the operating unit. Risk control staff are responsible for checking the valuations of the trading portfolios in the front office systems. Depending on the market parameters and asset classes, market data are supplied both by the trading departments and external sources such as Bloomberg, Reuters and MarkIT. In accordance with the separation of functions, the back office handles the further processing of HVB trades. Since October 2011, these tasks have been outsourced to UniCredit Global Business Services GmbH (UGBS), which reports to GBS. This ensures that the processing of trades is independent of the Trading department.

To check valuations carried out by the Trading department, the Risk Control department validates the market data used, independently of the Accounting department, and carries out regular reviews of valuation models. Risk Control checks on a monthly basis the trading income calculated for purposes of financial reporting against the result of the economic income statement that serves as the basis for the daily information provided to the Management Board members.

Under the new product process, all concerned departments are involved to the extent that they have veto rights at the least and are authorised to enforce adjustments up to and including the termination of the new product process.

Responsibility for checking, creating and adjusting specific allowances for losses on guarantees and indemnities rests with the respective restructuring and workout units. When an impairment trigger occurs, the relevant restructuring and workout units are responsible for assessing the risk and setting up and adjusting allowances. The exposures involved are transferred in accordance with defined criteria. Since the end of 2011, the allowances have been determined and set up in the IME system an automated process based on cash flows (taking into account the relevant Basel II parameters) for exposures up to a ceiling of €2 million (competence value 1) for each exposure group. The restructuring or workout specialist is responsible for

ICS – Internal Control System (Continued)

calculating any required allowance within the framework of impairment measurement. When determining the amount of an allowance, the following factors specified in the Operating Guidelines must be taken into account:
– the borrower's financial situation (liquidity, income and cash flow situation, ability to service debt and equity position)
– future opportunities and risks in relation to the extent to which restructuring is deemed possible
– anticipated repayment (e.g. agreed amortisation payments over a limited period)
– collateral values

The proposal by the responsible restructuring or workout specialist to create a specific allowance must be submitted to the appropriate lending approval authority or the Loan Loss Provision Committee (LLP Committee) for approval. A risk provision report serves to keep the Management Board regularly informed about the current risk provision situation and as required by current developments.

The Bank uses the IBV system and the IME system that was rolled out at the end of 2011 to record and manage the approved risk provision amounts. It is used for the preparation and final booking of risk provisions by Accounting when drawing up the financial statements.

General allowances pursuant to the German Commercial Code and portfolio allowances pursuant to IFRS accounting rules are calculated centrally by the Accounting department together with CRO Central Functions.

The calculation and documentation of provisions in the non-lending business in compliance with the accounting standards is governed by central operating guidelines drawn up by the Accounting department. The final booking of provisions is carried out centrally by the Accounting department following approval in accordance with the specified approval authority regulations.

Technical system support for the Accounting department and especially in connection with preparing the financial statements has been outsourced to the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS), the subsidiary of UniCredit responsible for IT (formed on 1 January 2012 by the merger of UniCredit Global Information Services S.C.p.A. (UGIS) and UniCredit Business Partners S.C.p.A. (UCBP)). The outsourced activities are monitored from a technical viewpoint by Regional Business Services (CFG1), a department which reports to the CFO, with the Finance Tools central service unit within CFG. The technical support processes of the central service unit are governed by operating guidelines. UBIS carries out the back-up and archiving of data from accounting-related application systems in accordance with Section 257 HGB in conjunction with Sections 238 and 239 HGB and the German Generally Accepted Accounting Principles (GAAP) under the supervision of CFG.

The required protection against unauthorised access and compliance with the principles of functional separation when using the Bank's financial reporting application systems under the responsibility of the CFO are ensured notably by requesting and periodically monitoring individual rights in the ELSA authorisation controlling system. For SAP rights, special approval is provided across the board by the functional units responsible for the application. The use of individual rights automatically implies a time restriction of no more than one year.

The involvement of external third parties in the technical process of preparing the financial statements is limited primarily to the valuation of, and accounting for, pension provisions by the external service provider Aon Hewitt GmbH.

Process documentation

As a UniCredit company, HVB Group is obliged to comply with Law 262 ("the Savings Law" – Law 262/2005, passed in Italy in 2005 and amended by Legislative Decree 303/2006, based on the Sarbanes-Oxley Act in the United States).

In conjunction with the requirements under Law 262 and the legal requirements under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG Corporate Governance), a number of financial reporting processes were already documented in the course of implementing the internal control system (ICS) at HVB. The corresponding process descriptions include detailed presentations of both the individual process steps and the organisational units affected by the processes. At the same time, risk and control are defined, together with their assessment, and documented.

The focus of risk and monitoring analysis is on identifying and evaluating the risks relevant to financial reporting. Identified risk potential is sufficiently reduced through defined control steps. Periodic random sampling serves to document the implementation of these controls and provide adequate records. If the controls do not sufficiently reduce risks, or no controls are in place, suitable measures are initiated to eliminate the identified deficiencies. The timely implementation of these measures is reviewed on a quarterly basis.

New processes are subject to half-yearly reviews in terms of organisational changes or changes in content by the persons responsible for the process. If necessary, the documentation is modified and a new risk assessment performed. In addition, the completeness of the process documentation is checked on an ongoing basis and, if necessary, further relevant processes added and assessed, and integrated into routine ICS operations. To support the Management Board in the ongoing development and efficient monitoring of the ICS with regard to the financial reporting process, CFA7 (Internal Control System – CFO) within the CFO organisation is specifically tasked with this.

Continuous updates of the ICS and RMS

During the course of further roll-out of the Target IT systems in the Markets unit in the CIB division, the migrations relating to the trading systems were advanced for the locations in Asia and the United States planned for 2012. For the CFO division, additional locations and product groups for the Markets unit were linked to the established sub-ledger, and further improvements were made in the daily income statement calculations and the reconciliation of profit/loss items as per cost accounts and financial accounts. These adjustments served to reduce operational risk across the Bank's entire value chain.

To ensure the greatest possible efficiency in the process of preparing the annual, consolidated and interim financial statements, detailed timetables are drawn up on a regular basis showing precise dates for the individual process steps. These timetables serve to ensure the timely completion of financial reporting tasks and to identify the dependencies between the individual process steps and the units involved.

When changes are made to the legal provisions and regulations for financial reporting, they must be assessed to determine what consequences, if any, they have for the financial reporting processes. The CFF unit dedicated to fundamental accounting issues is responsible for dealing with the content of such changes. In the case of amendments or new regulations that would have a substantial impact on the accounting processes, a corresponding project is set up to cover all measures such as IT adaptations, working procedures and booking instructions across all departments.

Consolidated financial statements in accordance with IFRS

As a subgroup of UniCredit and as a company active on the capital market, HVB Group prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

The consolidated financial statements are based on the standalone financial statements of HVB, the subsidiaries included in the consolidated financial statements and special purpose entities on the basis of local accounting rules. These financial statements are converted by the reporting companies to HVB Group standards in accordance with the UniCredit Group Accounting Principles and transformed to comply with the corporate position classifications. The financial information reported within the framework of the consolidated financial statements is included in the process of auditing the consolidated financial statements.

The figures for the consolidated financial statements and the subsequent consolidated bookings are collected and reported using the TAGETIK CPM consolidation system marketed by Tagetik Software S.R.L. This is used across the entire corporate group and networked across all Group companies. After the figures have been entered in or transferred to this system by the Group companies, the system is closed for further entries in line with the phases of the consolidation process. These data may be changed only in exceptional cases, as agreed with the subsidiary concerned together with the local independent auditors.

When data are delivered, the various Group companies complete a reconciliation with regard to their intercompany relationships. After completion of both intercompany reconciliation and final data transfer, the system carries out the technical consolidation process (profit and debt consolidation). Any necessary elimination of intercompany profits or losses is carried out manually, along with capital consolidation. In addition, it is possible to record further adjust ment entries at Group level via manual slips that are logged by the system. The system translates the local currencies of Group companies into the required Group currency.

The consolidation process includes system-based validation checks at a diverse range of levels to minimise risk. In addition, plausibility checks are carried out on a regular basis.

PLANNING

State-subsidized home loans made easy

“Zagrebačka Banka helped me to resolve my personal and professional financing challenges. I previously worked in Zagreb, where I lived in a rented apartment. When I found another job in my hometown of Split, the bank helped me to secure a state-subsidized loan that allowed me to move back and buy a house. My personal banker was highly skilled and engaged, and my loan application was processed quickly and approved immediately.”

Goran Dlaka, customer of Zagrebačka Banka in Croatia

Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

for the year ended 31 December 2012

Income/Expenses	NOTES	2012 € millions	2011 € millions	CHANGE € millions	in %
Interest income		7,134	8,823	(1,689)	(19.1)
Interest expense		(3,725)	(4,750)	+ 1,025	(21.6)
Net interest	32	3,409	4,073	(664)	(16.3)
Dividends and other income from equity investments	33	147	150	(3)	(2.0)
Net fees and commissions	34	1,163	1,308	(145)	(11.1)
Net trading income	35	1,190	190	+ 1,000	>+ 100.0
Net other expenses/income	36	141	91	+ 50	+ 54.9
Payroll costs		(1,839)	(1,819)	(20)	+ 1.1
Other administrative expenses		(1,499)	(1,593)	+ 94	(5.9)
Amortisation, depreciation and impairment losses on intangible and tangible assets		(178)	(199)	+ 21	(10.6)
Operating costs	37	(3,516)	(3,611)	+ 95	(2.6)
Net write-downs of loans and provisions for guarantees and commitments	38	(727)	(266)	(461)	>+ 100.0
Provisions for risks and charges	39	195	(251)	+ 446	
Restructuring costs	40	(102)	(108)	+ 6	(5.6)
Net income from investments	41	158	39	+ 119	>+ 100.0
PROFIT BEFORE TAX		**2,058**	**1,615**	**+ 443**	**+ 27.4**
Income tax for the period	42	(771)	(640)	(131)	+ 20.5
PROFIT AFTER TAX		**1,287**	**975**	**+ 312**	**+ 32.0**
Impairment on goodwill	43	—	(4)	(4)	(100.0)
CONSOLIDATED PROFIT		**1,287**	**971**	**+ 316**	**+ 32.5**
attributable to shareholder of UniCredit Bank AG		1,246	931	+ 315	+ 33.8
attributable to minorities		41	40	+ 1	+ 2.5

Earnings per share

(in €)

	Notes	2012	2011
Earnings per share (undiluted and diluted)	44	1.55	1.16

Consolidated statement of total comprehensive income for the year ended 31 December 2012

(€ millions)

	2012	2011
Consolidated profit recognised in the income statement	**1,287**	**971**
Income and expenses recognised in other comprehensive income		
Changes from foreign currency translation	(26)	29
Actuarial profit on defined benefit plans (pension commitments)	(586)	(12)
Change in valuation of financial instruments (AfS reserve)	245	(34)
Unrealised gains/(losses)	245	(35)
Gains reclassified to the income statement	—	1
Change in valuation of financial instruments (hedge reserve)	3	(46)
Unrealised gains/(losses)	—	(46)
Gains reclassified to the income statement	3	—
Other changes	(49)	(1)
Taxes on income and expenses recognised in equity	116	60
Total income and expenses recognised in equity under other comprehensive income	**(297)**	**(4)**
Total comprehensive income	**990**	**967**
of which:		
attributable to shareholder of UniCredit Bank AG	1,004	908
attributable to minorities	(14)	59

Consolidated Balance Sheet

at 31 December 2012

Assets

	NOTES	2012 € millions	2011 € millions	CHANGE € millions		CHANGE in %	
Cash and cash balances	45	15,655	4,267	+	11,388	>+	100.0
Financial assets held for trading	46	131,017	138,444		(7,427)		(5.4)
Financial assets at fair value through profit or loss	47	24,282	28,045		(3,763)		(13.4)
Available-for-sale financial assets	48	5,482	5,476	+	6	+	0.1
Shares in associates accounted for using the equity method							
and joint ventures accounted for using the equity method	49	65	49	+	16	+	32.7
Held-to-maturity investments	50	261	2,463		(2,202)		(89.4)
Loans and receivables with banks	51	36,320	44,277		(7,957)		(18.0)
Loans and receivables with customers	52	122,212	136,561		(14,349)		(10.5)
Hedging derivatives	54	3,262	2,698	+	564	+	20.9
Hedge adjustment of hedged items							
in the fair value hedge portfolio		193	160	+	33	+	20.6
Property, plant and equipment	55	3,013	2,906	+	107	+	3.7
Investment properties	56	1,557	1,678		(121)		(7.2)
Intangible assets	57	540	565		(25)		(4.4)
of which: goodwill		418	418		—		—
Tax assets		3,113	3,362		(249)		(7.4)
Current tax assets		370	551		(181)		(32.8)
Deferred tax assets		2,743	2,811		(68)		(2.4)
Non-current assets or disposal groups held for sale	58	70	131		(61)		(46.6)
Other assets	59	1,258	1,230	+	28	+	2.3
Total assets		**348,300**	**372,312**		**(24,012)**		**(6.4)**

Liabilities

	NOTES	2012 € millions	2011 € millions	CHANGE € millions	in %
Deposits from banks	61	45,216	57,858	(12,642)	(21.9)
Deposits from customers	62	110,268	107,442	+ 2,826	+ 2.6
Debt securities in issue	63	35,863	42,667	(6,804)	(15.9)
Financial liabilities held for trading	64	121,501	128,875	(7,374)	(5.7)
Hedging derivatives	65	1,386	1,022	+ 364	+ 35.6
Hedge adjustment of hedged items					
in the fair value hedge portfolio	66	2,858	2,417	+ 441	+ 18.2
Tax liabilities		2,596	2,296	+ 300	+ 13.1
Current tax liabilities		893	555	+ 338	+ 60.9
Deferred tax liabilities		1,703	1,741	(38)	(2.2)
Liabilities of disposal groups held for sale	67	20	—	+ 20	
Other liabilities	68	3,375	4,304	(929)	(21.6)
Provisions	69	1,948	2,113	(165)	(7.8)
Shareholders' equity	70	23,269	23,318	(49)	(0.2)
Shareholders' equity attributable to					
shareholder of UniCredit Bank AG		22,475	22,492	(17)	(0.1)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		7,759	9,389	(1,630)	(17.4)
Change in valuation of financial instruments		56	(112)	+ 168	
AfS reserve		30	(134)	+ 164	
Hedge reserve		26	22	+ 4	+ 18.2
Consolidated profit		2,462	1,017	+ 1,445	>+ 100.0
Minority interest		794	826	(32)	(3.9)
Total shareholders' equity and liabilities		**348,300**	**372,312**	**(24,012)**	**(6.4)**

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €2,462 million. This comprises the net profit of €1,462 million generated by UniCredit Bank AG in 2012 and a withdrawal of €1,000 million from other retained earnings. We will propose to the Shareholders' Meeting that a dividend of €2,462 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.07 per share after around €1.27 in 2011.

Statement of Changes in Consolidated Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	
			TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2011	**2,407**	**9,791**	**9,485**	**(189)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised				
in equity under other comprehensive income[3]	**—**	**—**	**2**	**(8)**
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(8)	(8)
Reserve arising from foreign currency translation and other changes	—	—	7	—
Other changes	—	—	3	—
Total other changes in equity	**—**	**—**	**(98)**	**—**
Dividend payouts	—	—	—	—
Transfers to consolidated profit	—	—	(86)	—
Changes in group of consolidated companies	—	—	(12)	—
Shareholders' equity at 31/12/2011	**2,407**	**9,791**	**9,389**	**(197)**
Shareholders' equity at 1/1/2012	**2,407**	**9,791**	**9,389**	**(197)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised				
in equity under other comprehensive income[3]	**—**	**—**	**(410)**	**(402)**
Change in valuation of financial instruments not affecting income	—	—	—	—
Change in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(402)	(402)
Reserve arising from foreign currency translation and other changes	—	—	(11)	—
Other changes	—	—	3	—
Total other changes in equity	**—**	**—**	**(1,220)**	**—**
Dividend payouts	—	—	—	—
Transfers to consolidated profit	—	—	(1,216)	—
Changes in group of consolidated companies	—	—	(4)	—
Shareholders' equity at 31/12/2012	**2,407**	**9,791**	**7,759**	**(599)**

1 The Shareholders' Meeting of 18 May 2011 resolved to distribute the 2010 consolidated profit in the amount of €1,270 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.58 per share of common stock.
The Shareholders' Meeting of 10 May 2012 resolved to distribute the 2011 consolidated profit in the amount of €1,017 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.27 per share.

2 UniCredit Bank AG (HVB)

3 see Consolidated statement of total comprehensive income

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS					
AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDER OF HVB[2]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
(141)	**54**	**1,270**	**22,866**	**804**	**23,670**
—	**—**	**931**	**931**	**40**	**971**
7	**(32)**	**—**	**(23)**	**19**	**(4)**
18	—	—	18	(3)	15
(7)	(32)	—	(39)	—	(39)
—	—	—	(8)	—	(8)
(2)	—	—	5	24	29
(2)	—	—	1	(2)	(1)
—	**—**	**(1,184)**	**(1,282)**	**(37)**	**(1,319)**
—	—	(1,270)	(1,270)	(39)	(1,309)
—	—	86	—	—	—
—	—	—	(12)	2	(10)
(134)	**22**	**1,017**	**22,492**	**826**	**23,318**
(134)	**22**	**1,017**	**22,492**	**826**	**23,318**
—	**—**	**1,246**	**1,246**	**41**	**1,287**
164	**4**	**—**	**(242)**	**(55)**	**(297)**
165	—	—	165	12	177
(1)	4	—	3	—	3
—	—	—	(402)	—	(402)
—	—	—	(11)	(15)	(26)
—	—	—	3	(52)	(49)
—	**—**	**199**	**(1,021)**	**(18)**	**(1,039)**
—	—	(1,017)	(1,017)	(32)	(1,049)
—	—	1,216	—	—	—
—	—	—	(4)	14	10
30	**26**	**2,462**	**22,475**	**794**	**23,269**

Consolidated Cash Flow Statement

for the year ended 31 December 2012

(€ millions)

	2012	2011
Consolidated profit	**1,287**	**971**
Write-downs, provisions for losses on, and write-ups of,		
loans and receivables and additions to provisions for losses on guarantees and indemnities	788	436
Write-downs and depreciation less write-ups on non-current assets	266	327
Change in other non-cash positions	(669)	(483)
Profit from the sale of investments, property, plant and equipment	(223)	(113)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(3,399)	(4,117)
Subtotal	**(1,950)**	**(2,979)**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	7,823	13,643
Loans and receivables with banks	7,900	384
Loans and receivables with customers	13,309	2,061
Other assets from operating activities	118	135
Deposits from banks	(12,372)	5,924
Deposits from customers	2,960	(965)
Debt securities in issue	(5,657)	(3,355)
Other liabilities from operating activities	(3,677)	(16,613)
Taxes on income paid	(54)	(560)
Interest received	7,130	9,026
Interest paid	(4,021)	(4,900)
Dividends received	170	639
Cash flows from operating activities	**11,679**	**2,440**
Proceeds from the sale of investments	4,992	3,753
Proceeds from the sale of property, plant and equipment	151	70
Payments for the acquisition of investments	(2,357)	(2,939)
Payments for the acquisition of property, plant and equipment	(343)	(176)
Effects of the change in the group of companies included in consolidation	(6)	50
Effect of the disposal of discontinued operations	—	—
Cash flows from investing activities	**2,437**	**758**

(€ millions)

	2012	2011
Change in additional paid-in capital	—	—
Dividend payments	(1,017)	(1,270)
Issue of subordinated liabilities	38	—
Repayment of subordinated liabilities	(1,256)	(699)
Other financing activities (debt, fund for general banking risks) (+)	—	22
Other financing activities (debt, fund for general banking risks) (–)	(493)	(49)
Cash flows from financing activities	**(2,728)**	**(1,996)**
Cash and cash equivalents at end of previous period	**4,267**	**3,065**
Net cash provided/used by operating activities	**11,679**	**2,440**
Net cash provided/used by investing activities	**2,437**	**758**
Net cash provided/used by financing activities	**(2,728)**	**(1,996)**
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale and discontinued operations	—	—
Cash and cash equivalents at end of period	**15,655**	**4,267**

Notes to the Consolidated Financial Statements

for the period from 1 January to 31 December 2012

Consolidated financial statements in accordance with IFRS
UniCredit Bank AG (HVB), is a universal bank with its registered office and principal place of business in Kardinal-Faulhaber-Straße 1, Munich, Germany. HVB is an affiliated company of UniCredit S.p.A., Rome, Italy (ultimate parent company).

As a globally active company, HVB prepares its financial statements in accordance with the requirements of the International Accounting Standards Board (IASB). This provides a reliable and internationally comparable basis for evaluating the assets, liabilities, financial position and profit or loss of HVB Group. Our value-based management is similarly based on these accounting principles.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 12 March 2013 and adopted by the Supervisory Board on 12 March 2013. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC), respectively. All the standards and interpretations subject to obligatory application in the EU for the 2012 financial year have been applied. Section 315a HGB also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

The voluntary statement of compliance regarding the Corporate Governance Code required by Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) has been published on our website at www.hvb.com/declarationofconformity. Our listed subsidiaries DAB Bank AG and AGROB Immobilien AG have posted the equivalent mandatory statements of compliance on their websites.

Management’s Discussion and Analysis meets the requirements of Section 315 (1, 2) HGB. Also incorporated is a risk report pursuant to Section 315 HGB.

Compliant with Section 264b HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Grünwald
– BIL Immobilien Fonds GmbH & Co Objekt Perlach KG, Munich
– BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
– Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
– H & B Immobilien GmbH & Co. Objekte KG, Munich
– HAWA Grundstücks GmbH & Co. oHG Hotelverwaltung, Munich
– HAWA Grundstücks GmbH & Co. oHG Immobilienverwaltung, Munich
– HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
– HVZ GmbH & Co. Objekt KG, Munich

– Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG, Munich
– Ocean Breeze Energy GmbH & Co. KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
– Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. oHG Saarland, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
– SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
– Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
– TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich
– TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich

Compliant with Section 264 (3) HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH, Munich
– BV Grundstücksentwicklungs-GmbH, Munich
– CUMTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– HVB Immobilien AG, Munich
– HVB Principal Equity GmbH, Munich
– HVB Profil Gesellschaft für Personalmanagement mbH, Munich
– HVB Projekt GmbH, Munich
– HVB Tecta GmbH, Munich
– HVB Verwa 4.4 GmbH, Munich
– Interra Gesellschaft für Immobilienverwaltung mbH, Munich
– MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich
– MILLETERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– NF Objekt FFM GmbH, Munich
– NF Objekt München GmbH, Munich
– NF Objekte Berlin GmbH, Munich
– Orestos Immobilien-Verwaltungs GmbH, Munich
– RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– Selfoss Beteiligungsgesellschaft mbH, Grünwald
– Spree Galerie Hotelbetriebsgesellschaft mbH, Munich
– Status Vermögensverwaltung GmbH, Schwerin
– Transterra Gesellschaft für Immobilienverwaltung mbH, Munich
– UniCredit Direct Services GmbH, Munich
– Verwaltungsgesellschaft Katharinenhof m.b.H., Munich

Accounting and Valuation

1 Uniform Group accounting policies

The separate financial statements of the domestic and foreign subsidiaries are incorporated in the consolidated financial statements of HVB in accordance with uniform principles of accounting and valuation. Where options have been exercised, the details are explained under the balance sheet items concerned.

2 Consistency

In accordance with the IFRS Framework together with IAS 1 and IAS 8, we apply the accounting and disclosure principles consistently from one period to the next. Where significant accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted retroactively. Where retroactive adjustment is not possible in exceptional circumstances, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively.

The Bank has changed its method of accounting for purchases and sales of financial assets (except for purchases and sales of loans and receivables). Such assets are now normally recognised on the settlement date instead of on the trade date as before. The change enhances the presentation of the assets, liabilities and financial position, as all financial instruments are now normally recognised at the settlement date across the board and not, as before, financial assets (excluding loans and receivables) at the trade date and other financial instruments (liabilities, and loans and receivables) at the settlement date. Furthermore, the Bank is also adopting the procedure normally used across the UniCredit corporate group. The effects on the holding at each year-end are insignificant as there are very few spot transactions on account of the seasonally low trading activity shortly before year-end that have not already been settled. The income statement is not affected, as any changes in value relating to financial instruments carried at fair value arising between the trade date and the settlement date are taken to the income statement even if the financial instruments concerned are not recognised in the accounts until the settlement date. In the case of financial instruments carried at amortised cost, changes of value that arise between those dates may not be recognised, with the exception of impairment losses.

In order to harmonise the presentation of allowances for losses on credit commitments and guarantees, allowances for losses on credit commitments are shown together with allowances for losses on financial guarantees (guarantees and documentary credits) for the first time at 31 December 2012 (see Note 69).

For the first time, we ceased to carry the future premium payments accruing from Boston-style currency options under loans and receivables with banks and customers or deposits from banks and customers in the reporting period. They are now carried under financial assets or financial liabilities held for trading as part of the market value for the option instead. All Boston-style currency options are classified as held for trading.

In the reporting period, we made an adjustment in accordance with IAS 8.41 that led to increases of €47 million in loans and receivables with customers and €64 million in property, plant and equipment and an increase of €121 million in amounts payable under finance leases. Furthermore, the depreciation and impairments taken on property, plant and equipment increased by €10 million in the reporting period. We have not adjusted the year-ago figures for materiality reasons.

Moreover, we made an adjustment compliant with IAS 8.41 in the reporting period with regard to three consolidated companies whose shareholder agreements contain pre-emptive rights regarding the limited partnership shares vis-à-vis HVB, the exercise of which is at the sole discretion of the limited partners. Up until now, we have carried the limited partnership shares as minority interests and set up corresponding provisions for anticipated losses on pending transactions arising from the pre-emptive rights in parallel. These shares are to be treated as debt on account of the existing (conditional) purchase obligation. In the reporting period, the liability to the shareholders was recognised at the present value of the anticipated future cash flows and the previously disclosed provision for anticipated losses on pending transactions reversed. The profits attributable to the holders of limited partnership shares are recognised in interest expense. This change led to an increase of €242 million in deposits from customers and decreases of €188 million in provisions, €41 million in minority interests and €13 million in interest expense in the reporting period. The year-ago figures have not been adjusted for materiality reasons.

Compliant with IAS 8.41, the fixtures in rented buildings previously carried under other assets were reclassified to property, plant and equipment (€25 million) during the reporting period. The associated depreciation is carried under depreciation of tangible assets (€6 million) in the reporting period. We have not adjusted the prior-year figures for materiality reasons.

In accordance with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the positive and negative market values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty (CCP). Such netting does not lead to the derivatives being written off; they continue to be recognised as financial instruments. The year-ago figures have been adjusted accordingly. The change has no impact on the income statement, as only the presentation in the balance sheet is netted. Derivatives classified as both held for trading and hedge derivatives are affected by this. Accordingly, the positive market values for trading derivatives and hedging derivatives have decreased by €16 billion (2011: €11 billion) and €4 billion (2011: €2 billion) respectively, and negative market values of trading derivatives and hedging derivatives by €18 billion (2011: €12 billion) and €2 billion (2011: €1 billion) respectively.

In addition, we have made minor adjustments to the structure of our income statement during the reporting period. The income items “Operating income”, “Operating profit” and “Net operating profit” are no longer shown. No changes have been made to the composition of the remaining individual income statement items. Compliant with IFRS 8.23, we continue to show the income items listed above in our segment reporting in accordance with the management approach.

Changes in estimates have been recognised in net income for the period affected by the change in the estimation method. Provided the change in the estimation method does not affect the income statement, the carrying amount of the concerned asset or liability, or shareholders’ equity position has been adjusted.

The consolidated financial statements are prepared under the assumption of a going concern. Accounting and valuation in accordance with IFRS contains values that have been determined reliably using estimates and assumptions. The estimates and assumptions applied are based on past experience and other factors such as budgets, expectations and forecasts regarding future events which seem appropriate under the present circumstances. This mainly effects the determination of the fair values of certain financial assets and liabilities, net write-downs of loans and provisions for guarantees and commitments, deferred taxes, and the accounting and valuation of provisions. The actual values may differ from the assumptions and estimates made.

The following Notes are affected by estimates, assumptions and discretionary decisions:

Accounting and Valuation
- Note 6 Principles of consolidation (multi-year plan as the basis for the regular validation of goodwill)
- Note 14 Impairment of financial assets
- Note 24 Provisions

Notes to the Income Statement
- Note 37 Operating costs (determination of the fair value for stock options in long-term incentive programmes)
- Note 42 Income tax for the period (multi-year plan as the basis for assessing the volume of deferred taxes on tax loss carryforwards that has already been capitalised or is to be capitalised)

Notes to the Consolidated Balance Sheet
- Note 69 Provisions

Other Information
- Note 76 Fair value hierarchy (selection of the input parameters that cannot be tracked in valuations models used to calculate fair values)

Apart from this, the accounting, valuation and disclosure principles applied in 2012 are the same as those applied in the consolidated financial statements for 2011, with the exception of the new IFRS rules to be applied as described in Note 3 below.

3 Initial adoption of new IFRS accounting rules
The following standard revised by the IASB was subject to initial adoption in the 2012 financial year:
- Amendments to IFRS 7 “Financial Instruments: Disclosures – Transfer of Financial Assets”

Adoption has no significant effect on HVB Group. The amendments to IFRS 7 give rise to additional disclosures in the notes to the consolidated financial statements regarding transfers of financial assets (such as securitisation transactions).

4 Published IFRS that are not yet the subject of mandatory adoption and that have not been the subject of early adoption
As permitted, we have decided against the early voluntary adoption of the standards and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2013 financial year or thereafter. The Bank will apply these in the financial year in which the standards in question become applicable for EU-based enterprises for the first time.

Accounting and Valuation (Continued)

The EU has adopted the following into European law:
- Amendments to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2013.
- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosures of Interests in Other Entities"
- IAS 27 "Separate Financial Statements" (revised)
- IAS 28 "Investments in Associates and Joint Ventures" (revised). The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2014.
- IFRS 13 "Fair Value Measurement". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2013.
- Amendments to IAS 1 "Presentation of Financial Statements – Other Comprehensive Income". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 July 2012.
- Amendments to IAS 12 "Deferred Tax: Recovery of Underlying Assets". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2013.
- Amendments to IAS 19 "Employee Benefits". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2013.
- Amendments to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2014.

The EU has not yet adopted the following into European law:
- IFRS 9 "Financial Instruments and subsequent amendments to IFRS 9 and IFRS 7". The provisions are subject to obligatory adoption for reporting periods beginning on or after 1 January 2015.
- Amendments to the consolidation standards IFRS 10, IFRS 11 and IFRS 12 – "Transition Guidance". These transitional rules are subject to mandatory adoption for reporting periods beginning on or after 1 January 2013.
- Amendments to the consolidation standards IFRS 10, IFRS 12 and IAS 27 – "Investment Entities". The consolidation rules for investment entities are subject to mandatory adoption for reporting periods beginning on or after 1 January 2014.
- "Annual Improvements to IFRSs 2009-2011". These minor amendments and corrections to various existing standards are subject to mandatory adoption for reporting periods beginning on or after 1 January 2013.

The new IFRS 9, only part of which has so far been published by the IASB and which has not yet been transformed into European law by the EU and for which the date of introduction has been put back to 1 January 2015, will have a significant impact on the presentation and measurement of financial instruments. The effects are still being analysed. The future new consolidation rules (IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 28) and IFRS 13 "Fair Value Measurement" are highly relevant and their effects are also being analysed at present. At the same time, we do not expect the remaining standards and interpretations to be applied in the future to have any significant effects on the consolidated financial statements.

5 Companies included in consolidation
The group of companies included in consolidation by HVB Group encompasses 169 (2011: 169) subsidiaries. The group of consolidated companies also includes 25 (2011: 33) companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the supervisory authorities that regulate UniCredit. In order to avoid coordination and reconciliation problems, we have decided to gradually expand the group of companies included in consolidation. The fully consolidated subsidiaries prepared their annual financial statements for the period ending 31 December 2012.

The following companies have different year-end dates:

– Grand Central Funding Corporation, New York	31 May
– Kinabalu Financial Products LLP, London	30 November
– Kinabalu Financial Solutions Limited, London	30 November

When the consolidated financial statements are being prepared, interim financial statements are prepared at the corporate year-end date for all these companies.

No financial statements at 31 December 2012 were available for the associated companies listed below valued using the equity method when the consolidated financial statements were prepared. The following financial statements were used for valuation using the equity method:

– Adler Funding LLC, Dover	30 September 2012
– Comtrade Group B.V., Amsterdam	30 November 2012
– Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Istanbul	30 November 2012

There were no significant events at these companies between the date when the above financial statements were prepared and 31 December 2012 that could have an impact on the assets, liabilities, financial position, and profit or loss.

The group of consolidated companies does not include any companies for which the proportionate consolidation method is applied.

In 2012, the following companies were newly added to the group of companies included in consolidation at HVB Group:
– Chiyoda Fudosan GK, Tokyo
– HJS 12 Beteiligungsgesellschaft mbH, Munich
– Ocean Breeze Asset GmbH & Co. KG, Munich
– Ocean Breeze GmbH, Munich
– Perikles 20092 Vermögensverwaltung GmbH, Munich
– UniCredit Merchant Partners, Munich

The following companies added to the group of companies included in consolidation by HVB Group in 2012 are consolidated using the equity method:
– Bulkmax Holding Ltd., Valletta
– Nautilus Tankers Limited, Valletta

In 2012, the following companies left the group of companies included in consolidation of HVB Group due to absorption, sale or liquidation:
– Cameron Granville 2 Asset Management Inc., Global City, Taguig
– Cameron Granville 3 Asset Management Inc., Global City, Taguig
– Cameron Granville Asset Management (SPV-AMC), Inc., Global City, Taguig
– Cosima Purchase No. 13 Ltd., St. Helier
– Cosima Purchase No. 14 Ltd., Dublin
– Cosima Purchase No. 15 Ltd., Dublin
– Cosima Purchase No. 6 S.A. – Compartment 3, Luxembourg
– Elektra Purchase No. 27 Limited, Dublin
– Elektra Purchase No. 50 Limited, Dublin
– HVB Capital LLC VIII, Wilmington
– HVB Funding Trust VIII, Wilmington
– HVB International Asset Leasing GmbH, Munich
– SKB VTMK International Issuer Ltd. – Series 2011-1, Dublin
– The Trans Value Trust Company Ltd. – SFCG “REC Loan ABL” Trust, Tokyo

Accounting and Valuation (Continued)

The assets and liabilities of the company The Trans Value Trust Company Ltd. – SFCG “REC Loan ABL” Trust, Tokyo, were transferred to Chiyoda Fudosan GK, Tokyo. SFCG was liquidated upon completion of the transfer and hence left the group of companies included in consolidation as of December.

We acquired HJS 12 Beteiligungsgesellschaft mbH, Munich, on 30 November 2012. As a result of the purchase, we indirectly acquired all of the shares in Ocean Breeze Energy GmbH & Co. KG and other affiliated companies (Perikles 20092 Vermögensverwaltung GmbH, Munich; Ocean Breeze Asset GmbH & Co. KG, Munich; Ocean Breeze GmbH, Munich). Ocean Breeze Energy GmbH & Co. KG had already been incorporated in the group of companies included in consolidation by HVB Group as a special purpose entity in accordance with SIC 12 since 2008. By acquiring HJS 12, HVB now also has decision-making authority over the wind farm assets as well as the economic risks and rewards.

At year-end, we had a total of 145 (2011: 144) affiliated and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they do not have a material impact for the Group.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these minor non-consolidated affiliated companies makes up around 0.58% (2011: 0.53%) of the consolidated profit of HVB Group, while such companies provide around 0.02% (2011: 0.02%) of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets.

	2012	2011
Total subsidiaries	**301**	**294**
Consolidated companies	169	169
Non-consolidated companies	132	125
Joint ventures	**2**	**5**
of which:		
accounted for using the equity method	—	—
Associated companies	**16**	**17**
of which:		
accounted for using the equity method	5	3

6 Principles of consolidation

Consolidation is performed by offsetting the purchase price of a subsidiary company against the value of the interest held in the completely remeasured shareholders’ equity at the time of acquisition, provided the transactions involved are not internal to UniCredit. This amount represents the difference between the assets and liabilities of the acquired company measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders’ equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under shares in associates valued at equity and joint ventures valued at equity. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the divisions. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment at least once a year at cash-generating unit level. This involves comparing the carrying amount of the cash-generating unit with the recoverable amount defined as the maximum of the unit’s value in use and the fair value less costs to sell. The most recent multi-year plan approved by the Management Board normally covering a period of five years and created at segment level forms the basis for testing impairment. In this context, the earnings drivers are net trading income, net interest, fees and commissions, operating costs and the projected net write-downs of loans and provisions for guarantees and commitments. To allow the earnings components to be planned, the multi-year plan includes an income budget as well as budgets for risk-weighted assets and loans and receivables with customers and deposits from customers. The budgets are based on forecasts by the UniCredit Economics department, with the forecasts for overall economic development (gross domestic product) and interest and inflation rates playing a crucial role. Furthermore, the multi-year plan also reflects the experience gained by management from past events and an assessment of the underlying economic conditions.

Since the value in use far exceeds the carrying amount for the cash-generating units to which goodwill is allocated, the values in use determined using the multi-year plan have been used as the recoverable amount. The division-specific cost of capital rates used for discounting amount to 12% (2011: 11%) for the Corporate & Investment Banking division and 10% (2011: 9%) for the Family & SME division. No growth factor has been assumed for the government perpetuity.

IFRS 3 is not applicable to combinations of businesses under common control (IFRS 3.2 (c)). IAS 8.10 requires an appropriate accounting and valuation method to be developed accordingly for such cases. Given that HVB Group is part of UniCredit, the carrying amounts of the parent company are retained for business combinations within UniCredit. Any difference between the purchase price paid and the net carrying amount of the company acquired is recognised in equity under reserves.

Compliant with IAS 28, shares in associates are accounted for using the equity method and disclosed in the balance sheet accordingly. HVB is able to exercise significant influence over associates without being able to control them. Significant influence is assumed when a company holds more than 20% but less than 50% of the voting rights in an associate. This assumption of association can be refuted where a qualitative analysis demonstrates that significant influence over the financial and strategic decisions of the associate is not possible. Shares in associates are recognised at cost upon initial inclusion in the consolidated financial statements. For the purposes of subsequent measurement, the carrying amount increases or decreases in accordance with the share of HVB in the profit or loss of the associate. This share of the associate's profit or loss attributable to HVB is measured on the basis of the fair values of the associate's assets, liabilities and contingent liabilities when the shares were acquired. The accounting and valuation principles of HVB Group are applied for subsequent measurement.

SIC 12 requires us to consolidate special purpose entities provided, in substance, the majority of the risks and rewards incident to the activities of these special purpose entities is attributable to us or, in substance, we control the special purpose entities. Where they are material, they are included in consolidation. An interest in the equity capital of the special purpose entities is immaterial in this regard.

The assets and liabilities of a special purpose entity are included at the reporting date measured at their fair value when initially consolidated in accordance with SIC 12. They are subsequently measured in accordance with the uniform principles of accounting and valuation used across the corporate group. The expenses and income of the special purpose entity in question are included in the consolidated income statement from the date of initial consolidation. Equity interests held by third parties in a special purpose entity consolidated by us in accordance with SIC 12 are recognised under minority interest, provided the criteria for recognition as equity are met. Otherwise they are carried as debt.

Business transactions between consolidated companies are eliminated. Any profits or losses arising from intercompany transactions are also eliminated.

7 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one company and a financial liability or equity instrument of another company.

The classes required by IFRS 7.6 are defined as follows:
– Cash and cash reserves
– Financial assets and liabilities held for trading
– Financial assets at fair value through profit or loss
– Available-for-sale financial assets (measured at cost)
– Available-for-sale financial assets (measured at fair value)
– Held-to-maturity investments
– Loans and receivables with banks (classified as loans and receivables)
– Loans and receivables with customers (classified as loans and receivables)
– Receivables under finance leases (classified as loans and receivables)
– Hedging derivatives
– Other liabilities (deposits from banks, deposits from customers, debt securities in issue)
– Financial guarantees and irrevocable credit commitments

Accounting and Valuation (Continued)

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within Management's Discussion and Analysis. Compliant with IFRS 7.36 (a), the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 80 for the guarantee/amount of the lending commitments not yet utilised.

IAS 39 requires all financial instruments to be recognised in the balance sheet, classified in the given categories and measured in line with this classification.

The regulations set forth in IAS 39 regarding reclassifications have been observed. Purchases and sales of financial assets are normally recognised at the settlement date (see also Note 2). The reclassifications carried out in 2008 and 2009 are disclosed in Note 74, "Application of reclassification rules defined in IAS 39.50 et seq.".

