HypoVereinsbank Member of UniCredit

UniCredit Bank AG 2013 Annual Report

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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Legal structure

UniCredit Bank AG (HVB), Munich, 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. As a capital-market-oriented company, however, HVB does 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, which consists of eight members, 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, 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 and for the proper business organisation of HVB. 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 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. 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. On 31 December 2013, Dr Susanne Weiss stepped down from the Supervisory Board. Dr Marita Kraemer was appointed to the Supervisory Board in her place with effect from 1 January 2014 for the remaining term of office.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given in the section entitled "List of Executives and Outside Directorships" in the notes to the annual financial statements.

HVB'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 capacity. This is explained in the Risk Report (please refer to "Overall bank management" in the sections "Integrated overall bank management" and "Implementation of overall bank management").

Business model, main products, sales markets, competitive position and facilities in the 2013 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, international companies and institutional customers. This range extends from mortgage loans, consumer loans, savings-and-loan and insurance products, and banking services for private customers through to business loans and foreign trade financing for corporate customers and fund 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 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. In total, HVB has 600 offices around the world, 584 of which are located in Germany. A breakdown of the offices of HVB by region is shown in the section entitled "Offices" in the Management Report.

HVB is part of the UniCredit Group, which offers its financial services on the European market in particular. This enables us to combine our regional 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 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 divisionally and regionally diversified business model with bases in 20 countries. Apart from the domestic markets of Germany, Austria, Poland and Italy, it is one of the leading banks in most countries of central and eastern Europe. In particular, it is our corporate and institutional customers who benefit from this international diversification.

In the 2013 financial year, the business model of HVB was adjusted to reflect the rapidly changing economic and regulatory environment and push further growth through a regional organisational structure and a stronger entrepreneurial focus. In its German activities, HVB relies on more entrepreneurship in the regions and the new structure consistently strengthens the regional entrepreneurial responsibilities and thus its market presence. The business model focuses on different customer groups and the customer relationship as a decisive factor in the allocation of resources; the structures reflect the requirements in a hard-fought market in a continual process of adjustment. We want to be the first port of call for our customers in terms of advisory expertise, product and process quality, and value creation. At the same time, we seek to build stable, strategic business relationships for the long term. That is why customers generally retained their existing relationship managers when the new structure was implemented; HVB Group considers it essential to maintain a stable relationship between customer and relationship manager.

In the context of the implementation of the new business model in the 2013 financial year, HVB was divided into the following segments:
– Commercial Banking
– Corporate & Investment Banking
– Other

Commercial Banking (CB) business segment
The Commercial Banking business segment serves all customers in Germany with a need for standardised or personalised services and advice in the Private Clients Bank and Unternehmer Bank business units. Depending on the advisory approach, a needs-based distinction is made within Commercial Banking between private customers, private banking clients, corporate customers, commercial real estate customers and Wealth Management customers. In total, around 2.6 million customers are served by the CB business segment.

CB builds on the strong "HypoVereinsbank" brand, whereby a regional sales structure with a high level of business responsibility in the regions enables customer service in line with the market. Unternehmer Bank and Private Clients Bank activities are both conducted in six regions. The heads of these regions pursue an entrepreneurial approach in the development of their region and thus ensure a uniform presence for HVB and professional customer care at local level. Commercial Banking customers benefit from the strong set of product solutions of a universal bank, ranging from simple banking products, expertise in subsidy advice and leasing through to usage of the global product competence in Corporate & Investment Banking and Global Transaction Banking.

The Unternehmer Bank business unit provides extensive services to the Mittelstand of small and medium-sized enterprises that forms the backbone of the German economy, together with its business and real estate customers. With this structure, HVB is continuing to consolidate its position as a bank for entrepreneurs. Today, it is already one of the largest lenders to the Mittelstand. It sees itself as 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. Due to the close correlation with businesses, the complex assets of entrepreneurs, meaning their private financial matters, are also managed by the Unternehmer Bank. In the process, we focus on providing a comprehensive service to entrepreneurs through personalised solutions, particularly portfolio solutions and advice at very high level as well as special products but also tailored finance, asset consolidation and foundation consultancy services. The Unternehmer Bank stands apart from the Mittelstand banking approach of other competitors as it serves the entire spectrum of Germany-based companies at both business and private level.

The range of services for entrepreneurs is based on the complexity of customer needs and extends from simple commercial banking products through to the provision of capital market solutions. In addition, access to UniCredit's Group network in western, central

Business Situation and Trends (Continued)

and eastern Europe offers high added value particularly to the export-oriented German Mittelstand through the support provided for international business activities. Besides this, it enables the cross-border pooling of investment and financing needs of entrepreneurs in western, central and eastern Europe. The range of services for private customers is determined by entrepreneurs' demands and extends from standard products through to the family office function.

The Private Clients Bank business unit serves private customers in the 'Private Clients' and 'Private Banking' customer groups across all areas of demand for banking and insurance solutions. In this context, specific sales channels and responsibilities are employed to take account of the at times differing individual needs of these customer groups, while wealthy investment customers are developed in the Private Banking customer group at the same time. Shared specialist, staff and support units are deployed efficiently. Growth opportunities in Private Banking are exploited by developing wealthy clients within the Private Clients Bank business unit as well as by practising close cooperation with the Unternehmer Bank business unit and targeted acquisition activities (such as recommendation management). Alongside personal advice "on the ground" locally, our retail customers also have access to a modern multichannel offer which has been expanded by setting up an online branch and completing the nationwide roll-out of our video advisory service, thus making it easier for them to reach the Bank. Our strengths in the Private Banking customer group are built in particular around a strong local presence in 46 locations in Germany coupled with high quality, thorough advice achieved by a balanced ratio of customers to relationship managers and a dense network of highly qualified specialists for wealth planning and financing. In addition, our customers can make use of a comprehensive range of mandate solutions based on an independent investment strategy.