Financial assets and liabilities at fair value through profit or loss
The "at fair value through profit or loss" category is divided into two categories:

– Financial assets and liabilities held for trading

  Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. This category also includes all derivatives (apart from hedging derivatives) which qualify for hedge accounting. Financial assets and liabilities held for trading purposes are shown under financial assets and liabilities held for trading.

– All financial assets designated as financial instruments measured at fair value through profit or loss upon initial recognition (fair value option)

  We only use the fair value option for certain financial assets designated as at fair value through profit or loss upon initial recognition. In this context, we have limited ourselves mostly to the designation option of the accounting mismatch by means of which recognition or measurement inconsistencies are avoided or considerably reduced in economic hedges for which hedge accounting is not applied. Only for a specific, smaller portfolio is the designation based on fair value-based risk management.

Financial assets and liabilities at fair value through profit or loss are disclosed upon initial recognition at their fair value without any transaction costs.

Both financial assets held for trading and fair value option portfolios are measured at fair value. Changes in value are recognised in the income statement.

Loans and receivables
The category "loans and receivables" includes non-derivative financial assets – both originated by us and acquired – with fixed or determinable payments that are not quoted in an active market unless they are classified as at fair value through profit or loss or available for sale. We classify leveraged buyout financing as loans and receivables. Loans and receivables are measured at amortised cost and capitalised under loans and receivables with banks and loans and receivables with customers. Premiums and discounts are taken to the income statement under net interest over the term of the underlying items. Loans and receivables are disclosed upon initial recognition at their fair value including any transaction costs.

Held-to-maturity investments
Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss or available for sale. We take a very restrictive approach when assessing whether the intention to hold to maturity exists and premature resale can be excluded. This means that investments are only classified as held-to-maturity in exceptional cases. When classifying financial instruments as held-to-maturity investments, we ensure that it is possible to hold the instruments to maturity taking liquidity considerations into account. Held-to-maturity investments are disclosed upon initial recognition at their fair value including any transaction costs and thereafter measured at amortised cost, with premiums and discounts taken to the income statement under net interest over the term of the underlying items.

Available-for-sale financial assets
All other non-derivative financial assets are classified as available-for-sale (AfS) securities and receivables. A distinction is made within this category between measurement at fair value and measurement at amortised cost.

– Debt instruments and equity instruments for which the fair value can be reliably determined are measured at fair value. The difference between the fair value and amortised cost is carried in a separate item under shareholders' equity (AfS reserve) in the balance sheet until the asset is sold or an impairment to be recognised in profit or loss has occurred. Premiums and discounts on debt instruments are taken to the income statement under net interest over the term of the underlying items.

– Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost. Besides shares in unlisted companies, this primarily concerns investments in private equity funds, which we measure at cost. It is not possible to reliably determine a fair value for these equity instruments since there is no active market in these instruments and, especially with regard to investments in private equity funds, the Bank as shareholder with a small holding does not have enough influence to obtain the necessary data promptly for a model-based determination of fair value. Consequently, they are not included in the AfS reserve.

With the exception of the effect on results arising from the translation of monetary available-for-sale financial assets denominated in foreign currency, gains or losses on available-for-sale financial assets are recognised in net income from investments in the income statement (see Note 41).

Determination of fair value
We can normally reliably determine the fair value of financial instruments measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (other than in a forced or liquidation sale) at the reporting date.

The fair value is determined in accordance with the following valuation hierarchy (IAS 39.48 et seq. in conjunction with IAS 39.AG 71 et seq.):
Listed prices on an active market are used as fair value:
– Prices on the closing date
– Prices shortly before the closing date to be adjusted to the extent that the economic data have changed materially since the date the price was determined

If there is no active market, the fair value is derived using valuation methods:
– The latest transactions between knowledgeable, willing parties in an arm's length transaction for an identical financial instrument are used.
– The amount is compared with the current fair value of a different, essentially identical financial instrument.
– Valuation models are used (such as discounting of anticipated cash flows, option price models or other valuation models normally used by market players to value these financial instruments) as far as possible taking into account normal market valuation parameters. In exceptional cases, where price-related factors cannot be included as separate parameters in the model, these factors are taken into account by using a model reserve.

Accounting and Valuation (Continued)

The risk of a counterparty defaulting on derivatives is covered by credit valuation adjustments (CVAs). In accordance with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the positive and negative market values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty (CCP). The own credit spread is also included in the underlying valuation parameters for liabilities held for sale.

Suitable adjustments are taken on the fair values determined in this way to reflect further factors affecting the fair value (such as the liquidity of the financial instrument or model risks when the fair value is determined using a valuation model).

In addition to the method described above for the valuation or determination of fair values, the fair values in the hierarchy compliant with IFRS 7.27A are shown in Note 76 for further information. A three-level, fair value hierarchy is listed for every class of financial asset and financial liability carried at fair value in the balance sheet. Note 76 similarly contains a detailed description of this hierarchy, which is only used for the purpose of disclosure in the notes.

Financial guarantees
Under IAS 39, a financial guarantee contract is a contract that requires the issuer to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Viewed overall, the fair value of a financial guarantee is zero when the contract is concluded because the value of the premium received will normally match the value of the guarantee obligation in standard market contracts. The guarantee premium is recognised on a pro-rata basis. The existence of an impairment is checked during the subsequent measurement.

Credit derivatives, and most notably standardised credit default swaps (CDS), are measured at fair value through profit or loss as they are considered derivatives held for trading and not financial guarantees.

Embedded derivatives
Outside the portfolio held for trading purposes or designated at fair value through profit or loss, embedded derivative financial instruments that must be separated within a structured product are detached from the underlying contract and recorded as separate derivative financial instruments. The underlying contract is then accounted for in accordance with the classification made. The change in value arising from the derivatives that are detached and carried at fair value is recognised in net trading income in the income statement.

Hedge accounting
Hedges between financial instruments are recognised in accordance with the forms of the fair value hedge described in IAS 39. In 2008 and 2009, HVB Group changed the previously applied macro cash flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest rate risk at portfolio level in large areas of asset/liability interest rate risk management. This is described additionally below alongside the principles covering general fair value hedges.

A fair value hedge is generally a hedge of the exposure to changes in the fair value of a recognised asset, liability or an unrecognised firm commitment – or an identified portion thereof – that is attributable to a particular risk and that might affect net income for the period. In this respect, a high level of effectiveness is required, with the changes in the fair value of the hedged item with regard to the hedged risk and hedging derivative compensating each other within a range of 80% to 125%. In fair value hedge accounting, we use interest rate and credit derivatives to hedge changes in the fair value of recognised assets and liabilities. Under this method, the hedging instrument is measured at fair value through profit or loss. The carrying amounts of the hedged item are adjusted by the valuation results relating to the hedged risk in a way that affects the income statement.

Starting in 2009, we have applied fair value hedge accounting for credit risks (micro fair value hedge). The purpose of hedge accounting for credit risks is to reduce the volatility in the income statement. This is done by including existing hedges in hedge accounting. Otherwise existing inconsistencies upon valuation (accounting mismatch) are corrected by hedge accounting.

As part of hedge accounting for credit risks, in accordance with IAS 39.86 (a) the credit-induced changes in the fair value of selected hedged items such as loans and receivables with customers and irrevocable credit commitments (off-balance-sheet fixed commitments) and the full-induced changes in the fair value of the hedging instrument (CDS) are offset. Remaining-term effects need to be adjusted in this context.

These remaining-term effects lead to a change in the credit-induced fair value over time without the current market credit spread changing. Among other things, this includes a difference between the nominal amount and the credit-induced fair value at the inception of the hedge. Excluding the possibility of an impairment, the credit-induced fair value on the settlement date will correspond to the nominal amount of the hedged item. Any difference between the credit-risk-induced fair value and the nominal amount existing when the hedge is designated amortises over the remaining time (pull-to-par effect). Differences like this can arise when hedged items are designated at a later date rather than when originated, for instance, since the contractually agreed credit spread does not generally match the normal market credit spread at the inception of the hedge in such cases.

The change in the credit-induced fair value determined in this way (after adjustment for remaining-term effects) is taken to the income statement under effects arising from hedge accounting in net trading income. Where the hedged items are assets recognised in the balance sheet, the carrying amount is adjusted for the changes in the credit-induced fair value. Irrevocable credit commitments (fixed commitments not shown in the balance sheet), on the other hand, are not recognised in the balance sheet. The credit-related changes in the fair value relating to these are carried under other assets in the balance sheet.

We show the associated hedging instruments (CDS) at their fair value as hedging derivatives; the changes in the fair value are similarly taken to the income statement as effects arising from hedge accounting in net trading income.

The hedge is terminated compliant with IAS 39.91 if either the hedging instrument or the hedged item expires, the hedge is no longer efficient, or the Bank decides to terminate the hedge.

When the hedge is terminated, the credit-induced changes in the fair value accruing to that date with regard to the hedged risk (hedge adjustment) are amortised over the remaining term of the hedged item. This amortisation is disclosed in net interest. If the hedged item similarly expires upon termination of the hedge exceptionally (e. g. in the event of early repayment by the borrower), the hedge adjustment accruing to that date is taken directly to the income statement.

Accounting and Valuation (Continued)

If the hedge is terminated prior to the hedging instrument maturing, this derivative is assigned to the held-for-trading portfolio at fair value and continues to be recognised at fair value under net trading income in the income statement.

In accordance with IAS 39, we apply the fair value hedge accounting for a portfolio hedge of interest rate risk for the accounting treatment of interest rate risk in asset/liability interest rate risk management. Recognising a fair value hedge for a portfolio of interest-bearing financial assets and liabilities using interest rate derivatives makes it possible to largely reflect the standard bank risk management procedures for the hedging of fixed interest rate risks in the accounts.

Under this accounting treatment of hedges across several items, the changes in the value of the hedged amount of the hedged items attributable to the hedged risk are carried altogether as a separate asset or liability item and not as an adjustment to the carrying amount of individual items as is the case with micro hedges. The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately. The hedged amount of the hedged items is determined as part of interest rate risk management; the liabilities do not contain any sight or savings deposits. Thus, we have not made use of sight and savings deposits in the hedged amount as permitted by the EU carved-out version of IAS 39 in this regard. Where the hedge conditions are met, the offsetting changes in value of the hedged amount of the hedged items and the hedging instruments (interest derivatives) are recognised directly in profit and loss. Hedge inefficiencies arising within the necessary hedge efficiency thresholds of 80% to 125% are recognised as profit or loss in net hedging income.

Furthermore, cross-currency interest rate swaps (CCIRS) have been used in the refinancing of loans denominated in foreign currency for economic reasons. The CCIRS exchange longer dated fixed-interest positions denominated in euros for variable-yield positions denominated in foreign currency. This serves to hedge the hedged item involved against interest rate risk as part of the fair value hedge portfolio and against exchange rate-related changes in fair value as part of micro fair value hedges.

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values of the existing cash flow hedge derivatives are amortised over the remaining term of the hedging derivatives in net interest. This means that the amortisation of the cash flow hedge reserve will have no overall impact on profit or loss in the future until they are fully amortised. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date, are treated in accordance with the new fair value hedge portfolio model.

The cash flow hedge that is no longer used was employed to hedge the risk arising from volatile cash flows resulting from a recognised asset, recognised liability or planned transaction to be taken to the income statement. We had employed derivatives in cash flow hedge accounting to hedge future streams of interest payments. In this context, payments arising from variable-interest assets and liabilities were swapped for fixed payments primarily using interest rate swaps. Hedging instruments were measured at fair value. The valuation result was divided into an effective and an ineffective portion. The effective portion of the hedging instruments was recognised in a separate item within shareholders' equity (hedge reserve) without affecting reported profit or loss. The ineffective portion of the hedging derivatives was recognised directly in profit and loss. The hedged item was recognised at amortised cost.

At the same time, HVB has also employed a fair value hedge for a portfolio of interest rate risks since 2007 for a limited portfolio of liabilities outside of asset/liability interest rate management.

8 Financial assets held for trading

This item includes securities held for trading purposes and positive market values of traded derivatives. All other derivatives not classified as hedging derivatives (which are shown separately in the balance sheet) are similarly considered held for trading. Provided they are held for trading purposes, promissory notes, registered bonds and treasury bills are carried as other financial assets held for trading.

Financial assets held for trading purposes are carried at fair value. Gains and losses arising from the valuation and realisation of financial assets held for trading are taken to the income statement as gains less losses arising from trading securities.

9 Financial assets at fair value through profit or loss
HVB Group mainly applies the fair value option for financial assets with economic hedges for which hedge accounting is not applied. The designation removes or significantly reduces differences resulting from an accounting mismatch. The portfolio mostly comprises interest-bearing securities not held for trading that are hedged against interest rate risks by means of interest rate swaps. In the case of promissory note receivables similarly included here, there is no material fair value change in terms of the credit risk on account of the top rating of the issuers. Changes in fair value of the hedged items and the associated derivatives are shown separately in net trading income; current interest income/expenses are recognised in net interest. Given a fundamental intention to hold to maturity, the new investments were made primarily with a view to being able to sell the holdings again quickly if necessary (liquidity reserve). Alongside an accounting mismatch as the main grounds for designation, the designation for a specific, smaller portfolio is based on fair value-based risk management.

10 Available-for-sale financial assets
We recognise interest-bearing securities, equities and other equity-related securities, investment certificates and participating interests as available-for-sale financial instruments under available-for-sale financial assets in the balance sheet.

Interest-bearing securities are accrued in accordance with the effective interest method. Should the estimated cash inflows and outflows underlying the calculation of the effective interest change, the effects are recognised in the income statement as net interest compliant with IAS 39 AG 8.

Available-for-sale financial assets that are effectively hedged against market risk are recorded as part of fair value hedge accounting.

Provided they are not significant, both shares in non-consolidated subsidiaries and joint ventures and associates accounted for using the equity method are subsumed in available-for-sale financial assets. Listed companies are always carried at fair value. Where the fair value cannot be determined reliably for non-listed companies, they are valued at cost.

11 Shares in associated companies and joint ventures accounted for using the equity method
Investments in joint ventures and associated companies are accounted for using the equity method.

12 Held-to-maturity investments
HVB Group has classified interest-bearing assets as held to maturity and recognised them under held-to-maturity investments. Held-to-maturity investments are measured at amortised cost; the resulting interest income is included in net interest.

13 Loans and receivables
Loans and receivables are recognised in the balance sheet under loans and receivables with banks, and loans and receivables with customers. They are carried at amortised cost, provided they are not hedged items of a recognised fair value hedge. The amount shown in the balance sheet has been adjusted for allowances for losses on loans and receivables.

14 Impairment of financial assets
Impairment losses are recognised for financial assets that are measured at amortised cost and classified as available for sale.

An impairment loss is determined in two steps. First, an assessment is made to see if there is any objective evidence that the financial asset is impaired. The second step involves assessing whether the financial instrument is actually impaired.

Objective evidence of impairment refers to events that normally lead to an actual impairment. In the case of debt instruments, these are events that could result in the borrower not being able to settle his obligations in full or at the agreed date. In the case of equity instruments, significant or prolonged lower market values compared with the carrying amount represent objective evidence of impairment.

Accounting and Valuation (Continued)

Objective evidence is provided only by events that have already occurred, not anticipated events in the future.

How an impairment is determined for each relevant category is described below.

In the case of loans and receivables, objective evidence of an impairment exists when a default has occurred in accordance with the definition of a default given in Basel II and/or the German Solvency Regulation (Solvabilitätsverordnung – SolvV). This is the case when either the borrower is at least 90 days in arrears or HVB believes that the debtor is unable to meet the payment obligations in full without steps to realise collateral being undertaken. In this context, an event of default notably includes the period of 90 days in arrears, an application for or opening of insolvency proceedings, the expectation of liquidity problems as a result of the credit-monitoring process or the need for restructuring or collateral realisation steps such as terminating loans, putting loans on a non-accrual basis or enforcing realisation of collateral by HVB.

The assessment of the borrower's credit rating using internal rating processes is applicable. This is reviewed periodically and when negative events occur. When the borrower is 90 days in arrears is considered objective evidence of an impairment, similarly leading promptly to a review of the borrower's individual rating on account of the occurrence of a negative event with regard to the borrower. Based on internal procedures, the classification of the borrower is updated to "in default" or "not in default". As a result, the borrower's credit rating is always assessed with regard to his ability to meet outstanding liabilities.

The credit rating of the borrower and his ability to meet outstanding payment obligations is normally assessed irrespective of whether the borrower is already in arrears with payments or not. Being in arrears is merely an indicator of the need to verify the borrower's credit rating on an ad hoc basis. This means that a possible deferral agreement aimed at avoiding arrears does not automatically lead to the Bank recognising impairments. Where repayments are deferred or terms adjusted (such as the loan is put on a non-accrual basis, repayments are deferred or covenant clauses are waived) for rating-related reasons, this is considered a separate impairment trigger for testing whether an impairment needs to be recognised. The simple deferral of payment obligations has little influence on the borrower's financial position and his ability to meet outstanding liabilities in full. Should a borrower not be in a position to meet all outstanding liabilities, a deferral of the liabilities does not alter the overall situation. A deferral neither reduces the amount of the payment obligations nor does it influence the amount of payments received by the borrower.

Where the Bank waives payments by the borrower (such as waived fees, reduction of contractual interest rates, etc.) for rating-related reasons, such a waiver represents objective evidence of the borrower defaulting. The write-off of such payments accruing to the Bank caused by an issued waiver is recognised in the income statement as an impairment, provided an allowance had not already been set up for this in the past or recognition was waived on account of the borrower defaulting (such as putting a loan on a non-accrual basis).

An impairment is the difference between the carrying amount and the present value of the anticipated future cash flows. The future cash flows are determined taking into account past events (objective evidence). The anticipated future cash flows may comprise the repayments and/or interest payments still expected and the income from the realisation of collateral. A specific loan-loss provision is recognised for the impairment determined in this way. The Bank has defined more precisely the processes used to estimate the anticipated date when payments will be received and discounted to be used when determining the specific allowances for non-performing loans and receivables. This prospective change in estimates of the present value of anticipated cash inflows gave rise to a gain of €86 million (reversal of loan-loss provisions) at year-end 2012.

If a receivable is considered uncollectible, the amount concerned is written down, which leads to the receivable being written off.

The same method is applied for held-to-maturity investments.

In the case of loan receivables, the impairment determined in this way is posted to an impairment account, which reduces the carrying amount of the receivable on the assets side. In the case of securities, an impairment directly reduces the carrying amount of the security.

In the case of financial guarantees, a possible impairment is determined in the same way; the impairment loss is recognised as a provision.

Specific loan-loss allowances are also determined on a collective basis for individual cases where the amounts involved are not significant. The classification as impaired is also based on the individual rating of the borrower in these cases. These allowances are recognised and disclosed within specific loan-loss allowances at HVB Group. Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made individually to cover all identifiable default risks arising from lending operations (loans, receivables and financial guarantees), with the amount of the expense being estimated. Specific loan-loss allowances are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified as uncollectible and written off. Both changes in the anticipated future cash flows and the time effect arising from a shortening of the discounting period are taken into account in the subsequent measurement. Specific loan-loss allowances are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified as uncollectible and written off. Where a specific loan-loss allowance is reversed because the reason for its formation no longer exists, the borrower concerned is classified as healthy again, meaning that the classification as "in default" is reversed. The amount is written off if the receivable in question is due, any available collateral has been realised and further attempts to collect the receivable have failed. Acute country-specific transfer risks are included in this process.

In the case of receivables (and guarantees) for which no specific allowances have been formed, portfolio allowances are set up to cover losses (= impairments) that have been incurred but not yet recognised by the Bank at the reporting date. We apply the loss confirmation period method for this. The loss confirmation period represents the period between a default event occurring or a borrower defaulting, and the point at which the Bank identifies the default. The loss confirmation period is determined separately for various credit portfolios on the basis of statistical surveys. The loss that has occurred but has not yet been recognised is estimated by means of the expected loss.

In the case of assets classified as available for sale, a distinction is made between debt and equity instruments.

A debt instrument is impaired when an event occurs that results in the borrower not being able to settle his contractual obligations in full or at the agreed date. Essentially, an impairment exists in the same cases as for credit receivables from the same borrower (issuer).

The amount of the impairment is defined as the difference between the amortised cost and the current fair value, whereby the difference first recognised in the AfS reserve in the balance sheet is taken to the income statement when an impairment occurs.

Should the reason for the impairment no longer apply, the difference between the higher market value and the carrying amount at the previous reporting date is written back in the income statement up to the amount of initial cost. If the current market value at the reporting date exceeds the initial cost, the difference is recognised in the AfS reserve under shareholders' equity.

In the case of equity instruments carried at fair value, an impairment exists if the current fair value is significantly below the carrying amount or if the fair value has remained below the carrying amount for a prolonged period of time. Where this is the case, the difference between the current fair value and initial cost is recognised as profit or loss in the income statement. Such an impairment recognised in profit or loss has to be considered for the new cost basis required for the calculation of the AfS reserve. If the fair value rises in the future, the difference between a higher fair value and the initial cost adjusted as described is recognised in the AfS reserve under shareholders' equity.

Equity instruments valued at cost are considered impaired if the present value is significantly or permanently less than the acquisition cost (or, if an impairment has already been recognised in the past, it is less than the acquisition cost less the recognised impairment). If there is objective evidence of an impairment, the present value of the equity instruments must be determined. The estimated future cash flows discounted by the current market return on a comparable asset are used as the basis for determining this value. The amount of the impairment is calculated as the difference between the present carrying amount and the value of the equity instrument determined as described above. The impairment is taken to the income statement. An impairment of an equity instrument is not permitted to be reversed if the reasons for the impairment no longer apply.

15 Property, plant and equipment
Property, plant and equipment is valued at acquisition or production cost less depreciation – insofar as the assets are depreciable – using the straight-line method based on the assets' useful lives. Fixtures in rented buildings are depreciated over the term of the rental contract, taking into account any extension options, if this is shorter than the normal useful life of the asset concerned.

Accounting and Valuation (Continued)

PROPERTY, PLANT AND EQUIPMENT	USEFUL ECONOMIC LIFE
Buildings	25 – 50 years
Fixtures in buildings not owned	10 – 25 years
Computer equipment	3 – 5 years
Other plant and office equipment	3 – 25 years

Impairments are taken in accordance with IAS 36 on property, plant and equipment whose value is impaired. Should the reasons for the impairment no longer apply, a subsequent write-up is taken to the income statement; the amount of this subsequent write-up must not increase the value of the property, plant and equipment to a level in excess of the amortised acquisition or production cost.

Depreciation, impairments and write-ups on items of property, plant and equipment are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised, provided additional future economic benefits will flow to the Bank. Expenditure on repairs or maintenance of property, plant and equipment is recognised as expense in the year in which it is incurred.

Government grants for items of property, plant and equipment (IAS 20.24) are deducted from the acquisition or production cost of the underlying assets on the assets side of the balance sheet.

16 Lease operations

Under IAS 17, a lease is an agreement under which the lessor transfers the right to use an asset to the lessee for an agreed period against payment.

Lease agreements are divided into finance leases and operating leases. A lease is classified as an operating lease if the lessor retains substantially all the risks and rewards incident to ownership of the asset. By contrast, a finance lease transfers substantially all the risks and rewards incident to ownership of the asset to the lessee. Title may or may not eventually be transferred.

HVB Group nevertheless treats agreements concluded without the legal form of a lease as leases provided compliance with the agreement depends on the use of a given asset and the agreement transfers a right to use the asset.

HVB Group leases both movable assets and real estate.

HVB Group as lessor

Operating leases

The assets leased to the lessee under an operating lease are considered held by the lessor, who should continue to account for them. The leased assets are carried under property, plant and equipment, investment properties or intangible assets in the consolidated balance sheet and valued in accordance with the relevant methods. The lease proceeds are recognised on a straight-line basis over the lease term and disclosed under other operating income. The conditional lease payments received under operating leases are recognised as income in the reporting period in which they accrue.

Finance leases

Where assets are transferred under a finance lease, the lessor is required to derecognise the leased asset in its balance sheet and recognise a receivable from the lessee. The receivable is carried at the amount of the net investment in the lease when the lease agreement was concluded. The lease payments received are divided into a finance charge recognised in the income statement and a redemption payment. The interest income is recognised over the period of the lease in such a way that it essentially reflects a constant periodic return on the net investment in the lease; the redemption payment represents a repayment of the principal that reduces the amount of the receivable outstanding. Conditional lease payments received under finance leases are recognised as income in the period in which they accrue.

HVB Group as lessee

Operating leases

The lease payments made by the lessee under operating leases are recognised as expense on a straight-line basis over the lease term and carried under other operating expenses or operating costs to the extent that they represent lease expenses. The lease term commences as soon as the lessee controls the physical use of the leased asset. Conditional lease payments made under operating leases are recognised as expense in the period in which they accrue. The lessee does not capitalise the leased assets involved.

Finance leases

In the case of finance leases, the lessee recognises the leased assets under property, plant and equipment, investment properties or intangible assets in the balance sheet as well as a liability on the liabilities side. The asset and the corresponding liability are each initially recognised at the fair value of the leased asset at the inception of the lease or, if lower, the present value of the minimum lease payments. The internal rate of return underlying the lease is used to calculate the present value of the minimum lease payments. The lease payments under finance leases are divided into a finance charge and redemption payment. The redemption payment reduces the outstanding liability while the finance charge is treated as interest expense. Conditional lease payments made under finance leases are recognised as expense in the period in which they accrue.

Please refer to Note 73 for more information.

17 Investment properties

Compliant with IAS 40.30 in conjunction with IAS 40.56, land and buildings held by us as investments with a view to generating rental income and/or capital gains are carried at amortised cost and written down on a straight-line basis over a useful economic life of 25 to 50 years.

Where investment properties additionally suffer an impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Current expenses and rental income from investment properties are disclosed in net other expenses/income. Scheduled depreciation on such investments carried at amortised cost is included in operating costs, whereas impairments and write-ups are recognised in net income from investments.

18 Intangible assets

The main items included in intangible assets are goodwill arising from the acquisition of fully consolidated subsidiaries and software. An intangible asset shall only be recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Goodwill has an indefinite useful life. Consequently, it is only tested for impairment compliant with IAS 36 and not amortised (impairment only approach). The value of goodwill is tested annually and where there is an indication of impairment. Impairments are taken where necessary. It is not permitted to write up in subsequent periods any impairment losses recognised on goodwill.

Software has a limited useful life and is valued at amortised cost. Amortisation is taken over an expected useful life of three to five years. Other intangible assets are also recognised at amortised acquisition or production cost less cumulative amortisation, as they have a limited useful life. Amortisation is taken on a straight-line basis over an expected useful life of up to ten years.

Where intangible assets additionally suffer impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Impairment losses on goodwill are shown in a separate item in the income statement.

Accounting and Valuation (Continued)

Amortisation, impairments and write-ups on software and other intangible assets are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

19 Non-current assets or disposal groups held for sale

Under IFRS 5, non-current assets or disposal groups held for sale are carried upon reclassification at the lower of the carrying amount or fair value less costs to sell at the reporting date. Upon subsequent measurement following reclassification, the non-current assets or disposal groups held for sale are, if necessary, written down to a lower fair value less costs to sell if this has fallen at subsequent reporting dates. Should the fair value increase, the total may be written up to an amount that is no more than the amortised cost.

20 Liabilities

Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective micro fair value hedge are reported at amortised cost. Upon initial recognition, they are disclosed at their fair value including any transaction costs.

21 Financial liabilities held for trading

This item includes the negative market values of traded derivatives and all other derivatives that are not classified as hedging derivatives (which are recognised separately). Also included here 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.

Financial liabilities held for trading are carried at fair value. Gains and losses arising from the valuation and realisation of financial liabilities held for trading are taken to the income statement as net trading income. We act as market maker for the structured products we issue.

22 Hedge adjustment of hedged items in the fair value hedge portfolio

Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 66). The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately.

23 Other liabilities

Compliant with IAS 37, accruals and other items are shown under other liabilities. These reflect future expenditure of uncertain timing or amount, but the uncertainty is much less than for provisions. Accruals are liabilities for goods and services received that have been neither paid for nor invoiced by the supplier, nor formally agreed. This also includes current liabilities to employees, such as flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

24 Provisions

Present legal or constructive obligations as a result of past events involving a probable outflow of resources, and whose amount can be reliably estimated, are recognised as provisions.

When assessing provisions for uncertain liabilities and anticipated losses on onerous transactions, we use a best estimate compliant with IAS 37.36 et seq. Long-term provisions are discounted.

In accordance with IAS 19, we use actuarial principles to determine the provisions for pensions and similar commitments. The amounts are calculated using the projected unit credit method, taking into account the present value of the defined benefit obligations, the fair value of plan assets, and actuarial gains and losses. Causes of such gains and losses include irregularities in the risk profile (e.g. higher or lower rates of early retirement or mortality than anticipated in the calculation principles applied) and changes in the applicable parameters.

HVB Group exercises the option for recognising actuarial gains or losses in shareholders' equity (other comprehensive income) outside the profit or loss for the period permitted in IAS 19.93A.

The discount rate is to be determined on the basis of the yields recorded on the market at the reporting date for top-rated, fixed-income corporate bonds and with maturities and currencies that match the commitments to be measured. These individual bond data are translated into a yield curve which forms the foundation for determining the discount rate by using a numerical compensation technique.

The amount of the provision shown in the balance sheet is calculated as the present value of the obligation determined at the end of the financial year less the fair value of the plan assets determined at the end of the financial year. The plan assets set up by HVB and a number of subsidiaries to fund pension obligations are described in detail in Note 69, "Provisions".

25 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros at the reporting date using current market rates. In the case of monetary assets available for sale, the effect arising from foreign currency translation is recognised as net currency income in net trading income. In other words, the monetary assets available for sale are treated in the same way as if they were recognised at amortised cost in the foreign currency. Non-monetary items carried at fair value are similarly translated into euros using current market prices at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

Income and expense items arising from foreign currency translation at the individual Group companies are stated under net trading income in the income statement.

Where they are not stated in euros, the assets and liabilities reported by our subsidiaries are translated using current market rates at the reporting date in the consolidated financial statements. Average rates are used to translate the income and expenses of these subsidiaries.

Exchange rate differences resulting from the translation of financial statements of international business units are recognised in shareholders' equity without affecting profit or loss and are only taken to the income statement if the operation is sold in part or in full.

26 Income tax for the period

Income tax for the period is accounted for in accordance with the principles set forth in IAS 12. Current taxes are determined taking into account local laws in the respective tax jurisdictions concerned. Apart from a few exceptions allowed for in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (balance sheet approach). Deferred tax assets arising from unused losses carried forward for tax-reporting purposes are shown where permitted by IAS 12.

Since the concept is based on the approach of future tax assets and liabilities under the liability method, the assets and liabilities are computed using the tax rates that are expected to apply when the differences are reversed.

Segment Reporting

27 Notes to segment reporting by division

In segment reporting, the market-related activities of HVB Group are divided into the following globally active divisions: Corporate & Investment Banking, Family & SME, and Private Banking.

Also shown is the Other/consolidation segment that covers Global Banking Services (GBS) and Group Corporate Centre activities and the effects of consolidation.

Changes in segment allocation

In the 2012 financial year the expenses for the bank levies previously assigned to the Other/consolidation segment have been allocated to the operating divisions and the costs for the pension fund spread across all the segments. In addition, there were minor adjustments in the area of operating costs.

The previous year's figures and those of the previous quarters have been adjusted accordingly to reflect the changes in segment allocations described above.

Method of segment reporting

Segment reporting is based on the internal organisational and management structure together with internal financial reporting. In accordance with IFRS 8 "Operating Segments", segment reporting thus follows the Management Approach, which requires segment information to be presented externally in the same way as it is regularly used by the Management Board, as the responsible management body, when allocating resources (especially risk-weighted assets compliant with Basel II) to the business segments and assessing profitability (profit before tax). Since the income statement of HVB Group broken down by segment is reported internally to the Management Board of HVB down to profit before tax, we have also taken the profit before tax as the basis for external reporting. In this context, the segment data are determined in accordance with International Financial Reporting Standards (IFRS).

In segment reporting, the divisions operate as autonomous companies with their own equity resources and responsibility for profits and losses. The divisions are delimited by responsibility for serving customers. For a description of the customer groups assigned to the individual segments and the main components of the segments, please refer to the section entitled "Components of the segments of HVB Group" below.

The income statement items of net fees and commissions, net trading profit and net other expenses/income shown in the segments are based almost exclusively on transactions involving external customers. Net interest is assigned to the segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses. For this reason, a separate presentation broken down by external/internal revenues (operating income) has not been included. The equity capital allocation used to calculate the return on investment on companies assigned to several divisions is based on a uniform core capital allocation for each division. Pursuant to Basel II, this involves allocating 9.0% of core capital from risk-weighted assets to the divisions. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest. The percentage used for the return on the equity capital allocated to the companies assigned to several divisions (HVB, UniCredit Luxembourg S.A.) equals the base rate plus a premium in the amount of the 6-year average of the spread curve for business of UniCredit Bank AG both secured by land charges and unsecured. This rate is set for one year in advance as part of each budgeting process. The percentage changed from 4.08% in 2011 to 3.70% for the 2012 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

The income of €9 million (2011: €6 million) from investments in associated companies relates to the following companies accounted for using the equity method which are assigned to the Corporate & Investment Banking division: Adler Funding LLC, Bulkmax Holding Ltd., Comtrade Group B.V., Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S. and Nautilus Tankers Limited. The amount involved is disclosed under dividends and other income from equity investments in the income statement. The carrying amount of the companies accounted for using the equity method is €65 million (2011: €49 million).

Operating costs, which contain payroll costs, other administrative expenses, amortisation, depreciation and impairment losses on tangible and other intangible assets (without goodwill), are allocated to the appropriate division according to causation. Global Banking Services and the Group Corporate Centre are treated as external service providers, charging the divisions for their services at a price which covers their costs. The method of calculating the costs of general banking services involves employing a weighted allocation key (costs, income, FTEs, base amount) in the budgeting process for each segment to determine the assigned costs that cannot be allocated directly. The vast majority of the depreciation and impairment losses taken on property, plant and equipment are posted by the Other/consolidation segment via the real estate companies of HVB Group included in the Global Banking Services activities.

Components of the segments of HVB Group

Corporate & Investment Banking division

The Corporate & Investment Banking (CIB) division serves around 46,500 corporate customers through its domestic and international distribution network. The business model focuses on differentiated customer groups and the customer relationship as the key variable for the allocation of resources, while the structure meets the requirements in a hard-fought market that is in the process of re-regulation.

CIB's commercial success is built on close cooperation and the interlinking of sales and customer care with product units together with practical collaboration with other UniCredit countries and divisions. The three global product lines – Markets, Financing & Advisory and Global Transaction Banking – form part of the integrated CIB value chain. They assist the customer with strategic, transaction-oriented activities, solutions and products. In light of changing markets and rising market risk, we aim to accompany the customer and cover issues like restructuring, growth and internationalisation alongside all corporate customer needs from their bank. Among other things, this includes the very latest intelligence about specific sectors and markets that also satisfy the growing expectations of a financing partner.

CIB serves corporate customers with annual revenues in excess of €50 million. Our customer segmentation criteria and distribution channel definitions are based on different challenges, demand structures and processing standards. Consequently, we differentiate between the following service models: Multinational Corporates, Corporates Germany, Real Estate, Shipping, and Financial Institutions and Sponsors.

The **Financing & Advisory** (F&A) product unit acts as integrated product platform and architect of large-scale financing solutions. The broad range of structured transactions in financing activities includes advising the customer on corporate strategy and M&As, acquisition and project finance, more complex transactions, syndications and subordinated capital. Customers also benefit from direct access to the capital market through an integrated value-added chain with the capital market units Equity Capital Markets for equity products and Debt Equity Markets for bond products.

Global Transaction Banking (GTB) pools our competencies in cash management and e-banking, Euro-clearing for banks, foreign trade financing and supply chain finance.

The **Markets** product unit is the centre of competence for capital market-related products, notably equity and money market products, credit-based investment classes, commodities, currencies, interest rates and structured and securitised products. Innovative, tailored benchmark solutions are sold to customers through three distribution channels: Institutional Distribution, Corporate Treasury Sales, and Wholesale and Institutional Equity Derivatives Sales. Corporate Treasury Sales offers professional financial risk management involving a wide range of advisory services and products covering all possible ways of hedging entrepreneurial risks, such as liquidity management (including asset management, deposits and investments), foreign exchange and innovative derivatives.

The net income from several subsidiaries and participating interests is included in the division's results. Among others, these include UniCredit Luxembourg S.A. which handles the settlement, administration and securitisation of national and international loans for the group on a cross-divisional basis and is responsible for interest management as the funding unit for the corporate group on the money market.

Segment Reporting (Continued)

In the reporting period, the cash equity business and the related research for the region of eastern Europe was discontinued. These tasks will, however, continue to be offered to our customers through a strategic alliance with Kepler Capital.

At the outset of 2013, the business model was adjusted to cater for the changed market environment which entailed a restructuring of global and regional responsibilities and thus the segments of HVB Group.

The business segment Corporate & Investment Banking is continuing to benefit from its global business focus but, in contrast to its existing structure, the Corporates Germany and Real Estate customer care models will be transferred to the new Unternehmer Bank. The Unternehmer Bank stands for the comprehensive care of entrepreneurs in Germany. To this end, the customer care concepts for SMEs and business customers from the former Family & SME division are being combined and the Private Wealth Management customer care model from the former Private Banking division is being incorporated. This means that the entire German corporate customer business will be bundled in the Unternehmer Bank except for multinationals.

Family & SME division

The year 2012 was dominated by the uncertainty on markets caused by the sovereign debt crisis, the lack of appeal of interest-bearing cash investments and not least the persistent confidence crisis in the banking sector. For the **mass market operations** of the Bank, it was of primary importance to activate the existing customer potential and provide customer care on an all-round and needs-oriented basis. This resulted in a pleasing increase in customer satisfaction, although the sector developed negatively for the most part. In addition, there was an expansion in the distribution channels in order to offer banking services to customers outside customary opening hours, with expert relationship managers being available for this purpose by both phone and video. Steps were also initiated to expand HVB's sales network into market areas not yet represented with the aid of finance partners. For instance, ten finance partner branches were already opened in the second half of the year while further expansion is planned for the coming years.

Mass market operations centred on the core activities of transparency and sustainability in the customer relationship, simplification of the product range and an expansion of lending operations. New simplified account models tailored to different customer needs were introduced and opened via the various distribution channels. "HVB Konto Online" is highly popular among the new account models and was already requested thousands of times in the first few months. 98% of customers addressed switched from the previous account products to our new models, signifying a substantial reduction in the complexity for customers and the Bank. With an almost 12% increase over 2011, the consumer credit business, which is handled by UniCredit Family Financing S.p.A., developed well. This can be attributed to both the introduction of the new risk-based pricing and the facilitation of new distribution channels.

Close attention was paid to increasing the product penetration of our customer portfolio. Our cross-selling activities are built around our high-quality, all-round, demand-oriented advice that focuses on the needs of our customers in their specific life situations. We managed to achieve great success in the area of inheritance advice with our 37 certified inheritance experts who operate in every region throughout Germany. For advice in complex matters, our inheritance experts draw up plans subject to a charge which incorporate products particularly from the areas of pensions and materials assets, optimise their real estate portfolio and already exceed the planned expectations in the initial phase.

The volume of savings deposits was maintained in the first half of the year despite the very low level of interest rates. In the second half of the year, 9,500 new customers were won and growth of €800 million generated with our "PlusSparen (fest)" promotional product which runs for a term of three years and offers attractive promotional interest rates.

The main challenges in **wealth management** were to boost customer satisfaction and regain confidence in a volatile market environment as well as maintaining earnings performance and growth. For us, the uncertainty of the markets and the clouded outlook for the future continued to be a reason for intensively informing and advising our customers; to do so, the event concept surrounding the topic "How do I protect my money" was relaunched, enabling the prevention of outflows of money and keeping earnings from wealth advice at a stable level.

Our advice concentrated on HVB VermögensDepot privat, which has continued to perform well, meeting customer requirements especially well as it combines the expertise in asset allocation at our Bank with the transparency of exchange-traded funds (ETFs) and is also subject to regular performance measurement. Furthermore, we managed to place UniCredit Ireland bonds in several tranches with existing and new customers in the middle of 2012.

Despite a very difficult market environment, we continued to make progress along the path of developing our business model through to the self-advice and sales of insurance products. Supporting advisory media such as our HVB pension concept have additionally enhanced the quality of our tailored advisory services for customers. The great uncertainty prevailing in large sectors of the population as a result of the euro and financial crisis has resulted in our distinctly noticing the strong reticence to enter into long-term contracts, particularly in the pension solution business. In their search of financial stability and security, however, many people acknowledge the benefits afforded by pension and life assurance products, which is also reflected in the successful continuation of our innovative HVB TrendProtect Police tranche product. All in all, it was possible to maintain the business area's earnings in this environment.