Corporate & Investment Banking (CIB) business segment

The Corporate & Investment Banking business segment is responsible for investment banking, institutional customers and select multinational corporations as well as large companies engaged in capital market activities (referred to as "corporates"). In total, around 16,500 customers are served in its national and international sales network. These customers are supported by an integrated value chain consisting of a service network and product specialists. The CIB business segment is divided into the Markets, Financing & Advisory (F&A) and Global Transaction Banking (GTB) product factories. 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 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 acts as a product factory for customers in the Commercial Banking business segment.

The CIB business segment aims to position itself as the strategic business partner for large corporate customers as well as institutional customers in terms of advisory expertise, product and process quality, and value creation. In the process, it concentrates on creating a stable, strategic business partnership in the long term and positioning itself as the first port of call for customers in both commercial and investment banking. Its customer focus is based on professional, pro-active relationship management that works professionally, rapidly, transparently and with an advice-centred approach. In addition, it has an in-depth understanding of the business model and branch of business of the customer. Corporate & Investment Banking supports corporate customers – also those served in the Unternehmer Bank of the Commercial Banking business segment – as an intermediary to the capital market, in their positioning, growth and internationalisation.

The three product factories – Markets, Financing & Advisory and Global Transaction Banking – form part of the integrated CIB value chain. They assist customers with strategic, transaction-oriented activities, solutions and products. In the light of changing markets and rising market risk, we aim to accompany the customer and also 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.

Corporate & Investment Banking's business success is also based on the close cooperation and interaction between product factories and global customer care across what are referred to as business lines. The Multinational Corporates (MNC) business line concentrates on customers with their principal place of business in Europe and on European subsidiaries of US or Asian corporate customers. The subsidiaries of our corporate customers located in Americas and Asia receive optimum support from our CIB Americas and CIB Asia branches. We offer American and Asian companies with business relations with our domestic markets the network required for successful business development. The Financial Institutions Group business line is a global support network that ensures comprehensive services for institutional customers, focusing on banks, insurance companies, leasing companies, asset managers and funds, countries and federal states as well as supranational institutions.

Other business segment

The Other business segment encompasses the Global Banking Services business unit and Group Corporate Centre activities.

The Global Banking Services business unit acts as a central internal service provider for customers and employees and covers particularly purchasing, organisation, corporate security, logistics and facility management, cost management and back-office functions for credit, accounts, foreign exchange, money market and derivatives as well as in-house consulting. Payments, securities settlement, IT application development and IT operation have been outsourced. Strategic real estate management at HVB is also the responsibility of Global Banking Services and is carried out by HVB Immobilien AG and its subsidiaries.

The Group Corporate Centre pools the competence lines of HVB. They contain the organisations of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and Human Resources Management.

Investments in the modernisation of the retail banking business

The needs and behavioural patterns of retail customers in terms of advice and self-service have been undergoing fundamental change for years. In many places, the branch model in its current form is being used less and less. At the same time, demand is rising for mobile and internet-based offerings for everyday banking activities – a trend that is set to continue and pick up even more pace. The digital revolution has finally reached retail banking and is now irreversible. At the same time, there is constant demand for high quality, personal advice relating to complex financial issues. HVB had anticipated this sea change at an early stage and responded by rolling out its multi-channel offer. We are now stepping up this transformation process, becoming the first bank in Germany to carry out a root-and-branch modernisation of its retail banking activities. By the end of 2015, we will set ourselves up as a genuine multi-channel bank and invest heavily in mobile and internet-based offerings and in the attractiveness of our branches. This strategic reorientation is a great opportunity for HVB to position itself as a quality provider in order to offer customers better service going forward and to grow throughout Germany in the retail banking customer group in the future. Responding to the speed of change and sustained nature of the trend described above, at year-end 2013 the Management Board decided to implement this proactive, future-looking strategic reorientation of the retail banking business, undertaking a comprehensive modernisation to make it fit for the future. Restructuring provisions were set up for this purpose during the reporting period. All in all, restructuring costs of €345 million have been recognised in the HVB income statement for the 2013 financial year, which largely relate to the measures taken to modernise the retail customer business.

The main strategic objectives are to implement a clearly differentiated service model aimed at upgrading the quality of the advice and service we give customers and to focus clearly on those customers who wish to maintain a close relationship with us and not just have their third or fourth bank account with HVB. In terms of brand strategy, we are looking to retain a clear market positioning as a quality provider in our retail banking business together with the CIB business segment and the Unternehmer Bank business unit in the CB business segment. We aim to achieve a Germany-wide positioning in the market by investing heavily in a future-looking expansion of our multi-channel offer, thus superseding our previous standing as a regional market participant. Furthermore, we are seeking to roll out a standard, modern and upscale appearance for our branches. The branch will continue to represent the core element of our multi-channel offer going forward. Consequently, a further consolidation of the present branch network will go hand in hand with systematic investment in branch branding and advisory competence. This process will make the branch more firmly the point of contact in quality terms, providing top-drawer advice to customers. The quality claim will be clearly reflected in a differentiated branch concept that creates attractive settings for high-quality banking with respect to location or need – from flexible formats for small towns through to flagship branches with long opening hours and full range of services in city centres. At the same time, service, information and advice offerings in the multi-channel setting (online, mobile, remote) are to be massively expanded starting from our already leading position and made even more customer-friendly.

The Management Board is currently discussing this future-looking retail customer strategy in close cooperation with the top employee representatives with a view to ensuring the best possible implementation in the interests of both the Bank and its workforce. The Bank will inform its employees and customers about the details once the consultations have been concluded.

Business Situation and Trends (Continued)

Corporate acquisitions and sales

On 13 September 2013, HVB signed the contract for the sale of an 88.90% interest in Internationales Immobilien-Institut GmbH to BNP Paribas Real Estate SAS. The sale took effect as of 31 October 2013; HVB continues to hold a 5.1% interest in Internationales Immobilien-Institut GmbH for the time being.

In addition, HVB sold its shares in the private equity portfolio previously managed by CIB to the newly formed SwanCap Opportunities Fund SCS-SIF ("SwanCap") in Luxembourg, which targets institutional investors. With the disposal, the Bank is continuing to systematically focus on its core business and anticipating regulatory changes and uncertainties regarding future restrictions on private equity investments for banks. These result in particular from Basel III regulations and the segregation of commercial and investment banking that is still being discussed following the Liikanen Report. In order to continue offering its core customers access to private equity expertise, HVB has set up a new investment and investment-advisory platform in which the Bank holds an interest as a passive shareholder. In its function as parent company of the new platform, the original, fully consolidated UniCredit Merchant Partners GmbH has been renamed SwanCap Partners GmbH and consolidated using the equity method for the first time on account of the sale of a partial holding coupled with a limitation of the voting rights to 49% of such rights. Besides providing advice on private equity investments, the platform will also initiate and manage private equity funds. The transfer of the workforce to the new platform served to ensure continuity in competencies and the greatest possible quality. As a consequence, HVB can benefit from the future successes of the platform and also maintain contact with its long-established customer relationships and access to expertise in the field of private equity.

In December 2013, we sold our interest of 5% in HVB Global Assets Company, L.P., to the majority shareholder in line with the carrying amount of the equity interest held.

Economic report

Underlying economic conditions

The global economy experienced a year of transition in 2013. Following on from a restrained start and a volatile continuation, it picked up ever more pace in the second half of the year and is projected to have returned to self-sustaining growth towards the end of the year. All in all, however, the pace of global expansion in 2013 remained pretty moderate at around 3%.

The United States managed to master the partial deleveraging of the private sector, avert the looming fiscal cliff and has now found a compromise on the budget and debt. The debt ceiling was recently raised for another year. The decision by the Federal Reserve (Fed) to gradually reduce its extreme monetary stimulus at the start of the new year shows that the Fed is now also convinced that the US upturn has become sustained. Thus, US economic growth accelerated on an annualised basis, from 1.2% in the first six months of the year to over 3.5% in the second half of the year.

There are signs that Japan finally managed to free itself from the decades-old deflationary spiral in 2013 and give a major boost to its economy with a combination of highly expansive fiscal and monetary policy (known as Abenomics).

Above all else, though, the economic policy-makers in the eurozone succeeded in increasingly limiting the after-effects of the sovereign debt crisis with strong support from the European Central Bank. For the first time in several years, Europe as a region in crisis no longer headed the agenda at the most recent International Monetary Fund (IMF) and World Bank meeting. Economic development in the eurozone remained fairly uneven. Germany led the way, expanding by 0.5% last year on a calendar-adjusted basis according to the Federal Statistical Office. Momentum came from rising exports, while domestic demand improved as the year wore on. Both private consumption and investment activity strengthened constantly. France also recorded growth again in 2013 (0.3%). It is similarly pleasing to note that Italy and Spain made up lost ground in 2013; both economies succeeded in escaping from their deep recessions on the back of rising exports to other eurozone countries in the summer. The process of catching up in central and eastern Europe is also doing well. At least those countries that are heavily integrated in the value chains of western European firms are benefiting tangibly from the recovery in Germany and the eurozone overall.

Leading the pack in terms of growth in the developed world in 2013 was the UK, where the economy expanded at an annualised rate of 3% in the second half of the year following a quiet start to the year. However, the recovery is built around a booming construction and property sector, while the external-trade imbalances have become worse despite a pound that has been falling for some time.

Last year, it was also the developed economies that turned into the growth drivers of the global economy. At the same time, the pace of expansion in the emerging markets was somewhat slower than previously anticipated, although they are still making the biggest contribution to global growth. The pace of expansion in China, which in the summer was benefiting from an economic stimulus programme, had already started to slow again towards the end of the year. Structural weaknesses and expiring fiscal incentives are also slowing the pace of economic growth in the other emerging markets. Downward pressure is also resulting from the withdrawal of capital following the announcement by the Fed that it would start tapering its large-scale securities purchase programme. Above all emerging markets with strong demand for external finance are likely to suffer most, such as India, Indonesia, Turkey, South Africa and also Brazil.

Sector-specific developments

At the national level, the German government has also reinforced its commitment to financial stability. In March 2013, the German Federal Ministry of Finance, Deutsche Bundesbank, German Federal Financial Supervisory Authority (BaFin) and the Financial Market Stabilisation Agency (FMSA) set up the Financial Stability Commission. Its remit is to strengthen macroprudential oversight and better synthesize it with institution-specific supervision. The commission is the domestic counterpart of the European Systemic Risk Board. Back in February 2013, the German government had already approved draft legislation on protection against risks and on planning the recovery and resolution of banks and financial institutions drawn up by the Federal Minister of Finance. The legislation contains provisions relating to three areas. First, it aims to simplify the recovery and resolution of credit institutions and financial groups. To this end, credit institutions will be required to prepare in advance plans for their own recovery and resolution. Second, the legislation contains provisions requiring the mandatory separation of risky activities from deposit-taking operations to an economically, organisationally and legally independent financial trading institution (Trennbankensystem), provided certain thresholds are exceeded. “Forbidden” activities in this context include proprietary trading, the issuance of loans to/guarantees for highly leveraged hedge funds and alternative investment funds, and high frequency trading. Third, the law introduces clear rules for criminal liability for executives at banks and insurers should the institution violate the strategies, processes, methods, functions or concepts prescribed in the German Banking Act (Kreditwesengesetz – KWG) (Section 54a), thus causing the continued existence of the institution or corporate group as a going concern to be jeopardized.