We manage our **real estate financing activities** as a supporting pillar in the retail and business customer segment across all target groups. Besides obtaining loans from us directly, our customers were able to use the full product range of the market from our 40 partner banks. Again in 2012, we managed to significantly increase the volume of new business in the residential construction business compared with the previous year and in the process were clearly above the market trend. Innovative sales campaigns and our clear positioning as a provider of all-round property services offering high-quality advice are reflected by the results generated. All told, our overall result in mass market operations is also evidenced by the awards we again succeeded in winning, such as "Beste Filialbank 2012" and "Beste Baufinanzierung".

In the **SME** segment, loans are and remain our core business, coupled with an adequate share in the other financial transactions of our customers. In 2012, our operations were also driven mainly by our support for capital spending for SMEs, with the focus primarily on solutions involving development loans and leasing arrangements.

Alongside demand for investment in machinery and operating equipment as well as for the expansion of infrastructure in general, we supplied finance particularly for measures undertaken by our corporate customers with regard to energy efficiency and local energy supply in 2012. In this context, public subsidies were allocated to reflect specific regional features by arranging individual, customer-oriented financing packages. Overall, new business involving development loans grew by over 30% compared with 2011.

Leasing activities continued to represent the other focal point of investment financing for SMEs in 2012. Our UniCredit Leasing GmbH subsidiary facilitated a wide range of funding arrangements throughout Germany. Industry expertise is still an important success factor. It enhances our risk management and increases our understanding of customer requirements. Hence, the offerings for the special target groups of farmers, healthcare professionals, consultants, insolvency administrators and public sector customers are being constantly refined. In 2012, various measures served to increase the sector-specific advisory quality and expertise of our customer advisers and to develop financing and payment solutions geared specifically to the target groups.

In 2012, we published the HypoVereinsbank UnternehmerReport 2012 which received widespread attention because it dealt mainly with the topic of energy efficiency. In the coming years intelligent energy management will play a crucial role in determining the competitiveness and thus the sustainability of the German economy. The report considers the significance of energy management in SMEs, their objectives and measures as well as the question of the contribution that banks can make to finance the necessary capital spending. It is based on a study carried out as a telephone poll of 3,766 small and mid-sized enterprises in Germany. By means of a detailed sampling distribution it was possible to provide representative results for eight sectors at national level and for 29 media regions.

A new customer campaign was launched in 2012. To this end, the data management for customer advisers was optimised, various aids and presentations were created for addressing non-customers and an innovative training concept was introduced for customer advisors. In 2012, more than 15,000 new SME customers were acquired.

A major focus was the advancement of the Business Easy service model. With the structure and strategy already planned in 2011, the division succeeded in designing an attractive and efficient business model. The very latest communication channels with customers (online dialogue, postbox, webinars) and longer service times have already convinced both existing and new customers throughout Germany and have secured a unique selling proposition on the German banking market for the Business Easy advisory model. Coupling the advantages of an online bank with the personal advice of a key relationship bank is setting new standards in the world of banking.

New initiatives were launched in the multichannel function in 2012, examples of which are the online campaign for customers in the target group of healthcare professionals as well as 30 HVB@ webinars, which were carried out with over 2,600 customers and non-customers.

Segment Reporting (Continued)

Within the framework of the new corporate structure, the entire business with small and mid-sized enterprises and public sector customers was integrated into the Unternehmer Bank at the beginning of 2013.

Private Banking division
The Private Banking division has set itself the goal of optimally meeting the specific expectations of wealthy customers with regard to a bank and the services it offers. The division serves customers with an aggregate investment volume of €42.5 billion. Private Banking is divided into three subdivisions:

HVB Private Banking (PB)
This unit serves some 45,400 HVB customers with assets under management of €25 billion. Our 513 employees offer individual, personal advice at 46 locations throughout Germany. The Private Banking division offers all-round, bespoke advice to customers and customer groups with liquid assets of more than €0.5 million; the Family Office serves family groups with complex assets of more than €30 million.

PB's strategic objectives are to satisfy high net worth individuals with a comprehensive range of advisory services, attractive products and outstanding customer relationships, and to increase its market share in the highly competitive private banking environment. PB aspires to quality leadership in the German market.

Wealth Management Capital Holding (WMC)
WMC structures and issues sophisticated investment products that are tailored exclusively and perfectly to the Private Banking customer group. It is one of the biggest initiators of closed-ended funds in Germany. Around 150,000 customers are served by 223 employees in this unit.

UniCredit Luxembourg S.A.
UniCredit Luxembourg S.A. gives customers of HVB Group access to the financial centre of Luxembourg. Together with HVB's Private Banking division, UniCredit Luxembourg S.A. has devised solutions that enable its customers to benefit from the advantageous underlying conditions offered by Luxembourg as a financial centre. The Private Banking unit based in Luxembourg serves about 2,300 customers with an investment volume of €13 billion and employs 22 people. The focus is on serving high net worth and ultra high net worth segments/customers and offering specialist services for the corporate group like the asset management of life insurance policies.

At the beginning of 2013, the Private Banking division was transferred to the newly formed Private Clients Bank and the Family Office to the Unternehmer Bank in connection with the new corporate structure.

Other/consolidation segment
The Other/consolidation segment encompasses Global Banking Services and Group Corporate Centre activities, and consolidation effects.

Global Banking Services activities encompass purchasing, organisation, logistics and facility management, cost management and back-office functions for credit, accounts, foreign exchange, money market and derivatives. Payments, securities settlement, IT application development and IT operation have been outsourced.

The **Group Corporate Centre** activities include profit contributions that do not fall within the jurisdiction of the individual divisions. Among other items, this includes the profits and losses of consolidated subsidiaries for which HVB's strategic property management function is responsible, such as HVB Immobilien AG and its subsidiaries, and of non-consolidated holdings, provided they are not assigned to the divisions, together with the net income from securities holdings for which the Management Board is responsible. Also incorporated in this segment are the amounts arising from decisions taken by management with regard to asset/liability management. This includes contributions to earnings from securities and money trading activities involving UniCredit S.p.A. and its subsidiaries. The Group Corporate Centre also includes the Real Estate Restructuring customer portfolio (RER).

28 Income statement broken down by segment

Income statement broken down by segment for the period from 1 January to 31 December 2012 (€ millions)

INCOME/EXPENSES	CORPORATE & INVESTMENT BANKING	FAMILY & SME	PRIVATE BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	2,200	1,098	94	17	3,409
Dividends and other income from equity investments	126	4	14	3	147
Net fees and commissions	475	552	128	8	1,163
Net trading income	1,054	5	(1)	132	1,190
Net other expenses/income	(17)	9	(1)	150	141
OPERATING INCOME	**3,838**	**1,668**	**234**	**310**	**6,050**
Payroll costs	(580)	(637)	(77)	(545)	(1,839)
Other administrative expenses	(974)	(949)	(86)	510	(1,499)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(11)	(21)	(2)	(144)	(178)
Operating costs	**(1,565)**	**(1,607)**	**(165)**	**(179)**	**(3,516)**
OPERATING PROFIT	**2,273**	**61**	**69**	**131**	**2,534**
Net write-downs of loans and provisions for guarantees and commitments	(952)	(8)	(15)	248	(727)
NET OPERATING PROFIT	**1,321**	**53**	**54**	**379**	**1,807**
Provisions for risks and charges	174	20	(4)	5	195
Restructuring costs	(10)	(78)	(8)	(6)	(102)
Net income from investments	89	15	(4)	58	158
PROFIT BEFORE TAX	**1,574**	**10**	**38**	**436**	**2,058**

Income statement broken down by segment for the period from 1 January to 31 December 2011 (€ millions)

INCOME/EXPENSES	CORPORATE & INVESTMENT BANKING	FAMILY & SME	PRIVATE BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	2,435	1,240	109	289	4,073
Dividends and other income from equity investments	131	4	4	11	150
Net fees and commissions	597	552	150	9	1,308
Net trading income	169	(4)	—	25	190
Net other expenses/income	(84)	36	2	137	91
OPERATING INCOME	**3,248**	**1,828**	**265**	**471**	**5,812**
Payroll costs	(587)	(620)	(75)	(537)	(1,819)
Other administrative expenses	(984)	(985)	(84)	460	(1,593)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(14)	(18)	(2)	(165)	(199)
Operating costs	**(1,585)**	**(1,623)**	**(161)**	**(242)**	**(3,611)**
OPERATING PROFIT	**1,663**	**205**	**104**	**229**	**2,201**
Net write-downs of loans and provisions for guarantees and commitments	(316)	(30)	(1)	81	(266)
NET OPERATING PROFIT	**1,347**	**175**	**103**	**310**	**1,935**
Provisions for risks and charges	(204)	(33)	(25)	11	(251)
Restructuring costs	(63)	(15)	(3)	(27)	(108)
Net income from investments	12	(1)	(1)	29	39
PROFIT BEFORE TAX	**1,092**	**126**	**74**	**323**	**1,615**

Segment Reporting (Continued)

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

INCOME/EXPENSES	2012	2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest	2,200	2,435	522	571	553	554
Dividends and other income from equity investments	126	131	41	30	34	21
Net fees and commissions	475	597	121	118	91	145
Net trading income	1,054	169	59	160	52	783
Net other expenses/income	(17)	(84)	5	(5)	(7)	(10)
OPERATING INCOME	**3,838**	**3,248**	**748**	**874**	**723**	**1,493**
Payroll costs	(580)	(587)	(104)	(167)	(144)	(165)
Other administrative expenses	(974)	(984)	(241)	(241)	(249)	(243)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(11)	(14)	(4)	(3)	(2)	(2)
Operating costs	**(1,565)**	**(1,585)**	**(349)**	**(411)**	**(395)**	**(410)**
OPERATING PROFIT	**2,273**	**1,663**	**399**	**463**	**328**	**1,083**
Net write-downs of loans and provisions for guarantees and commitments	(952)	(316)	(425)	(142)	(314)	(71)
NET OPERATING PROFIT/(LOSS)	**1,321**	**1,347**	**(26)**	**321**	**14**	**1,012**
Provisions for risks and charges	174	(204)	117	2	81	(26)
Restructuring costs	(10)	(63)	(10)	1	(1)	—
Net income from investments	89	12	(23)	98	—	14
PROFIT BEFORE TAX	**1,574**	**1,092**	**58**	**422**	**94**	**1,000**
Cost-income ratio in %	40.8	48.8	46.7	47.0	54.6	27.5

Development of the Corporate & Investment Banking division

The Corporate & Investment Banking division increased its operating income by a healthy 18.2%, or €590 million, to €3,838 million in the difficult market environment of 2012. Taking into account the slight decline in operating costs to €1,565 million (down 1.3% or €20 million on 2011), the operating profit rose by €610 million to €2,273 million (2011: €1,663 million).

The sharp rise in operating income can be primarily attributed to the significant increase in net trading income by €885 million to €1,054 million. In this context, it must be taken into account that this development benefited from the reversal of credit value adjustments of €395 million in the first quarter of 2012, while these credit value adjustments had negatively impacted the fourth quarter of 2011 by €397 million. In contrast, valuation effects on financial liabilities held for trading in the portfolio, incorporating the own credit spread served to reduce the total by €52 million; this represents a year-on-year decline of €159 million. Compared with last year, the Rates & FX (interest and currency-related products) trading units and trading with structured credit products contributed higher earnings to the division's net trading income, while the remaining trading units also managed to generate positive results but could not match last year's figures.

Net interest fell by €235 million year-on-year to €2,200 million. This decline is mainly due to the non-recurrence of one-time income effects recorded by the Multinational Corporates unit in 2011; while the total was also depressed by much lower margins particularly in deposit-taking operations on account of the low interest rates. Dividend income fell by a total of €5 million to €126 million on account of lower dividend payments by private equity funds. Net fees and commissions declined by €122 million to €475 million due primarily to weaker credit- and trading-related business.

Strict cost management helped operating costs to decrease by a slight 1.3% to €1,565 million (2011: €1,585 million); due in equal parts to declines in both payroll costs (down 1.2%) and other administrative expenses (down 1.0%). The division's cost-income ratio improved by 8.0 percentage points during the reporting period on account of the higher operating income to reach a good level of 40.8% (2011: 48.8%).

Net write-downs of loans and provisions for guarantees and commitments amounted to €952 million in the reporting period (2011: €316 million). However, this figure contains a provision in connection with the construction of an offshore wind farm. Net write-downs of loans and provisions for guarantees and commitments of €240 million were taken for this exposure as part of the credit extended for which adequate provisions for risks and charges had already been set up last year and which is why a corresponding net reversal of provisions of €240 million was carried out for this exposure in the reporting year. Without this addition of €240 million, "economic net-write downs of loans and provisions for guarantees and commitments" of €712 million are left remaining, which is €396 million higher than the very low year-ago total (€316 million). Due to the reversal of provisions described, a net gain of €174 million was posted for reversals/expenses for provisions for risks and charges. Together with net income from investments of €89 million (2011: €12 million), which was generated particularly from gains in connection with private equity investments and restructuring costs of €10 million (2011: €63 million), the division generated a good profit before tax of €1,574 million in 2012, up by a strong €482 million on the year-ago total of €1,092 million.

Income statement of the Family & SME division

(€ millions)

INCOME/EXPENSES	2012	2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest	1,098	1,240	269	281	270	278
Dividends and other income from equity investments	4	4	—	—	4	—
Net fees and commissions	552	552	134	134	150	134
Net trading income	5	(4)	5	—	—	—
Net other expenses/income	9	36	(2)	6	3	2
OPERATING INCOME	**1,668**	**1,828**	**406**	**421**	**427**	**414**
Payroll costs	(637)	(620)	(160)	(160)	(164)	(153)
Other administrative expenses	(949)	(985)	(238)	(235)	(233)	(243)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(21)	(18)	(7)	(5)	(5)	(4)
Operating costs	**(1,607)**	**(1,623)**	**(405)**	**(400)**	**(402)**	**(400)**
OPERATING PROFIT	**61**	**205**	**1**	**21**	**25**	**14**
Net write-downs of loans and provisions for guarantees and commitments	(8)	(30)	29	(22)	(1)	(14)
NET OPERATING PROFIT/(LOSS)	**53**	**175**	**30**	**(1)**	**24**	**—**
Provisions for risks and charges	20	(33)	(19)	19	2	18
Restructuring costs	(78)	(15)	(78)	—	—	—
Net income from investments	15	(1)	6	3	4	2
PROFIT/(LOSS) BEFORE TAX	**10**	**126**	**(61)**	**21**	**30**	**20**
Cost-income ratio in %	96.3	88.8	99.8	95.0	94.1	96.6

Development of the Family & SME division

At €10 million, the profit before tax of the F&SME division at 31 December 2012 was €116 million below the year-ago total. This development can be attributed primarily to a decline of €160 million in operating income to €1,668 million together with higher expenses for restructuring provisions (2012: €78 million). In the process, net interest fell by €142 million to €1,098 million, chiefly due to margins on account of the sharp drop in interest rates in deposit-taking operations. Lower net interest was generated in lending activities essentially due to declining volumes, although a tangible increase in new business volumes of real estate and development loans was evident in the second half of 2012. At €552 million, net fees and commissions remained at a high level compared with 2011 (€552 million) despite the persistent restraint still exercised by investors, thus reflecting the successful sale of innovative, demand-compliant products.

Operating costs declined by 1.0% to €1,607 million year-on-year thanks to consistent cost management. A decrease in indirect costs also contributed to the fall in operating costs. Payroll costs included in operating costs rose by a total of 2.7% to €637 million in line with standard pay increases and higher pension expenses.

Net write-downs of loans and provisions for guarantees and commitments showed a pleasing trend, declining by a sharp 73.3% to an extremely low level of €8 million. The restructuring provisions of €78 million (2011: €15 million) relate to the change in the organisational structure of HVB Group and measures aimed at securing the competitiveness of the mass-market operations over the coming years. They essentially reflect provisions for severance payments as well as costs incurred in connection with the closure of branches. After positive effects from the reversal of provisions and net income from investments are taken into account, the F&SME division generated a profit before tax of €10 million in 2012 overall (2011: €126 million).

Segment Reporting (Continued)

Income statement of the Private Banking division (€ millions)

INCOME/EXPENSES	2012	2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest	94	109	23	24	22	25
Dividends and other income from equity investments	14	4	6	5	2	1
Net fees and commissions	128	150	27	32	35	34
Net trading income	(1)	—	—	—	—	(1)
Net other expenses/income	(1)	2	(3)	—	1	1
OPERATING INCOME	**234**	**265**	**53**	**61**	**60**	**60**
Payroll costs	(77)	(75)	(18)	(20)	(20)	(19)
Other administrative expenses	(86)	(84)	(23)	(21)	(20)	(22)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(2)	(2)	—	—	(1)	(1)
Operating costs	**(165)**	**(161)**	**(41)**	**(41)**	**(41)**	**(42)**
OPERATING PROFIT	**69**	**104**	**12**	**20**	**19**	**18**
Net write-downs of loans and provisions for guarantees and commitments	(15)	(1)	(4)	(10)	—	(1)
NET OPERATING PROFIT	**54**	**103**	**8**	**10**	**19**	**17**
Provisions for risks and charges	(4)	(25)	(6)	9	(7)	—
Restructuring costs	(8)	(3)	(8)	—	—	—
Net income from investments	(4)	(1)	(4)	—	—	—
PROFIT/(LOSS) BEFORE TAX	**38**	**74**	**(10)**	**19**	**12**	**17**
Cost-income ratio in %	70.5	60.8	77.4	67.2	68.3	70.0

Development of the Private Banking division

The Private Banking division generated a profit before tax of €38 million in 2012, falling short of the good prior-year total of €74 million. The main reason for this is a decline of €31 million in operating income to €234 million. Within operating income, the €128 million recorded for net fees and commissions in particular failed to match the high year-ago total of €150 million on account of persistently weak customer demand. Net interest fell by €15 million to €94 million, notably on account of deposit-taking operations contracting as a result of low interest rates.

The 2.5% increase in operating costs to €165 million can be attributed to payroll costs partly due to the standard pay increases and higher other administrative expenses resulting from higher indirect costs. The cost-income ratio amounted to 70.5% after 60.8% in 2011.

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

INCOME/EXPENSES	2012	2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest	17	289	(80)	3	33	61
Dividends and other income from equity investments	3	11	3	—	—	—
Net fees and commissions	8	9	(2)	3	5	2
Net trading income	132	25	3	17	87	25
Net other expenses/income	150	137	31	50	34	35
OPERATING INCOME	**310**	**471**	**(45)**	**73**	**159**	**123**
Payroll costs	(545)	(537)	(133)	(137)	(140)	(135)
Other administrative expenses	510	460	131	121	132	126
Amortisation, depreciation and impairment losses on intangible and tangible assets	(144)	(165)	(28)	(40)	(37)	(39)
Operating costs	**(179)**	**(242)**	**(30)**	**(56)**	**(45)**	**(48)**
OPERATING PROFIT/(LOSS)	**131**	**229**	**(75)**	**17**	**114**	**75**
Net write-downs of loans and provisions for guarantees and commitments	248	81	97	15	140	(4)
NET OPERATING PROFIT	**379**	**310**	**22**	**32**	**254**	**71**
Provisions for risks and charges	5	11	1	(4)	(1)	9
Restructuring costs	(6)	(27)	(6)	(1)	1	—
Net income from investments	58	29	4	4	46	4
PROFIT BEFORE TAX	**436**	**323**	**21**	**31**	**300**	**84**
Cost-income ratio in %	57.7	51.4	(66.7)	76.7	28.3	39.0

Development of the Other/consolidation segment

The operating income of this segment fell by €161 million in 2012 to €310 million (2011: €471 million). This decline essentially stems from net interest, which decreased by a total of €272 million to €17 million (2011: €289 million) due among other things to a decline in return on equity in line with interest rates. At the same time, net trading income rose by €107 million to €132 million (2011: €25 million) partly due to the gains generated in connection with the buy-back of hybrid capital instruments and supplementary capital.

Operating costs decreased by €63 million overall largely as a result of the bank levy in Austria that was no longer payable in the reporting period (expenses in bank levy in 2011: €48 million). Operating profit fell by €98 million to €131 million in 2012 (2011: €229 million) on account of the decline in operating income.

In the reporting period, a net reversal of €248 million was recorded in net write-downs of loans and provisions for guarantees and commitments arising notably from the successful reduction of expiring portfolios (net reversal in 2011: €81 million). With an increase in net income from investments to €58 million on account of gains on the sale of land and buildings coupled with a year-on-year decrease of €21 million in restructuring costs and only a slight change in net reversals of provisions for risks and charges, the profit before tax totalled €436 million, which is €113 million higher than the year-ago total of €323 million.

Segment Reporting (Continued)

29 Balance sheet figures, broken down by segment

(€ millions)

	CORPORATE & INVESTMENT BANKING	FAMILY & SME	PRIVATE BANKING	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with banks					
2012	34,967	1,089	32	232	**36,320**
2011	42,549	735	8	985	**44,277**
Loans and receivables with customers					
2012	71,893	44,143	5,730	446	**122,212**
2011	86,183	46,203	5,020	(845)	**136,561**
Goodwill					
2012	405	13	—	—	**418**
2011	405	13	—	—	**418**
Deposits from banks					
2012	39,081	8,027	331	(2,223)	**45,216**
2011	48,688	7,136	261	1,773	**57,858**
Deposits from customers					
2012	44,553	46,158	8,858	10,699	**110,268**
2011	46,706	46,624	7,472	6,640	**107,442**
Debt securities in issue					
2012	4,473	3,930	913	26,547	**35,863**
2011	2,319	722	85	39,541	**42,667**
Risk-weighted assets compliant with Basel II					
(including equivalents for market risk and					
operational risk)					
2012	82,179	19,410	2,146	6,111	**109,846**
2011	101,369	18,194	1,736	6,136	**127,435**

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Notes 58 and 67

30 Employees, broken down by operating and service division[1]

	2012	2011
Corporate & Investment Banking	3,267	3,541
Family & SME	8,513	8,423
Private Banking	757	765
Global Banking Services	1,825	1,931
Group Corporate Centre	4,885	4,782
Total	**19,247**	**19,442**

1 in full-time equivalents

31 Segment reporting by region

The allocation of amounts to regions is based on the head office of the Group companies or offices involved.

Income statement, broken down by region (€ millions)

	GERMANY	ITALY	LUXEM-BOURG	UK	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
OPERATING INCOME									
2012	5,345	834	277	408	71	130	37	(1,052)	6,050
2011	5,389	26	314	38	524	140	68	(687)	5,812
OPERATING PROFIT/(LOSS)									
2012	1,669	736	238	277	32	98	(3)	(513)	2,534
2011	1,861	(222)	278	35	399	61	(5)	(206)	2,201

Total assets, broken down by region (€ millions)

	2012	2011
Germany	285,119	303,368
Italy	74,397	71,135
Luxembourg	24,598	31,972
UK	17,308	27,732
Rest of Europe	2,836	1,380
Americas	6,199	10,105
Asia	3,171	4,485
Consolidation	(65,328)	(77,865)
Total	**348,300**	**372,312**

Property, plant and equipment, broken down by region (€ millions)

	2012	2011
Germany	2,930	2,823
Italy	—	—
Luxembourg	33	35
UK	20	18
Rest of Europe	3	3
Americas	24	25
Asia	3	2
Consolidation	—	—
Total	**3,013**	**2,906**

Employees, broken down by region [1]

	2012	2011
Germany	17,391	17,473
Italy	326	334
Luxembourg	181	185
UK	542	618
Rest of Europe	405	393
Africa	2	3
Americas	201	217
Asia	199	219
Total	**19,247**	**19,442**

1 in full-time equivalents

Notes to the Income Statement

32 Net interest

(€ millions)

	2012	2011
Interest income from	**7,134**	**8,823**
lending and money market transactions	5,070	6,001
other interest income	2,064	2,822
Interest expense from	**(3,725)**	**(4,750)**
deposits	(1,098)	(1,654)
debt securities in issue and other interest expenses	(2,627)	(3,096)
Total	**3,409**	**4,073**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €5,407 million (2011: €6,560 million) and €3,038 million (2011: €3,956 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well. Net interest includes interest income of €158 million from non-performing loans and receivables (2011: €167 million).

Net interest attributable to related parties

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

(€ millions)

	2012	2011
Non-consolidated affiliated companies	228	289
of which: UniCredit S.p.A.	143	179
Joint ventures	—	—
Associated companies	(2)	6
Other participating interests	—	—
Total	**226**	**295**

Besides the amounts attributable to UniCredit S.p.A., the net interest of €228 million (2011: €289 million) from non-consolidated affiliated companies includes interest income of €85 million (2011: €111 million) attributable to sister companies and €0 million (2011: expense €1 million) attributable to subsidiaries.

33 Dividends and other income from equity investments

(€ millions)

	2012	2011
Dividends and other similar income	138	144
Companies accounted for using the equity method	9	6
Total	**147**	**150**

34 Net fees and commissions

(€ millions)

	2012	2011
Management, brokerage and consultancy services	555	649
Collection and payment services[1]	216	218
Lending operations[1]	382	423
Other service operations	10	18
Total	**1,163**	**1,308**

1 At 30 September 2012, guarantee and documentary-credit fees were reclassified from lending operations to collection and payment services. The year-ago-figures have been adjusted accordingly.

This item comprises the balance of fee and commission income of €1,651 million (2011: €1,832 million) and fee and commission expense of €488 million (2011: €524 million).

Net fees and commissions from related parties

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

(€ millions)

	2012	2011
Non-consolidated affiliated companies	81	63
of which: UniCredit S.p.A.	9	(16)
Joint ventures	—	—
Associated companies	4	64
Other participating interests	—	—
Total	**85**	**127**

Besides the amounts attributable to UniCredit S.p.A., the net fees and commissions of €81 million (2011: €63 million) from non-consolidated affiliated companies include €72 million (2011: €79 million) from sister companies.

35 Net trading income

(€ millions)

	2012	2011
Net gains on financial assets held for trading[1]	1,248	46
Effects arising from hedge accounting	(112)	101
Changes in fair value of hedged items	(662)	(1,004)
Changes in fair value of hedging derivatives	550	1,105
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	(5)	25
Other net trading income	59	18
Total	**1,190**	**190**

1 including dividends from 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 (effect in 2012: minus €125 million; 2011: minus €303 million)

The net gains on financial assets in the reporting period include credit value adjustments of €374 million on our holdings of derivatives. In 2011, similar credit value adjustments of €485 million served to depress the net gains on financial assets.

Notes to the Income Statement (Continued)

Other net trading income in 2011 and 2012 almost exclusively reflected positive effects from the partial buy-back of hybrid capital.

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 hedge results from hedged items include a positive effect of €128 million (2011: €183 million) arising from exchange rate changes that is offset by a corresponding negative in the hedge result from hedging derivatives.

The net gains on holdings at fair value through profit or loss (held-for-trading portfolios 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 income. To ensure that the full contribution 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.

36 Net other expenses/income

(€ millions)

	2012	2011
Other income	384	350
Other expenses	(243)	(259)
Total	**141**	**91**

Net other expenses/income totalled €141 million in 2012 (2011: €91 million).

Other income includes rental income of €162 million (2011: €165 million) from investment properties and mixed usage buildings. Current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €50 million (2011: €44 million) are netted with the other income. Other expenses include expenses of €108 million (2011: €101 million) for the German bank levy in the 2012 financial year.

At the same time, there were gains of €59 million (2011: €14 million) on the sale of unimpaired receivables.

Net other expenses/income attributable to related parties

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

(€ milions)

	2012	2011
Non-consolidated affiliated companies	74	70
of which: UniCredit S.p.A.	15	14
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**74**	**70**

Besides the amounts attributable to UniCredit S.p.A., the net other expenses/income of €74 million (2011: €70 million) attributable to non-consolidated affiliated companies include €59 million (2011: €56 million) attributable to sister companies.

37 Operating costs

(€ millions)

	2012	2011
Payroll costs	**(1,839)**	**(1,819)**
Wages and salaries	(1,508)	(1,496)
Social security costs	(217)	(214)
Pension and other employee benefit costs	(114)	(109)
Other administrative expenses	**(1,499)**	**(1,593)**
Amortisation, depreciation and impairment losses	**(178)**	**(199)**
on property, plant and equipment	(115)	(127)
on software and other intangible assets, excluding goodwill	(63)	(72)
Total	**(3,516)**	**(3,611)**

Wages and salaries includes payments of €9 million (2011: €20 million) made upon the termination of the employment contract. The expense for similar payments under restructuring measures are recognised under restructuring costs in the income statement and explained in Note 40.

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)

	2012	2011
Non-consolidated affiliated companies	(581)	(586)
of which: UniCredit S.p.A.	1	12
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(581)**	**(586)**

Besides the amounts attributable to UniCredit S.p.A., the operating costs of €581 million (2011: €586 million) attributable to non-consolidated affiliated companies include €582 million (2011: €598 million) attributable to sister companies.

The Group Executive Incentive System has governed variable compensation payable to selected staff since the 2010 financial year. This system is built around the principle that the variable compensation is granted partially in shares and is scheduled for disbursement over a number of years.

Employees whose duties have a significant impact on the Bank's overall risk and employees with a promised bonus in excess of €100,000 are beneficiaries of the Group Executive Incentive Systems 2012. Under the Group Executive Incentive System, the bonus promised for the respective reporting period is split into a cash component and a stock component (share-based compensation in the sense of IFRS 2). The cash component is disbursed in tranches over a period of up to four years. Accordingly, this group of employees received 20% to 40% of the bonus for 2012 in cash with the commitment at the beginning of 2013, and a further 20% will be disbursed after year-end 2013, and a further 10% for some of the beneficiaries after year-end 2015. At the beginning of 2013, the beneficiaries receive a commitment for the remaining 40% to 50% of the total bonus to allocate shares in UniCredit S.p.A. as part of the bonus for 2012, be transferred to the beneficiaries after year-end 2014 and 2015, and partially also 2016. The delayed payment after year-end 2012/13 or partially 2015 and the allocation of shares after year-end 2014 and 2015 or partially 2016 to the beneficiaries is based on the level of target achievement in the individual agreed targets in 2012. This is subject to the proviso that they continue to work for UniCredit up to the date of payment or transfer and that, as part of malus arrangement, it is ensured that a loss has not been recorded at the UniCredit corporate level or at the level of the individual beneficiary, or a significant reduction in the results achieved.

Notes to the Income Statement (Continued)

The stock component granted as part of the bonus for 2012 is subject to the proviso that the Annual General Meeting of UniCredit S.p.A. formally approves the relevant volume of shares in April 2013. The fair value of the granted shares is calculated using the average stockmarket price of UniCredit S.p.A. shares in the month prior to the Annual General Meeting that adopts a resolution regarding the granting. 6.6 million UniCredit S.p.A. shares (before possible adjustment due to adjustments in the equity of UniCredit S.p.A.) were granted in the reporting period as the component of the bonus granted for 2011, with a fair value of €4.010 for the shares to be transferred in 2014 and 2015. The aggregate fair value of the stocks granted totals €26.4 million.

The promised bonuses are recognised in the income statement on a pro rata basis over the respective vesting period.

Bonuses for the 2012 financial year falling due for disbursement in 2013 are recognised in full as expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.68. Thus, deferred cash payments under the bonus promised for 2012 are recognised as expense in the respective period (from the 2012 financial year to the end of the financial year in which the waiting period for the tranche in question ends) on a pro rata basis.

HVB reimburses the accrued expenses to UniCredit once the conditions for granting shares have been met. In the 2012 financial year, prorated expenses of €16.7 million accrued for the stock component arising from the bonuses promised for 2010, 2011 and 2012 in the form of share-based compensation compliant with IFRS 2. The provision set up to cover this expense totalled €33.6 million.

In addition to this, UniCredit has further share-based schemes that are similarly accounted for in accordance with IFRS 2: the long-term incentive programme, the "2012 Share Plan for Group Talents and Mission Critical Players" and the employee share ownership plan ("Let's Share"). These are described below.

Long-term incentive programme
A long-term incentive programme including share-based remuneration transactions featuring compensation in UniCredit shares, has been set up for executives and junior managers of all UniCredit companies selected using defined criteria. Within this umbrella programme, individual schemes were set up in recent years, the key elements of which included the granting of stock options starting in 2011 in the form of performance stock options and performance shares.

UniCredit undertakes the commitment to employees of HVB; in return, HVB reimburses to UniCredit the expenses accruing for the stock options and performance shares actually transferred to the beneficiaries after the vesting period has expired and the conditions attached to the commitment have been checked. The fair value of the instrument at the time granting is recognised as the expense for the stock options and performance shares transferred.

The following statements relate to all eligible HVB Group employees covered by the long-term incentive programme. The information provided in Note 85 in this regard showing the emoluments paid to members of the Management Board merely relates to the stock options and performance shares granted to members of the Management Board.

The stock options granted under the long-term incentive programme grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. With regard to the new stock options granted during the reporting period, the strike price is the average price of the UniCredit share in the month prior to the approval of the long-term incentive programme by the UniCredit Board. In the case of stock options issued during or after 2011, beneficiaries are only entitled to exercise their options in a range between 0% and 150% (depending on the level of target achievement) of the underlying total originally granted if the respective targets have been met after around three to four years. The options may only be exercised during a fixed period which starts after the vesting period expires. If the beneficiary has already left UniCredit by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis or in full in certain exceptional circumstances, such as disability, retirement or an employer leaving UniCredit.

The fair values of the stock options at the grant date are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:

– The probability of the option expiring due to the beneficiary leaving the company prematurely after the lock-up period has expired.
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of the UniCredit share exceeds the exercise price by the exercise barrier multiplier (usually a factor of 1.5).
– Dividend yield of the UniCredit share.
– Average historical daily volatility over the vesting period.

The following information regarding numbers of shares and exercise prices for stock options represent the status at the time of granting. No adjustments have been made on account of capital increases or stock consolidations.

Information about stock options (assuming a target achievement of 100%)

	2012
Total (shares)	1,177,130
Strike price (€)	4.0100
Market price of UniCredit share on grant date (€)	4.0100
Expected volatility	56.5%
Expected dividend yield	2.0%
Risk-free interest rate included in option price model	2.5%
Conditional grant date	27/3/2012
Exercise date should criteria be met (start of exercise period)	Expected April/May 2016
End of exercise period	31/12/2022
Fair value per option on grant date (€)	1.8670

The stock options granted in 2011 become exercisable in 2014, the stock options granted in 2012 become exercisable in 2016, provided the relevant targets are achieved in each case. Furthermore, the stock options were granted subject to the condition that the beneficiaries continued to work for UniCredit. All other stock options granted in earlier years are already exercisable.

Notes to the Income Statement (Continued)

Analysis of outstanding stock options

	2012			2011		
	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY
Outstanding at start of period	**29,054,141[2]**	**3.24[2]**	**October 2019**	**15,990,892**	**4.75**	**August 2018**
Additions						
Newly granted options	1,177,130	4.01	December 2022	16,044,452[2]	1.81	December 2020
Releases						
Forfeited stock options	2,137,042	3.32	October 2019	2,981,203	3.76	August 2019
Exercised stock options	—	—		—	—	—
Expired stock options	—	—		—	—	—
Total at end of period	**28,094,229**	**3.27**	**December 2019**	**29,054,141[2]**	**3.25**	**October 2019**
Exercisable options at end of period	13,256,442	4.71	August 2018	4,071,296	6.03	September 2018

1 The average strike price is only of limited information value on account of the non-inclusion of completed capital increases and stock consolidations (final measure in 2012: stock consolidation at a ratio of 10:1 and subsequent capital increase at a ratio of 1:2 at a price of €1.943) in line with the conditions for granting the stock options.
2 figures differ from 2011 due to corporate transfers

The fair value on the date of granting options is recorded as an expense on the basis of the expected number of options exercised over the period.

A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of around three years, the relevant targets have been met and the recipient is still working for UniCredit; otherwise, the performance shares are normally forfeited. As an alternative to the transfer of shares, the UniCredit Board may also decide to disburse in cash the market value of the shares at the time of transfer. The shares may be transferred on a pro rata basis or in full in certain exceptional cases, such as disability, retirement or an employer leaving UniCredit. Similarly in the case of performance shares issued during or after 2011, the actual number of shares transferred is in a range between 0% and 150% of the underlying total originally granted (depending on the level of target achievement).

The fair value for the performance shares is determined on the basis of the share price on the date when the performance shares were granted, taking into account a discount for expected dividend payments up until the grant date when the criteria are met.

No new performance shares were granted in 2012.

Analysis of outstanding performance shares

	2012		2011	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**10,772,508[1]**	**May 2013**	**4,290,505**	**November 2011**
Additions				
Increase in portfolio arising from capital increase				
from company funds	(9,124,688)	May 2013	—	—
Newly granted performance shares	—	—	7,978,860[1]	December 2013
Releases				
Forfeited performance shares	72,131	October 2013	812,781	March 2013
Transferred performance shares	—	—	44,882	December 2010
Expired performance shares	494,886	December 2011	639,194	December 2010
Total at end of period	**1,080,803**	**December 2013**	**10,772,508[1]**	**May 2013**

1 figures differ from 2011 due to corporate transfers

The decline in the total compared with year-end 2011 shown in the table above can be attributed to the stock consolidation at a ratio of 10:1 and the capital increase at a ratio of 1:2.

The fair value at the grant date is recorded as an expense for performance shares over the term of the shares.

The income from forfeited instruments and the prorated expenses arising from the granted instruments totalled a net amount of €2.8 million (2011: €6.9 million) at HVB Group for both programmes (stock options and performance shares) in 2012, which is recognised under payroll costs.

The provision set up to cover this totalled €9.2 million at year-end 2012 (2011: €15.3 million).

2012 Share Plan for Group Talents and Mission Critical Players:
The parent company, UniCredit S.p.A., set up what is known as the Share Plan for Group Talents and Mission Critical Players in 2012 for selected employees with high potential and outstanding performance who generate sustainable growth for the corporate group. The beneficiaries are entitled to purchase a previously defined number of UniCredit S.p.A. shares. The shares are granted in three equal tranches over a period of three years in 2013, 2014 and 2015, provided annually defined performance targets are met and the employees are in regular, indefinite employment at the respective grant date. Otherwise, the shares are normally forfeited. The shares may be transferred in full in certain exceptional cases, such as disability, retirement or employer leaving UniCredit. As an alternative to transferring the shares, the Board of UniCredit S.p.A. may also decide to disburse in cash the market value of the shares at the transfer date.

Under the terms of this plan, UniCredit S.p.A. undertakes the commitments directly with the HVB employees concerned. Similarly, HVB reimburses the expenses actually accruing to UniCredit S.p.A. on the basis of the fair value at the grant date. The fair value for the shares is determined on the basis of the share price on the grant date, including a discount for expected dividend payments up to the grant date assuming the criteria are met.

Information regarding the 2012 Share Plan for Group Talents and Mission Critical Players

	2012
Total (shares)	1,176,064
Market price of UniCredit share on grant date (€)	4.0100
Conditional grant date	27/3/2012
Exercise date should criteria be met (start of exercise period)	1/3 in each case by the end of July 2013, 2014 and 2015
Fair value per share on grant date (€)	4.0100

Analysis of outstanding shares

	2012	2011
	TOTAL (SHARES)	TOTAL (SHARES)
Outstanding at start of period	—	—
Additions		
Newly granted shares	1,184,064	—
Releases		
Forfeited shares	36,855	—
Transferred shares	—	—
Expired shares	—	—
Total at end of period	**1,147,209**	**—**

Notes to the Income Statement (Continued)

The fair value at the grant date is recorded as an expense for such shares in the period that is decisive for fulfilling the respective criteria.

The income from forfeited shares and the prorated expenses arising from the granted shares totalled a net amount of €2.7 million at HVB Group in 2012 (2011: €0.0 million), which is recognised in payroll costs.

The provision set up for this share plan totalled €2.7 million at year-end 2012 (2011: €0.0 million).

Employee share ownership plan
An employee share ownership plan ("Let's Share") has been set up enabling UniCredit employees to purchase UniCredit shares at discounted prices.

Between January 2012 and December 2012, people participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). However, the plan offers the following advantage compared with buying the shares directly on the market:

Participating employees first receive the right to obtain a free share for every three investment shares bought under the plan. At the end of a three-year vesting period in January 2016, the participants receive regular UniCredit shares in exchange for their rights, over which they have an immediate right of disposal. The rights to the free shares generally expire when employees sell the investment shares or their employment with a UniCredit company is terminated before the vesting period ends.

Thus, employees can enjoy an advantage of around 33% of the investment made as a result of the granting of free shares. Added to this is a tax break that exists in Germany for such employee share ownership plans.

It is intended to operate the plan on an annual basis. Similar programmes had already been set up in previous years.

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

(€ millions)

	2012	2011
Additions	**(1,699)**	**(1,624)**
Allowances for losses on loans and receivables	(1,467)	(1,537)
Allowances for losses on guarantees and indemnities	(232)	(87)
Releases	**911**	**1,188**
Allowances for losses on loans and receivables	837	1,115
Allowances for losses on guarantees and indemnities	74	73
Recoveries from write-offs of loans and receivables	**64**	**171**
Gains on the disposal of impaired loans and receivables	**(3)**	**(1)**
Total	**(727)**	**(266)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €59 million in the year under review (2011: €14 million). The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €510 million (2011: net expense of €238 million).