Compared with the previous quarters of 2013, the stockmarkets once more rose in the fourth quarter of 2013. In particular, the German benchmark index, the DAX 30, climbed by 11.1% to record its strongest quarterly performance in 2013 in the final quarter of the year. The DAX 30 index gained 25.5% in 2013 as a whole. The yields on ten-year German government bonds rose from 1.78% in the third quarter to 1.93% at year-end 2013 (year-end 2012: 1.32%). The equivalent yields on 10-year Italian government bonds narrowed from 4.43% to 4.13%. After the European Central Bank (ECB) had already reduced its benchmark rate by 0.25 percentage points in May 2013, it cut this rate again in the fourth quarter by a further 0.25 percentage points from 0.5% to a new low of 0.25%, while keeping the interest rate for the deposit facility at 0%. The Fed announced the tapering of its bonds purchasing programme at its December meeting. The 3-month Euribor rose in the fourth quarter from 0.23% to 0.29% (previous year-end: 0.19%). Spreads on the credit markets narrowed again slightly during the fourth quarter, although the spread performance remained well behind the level recorded in the third quarter. The result of the German general election in September 2013 was as expected and the formation of the Grand Coalition at the end of the year did not have any material impact on bank spreads in Germany.

During the 2013 financial year, the euro rose by 4.5% against the US dollar, 27.4% against the Japanese yen, 2.2% against the British pound and 1.7% against the Swiss franc. The very low interest rates prevailing throughout 2013 resulted in weak and falling interest income for the banking industry, notably from deposit-taking operations. At the same time, the measures taken by the finance industry to reduce risk-weighted assets and the anaemic demand evident for credit had a dampening effect on bank results.

General comments on the business situation

In this persistently challenging economic and financial environment, HVB generated a good profit before tax of €1,019 million in the 2013 financial year. Although last year’s very good profit before tax of €2,006 million was not matched, it should be taken into account in this context that the result in the reporting period was impacted by restructuring costs of €345 million and last year benefited from one-off effects of €395 million in net trading income from the reversal of credit value adjustments and restructuring costs of €100 million. Net income after tax amounted to €756 million in the reporting period (2012: €1,462 million).

Business Situation and Trends (Continued)

The decline in reported profit before tax can be attributed to a fall of €554 million in net interest to €2,873 million on the back of persistently extremely low interest rates coupled with the decline to €969 million in net income from the held-for-trading portfolio as a result of the non-recurrence of the one-off income. Net fees and commissions fell by 26.6%, or €307 million, to €849 million as a result of the reclassification of trading-induced commission to net income from the held-for-trading portfolio. Net other expenses/income decreased by €21 million to €59 million. At €3,807 million, operating costs were up by €311 million or 8.9% above the year-ago total mainly on account of the set-up of restructuring provisions for the modernisation of retail banking operations. The cost-income ratio of 80.1% in the reporting period (2012 excluding the one-off effect in net income from the held-for-trading portfolio: 65.8%) remained at a very good level for a universal bank by both national and international standards. At €245 million, the valuation result for lending operations has remained at a very low level and is thus significantly lower than the €457 million recorded in 2012.

The results achieved, adjusted for restructuring costs, have not met our expectations about the development of the profit before tax described in the Outlook in last year's Management Report. The sharper decrease in operating income than planned is a result of extremely low interest rates and the general decline in volumes. Targets for net fees and commissions, adjusted for the reclassification of trading-induced commission to net income from the held-for-trading portfolio, were not completely achieved either. Operating costs, which we had predicted for 2013 to be similar to 2012, were slightly higher than last year due to inflation and the rise in regulatory costs. The valuation result for lending operations improved much more favourably than planned.

HVB has had an excellent capital base for years. 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 risk-weighted asset equivalents for market risk and operational risk) increased again to 21.7% at 31 December (year-end 2012: 17.5%), which is an excellent level by both national and international standards. The shareholders' equity shown in the balance sheet fell by €1.7 billion compared with year-end 2012 to €19.1 billion as a result of the dividend payment totalling €2,462 million as resolved in the second quarter of 2013 by the Shareholders' Meeting which was only partially offset by the net income for the year of €756 million generated in the 2013 financial year. With total assets down by 33.4% compared with year-end 2012 to €236.5 billion, the leverage ratio (defined as the ratio of shareholders' equity shown in the balance sheet less intangible assets to total assets less intangible assets) amounted to 8.1% at 31 December 2013 after 5.8% at year-end 2012.

HVB 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 has 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. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity. To ensure that adequate liquidity is available at all times, target ratios are used, among other things, which act as triggers. A detailed description of liquidity management is provided in the section of the Risk Report in Management Report entitled "Liquidity risk".

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 is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers. HVB is building on these advantages by adjusting its business model as implemented in this financial year to reflect the rapidly changing economic and regulatory environment and push further growth through a regional organisational structure and a stronger entrepreneurial focus.

We would expressly like to 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 wish to 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

The 2013 income statement and important events in the 2013 financial year

INCOME STATEMENT	2013 € millions	2012 € millions	CHANGE € millions	 in %
Net interest income	2,873	3,427	(554)	(16.2)
Net fees and commissions	849	1,156	(307)	(26.6)
Net income from the held-for-trading portfolio	969	1,048	(79)	(7.5)
Other operating income less other operating expenses	59	80	(21)	(26.3)
Operating income	**4,750**	**5,711**	**(961)**	**(16.8)**
General administrative expenses	(3,807)	(3,496)	(311)	8.9
Payroll costs	(1,897)	(1,701)	(196)	11.5
Other administrative expenses[1]	(1,910)	(1,795)	(115)	6.4
Operating result before provisions for losses on loans and receivables	**943**	**2,215**	**(1,272)**	**(57.4)**
Provisions	129	(129)	258	
Operating result	**1,072**	**2,086**	**(1,014)**	**(48.6)**
Other income less other expenses	(31)	(58)	27	(46.6)
Extraordinary expenses	(22)	(22)	—	—
Profit before tax	**1,019**	**2,006**	**(987)**	**(49.2)**
Tax	(263)	(544)	281	(51.7)
Net income	**756**	**1,462**	**(706)**	**(48.3)**
Transfer to the reserve for shares in a controlling				
or majority interest-holding company	(19)	—	(19)	
Withdrawal from the reserve for shares in a controlling				
or majority interest-holding company	—	4	(4)	(100.0)
Transfer to other retained earnings	—	(4)	4	(100.0)
Withdrawal from other retained earnings	19	1,000	(981)	(98.1)
Profit available for distribution	**756**	**2,462**	**(1,706)**	**(69.3)**

1 including standard depreciation on property, plant and equipment

Net interest income

The net interest income generated in the reporting year fell year-on-year by a substantial €554 million, or 16.2%, to €2,873 million.

The decline in net interest income can be attributed to two main developments in particular: On the one hand, trading-induced interest fell sharply by €230 million. On the other hand, net interest income decreased particularly in lending operations both on account of contracting volumes and the persistent decline in margins, particularly in business with corporate customers.

Net fees and commissions

Net fees and commissions was down by €307 million to €849 million compared with 2012. Commission in connection with financial instruments in the held-for-trading portfolio and trading with precious metals are reported under net trading income for the first time in the reporting year. The respective figure last year was not adjusted. Without this effect, net fees and commissions remained almost unchanged at last year's level.

The decline in lending and credit operations are offset by fees and commission receivable in collection and payment services based on the increase in credit card sales and due to changed account price models as well as income from other service operations.

Business Situation and Trends (Continued)

Net income from the held-for-trading portfolio
Compared with last year, net income from the held-for-trading portfolio fell by €79 million to €969 million.

The year-ago total was significantly affected by the reversal of credit-worthiness-related value adjustments taken in 2011 in the amount of €395 million. Due to the reclassification of the trading-related commission of €319 million, this effect is largely compensated by the figure reported under net trading income. In 2013, key earnings components were the new customer business both in equity- and interest-related operations. In addition, there was a reduction in model-based valuation adjustments, particularly due to methodical improvements to models.

General administrative expenses
At €3,807 million, general administrative expenses were €311 million, or 8.9%, higher than last year.

We have set up a restructuring provision of €335 million for the modernisation of our retail customer operations and the expansion of our multi-channel capability. This restructuring provision chiefly comprise provisions for severance payments and costs for the closure of branch offices. The restructuring costs of €100 million included last year were due to measures in connection with the adjustments to the business model and the related change in the organisational structure carried out in 2013.

Thanks to our successful cost management for many years, payroll costs and other administrative expenses were stabilised at a low level without the non-recurring effects from restructuring.

Depreciation on property, plant and equipment fell by €24 million to €53 million (2012: €77 million), particularly due to the standard depreciation on the goodwill of UniCredit CAIB Securities UK Ltd., London, included last year and lower amortisation of software developed by UniCredit companies.

Other operating income less other operating expenses
The net income of other operating income less other operating expenses declined by €21 million to €59 million compared with last year (2012: €80 million).

In the 2013 financial year, the proceeds from the sale of the Alter Wall building complex in Hamburg and the generation of income from services in former years also had a positive effect which more than compensated the additions to provisions, particularly for legal and litigation risks. A detailed description of the legal risks is given under the section entitled "Operational risk" in the Risk Report.

Operating result before provisions for losses on loans and receivables
The operating result before provisions for losses on loans and receivables decreased by €1,272 million year-on-year to €943 million.

Provisions for losses on loans and receivables
The provisions for losses on loans and receivables including the result from securities held for liquidity purposes amounted to a gain of €129 million (2012: expense of €129 million).

Within this total, there was a significant improvement of €212 million in the valuation result for lending operations to an expense of €245 million. In the current reporting period, expenses of €1,762 million for additions (2012: €1,782 million) were largely compensated by releases and recoveries from write-offs of loans and receivables amounting to €1,517 million (2012: €1,325 million). A net reversal from additions and reversals of valuation adjustments contributed to this low value, which arose from the reduction of the expiring portfolio among other things.

The net gain from securities held for liquidity purposes rose by a slight €46 million to €374 million (2012: €328 million). The improvement was partly due to gains arising in connection with buy-backs of our hybrid capital.

Other income less other expenses
Other income less other expenses changed year-on-year by an income of €27 million to an expense of €31 million (2012: expense of €58 million).