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)

	2012	2011
Non-consolidated affiliated companies	—	—
Joint ventures	—	—
Associated companies	—	(1)
Other participating interests	(7)	(3)
Total	**(7)**	**(4)**

39 Provisions for risks and charges

All in all, there was income of €195 million from the reversal of provisions for risks and charges in the 2012 financial year. The biggest individual item in the reversals in 2012 relates to the erection of an offshore wind farm. Under the terms of a loan extended for this commitment, the provisions of €240 million set up in previous years for this exposure were reversed and an amount of €240 million transferred to net write-downs of loans and provisions for guarantees and commitments at the same time.

In addition, provisions were created for various litigation risks.

In 2011, provisions for risks and charges amounted to €251 million, which could be attributed primarily to the creation of provisions for various litigation risks.

40 Restructuring costs

Restructuring costs totalling €102 million accrued during the reporting period. These expenses relate almost exclusively to the creation of restructuring provisions for measures relating to the changes to the organisational structure of HVB Group as part of the roll-out of the three business segments – Unternehmer Bank, Private Clients Bank and Corporate & Investment Banking – and the systematic strengthening of our regional presence and for measures aimed at optimising HVB Group's network of branches and offices and expanding our multi-channel strategy in sales. These restructuring provisions have been set up mainly to cover severance payments as well as the costs involved in the closure of offices.

In 2011, provisions of €108 million were set up for various restructuring programmes, including in connection with the elimination of positions. Among other things, this included restructuring costs relating to changes in the strategic orientation of the CIB division, such as the discontinuation of the cash equity business for western Europe and the equity research activities as well as a cost-optimisation programme in the central Corporate Centre functions.

41 Net income from investments

(€ millions)

	2012	2011
Available-for-sale financial assets	72	38
Shares in affiliated companies	22	20
Companies accounted for using the equity method	—	(7)
Held-to-maturity investments	5	(4)
Land and buildings	49	15
Investment properties[1]	10	(23)
Total	**158**	**39**

1 Gains on disposal, impairments and write-ups together with fair value fluctuations for investment properties measured at market value

Notes to the Income Statement (Continued)

Net income from investments breaks down as follows:

(€ millions)

	2012	2011
Gains on the disposal of	**220**	**147**
available-for-sale financial assets	134	112
shares in affiliated companies	22	20
companies accounted for using the equity method	—	(7)
held-to-maturity investments	5	(4)
land and buildings	49	15
investment properties	10	11
Write-downs and value adjustments on	**(62)**	**(108)**
available-for-sale financial assets	(62)	(74)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
investment properties	—	(34)
Total	**158**	**39**

The gain of €2 million (2011: €27 million) arising from the translation of monetary available-for-sale financial instruments denominated in foreign currency is recognised as part of the net FX income in net trading income.

HVB Group recorded net income from investments of €158 million in the 2012 financial year (2011: €39 million). The net gains (gains on disposal less write-downs and valuation adjustments) arising from available-for-sale financial instruments in the reporting period contained a net gain of €49 million from private equity funds and direct and co-investments. This consists of gains on disposal of €97 million and valuation expenses of €48 million.

In 2011, the total included a gain of €45 million on the sale to UniCredit S.p.A. of part of the Bank's holding in UniCredit Global Information Services, which had previously been consolidated using the equity method, and in the non-consolidated UniCredit Business Partners S.C.p.A. (UCBP). The net gains (gains on disposal less write-downs and valuation adjustments) arising from available-for-sale financial instruments in 2011 contained a net loss of €5 million from private equity funds and direct and co-investments. This consisted of gains on disposal of €39 million and valuation expenses of €44 million.

42 Income tax for the period

(€ millions)

	2012	2011
Current taxes	(625)	(169)
Deferred taxes	(146)	(471)
Total	**(771)**	**(640)**

The current tax expense for 2012 includes tax expenses of €103 million for previous years (2011: €10 million). Among others, provisions have been set up for legal proceedings in connection with German tax credits.

The deferred tax expense in 2012 results from expenses of €249 million arising from the origination and utilisation of tax losses and the origination, reversal and value adjustments of deferred taxes arising from temporary differences and net income of €103 million from value adjustments on deferred tax assets arising from tax losses carried forward. The deferred tax expense in 2011 comprised net expense of €85 million from value adjustments on deferred tax assets arising from tax losses carried forward and net expense of €386 million relating to the origination and utilisation of tax losses and the origination, reversal and value adjustments of deferred taxes arising from temporary differences.

The differences between computed and recognised income tax are shown in the following reconciliation: **(€ millions)**

	2012	2011
Profit before tax	2,058	1,615
Applicable tax rate	31.4%	31.4%
Computed income taxes	(647)	(507)
Tax effects		
arising from previous years and changes in tax rates	(103)	(4)
arising from foreign income	+ 23	+ 61
arising from non-taxable income	+ 75	+ 78
arising from different tax laws	(80)	(25)
arising from non-deductible expenses	(130)	(148)
arising from value adjustments and the non-recognition of deferred taxes	+ 91	(95)
Recognised income taxes	**(771)**	**(640)**

An applicable tax rate of 31.4% has been assumed in the tax reconciliation. This comprises the current rate of corporate income tax in Germany of 15.0%, the solidarity surcharge of 5.5% and an average trade tax rate of 15.6%. This reflects the fact that the consolidated profit is dominated by profits generated in Germany, meaning that it is subject to German corporate income tax and trade tax.

The effects arising from tax on foreign income are a result of different tax rates applicable in other countries.

The item tax effects from different tax law essentially comprises the municipal trade tax modifications applicable to domestic companies and Italian regional tax on productive activity (IRAP).

Notes to the Income Statement (Continued)

The deferred tax assets and liabilities are broken down as follows:

(€ millions)

	2012	2011
Deferred tax liabilities		
Loans and receivables with banks and customers, including provisions for losses on loans and receivables	45	74
Financial assets/liabilities held for trading	171	175
Investments	214	273
Property, plant and equipment/intangible assets	60	35
Other assets/other liabilities/hedging derivatives	802	732
Deposits from banks/customers	54	111
Non-current assets or disposal groups held for sale	6	5
Other	351	336
Recognised deferred tax liabilities	**1,703**	**1,741**
Deferred tax assets		
Financial assets/liabilities held for trading	415	436
Investments	142	150
Property, plant and equipment/intangible assets	102	142
Provisions	503	346
Other assets/other liabilities/hedging derivatives	882	838
Loans and receivables with banks and customers, including provisions for losses on loans and receivables	233	257
Losses carried forward/tax credits	464	641
Other	2	1
Recognised deferred tax assets	**2,743**	**2,811**

Deferred taxes are normally measured using the local tax rates of the respective tax jurisdiction. German corporations use the uniform corporate income tax rate that is not dependent on any dividend distribution of 15.8%, including the solidarity surcharge, and the municipal trade tax rate dependent on the applicable municipal trade tax multiplier. As last year, this resulted in an overall valuation rate for deferred taxes of 31.4% for HVB in Germany. The applicable local tax rates are applied analogously for other domestic and foreign units. Changes in tax rates have been taken into account, provided they had already been enacted or substantially enacted by the end of the reporting period.

Deferred tax assets of €16 million (2011: €85 million) were credited to the AfS reserve of HVB Group and deferred tax liabilities of €11 million (2011: €13 million) were offset against the hedge reserve. The deferred taxes are mainly included in the items "Investments" and "Other assets/other liabilities/hedging derivatives" mentioned above. On account of the option set forth in IAS 19.93A, deferred tax assets of €272 million (2011: €89 million) were directly credited to shareholders' equity and are included in "Provisions". In each case, the deferred tax items offset directly against reserves are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €4,217 million (2011: €4,500 million), most of which do not expire, and deductible temporary differences of €1,652 million (2011: €1,611 million).

The deferred tax assets recognised on tax losses carried forward and tax credits were calculated using plans of the individual divisions, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon remained unchanged at five years. Measurement was carried out taking into account possible restrictions of local regulations regarding time and the so-called minimum taxation rule for domestic tax losses carried forward. Estimation uncertainties are inherent in the assumptions used in any multi-year plan. Where changes are made to the multi-year plan, this may have an impact on the valuation of the volume of deferred tax assets already capitalised or to be capitalised.

43 Impairment on goodwill

No impairment on goodwill accrued during the reporting period. In 2011, impairments of €4 million were taken on goodwill in connection with the sale by DAB Bank AG of part of its majority shareholding in SRQ FinanzPartner AG.

44 Earnings per share

	2012	2011
Consolidated profit attributable to shareholder (€ millions)	1,246	931
Average number of shares	802,383,672	802,383,672
Earnings per share (€)	1.55	1.16

Notes to the Consolidated Balance Sheet

45 Cash and cash balances

(€ millions)

	2012	2011
Cash on hand	576	488
Deposits central banks	15,079	3,779
Total	**15,655**	**4,267**

46 Financial assets held for trading

(€ millions)

	2012	2011
Balance-sheet assets	**25,035**	**30,103**
Fixed-income securities	13,917	17,444
Equity instruments	3,843	3,578
Other financial assets held for trading	7,275	9,081
Positive fair value from derivative financial instruments	**105,982**	**108,341**
Total	**131,017**	**138,444**

The financial assets held for trading include €207 million (2011: €228 million) in subordinated assets. Financial assets held for trading no longer include any Greek sovereign bonds at 31 December 2012. The securities of €1 million (nominal amount: €6 million) included in 2011 were sold in 2012.

Financial assets held for trading of related entities

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

(€ millions)

	2012	2011
Non-consolidated affiliated companies	20,044	19,003
of which: UniCredit S.p.A.	14,018	13,244
Joint ventures	—	—
Associated companies	205	211
Other participating interests	—	—
Total	**20,249**	**19,214**

Besides the amounts attributable to UniCredit S.p.A., the financial assets held for trading of €20,044 million (2011: €19,003 million) attributable to non-consolidated affiliated companies include financial assets of €6,026 million (2011: €5,753 million) attributable to sister companies (mostly derivative transactions involving UniCredit Bank Austria AG) and €0 million (2011: €6 million) attributable to subsidiaries.

47 Financial assets at fair value through profit or loss

(€ millions)

	2012	2011
Fixed-income securities	22,915	26,103
Equity instruments	—	—
Investment certificates	2	2
Promissory notes	1,365	1,940
Other financial assets at fair value through profit or loss	—	—
Total	**24,282**	**28,045**

83% of the promissory notes was issued by the federal states and regional authorities in the Federal Republic of Germany. The portfolio also includes a promissory note issued by the Republic of Austria.

On account of the prime ratings of the promissory notes, the fair value fluctuations contain only minor effects from changes in credit ratings.

The financial assets at fair value through profit or loss include €301 million (2011: €308 million) in subordinated assets. Financial assets at fair value through profit or loss (fair value option) no longer include any Greek sovereign bonds. The securities with a carrying amount/market value of €8 million (nominal amount: €21 million) included in 2011 were sold in 2012.

48 Available-for-sale financial assets

(€ millions)

	2012	2011
Fixed-income securities	4,013	3,727
Equity instruments	418	648
Other available-for-sale financial assets	188	299
Impaired assets	863	802
Total	**5,482**	**5,476**

Available-for-sale financial assets at 31 December 2012 included €1,082 million (31 December 2011: €1,402 million) valued at cost. Within this total, equity instruments with a carrying amount of €65 million were sold during the reporting period, yielding a gain of €90 million.

Available-for-sale financial assets at 31 December 2012 contained a total of €863 million (31 December 2011: €802 million) in impaired assets. Impairments of €68 million (31 December 2011: €94 million) were taken to the income statement during the reporting period.

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

The available-for-sale financial assets included €220 million (2011: €227 million) in subordinated assets at 31 December 2012.

Available-for-sale financial instruments no longer include Greek government bonds at 31 December 2012. The securities with a carrying amount/market value of €2 million (nominal amount: €6 million) still held in 2011 were sold in the first half of 2012.

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

(€ millions)

	2012	2011
Associated companies accounted for using the equity method	65	49
of which: goodwill	36	35
Joint ventures accounted for using the equity method	—	—
Total	**65**	**49**

Notes to the Consolidated Balance Sheet (Continued)

Change in portfolio of shares in associated companies accounted for using the equity method (€ millions)

2011	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**94**
Additions	**55**
Purchases	—
Write-ups	—
Changes from currency translation	—
Other additions[1]	55
Disposals	**(100)**
Sales	—
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[1]	(100)
Carrying amounts at 31 December	**49**
2012	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**49**
Additions	**16**
Purchases	10
Write-ups	—
Changes from currency translation	1
Other additions[1]	5
Disposals	**—**
Sales	—
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[1]	—
Carrying amounts at 31 December	**65**

1 also including changes in the group of companies included in consolidation

The following tables show the main items in the balance sheets and income statements of the companies accounted for using the equity method:

(€ millions)

	2012	2011
Property, plant and equipment	240	270
Intangible assets	22	22
Other assets	179	130
Total assets	**441**	**422**

(€ millions)

	2012	2011
Deposits from banks	209	132
Other liabilities	118	226
Equity	114	64
Total liabilities	**441**	**422**

(€ millions)

	2012	2011
Net interest	(13)	(7)
Net other expenses/income	165	76
Operating costs	(99)	(54)
Profit before tax	**53**	**15**
Income tax	(8)	(4)
Consolidated profit	**45**	**11**

There were no changes in volume arising from other comprehensive income and other equity items at companies accounted for using the equity method. There was no prorated loss during the reporting period from companies accounted for using the equity method; in 2011, the unrecognised prorated loss from companies accounted for using the equity method totalled €0.3 million. Furthermore, there were no prorated cumulative losses in the reporting period from companies accounted for using the equity method; in 2011, such unrecognised prorated cumulative losses totalled €1.0 million.

50 Held-to-maturity investments

(€ millions)

	2012	2011
Fixed-income securities	261	2,463
Impaired assets	—	—
Total	**261**	**2,463**

Held-to-maturity investments at 31 December 2012 include €11 million (2011: €11 million) in subordinated assets.

As in 2011, the held-to-maturity investments at 31 December 2012 included no impaired assets.

As in 2011, the held-to-maturity investments do not include any Greek government bonds at 31 December 2012.

Development of held-to-maturity investments

(€ millions)

	2012	2011
Balance at 1 January	**2,463**	**2,600**
Additions		
Purchases	—	—
Write-ups	—	—
Other additions	—	—
Disposals		
Sales	—	—
Redemptions at maturity	(2,190)	(137)
Write-downs	—	—
Other disposals	(12)	—
Balance at 31 December	**261**	**2,463**

Held-to-maturity investments of related entities

The following table shows the breakdown of held-to-maturity investments involving related entities:

(€ millions)

	2012	2011
Non-consolidated affiliated companies	—	2,108
of which: UniCredit S.p.A.	—	2,108
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**—**	**2,108**

In 2011, this item related exclusively to a security issued by UniCredit S.p.A. which fell due for payment in 2012.

Notes to the Consolidated Balance Sheet (Continued)

51 Loans and receivables with banks

(€ millions)

	2012	2011
Current accounts	14,737	17,412
Repos[1]	6,975	5,738
Reclassified securities	2,171	3,154
Other loans to banks	12,437	17,973
Total	**36,320**	**44,277**

1 repurchase agreements

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

The loans and receivables with banks included €641 million (2011: €651 million) in subordinated assets at 31 December 2012.

Loans and receivables with related entities

The following table shows the breakdown of loans and receivables with banks involving related entities:

(€ millions)

	2012	2011
Non-consolidated affiliated companies	7,365	15,206
of which: UniCredit S.p.A.	4,630	8,116
Joint ventures	—	—
Associated companies	248	112
Other participating interests	2	100
Total	**7,615**	**15,418**

Besides the loans and receivables with UniCredit S.p.A., the loans and receivables of €7,365 million (2011: €15,206 million) with non-consolidated affiliated banks include loans and receivables of €2,735 million (2011: €7,090 million) with sister companies (mainly UniCredit Bank Austria AG).

The figures stated for loans and receivables with banks are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

(€ millions)

	2012	2011
Properly serviced loans and receivables		
Carrying amount before allowances	36,170	44,239
Portfolio allowances	9	9
Carrying amount	**36,161**	**44,230**
Properly serviced loans and receivables past due		
Carrying amount before allowances	36	—
Portfolio allowances	—	—
Carrying amount	**36**	**—**
Non-performing loans and receivables		
Carrying amount before allowances	233	203
Specific allowances	110	156
Carrying amount	**123**	**47**

The non-performing loans and receivables are essentially loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €1 million (2011: €0 million) that are no longer assigned to rating classes 8–, 9 or 10 due to improved credit standings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2012	2011
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1 – 30 days	36	—
31 – 60 days	—	—
61 – 90 days	—	—

(€ millions)

	2012	2011
Value of collateral, broken down by period past due		
1 – 30 days	11	—
31 – 60 days	—	—
61 – 90 days	—	—

(€ millions)

	2012	2011
Loans and receivables, broken down by rating class		
Not rated	337	2,750
Rating class 1 – 4	34,480	40,471
Rating class 5 – 8	1,381	1,025
Rating class 9 – 10	122	31
Collateral, broken down by rating class		
Not rated	1	—
Rating class 1 – 4	11,760	13,711
Rating class 5 – 8	853	542
Rating class 9 – 10	94	18

52 Loans and receivables with customers

(€ millions)

	2012	2011
Current accounts	10,754	10,228
Repos[1]	443	5,728
Mortgage loans	42,957	46,097
Finance leases	1,883	1,982
Reclassified securities	3,552	4,737
Non-performing loans and receivables	4,468	4,216
Other loans and receivables	58,155	63,573
Total	**122,212**	**136,561**

1 repurchase agreements

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 €1,916 million (2011: €2,482 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 €1,298 million (2011: €1,753 million) in subordinated assets.

Loans and receivables with customers did not include any Greek government bonds at 31 December 2012.

Notes to the Consolidated Balance Sheet (Continued)

Loans and receivables with related entities

The following table shows the breakdown of loans and receivables with customers involving related entities:

(€ millions)

	2012	2011
Non-consolidated affiliated companies	114	210
Joint ventures	—	—
Associated companies	58	86
Other participating interests	517	600
Total	**689**	**896**

The loans and receivables of €114 million (2011: €210 million) with non-consolidated affiliated companies include loans and receivables of €114 million (2011: €132 million) with sister companies and €0 million (2011: €78 million) with subsidiaries.

The figures stated for loans and receivables with customers are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

(€ millions)

	2012	2011
Properly serviced loans and receivables		
Carrying amount before allowances	116,995	130,053
Portfolio allowances	419	382
Carrying amount	**116,576**	**129,671**
Properly serviced loans and receivables past due		
Carrying amount before allowances	1,175	2,684
Portfolio allowances	7	10
Carrying amount	**1,168**	**2,674**
Non-performing loans and receivables		
Carrying amount before allowances	8,371	8,402
Specific allowances	3,903	4,186
Carrying amount	**4,468**	**4,216**

The non-performing loans and receivables are essentially the loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €340 million (2011: €265 million) that are no longer assigned to rating classes 8–, 9 and 10 due to improved credit standings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2012	2011
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1 – 30 days	1,114	2,413
31 – 60 days	37	226
61 – 90 days	17	35

(€ millions)

	2012	2011
Value of collateral, broken down by period past due		
1 – 30 days	454	913
31 – 60 days	16	89
61 – 90 days	6	17

(€ millions)

	2012	2011
Loans and receivables, broken down by rating class		
Not rated	7,553	14,620
Rating class 1 – 4	66,411	60,092
Rating class 5 – 8	44,120	58,161
Rating class 9 – 10	4,128	3,688
Collateral, broken down by rating class		
Not rated	2,246	1,927
Rating class 1 – 4	29,391	22,473
Rating class 5 – 8	23,977	29,370
Rating class 9 – 10	1,679	1,706

Amounts receivable from customers under lease agreements (receivables under finance leases)
The amounts receivable from customers under finance lease agreements are described in more detail in Note 73.

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

Analysis of loans and receivables

(€ millions)

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2011	**4,436**	**623**	**5,059**
Changes affecting income			
Gross additions[1]	1,528	9	1,537
Releases	(887)	(228)	(1,115)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	—	—	—
Use of existing loan-loss allowances	(833)	—	(833)
Effects of currency translation and other changes not affecting income	98	(3)	95
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2011	**4,342**	**401**	**4,743**

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2012	**4,342**	**401**	**4,743**
Changes affecting income			
Gross additions[1]	1,429	41	1,470
Releases	(831)	(6)	(837)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	(15)	—	(15)
Use of existing loan-loss allowances	(832)	—	(832)
Effects of currency translation and other changes not affecting income	(80)	(1)	(81)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2012	**4,013**	**435**	**4,448**

1 the additions include the gains on the disposal of impaired loans and receivables

Notes to the Consolidated Balance Sheet (Continued)

54 Hedging derivatives

(€ millions)

	2012	2011
Micro fair value hedge	1	8
Fair value hedge portfolio[1]	3,261	2,690
Total	**3,262**	**2,698**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

55 Property, plant and equipment

(€ millions)

	2012	2011
Land and buildings	914	845
Plant and office equipment	393	349
Other property, plant and equipment	1,706	1,712
Total[1]	**3,013**	**2,906**

1 including leased assets of €638 million (2011: €568 million). More information about leases is contained in Note 73

Other property, plant and equipment refers essentially to assets under construction of Ocean Breeze Energy GmbH & Co. KG, Munich. This item also includes the grants of €42 million (2011: €42 million) provided by the European Union that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the acquisition and production cost of the other property, plant and equipment on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Development of property, plant and equipment (€ millions)

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERN-ALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2011	**2,411**	**952**	**3,363**	**1,728**	**5,091**
Write-downs and write-ups from previous years	(1,383)	(650)	(2,033)	(5)	(2,038)
Carrying amounts at 1 January 2011	**1,028**	**302**	**1,330**	**1,723**	**3,053**
Additions					
Acquisition/production costs[2]	7	105	112	(8)	104
Write-ups	3	—	3	1	4
Changes from currency translation	—	—	—	1	1
Other additions[3]	12	13	25	—	25
Disposals					
Sales	(6)	(12)	(18)	—	(18)
Amortisation and write-downs	(48)	(55)	(103)	(5)	(108)
Impairments	—	—	—	—	—
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	(118)	(1)	(119)	—	(119)
Other disposals[3]	(33)	(3)	(36)	—	(36)
Carrying amounts at 31 December 2011	**845**	**349**	**1,194**	**1,712**	**2,906**
Write-downs and write-ups					
from previous years plus year under review	1,189	702	1,891	9	1,900
Acquisition costs at 31 December 2011	**2,034**	**1,051**	**3,085**	**1,721**	**4,806**

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERN-ALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT[4]	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2012	**2,034**	**1,051**	**3,085**	**1,721**	**4,806**
Write-downs and write-ups from previous years	(1,189)	(702)	(1,891)	(9)	(1,900)
Carrying amounts at 1 January 2012	**845**	**349**	**1,194**	**1,712**	**2,906**
Additions					
Acquisition/production costs	18	96	114	—	114
Write-ups	33	—	33	—	33
Changes from currency translation	—	—	—	—	—
Other additions[5]	80	37	117	—	117
Disposals					
Sales	(1)	(17)	(18)	—	(18)
Amortisation and write-downs	(45)	(66)	(111)	(5)	(116)
Impairments	(16)	(4)	(20)	—	(20)
Changes from currency translation	—	—	—	(1)	(1)
Non-current assets					
or disposal groups held for sale	—	(1)	(1)	—	(1)
Other disposals[5]	—	(1)	(1)	—	(1)
Carrying amounts at 31 December 2012	**914**	**393**	**1,307**	**1,706**	**3,013**
Write-downs and write-ups					
from previous years plus year under review	1,267	773	2,040	14	2,054
Acquisition costs at 31 December 2012	**2,181**	**1,166**	**3,347**	**1,720**	**5,067**

1 including leased assets. More information about leases is contained in Note 73
2 including government grants of €42 million deducted from other assets on the assets side of the balance sheet
3 also including changes in the group of companies included in consolidation. No companies were acquired in 2011
4 including government grands of €42 million deducted from acquisition cost on the assets side of the balance sheet.
5 also including changes in the group of companies included in consolidation. No companies were acquired during the reporting period

Notes to the Consolidated Balance Sheet (Continued)

56 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €1,782 million (2011: €1,879 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. In the case of developed land, current market rents, operating costs and property yields are applied in the gross-rental method. Where necessary, property-specific considerations are also taken into account when determining the value. These property-specific factors include vacancy rates, deviations between current contractual rents and current market rents, the condition of the buildings' technical systems and so on. In the case of undeveloped land, figures for sales of nearby land that have been completed are normally taken as the basis; where these are not available, the standard land value is employed as a benchmark, with adjustments made for the individual location, size and layout of the land, among other factors.
The net carrying amount of the leased assets arising from finance leases included in investment properties amounted to €127 million (2011: €128 million) for land and buildings at the reporting date.
No investment properties measured at fair value were held in the reporting period or the previous year.

(€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2011	**2,474**
Write-downs and write-ups from previous years	(595)
Carrying amounts at 1 January 2011	**1,879**
Additions	
Purchases	3
Write-ups	7
Changes from currency translation	1
Other additions[1]	76
Disposals	
Sales	(191)
Amortisation and write-downs	(40)
Impairments	(41)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(12)
Other disposals[1]	(4)
Carrying amounts at 31 December 2011	**1,678**
Write-downs and write-ups from previous years plus year under review	820
Acquisition costs at 31 December 2011	**2,498**
	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2012	**2,498**
Write-downs and write-ups from previous years	(820)
Carrying amounts at 1 January 2012	**1,678**
Additions	
Purchases	3
Write-ups	16
Changes from currency translation	1
Other additions[1]	—
Disposals	
Sales	(70)
Amortisation and write-downs	(37)
Impairments	(16)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(12)
Other disposals[1]	(6)
Carrying amounts at 31 December 2012	**1,557**
Write-downs and write-ups from previous years plus year under review	822
Acquisition costs at 31 December 2012	**2,379**

1 also including changes in the group of companies included in consolidation. No companies were acquired in 2011.

57 Intangible assets

(€ millions)

	2012	2011
Goodwill	**418**	**418**
Other intangible assets	**122**	**147**
Internally generated intangible assets	72	98
Other intangible assets	50	49
Total	**540**	**565**

Development of intangible assets

(€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2011	**1,084**	**450**	**427**
Write-downs and write-ups from previous years	(660)	(327)	(366)
Carrying amounts at 1 January 2011	**424**	**123**	**61**
Additions			
Purchases/internally generated	—	18	18
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	—	1
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(43)	(30)
Impairments	(4)	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	(2)	—	(1)
Carrying amounts at 31 December 2011	**418**	**98**	**49**
Write-downs and write-ups from previous years plus year under review	660	360	389
Acquisition costs at 31 December 2011	**1,078**	**458**	**438**

1 also including changes in the group of companies included in consolidation. No companies were acquired in 2011

Notes to the Consolidated Balance Sheet (Continued)

Development of intangible assets

(€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2012	**1,078**	**458**	**438**
Write-downs and write-ups from previous years	(660)	(360)	(389)
Carrying amounts at 1 January 2012	**418**	**98**	**49**
Additions			
Purchases/internally generated	—	16	22
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	—	—
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(42)	(21)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	—
Carrying amounts at 31 December 2012	**418**	**72**	**50**
Write-downs and write-ups from previous years plus year under review	660	402	375
Acquisition costs at 31 December 2012	**1,078**	**474**	**425**

1 also including changes in the group of companies included in consolidation

HVB no longer generates any software internally. Software is provided to HVB by the UniCredit-wide service provider UBIS.

58 Non-current assets or disposal groups held for sale

The Bank intends to sell a property in a central location in Hamburg classified as property, plant and equipment as part of a programme to optimise office usage and costs in Bank-owned real estate. The sale of a property in Munich under the same programme was successfully completed during the reporting period.

Several investment properties have also been designated as held for sale in connection with the disposal of non-strategic real estate.

The other assets and tax assets disclosed here relate to the planned disposal of a participating interest held by HVB.

(€ millions)

ASSETS	2012	2011
Property, plant and equipment	48	119
Investment properties	12	12
Tax assets	2	—
Other assets	8	—
Total	**70**	**131**

59 Other assets

Other assets include prepaid expenses of €77 million (2011: €67 million).

60 Own securitisation

The Bank has securitised its own loan receivables for the purpose of obtaining cheap funding, generating securities for use as collateral in repurchase agreements and reducing risk-weighted assets.

This involves structuring the cash flows of the underlying loan portfolio, meaning that at least two hierarchical positions (tranches) are formed when dividing up the risks and cash flows. In the case of synthetic securitisation, the transfer of risk and the ensuing reduction in regulatory capital requirements is mainly achieved using hedges in the form of guarantees and credit derivatives. In the case of traditional securitisation (true sale), this is achieved by selling receivables to a special purpose entity which in turn issues securities.

In the case of the true sale transactions Geldilux TS 2010, Geldilux TS 2011 and Geldilux PP 2011, the senior tranche was placed on the capital market while the junior tranches were retained by HVB. HVB retained all of the tranches issued by the special purpose entity under the true sale transaction Rosenkavalier 2008. The securities generated in this way can, if required, be used as collateral for repurchase agreements with the European Central Bank (ECB). The underlying receivables continue to be recognised by HVB and the special purpose entities set up for this purpose are fully consolidated in accordance with SIC 12. The volume of lending in all true sale transactions amounted to €8.2 billion at 31 December 2012 (2011: €9.3 billion). The risk-weighted assets have not been reduced.

The only remaining securitisation transaction put in place to reduce risk-weighted assets, EuroConnect Issuer SME 2008-1, involved a volume of lending of €0.8 billion at 31 December 2012 (2011: €1.1 billion), serving to deduct €0.1 billion (2011: €0.2 billion) from risk-weighted assets taking account of the retained tranches. Here, a risk weighting of 1.250% is assumed for the items deductible from capital. The transactions Promise-XXS 2006-1 and Geldilux-TS-2007 expired in 2012; the transaction EuroConnect Issuer SME 2007-1 was no longer recognised in 2012 so as to reduce risk-weighted assets. This means that the volume of lending in the securitisation transactions put in place to reduce risk-weighted assets declined by a total of €4.4 billion year-on-year and the reduction in risk-weighted assets by €1.3 billion.

The transactions Provide-A 2006-1 and EuroConnect Issuer LC 2007-1 that had already not been recognised so as to reduce risk-weighted assets in 2011 similarly expired in 2012. The other existing transactions SFA-1-2008, SFA-2-2008, Building Comfort 2008 continue not to be recognised so as to reduce risk-weighted assets.

Notes to the Consolidated Balance Sheet (Continued)

61 Deposits from banks

(€ millions)

	2012	2011
Deposits from central banks	**6,271**	**5,507**
Deposits from banks	**38,945**	**52,351**
Current accounts and demand deposits	12,959	10,356
Reverse repos[1]	8,378	21,619
Term deposits	7,883	9,995
Other liabilities	9,725	10,381
Total	**45,216**	**57,858**

1 repurchase agreements

Amounts owed to related entities

The following table shows the breakdown of deposits from banks involving related entities:

(€ millions)

	2012	2011
Non-consolidated affiliated companies	6,690	5,894
of which: UniCredit S.p.A.	2,771	2,101
Joint ventures	—	—
Associated companies	12	116
Other participating interests	59	67
Total	**6,761**	**6,077**

Besides the deposits from UniCredit S.p.A., the deposits of €6,690 million (2011: €5,894 million) from non-consolidated affiliated companies include deposits of €3,919 million (2011: €3,793 million) from sister companies; the largest single item relates to UniCredit Bank Austria AG.

62 Deposits from customers

(€ millions)

	2012	2011
Current accounts and demand deposits	59,768	52,881
Savings deposits	14,779	13,797
Reverse repos[1]	8,550	8,989
Term deposits	17,820	22,916
Other liabilities	9,351	8,859
Total	**110,268**	**107,442**

1 repurchase agreements

Amounts owed to related entities

The following table shows the breakdown of deposits from customers involving related entities:

(€ millions)

	2012	2011
Non-consolidated affiliated companies	391	304
Joint ventures	—	1
Associated companies	6	39
Other participating interests	205	290
Total	**602**	**634**

The deposits of €391 million (2011: €304 million) from non-consolidated affiliated companies include deposits of €107 million (2011: €22 million) from subsidiaries and €284 million (2011: €282 million) from sister companies.

63 Debt securities in issue

(€ millions)

	2012	2011
Bonds	34,467	42,174
Other securities	1,396	493
Total	**35,863**	**42,667**

Debt securities in issue, payable to related entities

The following table shows the breakdown of debt securities in issue involving related entities: (€ millions)

	2012	2011
Non-consolidated affiliated companies	598	783
of which: UniCredit S.p.A.	351	515
Joint ventures	—	—
Associated companies	252	221
Other participating interests	—	—
Total	**850**	**1,004**

Besides the debt securities attributable to UniCredit S.p.A., the debt securities in issue of €598 million (2011: €783 million) attributable to non-consolidated affiliated companies include debt securities of €248 million (2011: €268 million) attributable to sister companies.

64 Financial liabilities held for trading

(€ millions)

	2012	2011
Negative fair values arising from derivative financial instruments	105,513	109,115
Other financial liabilities held for trading	15,988	19,760
Total	**121,501**	**128,875**

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 not held for trading purposes.

The cumulative valuation effects of the financial liabilities held for trading in the portfolio at 31 December 2012, which result from including the own credit spread, total €125 million (2011: €302 million). Valuation expenses of €177 million (2011: €187 million valuation income) arising from own credit spread changes accrued for these holdings in the year under review.

Notes to the Consolidated Balance Sheet (Continued)

65 Hedging derivatives

(€ millions)

	2012	2011
Micro fair value hedge	1	1
Fair value hedge portfolio[1]	1,385	1,021
Total	**1,386**	**1,022**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

66 Hedge adjustment of hedged items in the fair value hedge portfolio

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €2,858 million (2011: €2,417 million). The fair value of the netted fair value hedge portfolio derivatives represents an economic comparable amount. The hedge adjustments are recognised separately in the balance sheet (for hedged lending and deposit-taking activities) for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €193 million (2011: €160 million).

67 Liabilities of disposal groups held for sale

(€ millions)

LIABILITIES	2012	2011
Tax liabilities	1	—
Other liabilities	3	—
Provisions	16	—
Total	**20**	**—**

The liabilities disclosed here relate to the planned disposal of a participating interest held by HVB.

68 Other liabilities

This item totalling €3,375 million (2011: €4,304 million) essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

69 Provisions

(€ millions)

	2012	2011
Provisions for pensions and similar commitments	133	47
Allowances for losses on guarantees and commitments and irrevocable credit commitments	527	201
Restructuring provisions	184	156
Actuarial provisions	27	35
Other provisions	1,077	1,674
Total	**1,948**	**2,113**

Provisions for pensions and similar commitments

HVB Group operates both defined benefit plans and defined contribution plans for its employees.

In the case of defined benefit plans, the company undertakes to pay a defined future pension. The financial resources required to do so in the future can be accrued within the company (internal financing) or by payment of specific amounts to external pension funds (external financing).

In the case of defined contribution plans, the company undertakes to pay defined contributions to external pension funds which will later make the pension payments. These include a pension institution in which other banks are also involved. Apart from paying the periodic contributions, the company has no further de facto commitments. Drawdowns from a statutory subsidiary liability are not expected.

Defined benefit plans

The provisions for pensions and similar commitments include the direct commitments to HVB Group employees under company pension plans. These defined benefit plans are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights.

Funded pension commitments differ from unfunded pension commitments in that plan assets are allocated to cover the claims of the beneficiaries. The funded pension obligations are offset against the fair value of a plan's assets. The recognised funded pension provision reflects the balance of the present value of the pension obligations and the fair value of the plan assets.

The financial commitments financed by the Pensionskasse der HypoVereinsbank VvaG pension fund are included in the disclosures regarding pension commitments. The standard HVB Group valuation parameters are used when calculating these commitments. In line with the current developments on the capital market, the much lower discount rate leads to an increase in the total obligation, meaning that the present value of the pension commitments under this plan exceeds the fair value of the plan assets for the first time. Consequently, a pension provision (defined benefit liability) has been recognised in the consolidated balance sheet the reporting period in the amount of the excess of the commitments over the plan assets; the asset ceiling defined in IAS 19.58B is now no longer applied.

For the purpose of calculating the internal pension entitlements, the valuation parameters of HVB Group were modified as follows: (in %)

	31/12/2012/ 1/1/2013	31/12/2011/ 1/1/2012
Interest rate	3.75	5.25
Expected return on plan assets	3.75	5.25
Rate of increase in pension commitments	1.70	1.70
Rate of increase in future compensation and vested rights	2.00	2.00
Rate of increase over career	0 – 1.5	0 – 1.5

Notes to the Consolidated Balance Sheet (Continued)

There was a sharp decline in the number of long-term corporate bonds denominated in euros with a rating of at least AA during the reporting period on account of numerous company downgrades by the rating agencies. As these bonds form the basis for deriving the discount rate used to value pension obligations, this development led to major volatility in the returns and hence the discount rate.

As a result of the changed market conditions, the data basis used to determine the discount rate was adjusted during the reporting period. The increase of 25 basis points in the discount rate arising from the change in the reporting estimate leads to a greater discount being taken on the total commitment and consequently to a reduction of €147 million in the present value of the pension commitments. The effect resulting from the modified estimate is recognised directly in equity (other comprehensive income) in the reporting period and the amount disclosed for retained earnings is increased by €147 million. The income statement was not affected during the reporting period.

The funding status developed as follows: (€ millions)

	2012	2011	2010	2009	2008
Funded pension commitments:					
Present value of funded pension commitments	3,640	2,875	2,937	2,861	2,751
Fair value of plan assets	(3,558)	(3,109)	(3,153)	(3,066)	(3,010)
Reduction due to asset ceiling compliant with IAS 19.58B	—	85	51	69	104
Capitalised excess cover of plan assets	18	154	171	139	174
Recognised pension provisions	**100**	**5**	**6**	**3**	**19**
Unfunded pension commitments:					
Present value of unfunded pension commitments	33	42	45	47	85
Total recognised pension provisions	**133**	**47**	**51**	**50**	**104**

The development of the experience adjustments is as follows: (€ millions)

	2012	2011	2010	2009	2008
Experience adjustments to plan liabilities	(13)	(27)	(32)	(55)	(18)
Experience adjustments to plan assets	38	(89)	30	(15)	(102)

HVB Group exercises the option permitted by IAS 19.93A for defined benefit pension plans to carry actuarial gains or losses in shareholders' equity outside the profit or loss for the period in accordance with the other comprehensive income method (OCI method).

The following table shows the breakdown of pension expense: (€ millions)

	2012	2011
Present value of the pension claims vested in the year under review	(47)	(36)
Interest expense	(149)	(113)
Expected income from plan assets	160	119
Losses from changes to plans	—	1
Total	**(36)**	**(29)**

Pension expense is recognised in payroll costs (pension and other employee benefit costs) as a net amount. The table also shows the pension expense accruing to the pension fund.

The following table shows an analysis of funded and covered pension commitments: (€ millions)

	2012	2011
Balance at 1 January	**2,875**	**2,937**
Present value of the pension claims vested in the year under review	46	47
Interest expense	147	144
Contributions from plan participants	3	2
Actuarial gains/(losses)	700	(124)
Payments affecting liquidity	(134)	(131)
Changes in consolidated group	—	—
Changes arising from foreign currency translation	1	2
Other changes	2	(2)
Balance at 31 December	**3,640**	**2,875**

The following table shows an analysis of the present value of unfunded pension commitments: (€ millions)

	2012	2011
Balance at 1 January	**42**	**45**
Present value of the pension claims vested in the year under review	1	1
Interest expense	2	2
Contributions from plan participants	—	—
Actuarial gains/(losses)	7	(1)
Payments affecting liquidity	(3)	(3)
Changes in consolidated group	—	—
Changes arising from foreign currency translation	—	—
Other changes	(16)	(2)
Balance at 31 December	**33**	**42**

HVB set up plan assets in the form of contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension commitments to legally independent trustees, including HVB Trust e.V. Compliant with IAS 19.54, assets transferred are offset against the pension provisions; the amount of the pension provisions in the corporate group declines accordingly.

HVB reorganised its company pension plans (direct commitments) in 2009. HVB Trust Pensionsfonds AG (pension fund) was set up in the process. Both the pension commitments to pensioners, who in October 2009 had already received pension benefits from the Bank, and the assets required to cover these commitments were transferred to the pension fund. The pensioners' pension claims are not affected by the restructuring; HVB continues to guarantee the pension. The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

The following table shows the plan assets available to the trustees to finance the pension commitments: (€ millions)

	2012	2011
Equities	31	28
Fixed-income securities	90	84
Property	113	86
Other assets	396	77
Investment funds	2,928	2,834
Plan assets	**3,558**	**3,109**

The fixed-income securities include own bonds of €11 million (2011: €5 million). The plan assets also include real estate used by the Bank with a fair value of €7 million (2011: €7 million). Furthermore, term and overnight deposits of €40 million (2011: €69 million) deposited with HVB are shown under other assets. The investment funds include own financial instruments with a fair value of €488 million (2011: €446 million), of which €399 million (2011: €367 million) relates to promissory loans and fixed-income securities and €89 million (2011: €79 million) to Pfandbriefs.