This figure also includes the proceeds from the sale of holdings in Internationales Immobilien-Institut GmbH, Hamburg and sales proceeds from the sale of parts of the private equity portfolio of which CIB was previously in charge in the newly founded SwanCap Opportunities Fund SCS-SIF ("SwanCap") in Luxembourg. Through the sale, the Bank is continuing its consistent reduction in risk-weighted assets and anticipates regulatory changes.

Last year was impacted by the special amortisation of the goodwill of UniCredit CAIB Securities UK Ltd., London.

Extraordinary expenses
Within the framework of the introduction of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) in 2010, HVB makes use of the option to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The allocation accruing for the 2013 financial year amounts to €22 million and is reported under extraordinary expenses (2012: €22 million).

Profit before tax
Profit before tax fell by €987 million (down 49.2%) year-on-year to €1,019 million.

Tax
The expense for taxes on income stood at €263 million in 2013 and was thus €281 million lower than last year's taxes on income, particularly on account of the lower net income and a refund of the bank levy in the UK.

Net income for the year and appropriation of net income
The profit available for distribution amounts to €756 million.

We will propose to the Shareholders' Meeting that a total dividend of €756 million be paid in total to UniCredit. This represents a dividend of around €0.94 per share.

The profit available for distribution of €2,462 million reported last year (which is equivalent to around €3.07 per share) was paid to UniCredit based on the resolution passed by the Shareholders' Meeting of 7 May 2013 and consisted of the net income for the year of €1,462 million generated in 2012 and a withdrawal of €1,000 million from other retained earnings.

Financial position

Total assets
HVB's total assets amounted to €236.5 billion at 31 December 2013. Compared with the 2012 year-end total, this represents a decline of €118.6 billion, or 33.4%.

In the 2013 financial year, derivatives of the held-for-trading portfolio, concluded under framework agreements, together with a credit support annex with the collateral provided exchanged on a daily basis, were offset for the first time for each counterparty. The amounts offset per counterparty include both the carrying amount of the derivatives and the collateral provided. Then, the positive market values of €49.7 billion, originally included in the held-for-trading portfolio items on the assets side, were offset against the negative market values of €51.0 billion, originally reported on the liabilities side with the related receivables (€8.2 billion) and liabilities (€6.9 billion) from collateral provided. Analogously, the extent to which the OTC derivatives concluded with the same central counterparty were offset was increased by the collateral provided.

On the assets side, the cash and cash balances of €10.3 billion (2012: €15.4 billion) reflects our very comfortable liquidity base and the investment of our high liquidity reserves with Deutsche Bundesbank. Partly on account of this high liquidity reserve, we see ourselves adequately prepared to face difficult situations on capital and financial markets. Loans and receivables with banks fell by €11.7 billion to €31.1 billion, mainly due to the offsetting effect in respect of the receivables from collateral provided. The decrease of €9.4 billion, or 9.6%, in loans and receivables with customers is

Business Situation and Trends (Continued)

primarily reflected in term deposits (down €2.6 billion) and the unchanged decline in lending volumes. Lower funding requirements, particularly of our corporate customers, also had an impact on this development. The holdings disclosed under securities (without held-for-trading portfolios) rose year-on-year by a total amount of €3.2 billion. With regard to the bonds and other fixed-income securities, business was expanded notably with short-term liquid money market papers. The decline in assets held-for-trading (€94.7 billion) has several causes. The largest part of the reduction, which accounts for €51.0 billion, is due to the offsetting of derivatives under certain collateral agreements. In addition, adjustments were made to the derivatives portfolio through bilateral arrangements and corresponding institutions which led to a reduction of the volume of derivatives. The shareholdings reported under participating interests and shares in affiliated companies decreased year-on-year by €0.3 billion. HVB sold parts of its private equity portfolio of which CIB was previously in charge to the new SwanCap Opportunities Fund SCS-SIF ("SwanCap") established in Luxembourg which targets institutional investors. Through this sale, the Bank is continuing to consistently reduce its risk-weighted assets and expects regulatory changes, also from Basel III which will significantly confine particularly the private equity funds activities of banks in the future. At the same time, HVB has created a new investment and investment advisory platform of which it is a member as a passive shareholder. In addition to exclusively providing advice on private equity investments, the platform will also initiate, administer and manage private equity funds. By transferring employees to the new platform, it was ensured that expertise and top quality is continued. Consequently, HVB is participating in the future success of the platform on the one hand and can maintain close relations to its long-term, established customers on the other hand.

In line with the development on the assets side, there was a significant reduction in volumes on the liabilities side. Within deposits from banks, the increase in repurchase agreements (€5.1 billion) was more than compensated by the offsetting effect within liabilities from collateral provided (down €6.8 billion). Deposits from customers also decreased by €4.3 billion to €112.8 billion, primarily in respect of the deposits repayable on demand. There was a €3.2 billion decline in debt securities in issue to €18.2 billion on account of issues due or prematurely repaid. Held-for-trading items on the liabilities side decreased likewise by €103.1 billion, mainly as a result of the offsetting of derivatives based on specific collateral agreements. Subordinated liabilities fell by €0.8 billion to €1.6 billion owing to maturity.

The shareholders' equity fell by €1.7 billion to €19.1 billion compared with year-end 2012. At the same time, the dividend payout of €2,462 million in the second quarter of 2013 based on the resolution passed by the Shareholders' Meeting was only partly offset by the net income for the year of €756 million generated in the reporting period. The subscribed capital, the additional paid-in capital and the retained earnings remained unchanged compared with 2012.

The contingent liabilities and other commitments not included in the balance sheet increased slightly by €0.8 billion to €57.4 billion at 31 December 2013 compared with year-end 2012. This figure includes the contingent liabilities (€30.3 billion) from loan guarantees (€11.5 billion), transaction-related guarantees (€16.4 billion) and trading-related guarantees (€2.4 billion). Other commitments of €27.1 billion (2012: €27.2 billion) consist solely of irrevocable lending commitments which fell year-on-year by €0.1 billion to €27.1 billion, primarily on account of lending commitments for mortgage and municipal loans.

Risk-weighted assets, key capital ratios and liquidity of HVB

The risk-weighted assets of HVB determined on the basis of Basel II (German Banking Act/Solvency Regulation - KWG/SolvV) for credit and counterparty risk amounted to €64.5 billion at 31 December 2013 (year-end 2012: €82.1 billion), which represents a decrease of €17.6 billion. The risk equivalent amounts to €9.2 billion for market risk and €11.3 billion for operational risk (2012: €11.9 billion or €11.5 billion). The total risk-weighted assets amount to €85.0 billion at 31 December 2013 after €105.5 billion in 2012.

At 31 December 2013, our core capital for solvency purposes (compliant with the German Banking Act (Kreditwesengesetz – KWG)) totalled €18.4 billion according to the approved financial statements (2012: €18.4 billion). Equity funds, which consist of core capital and supplementary capital for solvency purposes, amount to €19.8 billion (2012: €20.6 billion). This gives rise to a core capital ratio of 21.7% (2012: 17.5%) compliant with Basel II (including market risk and operational risk) and an equity funds ratio of 23.3% compliant with Basel II (2012: 19.5%).

To ensure sufficient liquidity at all times, key figures are used, among other things, which act as triggers. A detailed description is given of the management of liquidity and the liquidity position in the Risk Report. A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 KWG. 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 this ratio is at least 1.00. At HVB, this figure amounted to 1.33 at the end of December 2013 after 1.38 at year-end 2012.

Significant investments
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 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 be incorporated in the HVB Tower. Once completed, the HVB Tower will become the Bank's future headquarters and seat of the Management Board. The building at Kardinal-Faulhaber-Strasse 1 hosting the Management Board was already sold in 2012. The use of the central buildings was rearranged at the Hamburg location. Due to the reductions in space in Hamburg and the resulting sale of the Alter Wall, an adapted space concept was prepared for all the locations in Hamburg with central business unit functions.

HVB has disclosed provisions of €335 million for investments in connection with the modernisation of our retail banking business. For more details on the planned measures in the retail banking operations, please refer to the section of the Management Report entitled "Investments in the modernisation of the retail banking business".

Ratings
Due to the persistent sovereign debt crisis, the credit ratings of banks continued to be the subject of further review in 2013 by the important international rating agencies Standard & Poor's, Moody's Investors Service and Fitch Rating. The rating agencies Fitch (A+) and Moody's (A3) maintained their long-term credit rating for HVB in 2013. Since October, S&P has assessed our long-term rating as A- instead of A previously (outlook negative from watch negative previously). This adjustment followed the downgrading of UniCredit S.p.A. in July 2013. The resolved European banking union and the related mechanisms for restructuring or resolution are also closely monitored by the rating agencies. In this context, rating agencies are expected to adjust their ratings for European banks to the new framework. In particular, potential group and state support mechanisms are expected to be re-evaluated.

Business Situation and Trends (Continued)

Offices

HVB maintained 584 offices in Germany and 16 offices abroad at 31 December 2013.

Offices broken down by region

		ADDITIONS	REDUCTIONS		
	1/1/2013	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	31/12/2013
Germany					
Baden-Wuerttemberg	24				24
Bavaria	370	1	8	17	346
Berlin	9				9
Brandenburg	8				8
Hamburg	22	1		3	20
Hesse	12		1	1	10
Lower Saxony	25				25
Mecklenburg-Western Pomerania	8			1	7
North Rhine-Westphalia	15				15
Rhineland-Palatinate	22			1	21
Saarland	9		2		7
Saxony	11	1	1		11
Saxony-Anhalt	11	2			13
Schleswig-Holstein	59	1	1		59
Thuringia	9				9
Subtotal	**614**	**6**	**13**	**23**	**584**
Other regions					
Africa	**1**	**0**	**0**	**0**	**1**
South Africa[1]	1				1
Americas	**4**	**0**	**1**	**0**	**3**
USA	2				2
Cayman Islands	1				1
Brazil[1]	1		1		0
Asia	**6**	**0**	**0**	**0**	**6**
Hong Kong	1				1
Singapore	1				1
Japan	1				1
United Arab Emirates[1]	1				1
South Korea[1]	1				1
Vietnam[1]	1				1
Europe	**6**	**1**	**1**	**0**	**6**
Austria	1				1
France	0	1			1
Greece	1				1
Italy	1				1
Norway[1]	1		1		0
Switzerland	1				1
UK	1				1
Subtotal	**17**	**1**	**2**	**0**	**16**
Total	**631**	**7**	**15**	**23**	**600**

1 Representative offices

Non-financial performance indicators

Human resources

Efficiency and fairness in a still challenging environment

Under the rapidly changing economic and regulatory conditions, banks have been facing a long, drawn-out process of structural change. HVB has had to address the issue of finding the right responses to the challenges that lie ahead from the standpoint of HR management in particular. Key priorities have been the development of our corporate culture and employees through a wide range of programmes and initiatives as well as diversity management. However, the efficient management of payroll costs has also remained a focal point.