Notes to the Consolidated Balance Sheet (Continued)

The following table shows the development of the plan assets:

(€ millions)

	2012	2011
Balance at 1 January	**3,109**	**3,153**
Expected income from plan assets	160	155
Actuarial gains/(losses)	38	(104)
Allocations to plan assets	383	35
Employee contributions	—	—
Disbursements to beneficiaries	(134)	(132)
Additional allocations in the form of benefits not taken	—	—
Changes in exchange rates	2	2
Changes in consolidated group	—	—
Balance at 31 December	**3,558**	**3,109**

With regard to the plan assets, the item actuarial gains shows the difference between the expected income from plan assets and the income from plan assets actually realised. The balance of expected income and actuarial gains/losses from plan assets gives the actual income from plan assets of €198 million (2011: €51 million).

The cumulative actuarial losses recognised in shareholders' equity compliant with IAS 19.93A totalled €872 million in 2012 (2011: €286 million) before deferred taxes and minority interests.

The expected long-term return on the plan assets is essentially derived from the asset allocation of the plan assets and the expected returns on the asset classes held in the portfolios. Temporary fluctuations in the allocations of the plan assets do not lead to an adjustment of the expected long-term return on the plan assets. The Investment Committee, which is responsible for the plan assets, sets the respective return target on the basis of the returns forecast by our capital market research. In addition to this, the average long-term returns generated by the plan assets and historical returns on the overall market are included when the expected return is calculated.

HVB Group is planning to make contributions totalling €30 million (2012: €29 million) to defined benefit plans in 2013.

Defined contribution plans
HVB Group companies make contributions for commitments made by independent pension organisations. The pension obligations funded through retirement benefit corporations with matching cover are recognised as defined contribution plans. The cost of defined contribution plans and for the retirement benefit corporation totalled €77 million in 2012 (2011: €80 million).

Allowances for losses on financial guarantees and irrevocable credit commitments, restructuring provisions, actuarial provisions and other provisions (€ millions)

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES AND IRREVOCABLE CREDIT COMMITMENTS	RESTRUCTURING PROVISIONS	ACTUARIAL PROVISIONS	OTHER PROVISIONS
Balance at 1 January 2012	**201**	**156**	**35**	**1,674**
Changes in consolidated group	—	—	—	—
Changes arising from foreign currency translation	—	—	—	—
Transfers to provisions	232	104	—	315
Reversals	(74)	(7)	—	(406)
Reclassifications	173	(30)	—	(295)
Amounts used	(5)	(39)	(8)	(211)
Non-current assets or disposal groups held for sale	—	—	—	—
Balance at 31 December 2012	**527**	**184**	**27**	**1,077**

Allowances for losses on financial guarantees and irrevocable credit commitments

As part of the plan to improve the processes used to determine net write-downs of loans and provisions for guarantees and commitments, the presentation of the allowances for losses on credit commitments and guarantees is being harmonised. Allowances for losses on credit commitments are being shown together with allowances for losses on financial guarantees (guarantees and documentary credits) for the first time at 31 December 2012. As part of the changeover, we have transferred €173 million from other provisions to allowances for losses on financial guarantees and irrevocable credit commitments. Allowances for losses on financial guarantees and irrevocable credit commitments are generally used in the following year.

Restructuring provisions

Additions were made to restructuring provisions 2012 for measures relating to the changes to the organisational structure of HVB Group announced in the fourth quarter of 2012 as part of the introduction of the three business segments – Unternehmer Bank, Private Clients Bank, and Corporate & Investment Banking – and the systematic strengthening of the regional presence together with measures aimed at securing the competitiveness of the retail customer activities over the coming years. Alongside the setup of new sales channels that are very popular with customers, this also includes the streamlining of the present branch network and an adjustment of staffing levels to reflect change patterns of customer behaviour. For the most part, this relates to provisions for severance payments, most of which are expected to be used in 2013 and 2014.

The amounts utilised in 2012 result from restructuring programmes initiated in previous years, and notably from the provisions set up in 2011 in connection with the strategic orientation of the CIB division, notably including the discontinuation of the cash equity activities for western Europe and the equity research business.

Actuarial provisions

The actuarial provisions relate to commitments arising from reinsurance policies written by our Grand Central Re Ltd. subsidiary.

Other provisions

Other provisions include provisions for litigation fees, damage payments, anticipated losses including rental guarantees and provisions for long-term liabilities to employees such as service anniversary awards, early retirement or partial retirement.

The amount of the respective provisions reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

Notes to the Consolidated Balance Sheet (Continued)

Other provisions at year-end 2011 included a provision arising from the obligation to complete an offshore wind farm. HVB Group had undertaken to fund this offshore wind farm located in the North Sea, around 100 kilometres off the German coast. Allowances for losses on loans and receivables were set up in this context with a total amount of €413 million at 31 December 2011. Under the loans extended, €240 million was transferred to allowances for losses on loans and receivables with the equivalent amount reversed in provisions. An amount of €173 million was reclassified from other provisions to provisions for financial guarantees and irrevocable credit commitments in connection with credit commitments without affecting the income statement.

Other provisions also include the parts of the bonus that are disbursed on a deferred basis with the waiting period exceeding one year. Accordingly the bonus payments for the 2010, 2011 and 2012 financial years to be disbursed as of 2013 are recorded here. The bonus provisions included here have been taken to the income statement in both the reporting period and the previous financial years. It is considered highly probable that the bonus will be disbursed. For details of the bonus plan, please refer to Note 37.

With the exception of the provision for rental guarantees and pre-emptive rights, the other provisions are normally expected to be utilised during the following financial year.

70 Shareholders' equity

The shareholders' equity of HVB Group at 31 December 2012 consisted of the following:

Subscribed capital

At 31 December 2012, the subscribed capital of HVB totalled €2,407 million (2011: €2,407 million) and consisted of 802,383,672 no par shares of common bearer stock (2011: 802,383,672 no par shares).

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share. The shares are fully paid in.

Additional paid-in capital

The additional paid-in capital results from premiums generated on the issuance of shares; the total at 31 December 2012 amounted to €9,791 million (2011: €9,791 million).

Other reserves

The other reserves of €7,759 million (2011: €9,389 million) essentially comprise retained earnings. The year-on-year decline in other provisions can essentially be attributed to a withdrawal of €1,000 million and the simultaneous transfer to consolidated profit for the reporting period and to adjustments of €402 million in pensions and similar obligations.

Change in valuation of financial instruments

The reserves arising from changes in the valuation of financial instruments recognised in equity totalled €56 million (2011: minus €112 million) at 31 December 2012. This rise of €168 million compared with year-end 2011 can for the most part be attributed to the €164 million increase in the AfS reserve to €30 million, resulting primarily from positive fair value fluctuations of fixed-income securities classified as available for sale. The hedge reserve similarly included in the reserves arising from changes in the value of financial instruments recognised in equity increased by €4 million compared with year-end 2011 to €26 million.

71 Subordinated capital

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

	2012	2011
Subordinated liabilities	2,103	2,496
Participating certificates outstanding	—	155
Hybrid capital instruments	358	804
Total	**2,461**	**3,455**

Pursuant to Section 10 (4 and 5a) in connection with Section 64m (1) KWG and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision in July 1988, subordinated capital (subordinated liabilities and hybrid capital instruments) was carried as core capital and supplementary capital.

No participating certificates outstanding were included in the supplementary capital as of 31 December 2011, as at that time the participating certificates fell due for repayment in less than two years.

The following table shows the breakdown of subordinated capital by balance sheet item: (€ millions)

	2012	2011
Deposits from customers	160	181
Deposits from banks	537	538
Debt securities in issue	1,764	2,736
Total	**2,461**	**3,455**

We have incurred interest expenses of €148 million (2011: €210 million) in connection with this subordinated capital. Subordinated capital includes proportionate interest of €60 million (2011: €89 million).

Subordinated liabilities
The borrower cannot be obliged to make early repayments in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated liabilities can only be repaid after the claims of all primary creditors have been settled.

There were subordinated liabilities of €785 million payable to related entities in 2012 (2011: €787 million).

Participating certificates outstanding
In accordance with the terms and conditions of the participating certificates, all bearer participating certificates issued by UniCredit Bank AG expired on 31 December 2011. The nominal amounts to be repaid fell due for payment on 2 July 2012, attracting interest over the period between the expiry date and the repayment date. The interest payments for the 2012 financial year were disbursed in full.

Hybrid capital instruments
At 31 December 2012, HVB Group had hybrid core capital of €358 million (2011: €779 million, eligible amount compliant with the German Banking Act) to bolster its capital base.

Hybrid capital instruments include, in part, issues placed by specially created subsidiaries in the form of capital contributions from silent partners or preferred shares.

These instruments differ from supplementary capital in that they are subject to more stringent conditions in terms of maturity. The terms of issue for capital contributions from silent partners envisage a minimum term of 30 years, while an unlimited term has been agreed with the investors for preferred shares. In addition, hybrid capital instruments are not repaid until after supplementary capital has been repaid (subordinated liabilities) in the event of bankruptcy.

In contrast to traditional components of core capital such as shares, the claim to a share of profit takes the form of a fixed interest payment in the case of hybrid capital. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

Both the German Federal Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes. The eligibility of hybrid core capital under Section 64m KWG is continued by the version of the German Banking Act applicable from 31 December 2010.

Notes to the Cash Flow Statement

72 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the year under review. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown correspond to the “Cash and cash balances” item in the balance sheet, comprising both cash on hand and deposits with central banks repayable on demand.

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interests in net income.

No gains (2011: €79 million) were realised on the sale of shares in fully consolidated companies in the 2012 financial year.

The following table shows the assets and liabilities of the companies acquired and sold in 2011 and 2012: (€ millions)

	2012		2011	
	ACQUIRED	SOLD	ACQUIRED	SOLD
Assets				
Cash and cash balances	—	6	—	—
Financial assets held for trading	—	—	—	—
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	—	1	—	—
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	—	—	—	—
Held-to-maturity investments	—	—	—	—
Loans and receivables with banks	—	—	—	7
Loans and receivables with customers	—	42	—	2
Hedging derivatives	—	—	—	—
Property, plant and equipment	—	—	—	75
Investment properties	—	—	—	—
Intangible assets	—	—	—	2
of which: goodwill	—	—	—	—
Tax assets	—	—	—	—
Non-current assets or disposal groups held for sale	—	—	—	—
Other assets	—	16	—	—
Liabilities				
Deposits from banks	—	37	—	3
Deposits from customers	—	75	—	33
Debt securities in issue	—	—	—	—
Financial liabilities held for trading	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Tax liabilities	—	—	—	—
Liabilities of disposal groups held for sale	—	—	—	—
Other liabilities	—	5	—	4
Provisions	—	—	—	—

There were no acquisitions in the 2011 and 2012 financial years.

Other Information

73 Information regarding lease operations

HVB Group as lessor

Operating leases

HVB Group acts as a lessor under operating leases. The relevant lease agreements notably encompass real estate (land and buildings) and movable assets such as plant and office equipment, aircraft, motor vehicles and industrial machinery in the reporting period. The lease agreements for real estate are based on customary market terms and contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have generally not been agreed. The lease agreements for movable assets have generally been concluded with lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the breakdown of the minimum lease payments to be received on non-cancellable operating leases: (€ millions)

	2012	2011
Remaining maturity:		
up to 12 months	58	39
from 1 year to 5 years	285	267
from 5 years and over	224	252
Total	**567**	**558**

The operating agreements do not contain any conditional lease payments in the reporting period (as in 2011).

Finance leases

HVB Group leases mobile assets as a lessor under finance leases. This notably includes plant and office equipment, aircraft, motor vehicles and industrial machinery. As a general rule, the lease agreements stipulate lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the reconciliation from the future minimum lease payments to the gross and net investment in the lease and to the present value of the future minimum lease payments at the reporting date. The amounts receivable from lease operations (finance leases) consist of the following:

(€ millions)

	2012	2011
Future minimum lease payments	2,143	2,228
+ Unguaranteed residual value	—	—
= Gross investment	**2,143**	**2,228**
– Unrealised finance income	(198)	(216)
= Net investment	**1,945**	**2,012**
– Present value of unguaranteed residual value	—	—
= Present value of future minimum lease payments	**1,945**	**2,012**

The future minimum lease payments reflect the total lease payments to be made by the lessee under the lease agreement plus the guaranteed residual value.

The unguaranteed residual value is that portion of the residual value of the leased asset which is not guaranteed to be realised by the lessor.

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment). It corresponds to the return implicit in the lease between the reporting date and the end of the lease.

The present value of the minimum lease payments is calculated as the net investment in the lease less the present value of the unguaranteed residual value.

Other Information (Continued)

The following table shows the remaining maturity of the gross investment in the leases and the present value of the minimum lease payments: (€ millions)

	GROSS INVESTMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2012	2011	2012	2011
Remaining maturity:				
up to 12 months	723	709	658	618
from 1 year to 5 years	1,321	1,275	1,200	1,162
from 5 years and over	99	244	87	232
Total	**2,143**	**2,228**	**1,945**	**2,012**

The cumulative write-downs on uncollectible outstanding minimum lease payments in amounts receivable from customers under finance leases amounted to €3 million at the end of the reporting period (2011: €2 million).

The amounts receivable under finance leases included in loans and receivables with customers are shown net of allowances for losses on loans and receivables in each case (see Note 52). These break down as follows: (€ millions)

	2012	2011
Properly serviced loans and receivables		
Carrying amount before allowances	1,877	1,977
Portfolio allowances	7	4
Carrying amount	**1,870**	**1,973**
Properly serviced loans and receivables past due		
Carrying amount before allowances	13	9
Portfolio allowances	—	—
Carrying amount	**13**	**9**
Non-performing loans and receivables		
Carrying amount before allowances	72	41
Specific allowances	10	11
Carrying amount	**62**	**30**

Most of the properly serviced loans and receivables past due in the reporting period were one to thirty days past due. Collateral of €3 million had been received in the reporting period for the properly serviced loans and receivables past due.

The finance lease agreements do not contain any conditional lease payments in the reporting period (as in 2011).

HVB Group as lessee

Operating leases

HVB Group acts as lessee under operating leases. The current obligations in the reporting period relate primarily to rental and lease agreements for real estate (land and buildings) and movable assets, mainly comprising plant, office equipment and motor vehicles. The lease agreements for real estate generally contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have been agreed in some cases. The lease agreements for movable assets have been concluded at customary market terms for lease periods of between three and nine years.

In the reporting period, the commitments arising from operating leases under lease and sublease agreements resulted in minimum lease payments of €151 million (2011: €149 million) being recognised as expense in the income statement.

The following table shows the cumulative minimum lease payments arising from non-cancellable operating leases to be expected in future financial years: (€ millions)

	2012	2011
Remaining maturity:		
up to 12 months	128	146
from 1 year to 5 years	169	219
from 5 years and over	62	180
Total	**359**	**545**

The agreements regarding the outsourcing of ICT processes to the UniCredit-wide service provider UBIS include the charged transfer of rights to use assets in the form of operating leases. The full service contracts concluded annually in this regard consist for the most part of rent payments for the provision of hardware and software that are included in the minimum lease payments of €57 million for the reporting period and €44 million for the following financial year mentioned above.

HVB Group has concluded sublease agreements for real estate at customary market terms, some of which include rent adjustment clauses and extension options. Payments of €7 million (2011: €28 million) received from subleases were recognised as income in the income statement during the reporting period.

The aggregate future minimum lease payments arising from non-cancellable subleases expected to be received in the subsequent financial years amount to €16 million (2011: €126 million).

As in 2011, the operating leases did not contain any conditional rent payments in the reporting period.

Finance leases

The finance leases entered into by HVB Group as lessee relate to real estate (land and buildings). The lease agreements generally contain an option to purchase and price adjustment clauses.

The following table shows the reconciliation from the aggregate future minimum lease payments at the reporting date to their present value. This gives rise to the amounts payable to customers from lease operations (finance leases):

(€ millions)

	2012	2011
Future minimum lease payments	448	361
– Finance charge (interest included in minimum lease payments)	(93)	(88)
= Present value of future minimum lease payments	**355**	**273**

The difference between the future minimum lease payments and their present value represents unamortised interest expense.

The following table shows the remaining maturity of the future minimum lease payments and their present value at the reporting date:

(€ millions)

	FUTURE MINIMUM LEASE PAYMENTS		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2012	2011	2012	2011
Remaining maturity:				
up to 12 months	32	47	23	47
from 1 year to 5 years	191	72	178	65
from 5 years and over	225	242	154	161
Total	**448**	**361**	**355**	**273**

The aggregate future minimum lease payments arising from non-cancellable subleases that are expected to be received in the subsequent financial years amount to €27 million (2011: €29 million).

Conditional rent payments of €19 million (2011: €15 million) arising from finance leases were recognised as expense in the income statement in the reporting period.

74 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.

Other Information (Continued)

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
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 of reclassified assets at 31/12/2012	**5.8**	**5.5**	**6.1**

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 €5.5 billion at 31 December 2012. 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 gain of €498 million in net trading income in the 2012 financial year. A net gain of €96 million would have arisen in net trading income in 2011, €416 million in 2010 and €1,159 million in 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.

We took write-downs of €31 million on the reclassified assets in 2012 (2011: €3 million, 2010: €8 million, 2009: €80 million, 2008: €63 million). 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 €66 million (2011: €100 million, 2010: €160 million, 2009: €208 million, 2008: €127 million), which is recognised in net interest. The effective interest rates for the reclassified securities are in a range from 0.52% to 15.01%.

A gain of €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 2012.

In 2012, the reclassifications carried out in 2008 and 2009 resulted in a profit before tax that was €442 million too low. 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 €236 million before tax (2012: minus €442 million, 2011: plus €15 million, 2010: minus €245 million, 2009: minus €948 million, 2008: plus €1,856 million).

75 Notes to selected structured products

Additional information regarding selected structured products is given below in order to provide greater transparency. Assets of fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles are shown alongside tranches retained by HVB Group and holdings of asset-backed securities (ABS) transactions issued by third parties, broken down by various criteria.

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 special purpose vehicles (SPVs). In order to refinance the acquisition of receivables, these SPVs 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 SPVs 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 (HVB Group without fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles; these are shown separately) **(€ millions)**

		31/12/2012				31/12/2011
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**—**	**97**	**—**	**97**	**322**
Positions in third-party ABS transactions		**3,364**	**1,356**	**22**	**4,742**	**4,829**
Residential mortgage-backed securities (RMBS)		1,748	444	—	2,192	2,139
thereof:						
US subprime		1	—	—	1	2
US Alt-A		2	—	—	2	2
Commercial mortgage-backed securities (CMBS)		830	278	—	1,108	993
Collateralised debt obligations (CDO)		22	66	—	88	145
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		472	386	19	877	1,134
Consumer loans		183	116	3	302	184
Credit cards		—	—	—	—	—
Receivables under finance leases		103	48	—	151	212
Others		6	18	—	24	22
Total	**31/12/2012**	**3,364**	**1,453**	**22**	**4,839**	
	31/12/2011	**3,596**	**1,522**	**33**	**5,151**	
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2012**	**—**	**25**	**—**	**25**	
	31/12/2011	**27**	**37**	**17**	**81**	

1 the amounts shown in the table represent the carrying amount (fair value)

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 (HVB Group without fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles; these are shown separately) (€ millions)

CARRYING AMOUNTS		31/12/2012 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**97**	**—**	**—**	**—**	**97**
Positions in third-party ABS transactions		**3,965**	**577**	**19**	**181**	**4,742**
Residential mortgage-backed securities (RMBS)		2,045	4	18	125	2,192
thereof:						
US subprime		—	1	—	—	1
US Alt-A		—	2	—	—	2
Commercial mortgage-backed securities (CMBS)		958	149	1	—	1,108
Collateralised debt obligations (CDO)		24	64	—	—	88
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		564	257	—	56	877
Consumer loans		214	88	—	—	302
Credit cards		—	—	—	—	—
Receivables under finance leases		136	15	—	—	151
Others		24	—	—	—	24
Total	**31/12/2012**	**4,062**	**577**	**19**	**181**	**4,839**
	31/12/2011	**4,245**	**671**	**31**	**204**	**5,151**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2012**	**—**	**25**	**—**	**—**	**25**
	31/12/2011	**29**	**52**	**—**	**—**	**81**

1 the amounts shown in the table represent the carrying amount (fair value)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (HVB Group without fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles; these are shown separately) (€ millions)

CARRYING AMOUNTS		31/12/2012 LESS THAN 1 YEAR	31/12/2012 BETWEEN 1 AND 5 YEARS	31/12/2012 MORE THAN 5 YEARS	31/12/2012 TOTAL
Positions retained from own securitisations		**—**	**97**	**—**	**97**
Positions in third-party ABS transactions		**543**	**2,976**	**1,223**	**4,742**
Residential mortgage-backed securities (RMBS)		193	1,063	936	2,192
thereof:					
US subprime		—	1	—	1
US Alt-A		—	2	—	2
Commercial mortgage-backed securities (CMBS)		202	792	114	1,108
Collateralised debt obligations (CDO)		18	10	60	88
thereof:					
US subprime		—	—	—	—
US Alt-A		—	—	—	—
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		17	747	113	877
Consumer loans		53	249	—	302
Credit cards		—	—	—	—
Receivables under finance leases		58	93	—	151
Others		2	22	—	24
Total	**31/12/2012**	**543**	**3,073**	**1,223**	**4,839**
	31/12/2011	**726**	**2,756**	**1,669**	**5,151**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2012**	**25**	**—**	**—**	**25**
	31/12/2011	**—**	**67**	**14**	**81**

1 the amounts shown in the table represent the carrying amount (fair value)

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by class as per IAS 39 (HVB Group without fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles; these are shown separately) (€ millions)

CARRYING AMOUNTS		31/12/2012 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**97**	**97**
Positions in third-party ABS transactions		**401**	**44**	**3,948**	**79**	**270**	**4,742**
Residential mortgage-backed securities (RMBS)		138	15	1,964	1	74	2,192
thereof:							
US subprime		—	—	—	1	—	1
US Alt-A		—	1	1	—	—	2
Commercial mortgage-backed securities (CMBS)		87	7	980	—	34	1,108
Collateralised debt obligations (CDO)		18	4	48	18	—	88
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	—	—	—	—
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		133	11	562	52	119	877
Consumer loans		7	—	287	8	—	302
Credit cards		—	—	—	—	—	—
Receivables under finance leases		18	—	90	—	43	151
Others		—	7	17	—	—	24
Total	**31/12/2012**	**401**	**44**	**3,948**	**79**	**367**	**4,839**
	31/12/2011	**564**	**72**	**3,876**	**96**	**543**	**5,151**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2012**	**25**	**—**	**—**	**—**	**—**	**25**
	31/12/2011	**81**	**—**	**—**	**—**	**—**	**81**

1 the amounts shown in the table represent the carrying amount (fair value)

Fully consolidated commercial paper conduits and other consolidated special purpose vehicles
Over the last few years, the Bank has streamlined its activities involving conduits in a process that was completed in 2012. The Arabella conduit programme is the only remaining conduit at the HVB subgroup, with a volume of €2 billion. Other conduits disclosed here in previous years have been handled as follows:
– Some have been wound down, with the remaining assets of the conduits being transferred to HVB.
– The shares in the special purpose vehicles have been acquired in some cases, meaning that these are subsidiaries that are now fully funded by HVB.
– The funding has been changed in some cases, with the fully consolidated special purposes vehicles now being fully funded by HVB.

The purpose of showing the fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles was to disclose the volume of business that the Bank bought from third parties through conduits and further special purpose vehicles and funded directly on the capital market by placing securities such that it did not appear directly on the balance sheet of HVB Group. In light of the streamlining mentioned above, this business volume has declined considerably and is now limited to Arabella as the Bank's only remaining conduit programme, which buys exclusively receivables with customers and refinances them on the capital market. To reflect this development, the previous presentation of fully consolidated commercial paper conduits and other fully consolidated special purpose vehicles is no longer shown. The Arabella programme is discussed separately in Note 52, "Loans and receivables with customers", as all the receivables purchased under this programme are disclosed in this item on the balance sheet.

76 Fair value hierarchy
We show financial instruments measured at fair value and recognised at fair value in the balance sheet separately in a fair value hierarchy in the following table. 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.

Financial assets and liabilities of €2.7 million (2011: €10.7 billion) have been transferred between Level 1 and Level 2. Almost all of this total relates to fixed-income securities issued by reliable borrowers for which the fair value is calculated using valuation models based on valuation parameters that can be observed on an active market as the fair value can no longer be observed on an active market. At the same time, no financial assets and liabilities (2011: €768 million) were migrated between Level 2 and Level 1. In 2011, this for the most part involved fixed-income securities for which a fair value could be observed on an active market. The other securities concerned are equities.

Other Information (Continued)

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). 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.

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 predominant market conditions of the Group. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

Transfers to and from Level 3 relate exclusively to derivative transactions. These essentially depend on the liquidity of the respective underlying.

On the assets side, derivatives with a market value of €309 million and €1.3 billion were transferred to Level 3 and from Level 3 respectively at year-end 2012. On the liabilities side, the market value of the derivatives transferred to Level 3 totalled €360 million and of those transferred from Level 3 €1.3 billion. The reason for reducing the volume in Level 3 is the improved ability to observe the market parameters on account of shorter remaining maturities. The volume in Level 3 declined by an aggregate of €2.5 billion on the assets side and €2.2 billion on the liabilities side year-on-year.

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 at fair value through profit or loss, the positive change in fair values at 31 December 2012 resulting from the use of possible appropriate alternatives would be €115 million (2011: €143 million), and the negative change would be €66 million (2011: €80 million).

The following table shows the significant sensitivity effects, broken down by the individual classes of financial instrument: (€ millions)

	31/12/2012	
	POSITIVE	NEGATIVE
Financial assets held for trading	40	(31)
Financial assets at fair value through profit or loss	15	(15)
Available-for-sale financial assets	11	—
Financial liabilities held for trading	49	(20)
Total	**115**	**(66)**

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity products 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.

The following parameters were varied for interest rate products in Level 3 as part of the sensitivity analysis: interest rate correlations and the parameter that governs how quickly a fluctuating interest rate reverts to the long-term mean (mean reversion).

More conservative and more aggressive values for correlations between the fair value of the credit derivative (CDS) and the respective underlying and implicit correlations were applied for credit derivatives than was the case as part of the fair value calculation. Furthermore, rating-dependent shifts were assumed for illiquid CDS. The same approach is applied when measuring the issuer risk associated with securities.

In terms of these debt instruments, varying plausible repayment scenarios and associated developments in debtor-specific ratios were assumed as value drivers for debt instruments as part of the sensitivity analyses that would lead to modified cash flows from the instruments.

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)	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	14,790	15,177	114,128	117,812	2,099	5,455
thereof: derivatives	1,931	3,165	103,210	102,010	842	3,167
Financial assets at fair value through profit or loss	9,910	5,357	11,535	21,524	2,837	1,164
Available-for-sale financial assets[1]	3,093	2,629	813	774	494	671
Hedging derivatives	—	—	3,262	2,698	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	5,730	8,787	114,121	115,929	1,650	4,159
thereof: derivatives	1,921	3,907	102,409	102,057	1,183	3,151
Hedging derivatives	—	1	1,386	1,021	—	—

1 available-for-sale financial assets include financial instruments of €1,082 million (2011: €1,402 million) valued at historical cost that are not included in these totals at 31 December 2012

Other Information (Continued)

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)

	2012			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2012	**5,455**	**1,164**	**671**	**—**
Additions				
Acquisitions	1,053	65	123	—
Realised gains[1]	59	3	35	—
Transfer from other levels	711	2,626	18	—
Other additions[2]	162	—	44	—
Reductions				
Sale/repayment	(2,418)	(533)	(149)	—
Realised losses[1]	(27)	(5)	(14)	—
Transfer to other levels	(2,597)	(483)	(194)	—
Other reductions	(299)	—	(40)	—
Balance at 31/12/2012	**2,099**	**2,837**	**494**	**—**

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

(€ millions)

	2012	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2012	**4,159**	**—**
Additions		
Sale/issue	246	—
Realised losses[1]	97	—
Transfer from other levels	600	—
Other additions[2]	122	—
Reductions		
Buy-back/redemption	(1,661)	—
Realised gains[1]	(36)	—
Transfer to other levels	(1,653)	—
Other reductions	(224)	—
Balance at 31/12/2012	**1,650**	**—**

1 in the income statement
2 also including changes in the group of companies included in consolidation

(€ millions)

	2011			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2011	**3,713**	**676**	**896**	**—**
Additions				
Acquisitions	3,605	21	3,383	—
Realised gains[1]	1,266	119	69	—
Transfer from other levels	4,833	4,924	2,672	—
Other additions[2]	—	3	44	—
Reductions				
Sale/repayment	(3,927)	(45)	(3,559)	—
Realised losses[1]	(1,325)	(87)	(153)	—
Transfer to other levels	(2,710)	(4,447)	(2,358)	—
Other reductions	—	—	(323)	—
Balance at 31/12/2011	**5,455**	**1,164**	**671**	**—**

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

(€ millions)

	2011	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2011	**3,480**	**—**
Additions		
Sale/issue	3,159	—
Realised losses[1]	529	—
Transfer from other levels	3,467	—
Other additions[2]	—	—
Reductions		
Buy-back/redemption	(2,889)	—
Realised gains[1]	(274)	—
Transfer to other levels	(3,313)	—
Other reductions	—	—
Balance at 31/12/2011	**4,159**	**—**

1 in the income statement
2 also including changes in the group of companies included in consolidation

Other Information (Continued)

77 Fair values of financial instruments compliant with IFRS 7

The fair values stated for financial instruments as defined in IFRS 7 are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the reporting date.

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

(€ billions)

	2012		2011	
ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	15.7	15.7	4.3	4.3
Financial assets held for trading	131.0	131.0	138.4	138.4
Financial assets at fair value through profit or loss	24.3	24.3	28.0	28.0
Available-for-sale financial assets				
thereof: measured				
at cost	1.1	1.1	1.4	1.4
at fair value	4.4	4.4	4.1	4.1
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	0.1	0.1	—	—
Held-to-maturity investments	0.3	0.3	2.5	2.4
Loans and receivables with banks	36.3	36.9	44.3	44.1
Loans and receivables with customers	122.2	128.7	136.6	141.3
thereof: finance leases	1.9	1.9	2.0	2.0
Hedging derivatives	3.3	3.3	2.7	2.7
Total	**338.7**	**345.8**	**362.3**	**366.7**

(€ billions)

	2012		2011	
LIABILITIES	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Deposits from banks	45.2	46.1	57.9	58.5
Deposits from customers	110.3	110.8	107.4	107.9
Debt securities in issue	35.9	39.4	42.7	45.2
Financial liabilities held for trading	121.5	121.5	128.9	128.9
Hedging derivatives	1.4	1.4	1.0	1.0
Total	**314.3**	**319.2**	**337.9**	**341.5**

(€ billions)

	2012		2011	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial guarantees and irrevocable credit commitments	55.6	55.6	58.3	58.3

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.

For other receivables and liabilities, future anticipated cash flows are discounted to their present value using current interest rates taking into account the respective spreads. The spread used here for receivables is determined on the basis of Basel II-compliant expected loss values and the cost of capital. Where loans and receivables with banks and customers contain reclassified securities, these are stated at the fair value shown in Note 74.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows.

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.

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 amortised cost.

The fair values of financial guarantees and irrevocable credit commitments are the same as their carrying amounts.

The difference in HVB Group between the fair values and carrying amounts totals €7.1 billion for assets and €4.9 billion for liabilities. The balance of these amounts is €2.2 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.

Other Information (Continued)

78 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39 (c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €35,646 million (2011: €37,249 million). This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket

(€ millions)

	2012						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	1,976	3,883	1,335	5,630	6,620	3,709	5,145
Derivatives on financial assets held for trading	105,982	—	—	—	—	—	—
Financial assets at fair value							
through profit or loss	—	201	912	1,964	20,090	1,966	—
Available-for-sale financial assets	—	152	295	653	2,049	3,433	1,191
Held-to-maturity investments	—	26	3	12	176	50	—
Loans and receivables with banks	15,980	5,566	1,988	4,395	7,643	1,078	13,401
Loans and receivables with customers	13,535	7,974	5,632	12,309	45,925	58,388	1,032
thereof: finance leases	37	65	121	500	1,321	99	—
Hedging derivatives	—	130	259	1,187	2,001	997	—

(€ millions)

	2011						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	7,943	1,392	1,388	4,200	9,497	3,647	6,287
Derivatives on financial assets held for trading	108,341	—	—	—	—	—	—
Financial assets at fair value							
through profit or loss	—	231	563	3,403	22,604	2,796	—
Available-for-sale financial assets	—	91	354	338	2,279	922	1,926
Held-to-maturity investments	—	25	16	2,172	133	132	—
Loans and receivables with banks	14,881	11,435	1,781	5,573	9,354	2,070	36
Loans and receivables with customers	11,987	8,244	10,720	12,915	49,517	64,812	8,232
thereof: finance leases	47	69	119	474	1,275	124	120
Hedging derivatives	—	129	639	1,200	2,532	1,196	—

Breakdown of non-derivative and derivative financial liabilities by maturity bucket

(€ millions)

	2012						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	13,725	3,601	9,321	7,374	10,090	5,368	12
Deposits from customers	60,937	11,770	18,245	9,729	4,579	3,554	—
Debt securities in issue	24	2,352	2,629	2,906	22,190	13,636	—
Financial liabilities held for trading	134	3,402	998	2,558	3,462	1,048	3,601
Derivatives on financial liabilities held for trading	105,513	—	—	—	—	—	—
Hedging derivatives	—	44	88	428	816	338	—
Credit commitments and financial guarantees	55,555	—	—	—	—	—	—

(€ millions)

	2011						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	12,352	16,893	8,806	4,966	10,048	6,545	—
Deposits from customers	53,133	17,490	19,410	7,986	5,050	4,106	—
Debt securities in issue	31	549	3,968	6,325	24,280	15,261	—
Financial liabilities held for trading	5,834	116	244	2,154	6,529	1,622	3,729
Derivatives on financial liabilities held for trading	109,115	—	—	—	—	—	—
Hedging derivatives	—	84	268	522	1,120	467	—
Credit commitments and financial guarantees	58,299	—	—	—	—	—	—

Other Information (Continued)

79 Key capital ratios (based on German Commercial Code)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. The economic yield expectations have been calculated using the allocated capital principle that UniCredit introduced across its entire organisation. Within the scope of this principle, it is ensured that at least the expected return on the basis of the regulatory capital is met at all times. This means that regulatory (or used core) capital is allocated to the divisions that is expected to yield an appropriate return, which is derived from the expectations of the capital market and which has to be earned by our business units. At product and customer level, this capital allocation may be performed on the basis of the maximum principle; the capital requirement may be derived from either the regulatory capital or the internal capital based on the credit portfolio model. The internal capital will be used in the planning process for 2013 to calculate the allocated capital for all divisions and for HVB Group as a whole.

The supervisory ratios are discussed below.

The capital ratio for banking supervisory purposes defined in the German Solvency Regulation (SolvV) represents the ratio of the eligible equity compliant with Section 10 KWG to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted asset equivalent of these risk positions). Under Section 10 of the German Banking Act in conjunction with Section 2 SolvV, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 4.0%.

The eligible equity which is used to calculate the capital ratio in accordance with the German Solvency Regulation consists of the core capital, the supplementary capital and Tier 3 capital. The Tier 3 capital comprises current subordinated liabilities which are only used to back market risk positions. HVB Group uses internal models in particular to measure market risk positions.

The following table shows equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2012:

Equity funds[1] (€ millions)

	2012	2011
Tier 1		
Shares of common stock	2,407	2,407
Additional paid-in capital, retained earnings, minority interest, own shares	16,434	17,331
Hybrid capital instruments (silent partnership certificates and trust preferred securities)		
without prorated interest	358	779
Other	434	282
50% deductible items	(132)	(153)
Total core capital for solvency purposes	**19,501**	**20,646**
Tier 2		
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	142	47
Cumulative shares of preferred stock	—	—
Participating certificates outstanding	—	—
Subordinated liabilities	1,431	2,457
Value adjustment excess for IRBA positions	261	419
Other	18	18
50% deductible items	(132)	(153)
Total supplementary capital for solvency purposes	**1,720**	**2,788**
Total equity capital	**21,221**	**23,434**
Tier 3 capital	—	—
Total equity funds	**21,221**	**23,434**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

Pursuant to Sections 10 and 10a KWG, the equity funds of HVB Group amounted to €21,221 million at 31 December 2012 (2011: €23,434 million). Supplementary capital includes no unrealised reserves pursuant to Section 10 (2b) 1 No. 6 and 7 KWG.

Our equity funds compliant with the KWG rules are calculated on the basis of the individual financial statements of the consolidated companies, taking into account the special provisions of German banking supervisory regulations.

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS: (€ millions)

	CORE CAPITAL	SUPPLEMENTARY CAPITAL	TIER 3 CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	23,269	—	—	23,269
Reconciliation to the equity funds compliant with the German Banking Act				
AfS reserve	(30)	—	—	(30)
Hedge reserve	(26)	—	—	(26)
Cumulative shares of preferred stock	—	—	—	—
Deduction of intangible assets	(96)	—	—	(96)
Ineligible profit components under banking supervisory regulations	(1,380)	—	—	(1,380)
Consolidated profit for 2012	(2,462)	—	—	(2,462)
Hybrid capital recognised under banking supervisory regulations	358	—	—	358
Eligible portion of certificates outstanding	—	—	—	—
Eligible portion of subordinated liabilities	—	1,431	—	1,431
Reclassifications to Tier 3 capital due to banking supervisory regulations	—	—	—	—
Eligible Tier 3 capital unused	—	—	—	—
Unrealised reserves in land and buildings and in securities	—	—	—	—
Value adjustment excess for IRBA positions	—	261	—	261
Deductible items due to non-consolidated investments	(26)	(26)	—	(52)
Deductible items compliant with Sect.10 (6a) KWG	(2)	(2)	—	(4)
Other effects				
(e. g. differences in group of consolidated companies and principles of consolidation)	(104)	56	—	(48)
Equity funds compliant with the German Banking Act	**19,501**	**1,720**	**—**	**21,221**

(€ billions)

	2012 BASEL II	2011 BASEL II
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	59.1	65.4
off-balance sheet counterparty risk positions	10.3	11.8
other counterparty risk positions[1]	0.5	0.7
derivative counterparty risk positions	13.2	14.5
Total credit risk-weighted assets	**83.1**	**92.4**
Risk-weighted asset equivalent for market risk positions	**12.9**	**23.8**
Risk-weighted asset equivalent for operational risk	**13.8**	**11.2**
Total risk-weighted assets	**109.8**	**127.4**

1 primarily including repos and securities lending transactions

Other Information (Continued)

At 31 December 2012, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows: (in %)

	2012 BASEL II	2011 BASEL II
Core capital ratio (Tier 1 ratio)		
[core capital (Tier 1 capital)/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	17.8	16.2
Core capital ratio without hybrid core capital (core Tier 1 ratio)		
[core capital without hybrid core capital (core Tier 1 capital)/		
(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	17.4	15.6
Capital ratio		
[equity funds/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	19.3	18.4

80 Contingent liabilities and other commitments

(€ millions)

	2012	2011
Contingent liabilities[1]	**19,909**	**21,050**
Guarantees and indemnities	19,909	21,050
Other commitments	**35,984**	**37,703**
Irrevocable credit commitments	35,646	37,249
Other commitments[2]	338	454
Total	**55,893**	**58,753**

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 operation leases. These are covered in Note 73

Neither contingent liabilities nor irrevocable credit commitments contain any significant items. The guarantees and indemnities listed here essentially reflect guarantees and indemnities that the Bank has granted on behalf of customers. Consequently, the Bank has a right of recourse against the customer (contracting party) should the guarantee or indemnity in question be used. An appropriate provision is set up where such a customer's creditworthiness is doubtful. The gross volume of contingent liabilities in the above contigent liabilities for which provisions have been created totals €1,098 million (2011: €520 million). The provisions of €512 million (2011: €180 million) set up for these liabilities have been deducted from the contingent liabilities recognised and are carried under provisions in the balance sheet (see Note 69, "Provisions").

Securities lending transactions are not recognised, as economic ownership remains with the lender. The Bank only becomes the legal owner of the borrowed securities which are returned to the lender when the lending transaction falls due. Obligations of €20,678 million (2011: €21,433 million) to return securities arising from securities lending transactions are thus offset by borrowed securities of the same amount, which are not carried as assets on the assets side of the balance sheet.

The repos recognised as irrevocable credit commitments in 2011 that were already concluded at the reporting date but settlement of which had not yet taken place (2011: €2,931 million) are no longer included in 2012. The year-ago figure for irrevocable credit commitments has been reduced by €2,931 million accordingly.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed-end) KG real estate funds offered by our H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been taken to the income statement.

Commitments for uncalled payments on shares not fully paid up amounted to €277 million at year-end 2012 (2011: €388 million), and similar obligations for shares in cooperatives totalled €1 thousand (2011: €1 million). We were not liable for any defaults on such calls under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG). Under Section 26 GmbHG, we were liable for calls for additional capital of €57 million (2011: €58 million) with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2012. In addition, under Article 5 (4) of the Articles of Association of Liquiditäts-Konsortialbank GmbH, we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

At the reporting date, we had unlimited personal liability arising from shares in 73 partnerships (2011: 74).

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest.

With a Statement of Responsibility dated 21 December 1993, HVB issued an undertaking to the State of Baden-Wuerttemberg (Ministry of Finance) to assume a liquidity provision obligation in the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

In the same way as HVB and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related entities (€ millions)

	2012	2011
Non-consolidated affiliated companies	2,047	1,705
of which: UniCredit S.p.A.	591	182
Joint ventures	—	—
Associated companies	—	—
Other participating interests	73	155
Total	**2,120**	**1,860**

Besides the contingent liabilities attributable to UniCredit S.p.A., the contingent liabilities of €2,047 million (2011: €1,705 million) attributable to non-consolidated affiliated companies include contingent liabilities of €1,456 million (2011: €1,375 million) attributable to sister companies and €0 million (2011: €148 million) attributable to subsidiaries.

81 Statement of Responsibility

HVB ensures that, to the extent of its shareholding, the companies set forth below are in a position to meet their contractual obligations except in the event of political risks:

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
2. Banks in other regions
UniCredit Luxembourg S. A., Luxembourg
3. Financial companies
UniCredit Leasing GmbH, Hamburg
4. Companies with bank-related auxiliary services
HypoVereinsFinance N. V., Amsterdam

1 the company provides a Statement of Responsibility with the same wording for selected subsidiaries in its annual report

Other Information (Continued)

If our shareholding in a particular company declines, our commitment arising from the above Statement of Responsibility is also reduced to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

HVB no longer provides a Statement of Responsibility for companies which left HVB Group during an earlier financial year, but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

82 Trust business

Trust assets (€ millions)

	2012	2011
Loans and receivables with banks	568	580
Loans and receivables with customers	202	415
Equity securities and other variable-yield securities	185	204
Bonds	—	—
Participating interests	—	349
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	2,092	2,089
Remaining trust receivables	1	—
Total	**3,048**	**3,637**

Trust liabilities (€ millions)

	2012	2011
Deposits from banks	742	762
Deposits from customers	2,305	2,871
Debt securities in issue	—	—
Other liabilities	1	4
Total	**3,048**	**3,637**

83 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €36.4 billion (2011: €50.6 billion). These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of assets that we provide as collateral for own liabilities:

(€ millions)

	2012	2011
Financial assets held for trading	13,988	15,556
Financial assets at fair value through profit or loss	10,932	14,309
Available-for-sale financial assets	4,022	2,022
Held-to-maturity investments	—	—
Loans and receivables with banks	315	403
Loans and receivables with customers	11,141	18,519
Property, plant and equipment	—	—
Non-recognised received securities pledged on:		
Pledged securities from non-capitalised securities lending transactions	19,191	20,090
Received collateral pledged	6,308	7,963
Total	**65,897**	**78,862**

The collateral pledged from loans and receivables with customers relates to special credit facilities provided by KfW and similar institutions. Furthermore, this concerns non-written-off securitised loans and receivables with customers underlying the Rosenkavalier 2008 true sale transaction (see also Note 60, "Own securitisation"), serving indirectly as collateral for repurchase agreements with the ECB in this context.

The assets pledged by HVB Group as security relate to the following liabilities:

(€ millions)

	2012	2011
Deposits from banks	27,938	41,811
Deposits from customers	15,234	18,500
Debt securities in issue	—	—
Financial liabilities held for trading	7,165	5,216
Contingent liabilities	—	—
Obligations to return non-expensed, borrowed securities	15,560	13,335
Total	**65,897**	**78,862**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, figures are disclosed showing the extent to which the security provided may be pledged or sold on by the borrower.

(€ millions)

	2012	2011
Aggregate carrying amount of assets pledged as security	65,897	78,862
of which:		
may be pledged/sold on	35,177	44,178

Other Information (Continued)

84 Collateral received that HVB Group may pledge or sell on

As part of repurchase agreements and securities lending transactions, HVB Group has received security that it may pledge or sell on at any time without the security provider having to be in arrears. The fair value of this security is €15.0 billion (2011: €21.6 billion).

HVB Group has actually pledged or sold on €6.3 billion (2011: €8.0 billion) of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

The transactions that make it possible to use this collateral were conducted under the customary market terms for repurchase agreements and securities lending transactions.

85 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.

In the course of the integration of HVB into the UniCredit group of companies, HVB has been assigned the role of centre of competence for markets and investment banking for the entire 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. The section of the Risk Report entitled “Exposure to UniCredit S.p.A. and its subsidiaries” under “Risk types in detail” in this Annual Report contains further information regarding the exposure to UniCredit and its subsidiaries.

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 €549.6 million (2011: €482.7 million) for these services during 2012. This was offset by income of €11.4 million (2011: €8.3 million) from services rendered and internal charges. Moreover, software products worth €11.6 million (2011: €13.6 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS (legal successor to the former UniCredit Business Partners S.C.p.A.). 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 €70.5 million (2011: €80.5 million) for these services during 2012.

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

Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to the members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Management Board and Supervisory Board (€ thousands)

	FIXED COMPENSATION		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVES[2]		PENSION COMMITMENTS		TOTAL	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Management Board members of UniCredit Bank AG	4,513	4,327	910[1]	1,788[1]	1,479[3]	1,139[3]	1,071[4]	989[4]	7,973	8,243
Supervisory Board members of UniCredit Bank AG										
for Supervisory Board activities	558	558	210[5]	210[5]	—	—	—	—	768[5]	768[5]
Former members of the Management Board										
of UniCredit Bank AG and their surviving dependants	—	—	—	—	—	—	—	—	1,716[6]	1,653[6]
Transitional allowances for former members										
of the Management Board	—	—	—	—	—	—	—	—	—	—

1 the profit-related components are generally deferred over several years with disbursement in subsequent years dependent on defined company targets being achieved
2 cash value of the share-based compensation
3 prorated disclosure of the long-term incentive plans for 2005 to 2008 and the long-term incentive plan for a performance period of 2011 to 2013 and stock options (period of 2012 to 2015) and shares for the 2012 financial year
4 of which a prorated pension expense of €18,500 could not be posted until 2012
5 the performance-related component for the 2012 financial year totals €210 thousand, provided the Annual General Meeting of Shareholders adopts a resolution regarding the appropriation of net income as proposed. The performance-related component for the 2011 financial year totalled €210 thousand after the Annual General Meeting of Shareholders adopted a resolution regarding the appropriation of net income as proposed
6 in addition an amount of €145 thousand was assumed in the 2012 financial year for some former executives within the framework of insurance benefits under a corporate Directors and Officers insurance policy, the accrued taxes and legal costs (2011: €147 thousand)

The plenary session of the Supervisory Board is responsible for setting the total compensation of each member of the Management Board. Appropriateness and sustainability are key criteria for the form and structure of compensation paid to members of the Management Board. The structure of compensation is derived from the service agreements with the members of the Bank's Management Board. It has two components: a fixed salary and a variable, performance-related element. The fixed compensation and the performance-related components are classified as current liabilities.

Pension commitments for six members of the Management Board are shown in the table alongside the direct emoluments. These people took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA). The Bank will provide/has provided 35% of the fixed salary contributions. It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank. Costs for international health insurance and social security, including the accrued taxes, of €382 thousand (2011: €336 thousand) were additionally assumed for one executive under his existing UniCredit S.p.A. contract.

Other Information (Continued)

For more information about stock options and performance shares, please refer to Note 37 where the UniCredit long-term incentive plan underlying these instruments is described.

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to the Bank.

A sum of €125 (2011: €5,787) was transferred to provisions for pensions in the 2012 financial year to cover the commitments (for death benefits) made to the members of the Management Board.

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €128,479 thousand (2011: €114,844 thousand).

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1,716 thousand in 2012 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2011: €1,653 thousand).

Details of share-based compensation

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	
Options	
Stock options 2011	1,844,156[1]
Stock options 2012	708,781
Fair value per option (2011) on grant date (€)	0.6019
Fair value per option (2012) on grant date (€)	1.8670
Performance shares	
Performance shares 2011	826,517[1]
Performance shares 2012	187,869
Fair value per performance share (2011) on grant date (€)	1.712
Fair value per performance share (2012) on grant date (€)	4.010

1 long-term incentive: after no long-term incentive plan was set up for the 2010 financial year, this was carried out in 2011 with a performance period of 2011 to 2013

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2012: (in €)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[1]	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Federico Ghizzoni, Chairman	60,000.00	—	30,000.00	90,000.00	61,515.00[2]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[2]
Beate Dura-Kempf	30,000.00	—	15,000.00	45,000.00	45,000.00
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Werner Habich	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[2]
Klaus-Peter Prinz	30,000.00	—	15,000.00	45,000.00	45,000.00
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45,000.00
Total	**420,000.00**	**137,500.00**	**210,000.00**	**767,500.00**	**693,122.50[2]**

1 subject to a resolution adopted by the Annual General Meeting of Shareholders regarding the appropriation of profit available for distribution
2 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2011: (in €)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Sergio Ermotti, Chairman[1]	9,863.01	—	4,931.51	14,794.52	10,112.06[5]
Federico Ghizzoni[2], Chairman					
since 4/3/2011	49,972.60	—	24,986.30	74,958.90	51,234.40[5]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[5]
Beate Dura-Kempf	30,000.00	—	15,000.00	45,000.00	45,000.00
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Werner Habich[4]	28,767.12	—	14,383.56	43,150.68	43,150.68
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[5]
Klaus-Peter Prinz	30,000.00	—	15,000.00	45,000.00	45,000.00
Jutta Streit[3]	1,232.88	—	616.44	1,849.32	1,849.32
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45,000.00
Total	**419,835.61**	**137,500.00**	**209,917.81**	**767,253.42**	**692,953.96[5]**

1 member until 1 March 2011
2 member since 2 March 2011
3 member until 15 January 2011
4 member since 16 January 2011
5 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Shareholders' Meeting on 22 September 2010. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board receive fixed compensation of €30,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share, but no more than €15,000. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the members of the Audit Committee each receive fixed annual compensation of €27,500 payable upon conclusion of the financial year. The chairman of the Audit Committee receives twice this amount. The members of the Remuneration & Nomination Committee receive no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives a reimbursement for expenses of €250 for attending a meeting of the Supervisory Board or the Audit Committee. In addition, the members of the Supervisory Board are reimbursed their incidental expenses and value-added tax payable on their Supervisory Board activities. If they are members of the Executive Management Committee of UniCredit S.p.A., those members of the Supervisory Board transfer to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty. Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year receive pro rata compensation. The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2012, expense allowances totalling €38,255.87 (2011: €33,008.54) were paid to members of the Supervisory Board. No remuneration was paid in the 2012 financial year for services provided personally.

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee and their respective immediate family members are considered related parties.

(€ thousands)

	2012			2011		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Management Board members of UniCredit Bank AG	1,180	6	4,623	1,233	7	4,915
Supervisory Board members of UniCredit Bank AG	2,754	23	3,664	2,955	—	5,410
Executive Management Committee	—	—	—	—	—	—

Other Information (Continued)

Loans and advances were granted to members of the Management Board and their immediate family members in the form of mortgage loans with interest rates of between 2.5% and 3.96% and falling due in the period from 2013 to 2021.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of credit facilities with interest rates of between 6% and 11.15% with no fixed maturity and special credit facilities and mortgage loans with interest rates of between 1.9% and 5.25% falling due in 2021.

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

86 Fees paid to the independent auditors

The following table shows the breakdown of fees of €24 million (2011: €17 million) recorded as expense in the year under review, as paid to the independent auditors KPMG AG, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2012[1]	2011[1]
Fee for		
Auditing of the financial statements	6	7
Other auditing services	2	2
Tax advisory services	—	—
Other services	16	8

1 excluding value-added tax

87 Employees

Average number of people employed by us

	2012	2011
Employees (excluding trainees)	20,153	20,585
Full-time	14,903	15,354
Part-time	5,250	5,231
Trainees	997	960

The staff's length of service was as follows:

in %

	WOMEN	MEN	2012	2011
	(EXCLUDING TRAINEES)		TOTAL	TOTAL
Staff's length of service				
31 years or more	10.7	11.6	11.1	10.0
from 21 years to less than 31 years	24.7	19.7	22.4	20.3
from 11 years to less than 21 years	34.0	28.3	31.4	32.8
less than 11 years	30.7	40.4	35.1	36.9

88 Offices

Offices, broken down by region

		ADDITIONS	REDUCTIONS			
	1/1/2012	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	CHANGE IN CONSOLIDATED GROUP	31/12/2012
Germany						
Baden-Wuerttemberg	35	—	—	1	1	35
Bavaria	516	6	1	—	7	528
Berlin	13	1	—	—	—	14
Brandenburg	9	—	—	—	—	9
Bremen	6	—	2	—	—	4
Hamburg	38	—	—	2	(5)	31
Hesse	18	1	—	—	—	19
Lower Saxony	33	—	—	—	—	33
Mecklenburg-Western Pomerania	9	—	—	—	—	9
North Rhine-Westphalia	28	1	1	1	—	27
Rhineland-Palatinate	25	1	—	—	1	27
Saarland	10	1	—	—	—	11
Saxony	16	1	—	—	—	17
Saxony-Anhalt	11	—	—	—	—	11
Schleswig-Holstein	69	2	—	—	—	71
Thuringia	11	2	—	—	—	13
Subtotal	**847**	**16**	**4**	**4**	**4**	**859**
Other regions						
Africa	1	—	—	—	—	1
Americas	23	—	—	—	—	23
Asia	17	—	2	—	(3)	12
Europe	46	—	—	—	—	46
Subtotal	**87**	**—**	**2**	**—**	**(3)**	**82**
Total	**934**	**16**	**6**	**4**	**1**	**941**

89 List of holdings pursuant to Section 313 HGB

The separate list of holdings drawn up in compliance with Section 313 (2), HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings of less than 20% and fully consolidated special purposes entities without shareholding of HVB compliant with IAS 27 in connection with SIC 12.

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
1 Subsidiaries of HVB Group						
1.1 Consolidated subsidiaries						
1.1.1 Banks						
1.1.1.1 Domestic banks and financial institutions						
Bankhaus Neelmeyer AG	Bremen	100.0		EUR	40,400	1.1
DAB Bank AG	Munich	79.5		EUR	174,196	17,997
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	27,013	2
1.1.1.2 Foreign banks and financial institutions						
direktanlage.at AG	Salzburg	100.0	100.0	EUR	26,579	4,766
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,309,510	180,888
1.1.2 Other consolidated companies						
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	27	688
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	28	865
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	35	2,967
Active Asset Management GmbH	Grünwald	100.0	100.0	EUR	208	(8)
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	20,693	1,602
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	0
Argentaurus Immobilien-Vermietungs- und						
Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	2
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(45,452)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(39,212)	0
A&T-Projektentwicklungs GmbH & Co.						
Potsdamer Platz Berlin KG[3]	Munich	100.0	100.0	EUR	(37,260)	5
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	5,914	(96)
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	85	2
Bank Austria ImmobilienService GmbH	Vienna	100.0	100.0	EUR	273	256
B.I. International Limited	George Town	100.0	100.0	EUR	(949)	(102)
BIL Immobilien Fonds GmbH & Co Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	2,778	(544)
BIL Leasing-Fonds GmbH & Co VELUM KG (share of						
voting rights: 66.7% total, of which 33.3% held indirectly)	Munich	100.0		EUR	(2)	0
BIL Leasing-Fonds Verwaltungs-GmbH	Munich	100.0	100.0	EUR	33	0
Blue Capital Europa Immobilien GmbH & Co.						
Achte Objekte Großbritannien KG	Hamburg	100.0	100.0	EUR	(2,363)	(3,744)
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	2
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	511	145
CUMTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	2
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(22,880)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(53,477)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(59,493)	0
Enderlein & Co. GmbH	Bielefeld	100.0	100.0	EUR	114	2
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	455	28
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(1,628)	(58)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	486	100

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Food & more GmbH	Munich	100.0		EUR	177	[1,2]
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	0
Grand Central Re Limited	Hamilton	92.5		USD	46,419	(2,850)
Grundstücksaktiengesellschaft am Potsdamer Platz						
(Haus Vaterland)	Munich	98.2	98.2	EUR	4,495	[2]
Grundstücksgesellschaft Simon						
beschränkt haftende Kommanditgesellschaft[3]	Munich	100.0	100.0	EUR	52	1,355
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	140
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	(296)
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	324
H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH	Munich	100.0	90.0	EUR	5,101	[2]
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	26	[2]
HJS 12 Beteiligungsgesellschaft mbH	Munich	100.0		EUR	274	(2)
HVB Alternative Advisors LLC	Wilmington	100.0		USD	6,783	(387)
HVB Asia Limited	Singapore	100.0		EUR	3,650	(3)
HVB Asset Leasing Limited	London	100.0	100.0	USD	145	(46)
HVB Asset Management Holding GmbH	Munich	100.0	100.0	EUR	25	[2]
HVB Capital LLC	Wilmington	100.0		USD	1,128	87
HVB Capital LLC II	Wilmington	100.0		GBP	2	0
HVB Capital LLC III	Wilmington	100.0		USD	1,107	90
HVB Capital LLC VI	Wilmington	100.0		JPY	275	7
HVB Capital Partners AG	Munich	100.0		EUR	12,671	[1,3]
HVB Expertise GmbH	Munich	100.0		EUR	1,117	88
HVB Export Leasing GmbH	Munich	100.0		EUR	39	(5)
HVB Finance London Limited	London	100.0		EUR	930	(18)
HVB Funding Trust II	Wilmington	100.0		GBP	2	0
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	27	2
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	42,998
HVB Global Assets Company (GP), LLC	City of Dover	100.0		USD	142	4
HVB Global Assets Company, L.P.[5]	City of Dover	5.0		USD	1,035,121	38,481
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,418	114
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1,4]
HVB Investments (UK) Limited	George Town	100.0		GBP	220	924
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	1,020	(5)
HVB London Investments (AVON) Limited	London	100.0		GBP	2,545	5
HVB London Investments (CAM) Limited	London	100.0		GBP	120	0
HVB Principal Equity GmbH[3]	Munich	100.0		EUR	34	[1,5]
HVB Profil Gesellschaft für Personalmanagement mbH[3]	Munich	100.0		EUR	28	[1,6]
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	[2]
HVB Realty Capital Inc.	New York	100.0	100.0	USD	0	0
HVB Secur GmbH	Munich	100.0	100.0	EUR	115	3
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 1 GmbH	Munich	100.0		EUR	41	[1,7]
HVB Verwa 4 GmbH	Munich	100.0		EUR	10,132	[1,8]
HVB Verwa 4.4 GmbH[3]	Munich	100.0	100.0	EUR	10,025	[2]
HVBFF International Greece GmbH[4]	Munich	100.0	100.0	EUR	(674)	(232)
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	10	(1)
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	43	3
HVBFF Produktionshalle GmbH i.L.	Munich	100.0	100.0	EUR	20	0
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	3,728
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	16	7
Hypo-Bank Verwaltungszentrum GmbH & Co. KG						
Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	20,506

Other Information (Continued)

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HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co.						
Immobilien-Vermietungs KG[3]	Munich	80.0	80.0	EUR	(850)	0
HypoVereinsFinance N.V.	Amsterdam	100.0		EUR	2,229	140
Internationales Immobilien-Institut GmbH	Munich	94.0		EUR	13,126	4,935
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	51	[2]
Keller Crossing L.P.	Wilmington	100.0	100.0	USD	1,663	190
Kinabalu Financial Products LLP	London	100.0		GBP	884	(26)
Kinabalu Financial Solutions Limited	London	100.0		GBP	3,998	221
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	[2]
Life Science I Beteiligungs GmbH	Munich	100.0	100.0	EUR	(167)	199
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung[3]	Munich	100.0		EUR	16,692	[1,9]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	4,381	2,753
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	17	6
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	[2]
NF Objekt München GmbH[3]	Munich	100.0	100.0	EUR	75	[2]
NF Objekte Berlin GmbH[3]	Munich	100.0	100.0	EUR	15,725	[2]
NXP Co-Investment Partners VIII, L.P.	London	85.0	85.0	EUR	9,987	2,507
Ocean Breeze Asset GmbH & Co. KG	Munich	100.0	100.0	EUR	0	(4)
Ocean Breeze Energy GmbH & Co. KG[3]	Munich	100.0	100.0	EUR	(59,519)	(11,291)
Ocean Breeze GmbH	Munich	100.0	100.0	EUR	23	(1)
Omnia Grundstücks-GmbH & Co.						
Objekt Eggenfeldener Straße KG[3]	Munich	100.0	94.0	EUR	26	0
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	139
Orestos Immobilien-Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	56,674	[2]
Othmarschen Park Hamburg GmbH & Co. Centerpark KG[3]	Munich	100.0	100.0	EUR	(18,942)	0
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	0
Perikles 20092 Vermögensverwaltung GmbH	Munich	100.0	100.0	EUR	23	(1)
PlanetHome AG	Unterföhring	100.0		EUR	26,363	1,687
PlanetHome GmbH	Mannheim	100.0	100.0	EUR	560	405
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co.						
Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	(30,246)
"Portia" Grundstücksverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0	100.0	EUR	29	3
Redstone Mortgages Limited	London	100.0		GBP	(301,619)	10,636
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
Roncasa Immobilien-Verwaltungs GmbH	Munich	90.0	90.0	EUR	(39,995)	975
Salvatorplatz-Grundstücksgesellschaft mbH	Munich	100.0	100.0	EUR	711	[2]
Salvatorplatz-Grundstücksgesellschaft mbH & Co.						
OHG Saarland[3]	Munich	100.0	100.0	EUR	1,534	(19)
Salvatorplatz-Grundstücksgesellschaft mbH & Co.						
OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	5,123
Selfoss Beteiligungsgesellschaft mbH[3]	Grünwald	100.0	100.0	EUR	13	[2]
Simon Verwaltungs-Aktiengesellschaft i.L.[4]	Munich	<100.0		EUR	3,129	(1)
Sirius Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(143,835)	[2]
SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG[3]	Munich	94.9	94.9	EUR	0	0
Solos Immobilien- und Projektentwicklungs GmbH & Co.						
Sirius Beteiligungs KG[3]	Munich	100.0	100.0	EUR	(35,748)	900
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Status Vermögensverwaltung GmbH[3]	Schwerin	100.0		EUR	2,108	[1,10]
Structured Invest Société Anonyme	Luxembourg-Kirchberg	100.0		EUR	8,794	432
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	750	[2]
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(6,991)	(5)
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,467)	(18)

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TERRENO Grundstücksverwaltung GmbH & Co.						
Entwicklungs- und Finanzierungsvermittlungs-KG[3]	Munich	75.0	75.0	EUR	(268,579)	0
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(401)	(14)
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	13,366	5,850
Transterra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
TRICASA Grundbesitz Gesellschaft mbH & Co.						
1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	6,804	2,507
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	17,142	(43)
Trinitrade Vermögensverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0		EUR	1,323	1
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,147	[1.11]
UniCredit CAIB Securities UK Ltd.	London	100.0		GBP	454	3
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	321,425	460
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	1,830	271
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	881	[1.12]
UniCredit Global Business Services GmbH	Munich	100.0		EUR	5,818	4,138
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	(3,438)	(3,943)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	162,026	[1.13]
UniCredit London Investments Limited	London	100.0		EUR	2	0
UniCredit Merchant Partners GmbH	Munich	100.0		EUR	1,000	[1.14]
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	339,382	661
US Property Investments Inc.	Dallas	100.0		USD	671	35
Verba Verwaltungsgesellschaft mbH	Munich	100.0		EUR	761	(3)
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.15]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
VuWB Investments Inc.	Atlanta	100.0	100.0	USD	113	(7)
Wealth Capital Investments, Inc.	Wilmington	100.0	100.0	USD	1,441	(491)
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,475	[1,16]
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	11,399	13,270
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	2,335	2,312
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	745	233
WealthCap Initiatoren GmbH	Hamburg	100.0	100.0	EUR	13,771	12,237
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	[2]
WealthCap Leasing GmbH	Grünwald	100.0	100.0	EUR	(8)	(6)
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	29	(18)
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	1,770	724
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	37	4
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	109	59
1.2 Non-consolidated subsidiaries						
of HVB Group[6]						
Other non-consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH	Grünwald	100.0	100.0	EUR	25	[2]
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
"Alte Schmelze" Projektentwicklungsgesellschaft mbH	Munich	100.0	100.0			
Altea Verwaltungsgesellschaft mbH & Co. Objekt I KG	Munich	100.0	100.0			
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH	Ebersberg	98.8	98.8	EUR	254	228
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.8			
Apir Verwaltungsgesellschaft mbH & Co.						
Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(21,723)	947
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
Argentum Media GmbH & Co. KG	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	100.0	100.0			

Other Information (Continued)

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Bavaria Servicos de Representacao Comercial Ltda.	Sao Paulo	100.0				
Bayerische Wohnungsgesellschaft für Handel und Industrie, Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	294	[2]
BFL Beteiligungsgesellschaft für Flugzeug-Leasing mbH	Munich	100.0				
BIL Aircraftleasing GmbH	Grünwald	100.0	100.0			
BIL Immobilien Fonds GmbH	Munich	100.0	100.0			
Blue Capital Metro Amerika Inc.	Atlanta	100.0	100.0			
BV Grundstücksentwicklungs-GmbH & Co. Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0			
CL Dritte Car Leasing GmbH & Co. KG	Hamburg	100.0	100.0			
CL Dritte Car Leasing Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.8	EUR	26	[2]
Euro-Bond Blue Capital Management GmbH i.L.	Bad Soden	100.0	100.0			
Euro-Bond Blue Capital Verwaltungs GmbH i.L.	Bad Soden	100.0	100.0			
Ferra Immobilien- und Projektentwicklungs GmbH & Co. Projekt Großenhainer Straße KG	Munich	100.0	100.0	EUR	(11,633)	750
FGB Grund und Boden GmbH & Co. KG	Munich	94.0	94.0	EUR	(4,002)	0
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	[2]
H.F.S. Immobilienfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 4 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 6 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 8 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 9 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 10 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 11 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 12 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 15 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 16 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 18 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0	EUR	(2)	1,390
H.F.S. Immobilienfonds Europa 2 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Beteiligungs B.V.	The Hague	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds GmbH & Co. Europa 4 KG	Munich	100.0	100.0			
H.F.S. Istanbul 1 Gayrimenkul Yönetimi Limited Sirketi	Istanbul	100.0	100.0			
H.F.S. Istanbul 2 Gayrimenkul Yönetimi Limited Sirketi	Istanbul	100.0	100.0			
H.F.S. Leasingfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds GmbH	Ebersberg	100.0	100.0			
H.F.S. Value Management GmbH	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 2 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 3 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 4 GmbH & Co. KG	Munich	100.0	100.0			
Hofgarten Real Estate B.V. (share of voting rights: 50.5%)	Amsterdam	47.2	47.2	EUR	(49,178)	(31)
Hotel Seddiner See GmbH	Munich	100.0	100.0			
HVB Life Science GmbH	Munich	100.0				
HVBFF Baumanagement GmbH	Munich	100.0	100.0	EUR	50	[2]
HVBFF Kapitalvermittlungs GmbH	Munich	100.0	100.0	EUR	19	[2]
HVBFF Leasing & Investition GmbH & Co Erste KG	Munich	100.0	100.0			
HVBFF Leasing Objekt GmbH	Munich	100.0	100.0			
HVBFF Leasing-Fonds Verwaltungs GmbH	Munich	100.0	100.0			

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HVBFF Objekt Leipzig GmbH	Leipzig	70.0	70.0			
HVB London Trading Ltd.	London	100.0				
HVB Mortgage Capital Corp.	Wilmington	100.0	100.0			
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVZ GmbH & Co. Objekt Unterföhring KG	Munich	100.0	100.0			
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH	Munich	100.0	100.0	EUR	128	[2]
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße I KG	Munich	100.0	100.0			
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße II KG	Munich	100.0	100.0	EUR	(313)	973
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße III KG	Munich	100.0	100.0	EUR	(3,481)	(2)
KHR Projektentwicklungsgesellschaft mbH & Co. Objekt Bornitzstraße KG	Munich	100.0	100.0			
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0			
Life Britannia Management GmbH	Grünwald	100.0	100.0			
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Mutnegra Beteiligungs- und Verwaltungs-GmbH	Munich	100.0				
Olos Immobilien- und Projektentwicklungs GmbH & Co. Grundstücksentwicklungs KG	Munich	100.0	100.0	EUR	26	387
Olos Immobilien- und Projektentwicklungs GmbH & Co. Vermietungs KG	Munich	100.0	100.0			
Omnia Grundstücks-GmbH	Munich	100.0	100.0	EUR	26	[2]
Omnia Grundstücks-GmbH & Co. Betriebs KG	Munich	100.0	94.0			
Omnia Grundstücks-GmbH & Co. Objekt Ostragehege KG	Munich	100.0	94.0			
Othmarschen Park Hamburg Wohn- und Gewerbepark GmbH	Munich	100.0	100.0	EUR	102	[2]
Pegasus Project Stadthaus Halle GmbH	Munich	100.0	93.8	EUR	26	[2]
Perterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Projekt-GbR Kronstadter Straße München	Munich	75.0	75.0	EUR	0	975
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0			
Rotus Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Saphira Immobilien- und Projektentwicklungs GmbH & Co. Frankfurt City West Office Center und Wohnbau KG	Munich	100.0	100.0			
Schloßberg-Projektentwicklungs-GmbH & Co 683 KG	Munich	100.0	100.0			
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co. Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(3,002)	775
Tishman Speyer Berlin Friedrichstraße KG i.L. (share of voting rights: 96.6% total, of which 7.1% held indirectly)	Berlin	97.1	5.9			
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(26,783)	933
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
Vintners London Investments (Nile) Limited	George Town	100.0	100.0			
WCREM Canadian Investments Inc.	Toronto	100.0	100.0			
WCREM Canadian Management Inc.	Toronto	100.0	100.0			
Wealth Capital Management, Inc.	Wilmington	100.0	100.0	USD	290	(671)
WealthCap Aircraft 25 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Dritte Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Entity Service GmbH	Munich	100.0	100.0			
WealthCap Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Erste Kananda Immobilien Verwaltung GmbH	Munich	100.0	100.0			

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WealthCap Europa Erste Immobilien – Objekt Niederlande –						
Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien						
Fünfte Objekte Österreich Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Europa Immobilien						
Siebte Objekte Österreich Komplementär GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Immobilien und Verwaltung Sekundär GmbH	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 35 GmbH & Co. KG						
(share of voting rights: 75.0%)	Munich	50.0	50.0			
WealthCap Immobilienfonds Deutschland 36 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36						
Komplementär GmbH	Munich	100.0	100.0			
WealthCap Leasing 1 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Objekt Berg-am-Laim GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Theresienhöhe GmbH & Co. KG	Munich	100.0	100.0			
WealthCap PEIA Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity GmbH	Munich	100.0	100.0			
WealthCap Private Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity 17 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Private Equity 18 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Real Estate GmbH	Munich	100.0	100.0			
WealthCap Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
WealthCap Zweite Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Zweite USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte Immobilien 4 Komplementär GmbH	Munich	100.0	100.0			
Wertweiser GmbH	Munich	100.0	100.0			
2 Joint ventures[6]						
Minor joint ventures						
Other companies						
Heizkraftwerk Cottbus Verwaltungs GmbH	Munich	33.3				
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	104	781
3 Associated companies						
3.1 Associated companies valued at equity						
Other companies						
Adler Funding LLC	Dover	32.8		USD	(5,519)	(5,833)
Bulkmax Holding Ltd.	Valletta	45.0	45.0	USD	8,799	(154)
Comtrade Group B.V.	Amsterdam	21.1	21.1	EUR	14,387	954
Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S.	Istanbul	20.0	20.0	TRY	164,915	59,425
Nautilus Tankers Limited	Valletta	45.0	45.0	USD	21,469	(37)
3.2 Minor associated companies[6]						
Other companies						
BIL Leasing GmbH & Co Hotel Rostock KG	Rostock	20.6	20.6	EUR	146	730
BIL Leasing GmbH & Co Hotel Ulm KG i.L.	Munich	29.0	29.0	EUR	74	10,596
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg/Martinsried	23.5		EUR	2,160	(8)
CMP Fonds I GmbH (share of voting rights: 25.0%)	Berlin	32.7		EUR	6,303	772
DFA Deggendorfer Freihafen Ansiedlungs-GmbH	Deggendorf	50.0	50.0			

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
DFA Deggendorfer Freihafen Ansiedlungs-GmbH & Co.						
Grundstücks-KG	Deggendorf	50.0	50.0			
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	(754)	(3,350)
MOC Verwaltungs GmbH	Munich	23.0	23.0			
MOC Verwaltungs GmbH & Co. Immobilien KG[7]	Munich	23.0	23.0			
SK BV Grundstücksentwicklung GmbH & Co. KG	Cologne	25.0	25.0			
SK BV Grundstücksentwicklung Verwaltung GmbH i.L.	Cologne	50.0	50.0			
US Retail Income Fund VII L.P.	Wilmington	26.3	26.3	USD	13,993	257
4 Holdings in excess of 20%						
without significant influence						
Other companies						
BayBG Bayerische Beteiligungsgesellschaft mbH	Munich	22.5		EUR	175,511	14,416
Bayerischer BankenFonds GbR[6]	Munich	25.6				
BC European Capital VII-12 L.P. (share of voting rights: 0%)	St. Peter Port	34.1		EUR	9,098	(9,649)
B.I.I. Creditanstalt International Ltd. (share of voting rights: 0%)[6]	George Town	40.2				
Deutsche Structured Finance & Leasing GmbH & Co.						
Mira KG i.L. (share of voting rights: 39.8% total,						
of which 4.0% held indirectly)	Frankfurt am Main	39.9	4.0	EUR	2,251	8,080
Engelbert Rütten Verwaltungsgesellschaft						
Kommanditgesellschaft[6]	Düsseldorf	30.2				
EQT III ISS Co-Investment L.P. (share of voting rights: 0%)[8]	St. Peter Port	35.6	35.6			
Felicitas GmbH i.L.	Munich	20.8		EUR	1,048	(277)
GermanIncubator Erste Beteiligungs GmbH						
(share of voting rights: 9.9%)	Munich	39.6		EUR	1,482	(522)
HVB Trust Pensionsfonds AG (share of voting rights: 0%)[9]	Munich	100.0	100.0	EUR	3,696	108
IPE Euro Wagon L.P. (share of voting rights: 0%)[8]	St. Helier	37.5	37.5			
Lauro Ventidue S.p.A. (share of voting rights: 0%)	Milan	24.2	24.2	EUR	172,354	(78)
Mozfund (Proprietary) Limited (share of voting rights: 12.5%)[6]	Sandton	40.0				
Mühoga Münchner Hochgaragen Gesellschaft						
mit beschränkter Haftung	Munich	25.0	25.0	EUR	3,934	2,411
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share of voting rights: 0%)	Luxembourg	38.3	38.3	EUR	20,012	(4)

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SUBSCRIBED CAPITAL € MILLIONS
5 Other selected holdings below 20%			
5.1 Banks and financial institutions			
AKA Ausfuhrkredit-Gesellschaft mbH	Frankfurt am Main	15.4	20.5
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH	Berlin	4.3	3.2
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen	Munich	10.5	0.4
Bürgschaftsbank Brandenburg GmbH	Potsdam	7.8	7.4
Bürgschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	9.1	8.1
Bürgschaftsbank Sachsen GmbH	Dresden	4.7	27.6
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	8.9	8.4
Bürgschaftsbank Schleswig-Holstein GmbH	Kiel	5.4	4.0
Bürgschaftsbank Thüringen GmbH	Erfurt	8.7	12.9
Bürgschaftsgemeinschaft Hamburg GmbH	Hamburg	10.5	10.9
Liquiditäts-Konsortialbank GmbH	Frankfurt am Main	5.7	200.0
Saarländische Investitionskreditbank AG	Saarbrücken	3.3	5.2
5.2 Other companies			
BioM Aktiengesellschaft Munich Bio Tech Development	Planegg	8.5	2.9
Börse Düsseldorf AG	Düsseldorf	3.0	5.0
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	13.6	4.1
GEMMA Verwaltungsgesellschaft mbH & Co. Vermietungs KG (held indirectly)[7]	Pullach	6.1	68.5
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG (Immobilienleasing) (held indirectly)[7]	Munich	<0.1	61.2
H.F.S. Leasingfonds Deutschland 7 GmbH & Co. KG (held indirectly)[7]	Munich	<0.1	56.6
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	5.0	3.6
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH	Mainz	8.7	2.9
Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg mbH	Potsdam	11.6	5.7
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern GmbH	Schwerin	15.4	5.1
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH	Hanover	8.2	0.9
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	11.8	29.0
Mittelständische Beteiligungsgesellschaft Sachsen-Anhalt mit beschränkter Haftung	Magdeburg	12.7	6.5
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	13.4	10.0
Saarländische Kapitalbeteiligungsgesellschaft mbH	Saarbrücken	8.7	0.8
Wüstenrot & Württembergische AG	Stuttgart	7.5	481.1

NAME	REGISTERED OFFICE	SHARE OF CAPITAL in %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
6 Fully consolidated special purpose entities pursuant to IAS 27/SIC 12 without shareholding				
Altus Alpha Plc	Dublin	0	EUR	40
Arabella Finance Ltd.	Dublin	0	EUR	<1
Bandon Leasing Ltd.	Dublin	0	USD	<1
Black Forest Funding LLC	Delaware	0	USD	10
Chiyoda Fudosan GK	Tokyo	0	JPY	<1
Elektra Purchase No. 17 S.A. – Compartment 2	Luxembourg	0	EUR	0
Elektra Purchase No. 23 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 24 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 28 Ltd.	Dublin	0	EUR	<1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-TS-2007 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2010 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2011 S.A.	Luxembourg	0	EUR	31
GELDILUX-PP-2011 S.A.	Luxembourg	0	EUR	31
Grand Central Funding Corporation	New York	0	USD	1
HVB Funding Trust	Wilmington	0	USD	0
HVB Funding Trust III	Wilmington	0	USD	0
Ocean Breeze Finance S.A. – Compartment 1	Luxembourg	0	EUR	0
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Royston Leasing Ltd.	Grand Cayman	0	USD	1
Salome Funding Plc	Dublin	0	EUR	38

Other Information (Continued)

Exchanges rates for 1 euro at 31 December 2012
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

China	1 euro =	8.2207	CNY
Japan	1 euro =	113.61	JPY
Turkey	1 euro =	2.3551	TRY
UK	1 euro =	0.8161	GBP
USA	1 euro =	1.3194	USD

Notes and comments to the list of holdings

Percentages marked < or > are rounded up or down to one decimal place, e. g. < 100.0% = 99.99% or > 0.0% = 0.01%.

1 HVB has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Bankhaus Neelmeyer AG, Bremen	1,050
1.2	Food & more GmbH, Munich	(834)
1.3	HVB Capital Partners AG, Munich	59,692
1.4	HVB Immobilien AG, Munich	1,109
1.5	HVB Principal Equity GmbH, Munich	1,207
1.6	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	218
1.7	HVB Verwa 1 GmbH, Munich	(1)
1.8	HVB Verwa 4 GmbH, Munich	(2,468)
1.9	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	(1,359)
1.10	Status Vermögensverwaltung GmbH, Schwerin	6
1.11	UniCredit Beteiligungs GmbH, Munich	(1,064)
1.12	UniCredit Direct Services GmbH, Munich	1,555
1.13	UniCredit Leasing GmbH, Hamburg	25,000
1.14	UniCredit Merchant Partners GmbH, Munich	(2)
1.15	Verwaltungsgesellschaft Katharinenhof mbH, Munich	260
1.16	Wealth Management Capital Holding GmbH, Munich	15,288

2 Profit and loss transfer to shareholders and partners

3 Compliant with Sections 264b and 264 (3), German Commercial Code, the company is exempt from the obligation to make annual financial statements public in accordance with the provisions applicable to corporations.

4 Figures of the 2011 annual accounts are indicated for this consolidated company.

5 Subsidiary since HVB exercises a controlling influence through company management.

6 Where equity capital and net profit are not stated, the information is omitted due to minor importance compliant with Section 286 (3) 1 No. 1, German Commercial Code. This information is omitted for companies compliant with Section 285 No. 11a, German Commercial Code, for the same reason.

7 Compliant with SIC 12, the company is fully consolidated by HVB Group.

8 Compliant with Section 286 (3) 2, German Commercial Code, equity capital and net profit are not stated as the company is not subject to public disclosure and the HVB holds less than the half of the shares.

9 The company is held by a trustee for HVB.

Other Information (Continued)

90 Members of the Supervisory Board

Federico Ghizzoni	**Chairman**
Peter König Dr Wolfgang Sprissler	**Deputy Chairmen**
Aldo Bulgarelli Beate Dura-Kempf Klaus Grünewald Werner Habich Dr Lothar Meyer Marina Natale Klaus-Peter Prinz Jens-Uwe Wächter Dr Susanne Weiss	**Members**

91 Members of the Management Board

Dr Andreas Bohn since 1 January 2013	**Business Segment Corporate & Investment Banking**[1]
Peter Buschbeck	**Family & SME division**[2] **Business Segment Private Clients Bank**[1]
Jürgen Danzmayr	**Private Banking division**[2] **Business Segment Private Clients Bank (Private Banking)**[1]
Lutz Diederichs	**Corporate & Investment Banking division**[2] **Business Segment Unternehmer Bank**[1]
Peter Hofbauer	**Chief Financial Officer (CFO)**
Heinz Laber	**Human Resources Management, Global Banking Services**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**

1 since 14 January 2013
2 until 13 January 2013

Munich, 12 March 2013

UniCredit Bank AG
The Management Board

Dr Bohn	Buschbeck	Danzmayr	Diederichs
Hofbauer	Laber	Varese	Dr Weimer

Declaration by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and Management's Discussion and Analysis 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.

Munich, 12 March 2013

UniCredit Bank AG
The Management Board

Dr Bohn	Buschbeck	Danzmayr	Diederichs
Hofbauer	Laber	Varese	Dr Weimer

Auditors’ Report

We have audited the consolidated financial statements prepared by the UniCredit Bank AG, Munich, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of other comprehensive income, the statement of changes in consolidated shareholders’ equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch “German Commercial Code”] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Munich, 12 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

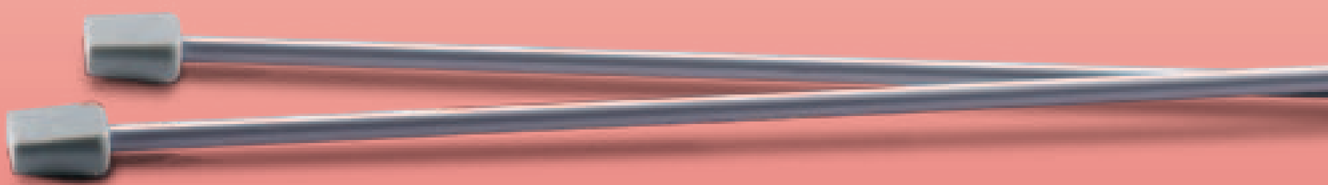
Pukropski	Pfeiffer
Wirtschaftsprüfer	Wirtschaftsprüfer

Meeting customers’ specific needs with flat fee

CUSTOMIZED

“Even when it comes to fairly simple banking transactions like payments, we know that UniCredit Bank finds solutions that are mutually beneficial. Their customized payment system, flat fee, not only helps us to understand and plan our monthly expenses but also saves our accountant’s time.”

Pauls Ābele, Head of Finance, Accounting and IT Board Member of AS “Latvijas Finieris,” customer of UniCredit Bank in Baltics



Corporate Governance

List of Executives and Outside Directorships

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan Chairman		
Peter König Employee, UniCredit Bank AG, Haar-Salmdorf Deputy Chairman	BVV Pensionsfonds des Bankgewerbes AG, Berlin	BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft, Hamburg (Chairman)	UniCredit Bank Austria AG, Vienna Dr. Robert Pfleger Chemische Fabrik GmbH, Bamberg (Deputy Chairman)
Aldo Bulgarelli Attorney and partner in law office NCTM, Verona		AMMANN Italy S.p.A., Bussolengo (President of the Collegio Sindacale) ARAG Assicurazioni S.p.A., Verona (President of the Collegio Sindacale), until 31 December 2012
Beate Dura-Kempf Employee, UniCredit Bank AG, Litzendorf		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia IT AG, Karlsruhe	
Werner Habich Employee, UniCredit Bank AG, Mindelheim		
Dr Lothar Meyer Former Chairman of the Management Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach	ERGO Versicherungsgruppe AG, Düsseldorf Jenoptik AG, Jena, until 6 June 2012	
Marina Natale Chief Financial Officer of UniCredit S.p.A., member of the Executive Management Committee of UniCredit S.p.A., Uboldo		Pioneer Asset Global Management S.p.A., Milan[2]

1 as of 31 December 2012
2 Group directorship

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Klaus-Peter Prinz Employee, UniCredit Luxembourg S.A., Trier		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		HypoVereinsbank Betriebskrankenkasse (HVB BKK), Munich (Chairman), since 1 January 2013
Dr Susanne Weiss Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich	Giesecke & Devrient GmbH, Munich ROFA AG, Kolbermoor (Chairman) Wacker Chemie AG, Munich	Allgemeine Baugesellschaft – A. Porr AG, Vienna

Supervisory Board Committees[2]

Remuneration & Nomination Committee
Federico Ghizzoni
Peter König
Dr Wolfgang Sprissler

Audit Committee
Dr Lothar Meyer, Chairman
Aldo Bulgarelli
Peter König
Marina Natale

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Bernd Schreiber
President of the Bavarian Department of State-owned Palaces, Gardens and Lakes,
Markt Schwaben

Deputies

Dr Josef Bayer
Leitender Ministerialrat in the Bavarian State Ministry of Finance, Landsberg

Dr Alexander Didczuhn
Leitender Ministerialrat in the Bavarian State Ministry of Finance, Munich

1 as of 31 December 2012
2 see also the Report of the Supervisory Board

List of Executives and Outside Directorships (Continued)

Management Board

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Dr Andreas Bohn born 1963 Business Segment Corporate & Investment Banking[4] since 1 January 2013	HVB Capital Partners AG, Munich (Chairman)[2]	FSL Holdings Pte. Ltd., Singapore HVB Principal Equity GmbH, Munich (Chairman)[2] Tikehau Investment Management S.A.S., Paris
Peter Buschbeck born 1961 Family & SME division[3], Business Segment Private Clients Bank[4]	Bankhaus Neelmeyer AG, Bremen (Chairman)[2] DAB Bank AG, Munich[2] PlanetHome AG, Unterföhring near Munich (Chairman)[2] UniCredit Direct Services GmbH, Munich (Chairman)[2]	Wealth Management Capital Holding GmbH, Munich (Chairman since 1 January 2013)[2] UniCredit Global Business Services GmbH, Munich[2]
Jürgen Danzmayr born 1950 Private Banking division[3], Business Segment Private Clients Bank (main focus Private Banking)[4]		Schoellerbank AG, Vienna Wealth Management Capital Holding GmbH, Munich (Chairman until 31 December 2012)[2] UniCredit Luxembourg S.A., Luxembourg[2], since 31 August 2012
Lutz Diederichs born 1962 Corporate & Investment Banking division[3], Business Segment Unternehmer Bank[4]		UniCredit Leasing S.p.A., Bologna, until 20 April 2012 UniCredit Luxembourg S.A., Luxembourg[2], since 31 August 2012 UniCredit Leasing Finance GmbH, Hamburg, since 15 February 2013 (Chairman)[2] UniCredit Leasing GmbH, Hamburg, since 15 February 2013 (Chairman)[2]
Peter Hofbauer born 1964 Chief Financial Officer (CFO)	HVB Immobilien AG, Munich (Deputy Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Deputy Chairman)	UniCredit Global Business Services GmbH, Munich[2] Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2] Wietersdorfer Industrie-Beteiligungs-GmbH, Klagenfurt, until 10 August 2012 Wietersdorfer Rohrbeteiligungs GmbH, Klagenfurt, until 10 August 2012
Heinz Laber born 1953 Human Resources Management Global Banking Services	HVB Immobilien AG, Munich (Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Chairman) Internationales Immobilien-Institut GmbH, Munich[2]	BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Chairman) UniCredit Business Partner Società Consortile per Azioni, Cologno Monzese, until 1 January 2012 UniCredit Global Business Services GmbH, Munich (Chairman)[2]
Andrea Umberto Varese born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2]	UniCredit Credit Management Bank S.p.A., Verona UniCredit Global Business Services GmbH, Munich[2] UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman)[2] Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer born 1959 Board Spokesman	Bayerische Börse AG, Munich DAB Bank AG, Munich (Chairman)[2] ERGO Versicherungsgruppe AG, Düsseldorf	UniCredit Luxembourg S.A., Luxembourg (Chairman)[2]

1 as at 31 December 2012
2 Group directorship
3 until 13 January 2013
4 since 14 January 2013

Women's Council

Patrons:
Dr Theodor Weimer, spokesman of the Bank's Management Board and UniCredit Country Chairman Germany
Dr Susanne Weiss, attorney, member of the Bank's Supervisory Board and founding president of the HVB Women's Council

President:
Dr Marita Kraemer, member of the holding company Management Board of Zurich Group Germany,
CEO of the European Centre of Excellence Credit & Surety

In December 2009, HVB became the first bank in Germany to form its own Women's Council, with which it has set a new tone in the German banking world ever since. Besides dealing with feedback and comments and regularly discussing economic and social issues relating to women, the Council looks at ways of improving the position of women in the financial sector, among other things. The Council aims to reflect the constantly rising importance of women in financial and purchasing decisions. It helps the Bank to make better provision for the specific needs of female customers and employees. The Council accompanies the Bank, launches initiatives and devises new measures. The Bank benefits from the valuable advisory skills of experienced entrepreneurs and is also helping to reinforce the role of women in German industry. The Council is specifically empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so outstanding entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in workgroups when drawing up the initiatives. For current information about HVB's Women's Council, visit www.hvb-frauenbeirat.de.

Professor Dr Dadja Altenburg-Kohl
Member of the Management Board of Kohl Medical AG,
managing director of kohlpharma GmbH, Prague, Czech Republic

Sigrid Bauschert
Member of the Management Board of Management Circle AG, Eschborn/Ts.

Dr Christine Bortenlänger
Member of the Management Board of Deutsches Aktieninstitut e.V., Frankfurt am Main

Stephanie Czerny
Co-founder of DLD Conference, managing director of
DLD Media GmbH/Hubert Burda Media, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Group Treasury of SGL Carbon SE, Wiesbaden

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
Member of the Supervisory Board of SKW Stahl-Metallurgie Holding AG,
member of the Supervisory Board of Kapsch Traffic Com AG, Munich

Ines Kolmsee
Chief Executive Officer of SKW Stahl-Metallurgie Holding AG, Unterneukirchen

Dr Marita Kraemer
Member of the holding company Management Board of Zurich Group Germany,
CEO of the European Centre of Excellence Credit & Surety, Frankfurt am Main

Anja Krusel
Senior Director Finance and Administration of Microsoft GmbH, Unterschleissheim

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Frfr. von Münchhausen
Attorney/mediator/owner
Consulting, training, coaching & mediation, Pullach

Andrea Neuroth
Managing director of KION Financial Services GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, Pilati + Partner Rechtsanwälte Notar, Frankfurt am Main

Professor Susanne Porsche
Managing director of Summerset GmbH, Munich

Monika Rödl-Kastl
Managing partner of Rödl & Partner GbR, Nuremberg

Sabine Schaedle
Head of Project Finance at BMW AG, Munich

Annette Schnell
Owner of Dr. Schnell Chemie GmbH, Munich

Alexandra Schöneck
Owner of Alexandra Schöneck Schatzmeisterei, Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board of Schörghuber Stiftung & Co. Holding KG, Munich

Maria-Theresia von Seidlein
Founder and managing director of S&L Medien Gruppe GmbH, Munich

Claudia Strittmatter
Senior Manager Corporate Finance of Wacker Chemie AG, Munich

Ildikó M. Várady
Head of Finance of Krauss-Maffei Wegmann GmbH & Co. KG, Munich

Dr Susanne Weiss
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Report of the Supervisory Board

The Supervisory Board performed the tasks incumbent upon it by law, the Articles of Association and its internal regulations in the year under review. Again in 2012, the Management Board kept us informed regularly, promptly and comprehensively about the business situation and other fundamental issues concerning corporate management and planning, about the financial development of UniCredit Bank AG (hereinafter referred to as "HVB" or "the Bank"), the earnings situation as well as risk, liquidity and capital management, about significant transactions and legal disputes as well as events of considerable importance to the Bank. We advised the Management Board on the running of the Bank in line with the rights and obligations imposed on us by law, the Bank's Articles of Association and our internal regulations, and monitored its management of the Bank. We were consulted on decisions of fundamental importance, primarily at meetings of the Supervisory Board and its committees but also outside meetings in written form. As far as necessary, resolutions were also passed outside meetings. In addition, important topics and pending decisions were discussed at regular meetings between the Spokesman of the Management Board and the Chairman of the Supervisory Board.

Meetings of the Supervisory Board

The Supervisory Board held six meetings in the 2012 financial year, two of which were extraordinary meetings. The Supervisory Board again focused on the performance and financial development of the Bank in a persistently challenging environment in 2012.

At the first meeting of the year held on **10 February 2012**, we discussed the business and risk strategy of the Bank as a whole, particularly the modified business strategy of the Corporate & Investment Banking division as a result of the changed market environment, and the budget for 2012.

At the Supervisory Board meeting held on **16 March 2012** devoted to the annual financial statements, we discussed the annual and consolidated financial statements for 2011 with the auditor, which we subsequently approved. We already reported on this in the last Annual Report. At this meeting, the Chief Risk Officer (CRO) also presented a comprehensive risk report to us, enabling us to gain an overview of the development of credit risk, market risk, operational risk and liquidity risk. Moreover, we discussed the market risk strategy for 2012 and the structured finance/special products risk strategy for 2012.

At an extraordinary meeting held on **26 June 2012**, we considered issues concerning the compensation of Management Board members and contract prolongations of Management Board members based on analyses prepared by an ad-hoc committee of the Supervisory Board. Resolutions were passed in this connection on that basis, taking account of the recommendations of the Remuneration & Nomination Committee.

At the meeting held on **27 July 2012**, the Management Board explained the performance of the Bank and the results for the first half of 2012 (Half-yearly Financial Report) on the basis of detailed documents. Another topic at the meeting was preparing for the vote on the election of the new independent auditor for the 2013 financial year by the Shareholders' Meeting. This meeting also dealt with the topic of adjusting the internal rules to reflect Article 13 of the Articles of Association and changes in the German Corporate Governance Code as amended on 15 May 2012. Furthermore, a report was given on the first key elements of the new organisational structure of UniCredit Group, which is geared to greater regionalisation and a simplification of the organisational structures, and their impact on HVB.

At the meeting held on **7 November 2012**, the Management Board gave us an overview of the performance in the first nine months of 2012 on the basis of detailed documents and reported on the results (Interim Report at 30 September 2012). The CRO also outlined topics in the Integrated Risk Report of HVB Group, particularly the development of risk-bearing capacity and loan-loss provisions. A report on the objectives of the GOLD Group Project and its effects on HVB was also given again in detail at this meeting. We deliberated on the change in HVB's organisational structure and the adjustment of HVB's business model jointly with the Management Board. With effect from 14 January 2013, the three business segments Unternehmer Bank, Private Clients Bank and Corporate & Investment Banking were set up with the aim of aligning the structure of the Bank even more closely with the needs and requirements of customers in the region and creating leaner and more regionalised decision-making processes. The Management Board also stated that the German Federal Financial Supervisory Authority (BaFin) has requested HVB, as a national systemically important financial institution, to submit an initial draft restructuring plan. At this meeting, we also conducted an efficiency review on the basis of a detailed questionnaire and asserted in this connection that the Supervisory Board has an adequate number of independent Supervisory Board members as defined by the German Corporate Governance Code.

At an extraordinary meeting held on **7 December 2012**, we appointed Dr Andreas Bohn to the Management Board as proposed by the Remuneration & Nomination Committee. Dr Bohn assumed responsibility for the Corporate & Investment Banking segment from 14 January 2013.

In 2012, the Management Board also presented regular reports on the **wind farm project** in the North Sea financed by the Bank (Bard Offshore 1) and the progress made on the completion of the wind farm. In addition, we considered the further development of our **upstream exposure** in great depth last year. Upstream exposure is HVB Group's exposure to UniCredit S.p.A. and its affiliated companies. This is mainly a consequence of the fact that the markets and investment banking activities for the UniCredit corporate group are bundled at HVB and HVB acts as an intermediary between the companies belonging to the group and the market players in the derivatives business. In response to the changed market environment and the sovereign debt crisis in several European countries, the Management Board had submitted a plan aiming to consistently reduce this exposure. The Supervisory Board was kept constantly up-to-date on the latest status of this exposure at meetings and by written reports. At our meetings we also regularly discussed the Management Board's **Findings Project**, which had already been launched last year. The key findings arising from audits of the annual financial statements and from audits by the supervisory authorities are collated in this project and are subject to close scrutiny and progress monitoring in accordance with the relevant plan. Furthermore, we discussed audits carried out by foreign regulators.

We obtained information and deliberated on important **legal disputes** on a regular basis last year. This also included discussing the issue of what action is to be taken about the still pending lawsuit of the former special representative seeking the return of Bank Austria or, alternatively, the payment of damages after the dismissal of the special representative at the Annual General Meeting held on 10 November 2008 had been declared legally valid. We discussed the various

Report of the Supervisory Board (Continued)

courses of action at great length with a legal advisor and, after another comprehensive presentation of the key elements of a settlement plan, we resolved to submit a draft settlement agreement on the withdrawal of the action to the Shareholders' Meeting for its approval. One member of the Supervisory Board, who is a defendant in this lawsuit, did not take part in the deliberations or vote on this agenda item in order to avoid any conflict of interests.

Furthermore, we considered the suits filed in connection with tax credits. A customer had entered into these transactions based on the expectation of receiving credits on capital gains tax in relation to German stocks dividends which were traded around dividend dates (cum/ex trades). After the tax authorities had demanded repayment of the credits on capital gains tax plus interest by the customer as primary debtor, the customer filed a suit against HVB to have the Bank indemnify him against any payment obligations vis-à-vis the tax authorities. The tax authorities served a secondary liability notice against HVB, which the Bank challenged; in turn, the Bank also filed suit against the customer to be indemnified from any payment obligations vis-à-vis the tax authorities. In this context, the authorities responsible initiated a preliminary investigation against the customer and other suspects (including former and current employees of the Bank); the Supervisory Board was informed in a timely manner about the search carried out in this connection. The Supervisory Board welcomes the assistance which the Management Board has pledged to provide to the authorities and supports this. In October 2011, compliant with Section 111 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) we commissioned external advisors (a prestigious law practice and a firm of auditors experienced in forensic investigations) to conduct an audit of such matters and achieve complete transparency on the dividend transactions entered into. At almost every Supervisory Board meeting in 2012, the legal advisors thus reported to us on the reviews carried out and the further review plan. The Management Board and one member of the Supervisory Board did not take part in the deliberations on this agenda item in order to avoid any conflicts of interest.

After prior deliberation by the Remuneration & Nomination Committee, we considered **personnel matters of the Management Board** at several Supervisory Board meetings, particularly the extension of the Management Board appointments of Mr Buschbeck and Mr Varese running until 31 December 2012 for a term of another three years until 31 December 2015, the extension of the Management Board appointment of Mr Hofbauer running until 31 October 2013 for a term until 31 December 2016 and the Management Board appointment of Dr Bohn with effect from 1 January 2013 for a term of three years until 31 December 2015.

The Management Board complied with its obligation under the **German Regulations governing Supervisory Requirements for Institutions' Remuneration Systems** (Instituts-Vergütungsverordnung) to present a report to the Supervisory Board at least once a year on the structure of the Bank's remuneration systems. The report incorporated the report by the Remuneration Committee to the Supervisory Board on the appropriateness of the systems. In addition, the Management Board's annual personnel report was also forwarded to the Supervisory Board.

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. No members of the Supervisory Board attended fewer than half the meetings held in 2012

Committees of the Supervisory Board

The Supervisory Board has set up two standing committees. A description of the tasks performed by the committees is given in the Corporate Governance Report; their composition is shown in the Supervisory Board list in this Annual Report.

Remuneration & Nomination Committee
The Remuneration & Nomination Committee met four times last year. In particular, it discussed personnel matters of the Management Board and remuneration levels for members of the Management Board, whereby the arrangements were considered in detail and the adoption of the respective resolutions was prepared for the plenary session of the Supervisory Board. Furthermore, the Remuneration & Nomination Committee granted approval to the Management Board members who wished to accept seats on supervisory boards of other companies. Another topic was the granting of loans to employees and Board members.

Audit Committee
The Audit Committee held six meetings last year, one of which was an extraordinary meeting. Representatives of the independent auditor took part in all ordinary committee meetings. The topic of meetings was the audit of the annual and consolidated financial statements and the report on relations with affiliated companies as well as the discussion of the Half-yearly Financial Report and the Interim Reports at 31 March and 30 September 2012.

The committee considered the proposal on the election of the independent auditor for the 2012 financial year, assessed the qualification and independence of the auditor based on the Statement of Independence pursuant to Section 7.2.1 of the German Corporate Governance Code, gave the audit assignment and agreed the audit fee and the main points of the audit with the auditor. In addition, it gave its consent to additional services being placed with the auditor.

In compliance with the Minimum Requirements for Risk Management (MaRisk), risk reports were submitted to the committee each quarter on the basis of which the CRO explained the development of credit risk, market risk, operational risk and liquidity risk in particular. The committee repeatedly solicited reports on the liquidity situation, the development of the upstream exposure, the status of the offshore wind farm project financed by the Bank and the project to remedy audit findings.

Other topics discussed at length were the risk management system (RMS) and the internal control system (ICS). The efficiency of the individual systems was discussed with the Management Board and measures aimed at refining the systems stipulated; reports on this were presented at several committee meetings. The committee satisfied itself of the efficiency of the internal audit system (IAS).

The committee was also informed on a regular basis about the work of the Internal Audit department and about issues concerning compliance, reputational risk, special audits and findings of the supervisory authorities responsible in each case. The annual plan of the Internal Audit department was submitted to the committee and the annual report on compliance in securities trading and on money-laundering prevention was discussed in detail. In addition, the committee considered the independent auditor's report on the annual audit of the securities account business and repeatedly the comprehensive reports by the Management Board on the Bank's outsourcing arrangements. The committee was informed about the work of the Bank's Data Protection and Legal departments.

Under Italian law, the mandate of an independent auditor of a public interest entity (which includes the banks) cannot last more than nine consecutive years. In an extensive selection process, UniCredit S.p.A. thus appointed Deloitte & Touche as the independent auditor for UniCredit S.p.A. and recommended that its subsidiaries also propose Deloitte & Touche as their independent auditor. To prepare the election proposal for an extraordinary shareholders' meeting for the appointment of the **independent auditor for 2013** – the new auditor should be given as long a familiarisation period as possible – the Audit Committee checked the qualification and independence of the new independent auditor proposed for election and recommended that the Supervisory Board likewise propose Deloitte & Touche as the independent auditor of HVB for the 2013 financial year on account of the large number of interfaces and extensive cross-border coordination within the corporate group. After the election by the extraordinary shareholders' meeting, the Audit Committee gave the audit assignment and set the fee.

Report of the Supervisory Board (Continued)

The respective Chairmen of the Supervisory Board Committees reported to the plenary sessions of the Supervisory Board on the topics discussed at the committee meetings, the results of these discussions and any votes held.

Corporate governance
In the course of the Bank's delisting in 2008, the Management Board and Supervisory Board decided that HVB would voluntarily comply with the provisions of the German Corporate Governance Code to the extent that these provisions can be applied to a nonlisted company with just one shareholder. The Supervisory Board and the Management Board have thus made a voluntary declaration of compliance. The wording of the declaration of compliance of 23 November 2012 and a summarised presentation of the Bank's corporate governance is printed in the Corporate Governance Report in the section "Corporate Governance" which follows the present Report of the Supervisory Board of this Annual Report, and is published on our website.

Training and educational measures
The members of the Supervisory Board took on the necessary training and educational measures required for their tasks on their own. In the process, they were appropriately supported by UniCredit Bank AG. The Bank offered internal training on the main content of the planned European legislation CRR I (Capital Requirements Regulation) and CRD IV (Capital Requirements Directive) concerning the implementation of Basel III in the European Union and concerning the key elements of the Internal Capital Adequacy Assessment Process (ICAAP) at HVB as well as on the medium- and long-term strategy of the Family & SME division. Moreover, the members of the Supervisory Board received information from the Bank on corporate governance issues and developments on projects relating to the reform of the EU banking sector.

Annual financial statements 2012
The annual financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and Management Report of UniCredit Bank AG for the 2012 financial year as well as the consolidated financial statements and Management's Discussion and Analysis prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The independent auditor issued an unqualified opinion in both cases.

The financial statements listed above were forwarded to us, together with the Management Board's proposal for the appropriation of net profit and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The auditor reported on the principal findings of the audit, in particular on the internal control system and the risk management system compliant with Section 171 (1) AktG relating to the financial reporting process and provided detailed answers to our questions at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also stated that there were no circumstances giving rise to concerns about his partiality and reported on the work he had performed in addition to the audit of the financial statements. The Chairman of the Audit Committee reported to us in the full Supervisory Board on the results of the review by the committee. Upon recommendation by the Audit Committee, we concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. We determined that, on the basis of our own examination of the annual financial statements, the consolidated financial statements, the Management Report and Management's Discussion and Analysis as well as the proposal for the appropriation of net profit, no objections were to be raised. We have therefore approved the annual financial statements prepared by the Management Board today. Consequently, the annual financial statements are adopted. We have also approved the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB to affiliated companies for the 2012 financial year in accordance with Section 312 AktG. The report contains the following concluding statement by the Management Board:

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted."

KPMG audited this report and issued the following opinion:
"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relations to affiliated companies and the related audit report by KPMG were also forwarded to us. In the course of the preliminary audit, the Audit Committee and then the full Supervisory Board considered these documents in depth. We checked the information for plausibility and consistency, and carefully examined individual legal transactions between HVB and UniCredit S.p.A. and its affiliated companies together with other cost-generating measures initiated by UniCredit S.p.A. KPMG took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit.

The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. We concurred with the results of the audit by KPMG. Based on the final outcome of our own examination of the report on relations of HVB to affiliated companies in the 2012 financial year prepared by the Management Board compliant with Section 312 AktG, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Personnel

There were no personnel changes on the Management Board or the Supervisory Board in 2012. Dr Andreas Bohn was appointed to the Management Board with effect from 1 January 2013.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work and their services in the past year. They all contributed to the Bank's good performance in a difficult market environment in the 2012 financial year.

Munich, 12 March 2013
The Supervisory Board

Federico Ghizzoni
Chairman

Corporate Governance and Compensation Report

Good corporate governance entails the responsible management and control of enterprises. Efficient cooperation between the management and control functions of the company and transparent corporate communications are vital aspects of good corporate governance. It is of great importance for achieving corporate objectives and a sustainable increase in company value, thus helping to increase the confidence of stakeholders in the company.

In accordance with Section 3.10 of the German Corporate Governance Code, the Management Board and Supervisory Board report on corporate governance at **UniCredit Bank AG** (hereinafter referred to as “HVB” or “the Bank”) in the following Corporate Governance Report.

Management Board and Supervisory Board

Management Board

The Management Board is directly responsible for managing the company and works closely with the other bodies of the company and employee representatives in the interests of the enterprise. It is obligated to act in the company’s interests 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 furthermore is responsible for preparing the annual financial statements of HVB and the consolidated financial statements of HVB Group, and for preparing the interim reports and the half-yearly financial report. The Management Board is also responsible for ensuring compliance with the legal provisions and internal guidelines and encouraging HVB Group companies to ensure compliance as well. The Bank’s Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning, including any deviation from plans, strategic development, the course of business and the state of the Bank, including the risk situation as well as compliance issues.

The members of the Management Board are jointly responsible for managing the Bank. They work together cooperatively and inform each other about important business events and developments in their respective areas of responsibility. The respective segment responsibilities on the Bank’s Management Board 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 the matters reserved for the Management Board, the details of the work within the Management Board and the requirements for adopting resolutions and the required majorities.

The Management Board generally adopts resolutions during meetings that are supposed to be held at least twice a month. As a general rule, Management Board meetings are held every week. Any member may request that a meeting be convened, citing the matter for discussion. In addition to this, resolutions may also be adopted outside of meetings.

Composition of the Management Board

Since 1 January 2013, the Bank’s Management Board has had eight members (previously: seven). Since 14 January 2013, the segment responsibilities on the Management Board match HVB’s new organisational structure, with the three business segments Unternehmer Bank, Private Clients Bank and Corporate & Investment Banking.

The Management Board consists of the Board spokesman, Dr Weimer, the Chief Financial Officer (CFO), Mr Hofbauer, the Chief Risk Officer (CRO), Mr Varese, and the Head of Human Resources Management (HRM), Mr Laber, who is also responsible for Global Banking Services (GBS) and labour relations and social affairs, together with the heads of the three business segments: Mr Diederichs (Unternehmer Bank), Mr Buschbeck and Mr Danzmayr (Private Clients Bank, with the latter primarily responsible for Private Banking), and Dr Bohn (Corporate & Investment Banking).

Prior to 14 January 2013, the Bank’s organisational structure was based on customer groups (business divisions). Mr Buschbeck, Mr Danzmayr and Mr Diederichs were responsible for the Family & SME division (F&SME), the Private Banking division (PB) and the Corporate & Investment Banking division (CIB), respectively.

In his function as Country Chairman Germany, the Board Spokesman, Dr Weimer, is also a member of the Business Executive Management Committee and the Management Committee of UniCredit S.p.A. The member of the Management Board responsible for the Private Clients Bank segment, Mr Buschbeck, is also a member of the Management Committee of UniCredit S.p.A. in the function of the head of Private Clients Bank Germany. Mr Diederichs, the member of the Management Board responsible for the Unternehmer Bank, is also a member of the Management Committee of UniCredit S.p.A. The members of the Business Executive Management Committee and the Management Committee have an advisory function at the level of the holding company, where they represent the interests of HVB.

The compensation paid to members of the Management Board is shown in detail in the Compensation Report below.

When appointing people to management positions in the Bank, the Management Board takes account of diversity and seeks in particular to ensure that women are adequately represented.

Supervisory Board

The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. It is directly involved in decisions that are of fundamental importance for the Bank. The Management Board informs the Supervisory Board at regular intervals about business policy as well as fundamental issues regarding the Bank's financial, earnings and assets position, its risk position, risk management and risk control. At least once a year, it receives a report on corporate planning. The Supervisory Board approves the annual financial statements and adopts the consolidated financial statements. It appoints and dismisses the members of the Management Board. The Supervisory Board sets the total remuneration payable to the individual members of the Management Board as proposed by the Remuneration & Nomination Committee, adopts the remuneration system for the Management Board, complete with the key contractual elements, and reviews this at regular intervals. 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. Once a year, the Supervisory Board examines the efficiency of its work, including its collaboration with the Management Board.

The chairman of the Supervisory Board coordinates the work of the Supervisory Board. He maintains contact with the Management Board, notably with the Board spokesman, and discusses the Bank's strategy, performance and risk management with the Management Board. The Management Board spokesman informs him immediately about events that are important for assessing the Bank's position and development and for managing the company. In accordance with Article 13 (2) of the Bank's Articles of Association, the chairman has two votes on Supervisory Board resolutions when a second vote on the same matter results in a tied vote, unless the law precludes such an arrangement.

The compensation paid to members of the Supervisory Board is shown in detail in the in the notes to the consolidated financial statements.

Composition of the Supervisory Board

The Supervisory Board is constituted primarily on the basis of the relevant legal provisions, the German Corporate Governance Code, the by-laws of the Supervisory Board and in line with objectives defined in the meaning of Section 5.4.1 of the German Corporate Governance Code regarding its composition.

In accordance with Section 24 (1) of the German Act on the Co-determination of Employees in Connection with a Cross-border Merger (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG) in conjunction with Sections 95 and 96 of the German Stock Corporation Act (Aktiengesetz – AktG) and Article 9 of the Articles of Association, the Supervisory Board consists of 12 members, comprising an equal number of shareholder and employee representatives.

According to Section 36 (3) of the German Banking Act (KWG), the members of the Supervisory Board must be fit and proper persons and must possess the knowledge and skills required to perform the control function and to assess and monitor the Bank's commercial activities.

The Supervisory Board's by-laws essentially contain the following regulations regarding its composition: An adequate number of independent members should sit on the Supervisory Board. In addition, no more than two former members of the Management Board may sit on the Supervisory Board. It must also be ensured that no members of the Supervisory Board serve on governing bodies or perform advisory functions for key competitors of the Bank. The members of the Supervisory Board should also make sure that they have enough time available to perform their functions properly. Members of the Supervisory Board should not normally be more than 70 years old.

Objectives of the Supervisory Board regarding its composition

The Supervisory Board has adopted the following objectives regarding its composition in line with Section 5.4.1 of the German Corporate Governance Code:

– The Supervisory Board of HVB should be composed in such a way that the Management Board can be effectively monitored and advised by the Supervisory Board. Its members as a group should

Corporate Governance and Compensation Report (Continued)

possess the knowledge, ability and expert experience required to properly complete the Supervisory Board's task, such that all the capabilities required for the Bank's Supervisory Board are represented on the Supervisory Board. The necessary general knowledge and experience should be supplemented in this way with regard to the Bank's specific situation and orientation. The general knowledge that every member is expected to possess specifically includes theoretical knowledge and practical experience in the following areas: legal principles and compliance, corporate accounting and risk control. The candidates proposed for election should, by virtue of their integrity and personality, be in a position to perform the tasks of a member of the Supervisory Board in a commercial bank with international operations. The members of the Supervisory Board shall on their own take on the necessary training and further education measures required for their tasks, with appropriate support from the Bank.
– Furthermore, diversity should be reflected in the composition of the Supervisory Board. In other words, the Supervisory Board should include an appropriate proportion of women and members with international professional experience or an international cultural background. Moreover, every effort should be made to ensure that women account for at least **one-third** of the members of the Supervisory Board by 2015 at the latest.
– The Supervisory Board shall include what it considers an adequate number of independent members. Within the meaning of Section 5.4.2 of the Code, a Supervisory Board member is not to be considered independent in particular if he/she has personal or business relations with the company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial and not merely temporary conflict of interests. The Supervisory Board strives to ensure that at least **one-quarter** of its seats are filled by members among the shareholder representatives defined as independent in the meaning of Section 5.4.2 of the Code.

When examining potential candidates for election or appointment to positions on the Supervisory Board that become vacant, the Supervisory Board will continue to ensure that suitably qualified women are included in the selection process. With Ms Natale and Dr Weiss as shareholder representatives and Ms Dura-Kempf as an employee representative, one-quarter of the Supervisory Board members are female. As mentioned above, the Supervisory Board wishes, if possible, to ensure that women account for at least one-third of the Supervisory Board members by 2015. It should be noted in this context, however, that the Supervisory Board can only influence its composition through the candidates of the shareholder representatives it proposes to the Shareholders' Meeting for election.

The Supervisory Board has what it considers an adequate number of independent members. With Mr Bulgarelli, Dr Meyer, Dr Weiss and Dr Sprissler, more than one-quarter of the members of the Supervisory Board are shareholder representatives who are independent in the meaning of the Corporate Governance Code recommendation.

A list of members of the Supervisory Board, complete with information on their professions and an overview of their positions on other supervisory boards or comparable boards required by law, is published in the section of the present Annual Report entitled Corporate Governance and in the notes to the annual financial statements in the Annual Report of HVB.

Supervisory Board committees
To support its work, the Bank's Supervisory Board set up two standing committees in 2012. The chairmen of the committees report in detail on the committees' activities at plenary meetings of the Supervisory Board. Information on the committees' work over the last financial year is provided in the Report of the Supervisory Board in the present Annual Report.

The composition and tasks of the committees are as follows:

Remuneration & Nomination Committee
The Remuneration & Nomination Committee, comprised of the chairman of the Supervisory Board and the two deputy chairmen, is primarily concerned with succession planning for the Management Board, preparing the resolutions of the Supervisory Board regarding the structure of Management Board remuneration and the process of setting the total remuneration of the individual members of the Management Board.

Audit Committee

The Audit Committee, which generally conducts five meetings each year, has four members. Compliant with Section 107 (4) in conjunction with Section 100 (5) AktG, the Audit Committee has at least one independent member with expert knowledge in the field of accounting or auditing.

The Chairman of the Audit Committee, Dr Meyer, has particular knowledge and experience in the application of accounting principles and internal control procedures, as required by Section 5.3.2 of the German Corporate Governance Code. Furthermore, he is independent and not a former member of the Bank's Management Board whose appointment ended less than two years ago. Neither is Dr Meyer the same person as the Chairman of the Supervisory Board, meaning that the recommendation made in Section 5.2 of the German Corporate Governance Code has also been met.

The major functions of the Audit Committee include preparing the Supervisory Board's decision on the approval of the annual financial statements and the adoption of the consolidated financial statements, conducting a preliminary audit on the report on relations with affiliated companies and elucidating the half-yearly financial report and interim reports. The Audit Committee submits a recommendation to the Supervisory Board regarding the Supervisory Board's proposal for the election of the independent auditor by the Shareholders' Meeting. Its tasks in this regard include checking the necessary independence of the auditor and specifying the type and scope of the additional services performed by the auditor above and beyond the actual auditing work. The Audit Committee is also responsible for commissioning the auditor for the annual financial statements and the consolidated financial statements on the basis of the resolution adopted by the Shareholders' Meeting, including the specification of the main areas subject to scrutiny and the fee.

Further key tasks of the Audit Committee include monitoring the effectiveness of the risk management system (RMS) and the internal control system (ICS). In this context, the RMS is geared to identifying not only risks endangering the Bank's continued existence at an early stage but also all significant risks, including ways of managing and mitigating them. The risk situation and the early identification of risk are of fundamental importance for the Bank's continuing existence. In accordance with the Minimum Requirements for Risk Management by banks laid down by the German Financial Supervisory Authority, risk reports are presented to the Audit Committee each quarter. In addition to this, key information from the risk point of view is passed on to the Audit Committee immediately. The business strategy defined by the Management Board and a risk strategy that is consistent with it are presented to the Supervisory Board for consideration together with any necessary amendments to the strategies. This approach ensures that both the Supervisory Board and the Audit Committee are provided with detailed reports on a regular basis, particularly on the risk strategy, credit risk, market risk, operational risk, liquidity risk and reputational risk.

Matters relevant to the ICS are reported in the Audit Committee at least once a year. The reports on the ICS cover such matters as outsourcing and data protection as well as the ICS in connection with financial reporting, on which a half-yearly report is provided. The Audit Committee is also informed as required on any important findings, for example in special regulatory audits. The primary objective of the ICS is to ensure compliance with supervisory and legal requirements. The Audit Committee receives an annual self-assessment from the Management Board on the effectiveness of the RMS and ICS.

The main activities of the Audit Committee also include monitoring the effectiveness of the internal audit system (IAS). This involves the committee assessing the appropriateness of the resources, the audit plan and the audit findings. The Audit Committee is informed on a regular basis about any serious shortcomings identified by the Internal Audit department, significant findings that have not yet been remedied and the measures that have been initiated to achieve this. The Management Board informs the Audit Committee about any particularly serious deficiencies immediately. Furthermore, the chairman of the Audit Committee has the right to request information directly from the head of the Internal Audit department upon consultation with the Management Board.

The Audit Committee has also been tasked with reviewing the effectiveness of the compliance system set up by the Management Board. At its meetings, the Audit Committee also discusses any compliance issues that may have arisen. Furthermore, the chairman of the Audit Committee is authorised to request information directly from the Compliance Officer upon consultation with the Management Board.

Corporate Governance and Compensation Report (Continued)

Ad-hoc committees
The Supervisory Board has also employed ad-hoc committees on a regular basis to undertake intensive examinations of special topics to prepare for Supervisory Board meetings. In 2012 the Supervisory Board used analysis carried out by an ad-hoc committee to examine questions pertaining to the remuneration of Management Board members and to contract prolongations of Management Board members.

Integrity Charter, Code of Conduct, Compliance and data protection
The Integrity Charter is a common set of values connecting all UniCredit group companies which is supported by the introduction of an ombudsman system. It contains guidelines on the conduct of Management Board members and employees at the workplace and lays down standards of behaviour for the employees of all UniCredit group companies.

In addition to this, a Code of Conduct is in force at HVB. This code summarizes existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all Bank employees.

The Bank has an independent compliance function that reports directly to the CEO. In addition to its advisory role, it monitors compliance with the relevant legal and supervisory provisions. Its organisational structure follows the structure of the sales units. HVB's Compliance unit is tasked with assisting the Management Board of HVB and its subsidiaries in the management of compliance risk. Compliance advises management and staff with regard to existing, proposed and pending laws, rules and regulations as well as standards within the competence of Compliance with regard to existing and new business, transactions, products (new product process) and branch offices. Compliance focuses primarily on the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and associated directives, rules and regulations, including stock market rules, the German Money Laundering Act (Geldwäschegesetz – GwG) and applicable financial sanctions. However, it also deals with regulations arising from the German Banking Act (Kreditwesengesetz – KWG) and other rules affecting the Bank's operations, including regulations regarding corruption prevention and antitrust issues. Compliance runs various training courses regarding these topics, some of which are voluntary although most are compulsory. A risk analysis forms the basis of the annual Compliance Plan which encompasses the individual measures such as organising training courses and drawing up the monitoring plan. A further key task of Compliance is to ensure that activities like employee transactions and the Bank's trading activities are monitored on a daily basis and matters like churning, investment logs and marketing materials are monitored both on a daily basis and on the basis of random checks. On-site reviews are also carried out. Compliance conducted 106 such on-site reviews in 2012, mostly at German branches. Compliance is also the point of contact for the German Federal Banking Supervisory Authority (BaFin) and the supervisory authorities in the countries where HVB operates as well as for stock market trading oversight units.

The creation of an effective system of data protection is an essential element of good corporate governance with a view to ensuring compliance with the provisions of privacy law, internal guidelines and corporate values. Data protection is a very high priority at HVB and is seen by the Management Board as a key management task. The Data Protection unit is allocated to the GBS division under the Management Board. This is in compliance with the regulatory requirement for a direct reporting line from the Data Protection Officer to the Management Board.

Remuneration Committee
The Management Board of HVB has set up a Remuneration Committee compliant with BaFin Circular 22/2009 covering supervisory requirements for institutions' remuneration systems (Aufsichtsrechtliche Anforderungen an die Vergütungssysteme von Instituten) dated 21 December 2009 and the regulations governing supervisory requirements for institutions' remuneration systems (Instituts-Vergütungsverordnung) dated 6 October 2010. This committee is tasked with reviewing the appropriateness of the remuneration systems in light of these standards. Members of the committee are drawn from the HR, Finance, Risk Control, Compliance and Trading/Markets departments as well as front office and back office units. The Internal Audit department is involved within the bounds of its functions. The chairmen of the Central Works Council and the Speaker's Committee for Senior Executives are ex officio members of this committee. The other members are appointed and recalled by the Bank's Management Board. The Senior Director Legal, Corporate Affairs & Documentation is the chairman of the Remuneration Committee. All members of the Remuneration Committee are Bank employees or executives; they do not receive any separate compensation for their work on the Remuneration Committee. The Remuneration Committee reports to the Management Board and the Supervisory Board on the appropriate structure of the Bank's compensation systems at least once a year. The chairman of the Supervisory Board has the right to request information directly from the Remuneration Committee.

Shareholders, Shareholders' Meeting
Since the squeeze-out was filed in the Commercial Register on 15 September 2008, the rights in the shareholders' meeting are exercised by the sole shareholder, UniCredit S.p.A.

Shareholdings
Since UniCredit S.p.A. is the sole shareholder of HVB, none of the members of the Management Board and/or Supervisory Board personally holds any shares in HVB.

Conflicts of interest
The Report of the Supervisory Board contains information from the Supervisory Board on conflicts of interest that arose in the year under review and the way they were dealt with.

Risk management
The Bank maintains a risk management system that encompasses its subsidiaries. This notably covers strategies, the risk-bearing capacity, and risk management and control processes. The monitoring and coordination of the main risks come under the responsibility of the Chief Risk Officer, who reports to the Audit Committee of the Supervisory Board and to the Supervisory Board itself on a regular basis. Please refer to the Risk Report in the present Annual Report for more details.

Communication, transparency
HVB greatly values regular and prompt communication with its customers, its shareholder, its employees and the general public. Press releases and reports provide information on the state of the Bank. Information that could have a substantial impact on exchange and market price of financial instruments is published in ad-hoc communications and also made available on the Bank's website. In addition, the Board spokesman and CFO of HVB report on issues important to the Bank and current business results at the annual press conference on the financial statements and in quarterly media conference calls, the dates of which are published in a financial calendar. This financial calendar and other information published by HVB, such as the Bank's Articles of Association and corporate governance topics, can similarly be found online together with the latest consolidated financial statements and interim reports. The publications are released in both German and English.

Voluntary declaration of compliance
The Management Board and Supervisory Board issued the following voluntary declaration of compliance on 23 November 2012:

"Voluntary declaration of compliance with the German Corporate Governance Code for 2012
UniCredit Bank AG is not required to submit a declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act. Nevertheless, the Management Board and Supervisory Board of UniCredit Bank AG have decided to adhere to the German Corporate Governance Code on a voluntary basis, inasmuch as the provisions of the Code can be applied to a non-listed company with only one shareholder. For this reason, a voluntary declaration of compliance with the German Corporate Governance Code is being submitted as follows:

The Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" made by the Federal Ministry of Justice in the official part of the electronic Federal Gazette have been complied with, apart from the following recommendations, which are listed below, including the reasons why these recommendations were not complied with. The basis for this declaration is the German Corporate Governance Code as amended on 26 May 2010, which is applicable for the time period from 8 November 2011 (date of the last declaration of compliance) to 15 June 2012. For the Corporate Governance practice of the company since 16 June 2012, the declaration refers to the recommendations of the German Corporate Governance Code as amended on 15 May 2012.

UniCredit Bank AG did not follow the following recommendations:
1. In accordance with Section 3.10 sentence 1 of the Code, the Management Board and Supervisory Board shall report each year on Corporate Governance (Corporate Governance Report) and publish this report in connection with the statement on Corporate Governance.

   The Management Board and the Supervisory Board report each year on corporate governance in the annual report (Corporate Governance Report). As according to the law UniCredit Bank AG is not obliged to make a statement on corporate governance and does not make such statement, the Corporate Governance Report cannot be published in connection with a statement on Corporate Governance.

Corporate Governance and Compensation Report (Continued)

2. In accordance with Section 4.2.3 para. 4 sentence 1 of the Code, payments to a Management Board member in the event of premature termination of their activity without good cause shall neither exceed the equivalent of two years' compensation including fringe benefits (severance cap) nor the compensation due for the residual term of the employment agreement.

   This recommendation is not being complied with in the case of one employment agreement with a Management Board member due to that member's long years of service to the Bank; the severance payment arrangements have also been retained in extension to the employment agreement with this Management Board member. All other employment agreements with Management Board members no longer provide for severance payments.

3. In accordance with Section 5.3.3 of the Code, the Supervisory Board is to establish a nomination committee, which shall consist exclusively of shareholder representatives and is to propose names of suitable candidates to the Supervisory Board for the latter's election nominations.

   In view of the company structure with one shareholder and the size of the Supervisory Board with only six shareholder representatives, the Supervisory Board considers the forming of a nomination committee unnecessary.

4. If the members of the Supervisory Board are promised performance-related compensation, in accordance with Section 5.4.6 para. 2 sentence 2 of the Code as amended on 15 May 2012, it shall be oriented towards sustainable growth of the enterprise.

   Besides a non performance-related compensation, the Supervisory Board members receive a performance-related compensation of €400.00 for each €0.01 by which the dividend for individual shares exceeds €0.12, but not exceeding an amount of €15,000. Therefore the performance-related compensation is not oriented towards sustainable growth of the enterprise within the meaning of the Code, but is limited in its amount. In the context of the transformation of the European CRD IV directive's regulations to German law it is intended to adjust the remuneration structure of the Supervisory Board accordingly.

5. In addition, UniCredit Bank AG did not comply with the following recommendations:
   - Section 2.3.2 (the transmission of annual general meeting documents in electronic form)
   - Section 2.3.3 sentence 2 as amended on 26 May 2010 (assistance of shareholders for absentee and proxy voting)
   - Section 4.2.3 para. 6 as amended on 15 May 2012 (explanation of compensation system at the annual general meeting)
   - Section 5.4.3 sentence 1 (elections to the Supervisory Board on an individual basis)
   - Section 6.6 sentence 1–2 (directors' dealings)
   - Section 6.7 sentence 1 2nd manuscript (publication of the date of the annual general meeting in the financial calendar)

   The purpose and intent of the recommendations only relate to listed public limited companies with free float and not to a non-listed company with only one shareholder.

Furthermore, the Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission Corporate Governance Code", as amended on 15 May 2012 and announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, continue to be observed, with the exception of the above-mentioned deviations.

Munich, 23 November 2012

The Supervisory Board
Federico Ghizzoni

The Management Board
Dr Theodor Weimer
Peter Hofbauer"

UniCredit Bank AG has applied the numerous suggestions included in the German Corporate Governance Code ("should" provisions) with the exception of suggestions the purpose and intent of which only relate to listed public limited companies with free float and not to a non-listed company with only one shareholder, specifically
- Section 2.3.3 sentence 2 2nd manuscript (presence of a proxy representative at the annual general meeting)
- Section 2.3.4 (transmission of the annual general meeting using modern communication media)

Compensation Report

The following compensation report describes the system of compensation for members of the Management Board of UniCredit Bank AG ("HVB" or "the Bank").

1. Structure of the compensation paid to members of the Management Board for 2012

It is the task of the plenary sessions of the Supervisory Board of the Bank to discuss and decide on a proposal put forward by the Remuneration & Nomination Committee of the Supervisory Board regarding the structure of the compensation of members of the Management Board. Furthermore, the plenary sessions of the Supervisory Board determine the total compensation paid to each member of the Management Board, also upon proposal by the Remuneration & Nomination Committee. Appropriateness and sustainability are key criteria for the form and structure of compensation paid to members of the Management Board.

The structure of compensation is derived from the service agreements with the members of the Bank's Management Board. It has two components: a fixed salary and a variable element.

The structure of compensation paid to members of the Management Board is reviewed regularly by the Supervisory Board and adjusted if necessary. When doing so, the Supervisory Board makes use of the expertise of external, independent remuneration and legal advisors.

In 2012, the Supervisory Board made appropriate adjustments to the basic terms for the compensation of the members of the Management Board of HVB as well as the target agreements (performance matrices).

1.1 Fixed salary

The fixed salary is disbursed in 12 monthly instalments.

1.2 Variable compensation (performance-related components)

In 2012, the variable compensation system was modified further to reflect the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (Instituts-Vergütungsverordnung). The variable compensation reflects the changed economic environment and the requirements of the regulators and strengthens the importance of sustainable company success. Competitive, success-oriented variable compensation coupled with a partial shift of disbursement to the medium- to long-term future are intended to help tie executives to the Bank and promote the sustainable corporate earnings.

The variable compensation includes a bonus opportunity. Disbursement of the bonus takes place over a total period of five years.

– Year 1: 20% of the bonus disbursed in cash
– Year 2: 20% of the bonus disbursed in cash
– Year 3: 20% of the bonus disbursed in UniCredit S.p.A. stock
– Year 4: 20% of the bonus disbursed in UniCredit S.p.A. stock and 10% in cash
– Year 5: 10% of the bonus disbursed in UniCredit S.p.A. stock

The bonus disbursement can range between 0% and 150% of the bonus opportunity value, and is based on the achievement of the individual performance screen for 2012.

The amount of the bonus depends, first, upon certain targets agreed individually with the members of the Management Board being met. These targets are recorded in matrices and encompass operational targets with a weighting of 30% or 50% and sustainability targets with a weighting of 70% or 50%. Parameters like customer satisfaction, reputation index, People Survey results and so on are included for the sustainability targets.

The amount of the bonus is also coupled to the core capital ratio and the adjusted return on equity of UniCredit. The conditions for the sustainable corporate earnings are set in the form of target ratios for profitability and sustainability ("Group Gate"). This Group Gate is applicable for the first tranche of the bonus (20%) for all Management Board members with one exception (for whom the Group Gate applies to all tranches). The Group Gate totals 100% if the set ratios are met in full or exceeded. Depending on the shortfall in the set profitability ratio/sustainability target measured, the amount totals 90%, 75% or 0%.

Corporate Governance and Compensation Report (Continued)

The bonus is not disbursed if the profit after tax is less than zero and/or UniCredit is unable to meet its liquidity requirements on a given number of days ("zero factor"). This zero factor is applied to tranches for the years 2, 3, 4 and 5 of the incentive for all Management Board members.

Similarly, no Management Board member is entitled to the disbursement of any bonus whatsoever if any compliance and/or value rules have been violated.

1.3 Long-term incentive (LTI)
A long-term incentive plan with a performance period of 2011 to 2013 was set up in 2011. There is no separate LTI plan for 2012.

1.4 Additional comments
In 2012, four members of the Management Board had a service agreement with UniCredit S.p.A. as well as a Management Board contract with HVB. These Management Board members are entitled to compensation under this service agreement in accordance with the proportion of their duties performed on behalf of UniCredit S.p.A., with the entitlement to payments under the Management Board contract with HVB reduced accordingly. These entitlements are offset between HVB and UniCredit S.p.A. on a pro rata basis. In other words, each member of the Management Board is only entitled to one set of compensation in the amount set by the Supervisory Board of HVB for the financial year in question. In the year under review, no members of the Management Board performed work for UniCredit S.p.A. in this sense.

In 2012, two members of the Management Board had a suspended service agreement with UniCredit Bank Austria AG as well as a Management Board contract with HVB.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit Group companies is surrendered to the Bank.

1.5 Compensation paid to members of the Management Board for 2012
The compensation paid to members of the Management Board for the 2012 financial year is shown in detail in the notes to the consolidated financial statements.

1.6 Pension commitments
Besides direct remuneration, Management Board members have received pension commitments.

Six members of the Management Board took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2012, which is also granted to the Bank's executives. The Bank will provide/has provided 35% of the fixed salary as contributions (2012: €1,071,496/2011: € 970,863, for the year 2011, €18,500 were booked additionally in 2012). It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

The Bank credits the contributions to the deferred compensation plans to the Management Board member's capital account and invests them in a fund. The Bank guarantees an annual return of 2.75%. In addition, a profit sharing provision applies to all beneficiaries of the pension commitment. If the market value of the fund less 10% (fluctuation reserve) exceeds the amount of the commitments, the difference is credited to the Management Board member's pension account. When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. In the process, the actuarial calculations applicable at the time, in particular life expectancy, are taken as a basis. An annual adjustment of 1% is granted for the pension; this fulfils the Bank's obligation to adjust pension commitments. Alternatively, the capital can be disbursed if the eligible Management Board member has applied for this two years before the insured event occurs.

A sum of €125 (2011: €5,787) was transferred to provisions for pensions in the 2012 financial year to cover the commitments (for death benefits) made to the members of the Management Board.

One member of the Management Board receives allocations to a UniCredit group pension fund. Contributions were made to a pension fund for one further member of the Management Board, which were deducted on a pro rata basis from the fund-linked commitment (AgfA).

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to T€128,479 (2011: T€114,844).

Compliant with Section 285 of the German Commercial Code (Handelsgesetzbuch – HGB), the provisions for pensions payable to former members of the Management Board and their surviving dependants amount to T€34,648 (2011: T€34,152) at HVB at 31 December 2012.

The compensation paid to the retired members of the Management Board and their surviving dependants amounted to T€1,716 in 2012 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2011: T€1,653).

1.7 Fringe benefits
Among other things, the members of the Management Board can also use their company car for private purposes. The Bank paid the premiums for an accident insurance policy valid 24-hours a day and a sum insured of €1,200,000 in the event of death and €1,400,000 in the event of complete disability. Furthermore, members of the Management Board receive the same preferential terms for bank services as the Bank's employees.

1.8 Commitments to pay a transitional allowance
The new contracts concluded with members of the Management Board as of 2009 do not contain a commitment to pay a transitional allowance in the event of non-extension of the contract or a severance allowance in the event of early termination of Management Board activities.

The content of this entitlement to a severance allowance has been modified for only one member of the Management Board, who already had a contractual entitlement to a transitional payment in the event of non-extension of the service agreement or the early termination of the appointment, when the Management Board employment contract was extended. This served to implement the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (Instituts-Vergütungsverordnung) that have now come into force.

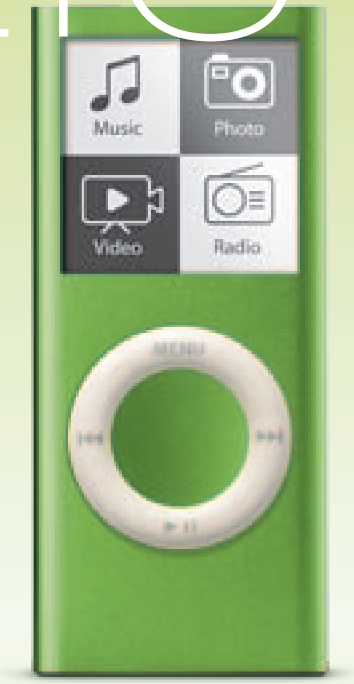
None of the contracts contain any commitments to make payments in respect of early termination of Management Board activities as a result of a change of control (change of control clause).

The compensation paid to members of the Supervisory Board is shown in detail in the notes to the consolidated financial statements.

Munich, 12 March 2013

The Management Board The Supervisory Board

LISTENING



Making a difference from anywhere, even in a taxi

“One day while driving my taxi, I struck up conversation with my passengers and found out they worked at UniCredit.
I told them that I was one of their customers and that I owned a fleet of taxis.
I also explained that I was trying to expand my business and had asked for a loan, but had yet to learn if my request was successful.
The next day one of them called me to follow up with the information I needed. She cared about helping me solve my problem, and I could not have been more satisfied with her support.
I thanked her and said that if she ever needed a taxi in Vienna – even to Milan – I would be there for her, as she was for me.”

Taxi driver, customer of UniCredit Bank in Vienna

Additional Information

Financial Calendar

Important Dates 2013[1]

Annual Press Conference	18 March 2013
Interim Report at 31 March 2013	10 May 2013
Half-yearly Financial Report at 30 June 2013	6 August 2013
Interim Report at 30 September 2013	11 November 2013

1 dates planned

Contacts
Should you have any questions about the annual report or our interim reports, please contact Media Relations by
calling +49 (0)89 378-25744,
faxing +49 (0)89 378-25699
You can call up important company announcements as soon as they have been published by visiting our website at www.hvb.de

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Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest	734	879	878	918
Dividends and other income from equity investments	50	35	40	22
Net fees and commissions	280	287	281	315
Net trading income	67	177	139	807
Net other expenses/income	31	51	31	28
OPERATING INCOME	**1,162**	**1,429**	**1,369**	**2,090**
Operating costs	(825)	(908)	(883)	(900)
OPERATING PROFIT	**337**	**521**	**486**	**1,190**
Net write-downs of loans and provisions				
for guarantees and commitments	(303)	(159)	(175)	(90)
NET OPERATING PROFIT	**34**	**362**	**311**	**1,100**
Provisions for risks and charges	93	26	75	1
Restructuring costs	(102)	—	—	—
Net income from investments	(17)	105	50	20
PROFIT BEFORE TAX	**8**	**493**	**436**	**1,121**
Income tax for the period	59	(185)	(254)	(391)
PROFIT AFTER TAX	**67**	**308**	**182**	**730**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**67**	**308**	**182**	**730**
attributable to shareholder of UniCredit Bank AG	65	287	187	707
attributable to minorities	2	21	(5)	23
Earnings per share (€)	**0.08**	**0.36**	**0.23**	**0.88**

Summary of Annual Financial Data

HVB Group

(€ millions)

OPERATING PERFORMANCE	2012	2011	2010	2009	2008
Net interest	3,409	4,073	4,100	4,476	4,059
Dividends and other income from equity investments	147	150	148	52	200
Net fees and commissions	1,163	1,308	1,312	1,187	1,453
Net trading income	1,190	190	759	1,074	(1,882)
Net other expenses/income	141	91	239	141	147
OPERATING INCOME	**6,050**	**5,812**	**6,558**	**6,930**	**3,977**
Payroll costs	(1,839)	(1,819)	(1,756)	(1,822)	(1,961)
Other administrative expenses	(1,499)	(1,593)	(1,459)	(1,418)	(1,281)
Amortisation, depreciation and impairment					
losses on intangible and tangible assets	(178)	(199)	(218)	(222)	(253)
Operating costs	**(3,516)**	**(3,611)**	**(3,433)**	**(3,462)**	**(3,495)**
OPERATING PROFIT	**2,534**	**2,201**	**3,125**	**3,468**	**482**
Net write-downs of loans and provisions for guarantees and commitments	(727)	(266)	(632)	(1,601)	(760)
NET OPERATING PROFIT/(LOSS)	**1,807**	**1,935**	**2,493**	**1,867**	**(278)**
Provisions for risks and charges	195	(251)	(442)	(151)	(6)
Restructuring costs	(102)	(108)	(37)	(170)	(26)
Net income from investments	158	39	(132)	(280)	(285)
PROFIT/(LOSS) BEFORE TAX	**2,058**	**1,615**	**1,882**	**1,266**	**(595)**
Income tax for the period	(771)	(640)	(154)	(382)	(54)
PROFIT/(LOSS) AFTER TAX	**1,287**	**975**	**1,728**	**884**	**(649)**
Impairment on goodwill	—	(4)	—	—	—
CONSOLIDATED PROFIT/(LOSS)	**1,287**	**971**	**1,728**	**884**	**(649)**
attributable to shareholder of UniCredit Bank AG	1,246	931	1,703	819	(671)
attributable to minorities	41	40	25	65	22
Cost-income ratio in % (based on total revenues)	58.1	62.1	52.3	50.0	87.9
Earnings per share (€)	1.55	1.16	2.12	1.02	(0.84)

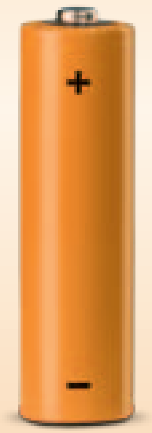
HVB Group

	2012	2011	2010	2009	2008
Balance sheet figures (€ billions)					
Total assets	348.3	372.3	371.9	363.4	458.6
Shareholders' equity	23.3	23.3	23.7	23.6	23.0
Key capital ratios	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**
Core capital (€ billions)	19.5	20.6	20.6	20.4	21.2
Risk-weighted assets (€ billions) (including					
equivalents for market risk and operational risk)	109.8	127.4	124.5	115.1	148.2
Core capital ratio (%)					
(calculated based on risk-weighted assets including					
equivalents for market risk and operational risk)	17.8	16.2	16.6	17.8	14.3
Employees	19,247[1]	19,442[1]	19,146[1]	18,874[1]	24,638
Branch offices	941	934	927	852	852

1 number of employees in full-time equivalents

RECHARGING

Supporting enterprise with concrete actions
UniCredit International



"I own a small business that produces equipment for recycling precious metals. After winning a bid for a project with the Indian government last year, we were in need of a qualified partner to manage our complex operations abroad. UniCredit believed in us and our work, providing us with the initial warranty request, a letter of credit and the loans we needed. Thanks to their support, we successfully completed the project."

Paolo Balestri, Balestri impianti,
customer of UniCredit in Italy

Annex

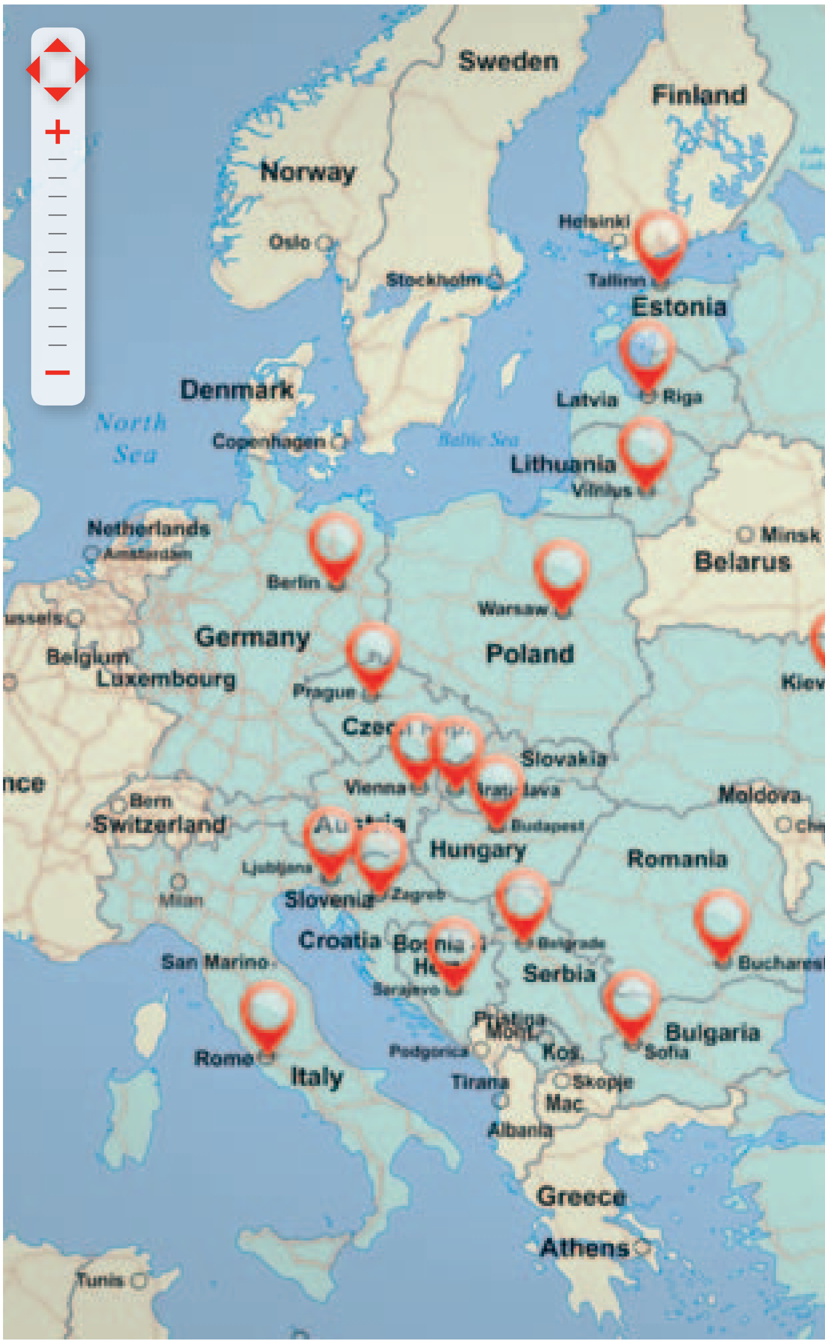
UniCredit Profile

Highlights

UniCredit operates in 22 Countries with more than 156,000 employees and more than 9,300 branches.

UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

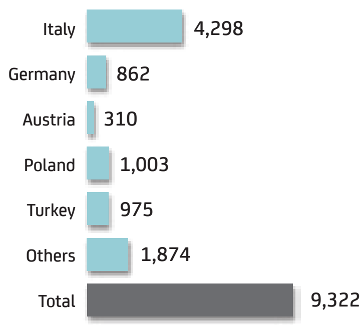
Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.



EMPLOYEES[1]
over 156,000

BRANCHES[2]
more than 9,300

BRANCHES BY COUNTRY[2]

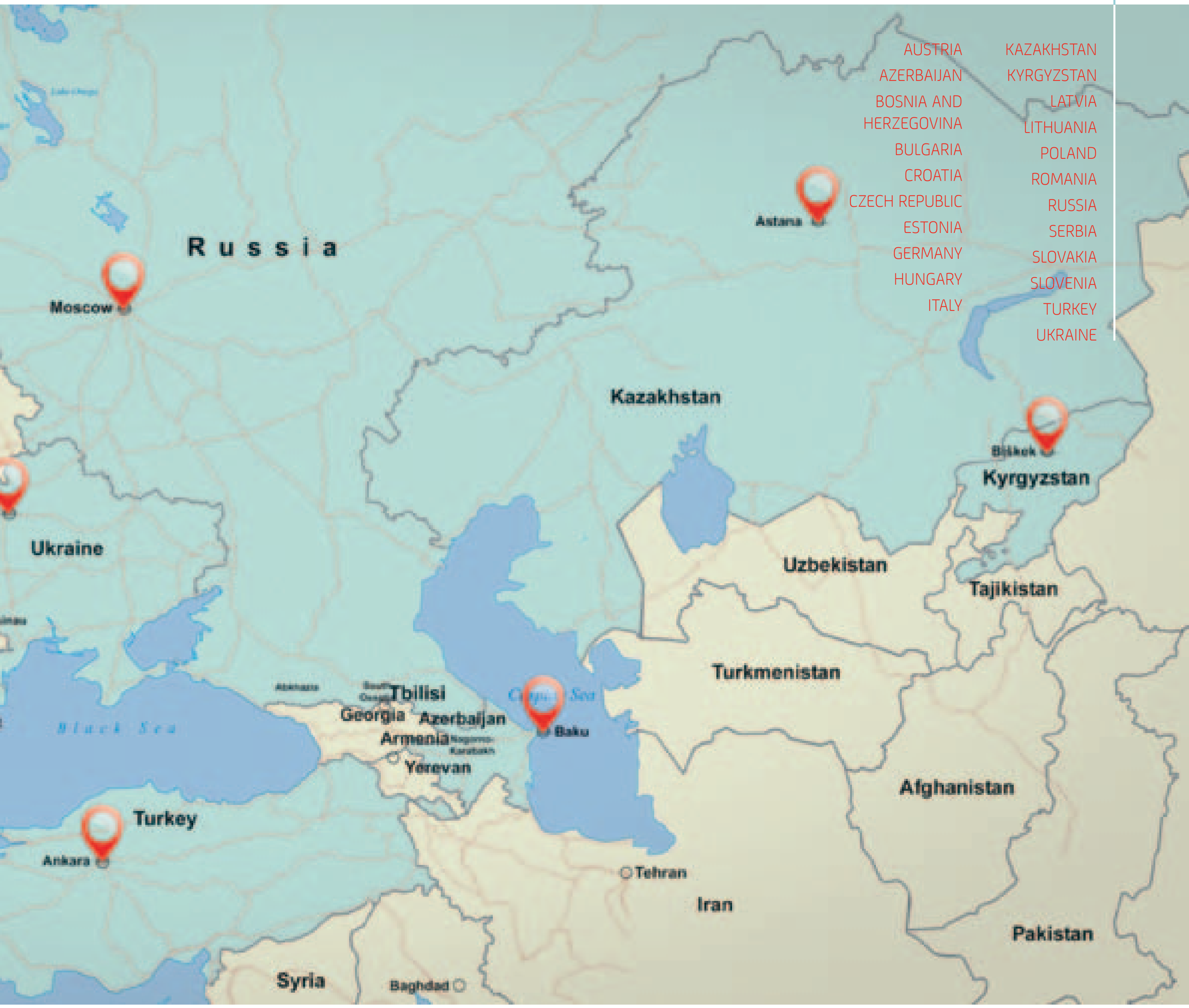


1. Data as at 31 December 2012. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.
2. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

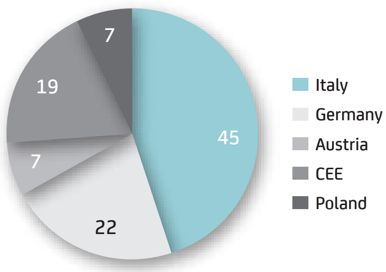
* Data as at 31 December 2012.

WHERE WE OPERATE*

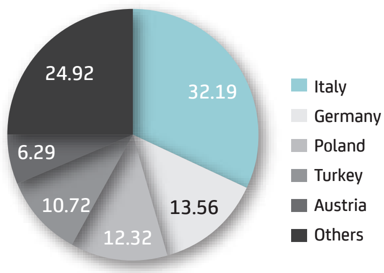
AUSTRIA
AZERBAIJAN
BOSNIA AND HERZEGOVINA
BULGARIA
CROATIA
CZECH REPUBLIC
ESTONIA
GERMANY
HUNGARY
ITALY
KAZAKHSTAN
KYRGYZSTAN
LATVIA
LITHUANIA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SLOVENIA
TURKEY
UKRAINE



REVENUES BY REGION* (%)



EMPLOYEES BY COUNTRY[1] (%)



Focus

AUSTRIA, GERMANY AND ITALY

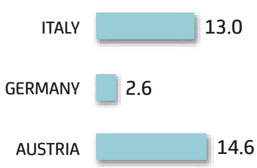
UniCredit occupies a strategic position in Italy, Germany and Austria. With about 310 branches in Austria, 860 in Germany and 4,300 in Italy, UniCredit comprises one of the largest banking networks in the heart of Europe. Accounting for more than one-third of the GDP of the European Union, these three countries benefit from their close ties to the growing economies of Central and Eastern Europe.

While 2013 may prove to be another challenging year for this region, sequential economic growth is projected to accelerate gradually. The ECB's announcement of the Outright Monetary Transactions (OMT) bond purchase program has significantly diminished tail risks in the eurozone, and the outlook has improved in tandem with market sentiment since August 2012. With the ECB providing an effective and credible backstop, financial markets are increasingly likely to reflect fundamentals. Italy's economy is projected to modestly expand in the second half of 2013. The factors underpinning these expectations are namely the lesser drag from fiscal consolidation in 2013 compared to the 2012, the gradual improvement in financial market conditions, which should soon start to positively affect sentiment and, most importantly, financing conditions for the private sector, which posed particular challenges to Italy in 2012.

Finally, the third factor is the projected re-acceleration in global trade which is likely to be a key driver of economic growth for all euro area countries. It will also result in a moderate upward trend in consumption, thanks to rising wages and a solid labor market. In Austria, stronger trade and the international competitiveness of its industrial sector will likely foster an upswing in 2013, boosted by a slight increase in investment.

In the medium and long term, the OMT has helped to create a more favorable environment for politicians to implement structural reforms. These remain essential to achieving a sufficient degree of macroeconomic and fiscal convergence across the eurozone, while efforts continue to shape a credible pan-European architecture. This process is vital to making the eurozone stronger and more competitive moving forward. In Italy, the sustainability of the recovery will largely depend on the quick and effective implementation of reforms to restore long-term competitiveness and reduce public debt. Taking into account the reforms that have already been implemented in Italy, we expect real economic growth to continue at an average annual rate of roughly 1% in Italy and 1.8% in Austria and Germany from 2014 to 2017.

MARKET SHARE[1] (%)



1. Market Share in terms of Total Customer Loans as at 31 December 2012.
Source: Eurostat, UniCredit Research.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, it has a broad network of roughly 3,800 branches.

Its regional footprint is diverse, and include a direct presence in 19 countries. It is ranked in the top five in 11 of these counties*. In fact the CEE now accounts for 26 percent of the Group's revenues.

The region's economic environment is expected to improve, with GDP growth forecast to rise from 2.5 percent in 2012 to 2.9 percent in 2013 and to 3.4 percent in 2014. With Q4 2012 representing the bottom of the cycle, a sequential improvement in the numbers should be evident by Q1 2013.

Among the factors expected to aid recovery following a weak 2012, is a gradual improvement in external demand, with the potential to drive an increase in industrial production and exports across the region. Domestic demand should be supported by easier financing conditions, as central banks have cut interest rates and governments now have ample access to external financing.

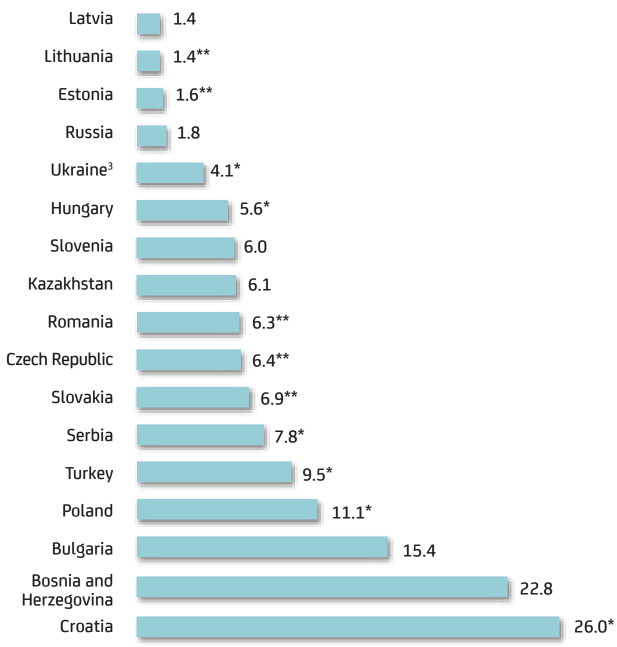
It is not forecast an increase in interest rates in any CEE country for 2013. At the same time, lower inflation in some countries will boost purchasing power, and the positive trend in private credit should support an increase in activity in comparison with 2012. The region will also benefit from significant recent progress in narrowing budget deficits and stabilizing the ratio of public debt to GDP at relatively low levels.

In most cases, the turnaround will rely initially on strong external demand, with domestic demand to follow. Turkey is an exception, with domestic demand already showing signs of recovery. In Russia, domestic demand, which has lagged behind the rest of the region, remained relatively strong for much of 2012, but is at risk of a moderate slowdown in 2013.

From a medium- to long- term perspective, we believe that the majority of Central and Eastern Europe economies will continue to see an increase

in living standards as growth is supported by competitive labor costs, flexible labor markets and a gradual recovery in foreign direct investment. Nevertheless, the primary challenge for the region remains a structural shortfall in savings, with the exception of Russia.

MARKET SHARE[2] (%)



* as at 30 September 2012.

** as at 31 December 2011.

2. Market Share in terms of Total Assets as at 31 December 2012.
Market Share in Azerbaijan and Kyrgyzstan not available.

3. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).

Source: UniCredit Research, UniCredit CEE Strategic Analysis.

Business Model

The UniCredit business model is based on the following principles:

- maintaining the so-called "global" Divisions/functions [Corporate Investment Banking (CIB)/Global Banking Services (GBS)] which allow the Group to maintain and increase a competitive advantage in terms of costs and competencies, while envisaging the refocusing of CIB Division on selected customers with a strong demand for "Investment Banking" products;
- higher responsibility of the Countries/local Banks, through increased autonomy and decision levers, in order to guarantee increased proximity to the client and faster decision processes (direct management of marketing activities and of certain businesses);
- confirmation of the steering, coordination and control role of the Holding Company, in particular through a focus on internal control topics, a supervision of Group key processes and a global coordination of some functions (Planning, Finance & Administration, Risk Management and Legal & Compliance).

Organizational Structure

UniCredit Group organization reflects an organizational and business model which maintains a divisional structure for the government of the Corporate Investment Banking business/products and the business in the CEE Countries, as well as a global control over the Global Banking Services functions, while ensuring the autonomy of the Countries/Banks on specific activities, in order to guarantee increased proximity to the client and faster decision processes:

- the **Chief Executive Officer** (CEO), while maintaining the overall responsibility on all regional businesses reporting to him (Italy, Germany, Austria, Poland and CEE), oversees directly the Italian business and delegates the supervision of Austria, Poland and CEE Division to the General Manager and the supervision of Germany to the Deputy General Manager responsible for the CIB Division.

- The **CIB Division**, which maintains the role as a Global Division, with a coverage role for the multinational customers ("Multinational"), for selected "Large corporate" clients with a strong potential demand for investment banking products, for the Financial and Institutional Groups (FIG) customers and for the Global Lines "Global Transaction Banking (GTB)", "Global Financing & Advisory (F&A)" and "Markets".

- The **General Manager** is responsible for some cross-Group topics/areas such as: i) managing strategic marketing activities ii) assisting the Chief Executive Officer in the Internal Control System ("ICS System") management, in order to ensure its effective functioning and iii) fostering, also through the other competent functions, an ongoing dialogue and relationship with the Group regulators.

- The **CEE Division coordinates** the Group activities in 19 countries of Central and Eastern Europe, aligning them to a single comprehensive business vision in the area.

- The **Chief Operating Officer** ("COO") concentrates under a sole responsibility all the managerial levers regarding the organizational, operational and service functions (included HR Management) – such as Organization, ICT, Operations, Workout, Security – responsible for supporting, also through the Group Global Service Factories, the sustainable business growth of the Group, ensuring the utmost quality of services provided and optimizing cost structures and Group's internal processes.

- As far as the Italian perimeter is concerned, within the major responsibility and autonomy of the local countries/banks, the **Country Chairman Italy** is responsible for all the coordination, control and development activities of the segments so called "Individuals" (Mass Market, Personal Banking and Private Banking), Small Business and Corporate segments (now including the former segment Medium Enterprises) of the Italian perimeter, leveraging on a Network breaking down into 7 "Regions", a "Direzione Network Real Estate" and a Network dedicated to the Private Banking segment.

- The **Asset Management** Product Line is responsible for the development of asset management in all geographic areas by guiding, coordinating and monitoring the development of business activities on a global level.

- Lastly, the functions called **Competence Lines** (Planning, Finance & Administration, Risk Management, Legal & Compliance, Internal Audit, Human Resources, Organization and Identity & Communications) oversee the guidance, coordination and control of UniCredit's activities and manage the related risks.

Disclaimer
This edition of our annual report is prepared for the convenience of our English-speaking readers. It is based on the German original, which takes precedence in all legal respects.

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