Strict cost management has enabled us to make good progress with regard to cost savings. This includes payroll costs and hence also our headcount. We were able to achieve further cost reductions by using staff turnover and exploiting the potential of flexible working time models and other socially responsible measures. Staff turnover (defined as the number of employees leaving the company relative to the average headcount) at HVB amounted to 8.9% during the reporting period. At 24.6%, the proportion of part-time workers (defined as the number of part-time staff relative to the headcount excluding apprentices) was higher than in 2012.

As we are creating new positions in such functions as compliance and internal audit to meet increased regulatory requirements, there are also numerous opportunities for internal transfers. In this context, we offer the affected employees redeployment advice as well as continuing professional development measures.

We see competitive remuneration and remuneration systems as an important component of our strategic HR activities. The regulatory requirements for the remuneration systems of larger financial institutions were further specified and tightened in recent years. We have continually adapted and refined our remuneration systems accordingly. In the light of further changes to Europe-wide regulations for the remuneration systems of financial institutions under the CRD IV Directive, we will be making additional adjustments to our salary models in 2014.

Development of corporate culture, employee engagement and employee satisfaction

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, diversified teams. Promoting the corporate culture within the Bank is an important priority for us. In 2013, HVB was honoured as one of Germany's top employers for the third consecutive year by the independent CFR Institute. The rankings include companies' performance in the areas of diversity and staff development, among other categories. The Country Chairman's Leadership Club, which was set up in 2009, makes an important contribution to the working family concept. This is a two-year programme to optimise leadership behaviour and promote networking between the managers at our Bank.

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. In 2013, the UniCredit Day was held for the seventh time, this time with the centring on the question of how we can make a difference in our everyday behaviour to close possible gaps between customer expectations and our actual performance.

The active involvement and support of all employees is crucial to HVB's success. UniCredit's annual People Survey serves as an indicator of the status of the corporate culture and employee satisfaction with the working conditions and management. Following the People Survey Light in 2012 ("Pulse Survey"), the scheduled full survey of all employees was again conducted in October/November 2013. Approximately 62% of HVB employees took the opportunity to participate in the 2013 People Survey (UniCredit: 65%). The results will be communicated as soon as they are available and appropriate measures will be planned.

Improvements in equal opportunity/utilising potential

Diversity – which is synonymous with respecting and promoting variety – is one of UniCredit's fundamental values. Promoting gender diversity is one of the top priorities. This means intensively promoting the specific potential of talented women and integrating them into management.

Business Situation and Trends (Continued)

HVB has set itself the ambitious goal of filling 30% of all senior positions with women by 2017. To achieve this goal, we have already introduced a number of measures:
– The Management Board has appointed 10 senior managers to act as shared future officers, supporting the business segments in increasing the share of women in management positions and defining and implementing appropriate measures for achieving the target.
– At least one woman must always be nominated when management positions are being filled in the Bank. In addition, we are endeavouring to reach a quota of at least 50% of female trainees.
– Networks such as the UniCredit Women's International Network (UWIN) support the informal exchange of views and ideas among women, complemented by presentations and workshops.
– The Bank continued its mentoring programmes in the reporting period; 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 Munich Memorandum for Women in Management (Münchner Memorandum für Frauen in Führung), which contains a voluntary commitment 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. The goals of the Women's Council include promoting female managers through mentoring and generating ideas for the Management Board of HVB.

Training and development perspectives
For many years – even under difficult economic conditions – HVB has invested in the training and development of talented junior staff. HVB will continue to maintain an apprentice quota of 6% in the coming years (definition: number of apprentices at year-end relative to total number of staff at year-end). In addition to the dual-track vocational training system, we offer challenging development perspectives to university graduates on our trainee programme.

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.

HVB has a comprehensive talent management programme aimed at developing talented specialists and managers in various phases of their careers. The focal point of our staff development strategy is the annual performance review, which has been supported since 2013 by the UniCredit Performance Management Tool. Added to this are processes serving to appraise potential and performance for our executives and young talents, like the Executive Development Plan and the Talent Management Review.

We run sophisticated continuing education and development programmes to support our employees across different skill levels and age groups:
– HVB conducts regular reviews of its training concepts to ensure that they are up to date and adapts them to the continually changing conditions in the banking sector. In 2013, a week-long introductory "First Steps" training event was held to prepare 404 new apprentices and dual-track students for their everyday workplace experience in HVB Group.
– The Young Bankers Go Europe programme gives apprentices and dual-track students the opportunity to visit other UniCredit companies in Europe for a set period of time for learning purposes.
– Programmes such as UniQuest, Junior Talents, National Mentoring and Explore are dedicated to promoting professional and management career tracks for employees from diverse age groups.
– The UniFuture leadership development programme is designed for managers who demonstrate the potential to join UniCredit's leadership team.

We also promote life-long learning by our employees through a wide range of programmes and online training offers in the areas of technical skills, compliance and languages. We help our employees get in shape for the future. In 2013, for example, we tested one-quarter of the workforce on their knowledge of the German Securities

Trading Act (Wertpapierhandelsgesetz – WpHG) and registered them with the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht –BaFin). We trained 2,200 employees in the Private Clients Bank business unit on video-based advisory services, and in the Unternehmer Bank business unit, 100 virtual classrooms were carried out on the subject of SEPA.

Promotion of work-life balance and health

Our self-image as a working family also encompasses promoting a healthy work-life balance. In 2013 HVB was ranked second in the Women's Career Index (Frauen-Karriere-Index – FKI) initiative of the German Ministry for Family Affairs in recognition – among other aspects – of its outstanding concepts for helping to combine a career with family life. We foster careers and family through extended parental leave, childcare allowances, our family service and sabbaticals.

Promoting the health of our employees is also an important issue for us. Since the end of 2010, the health management activities of HVB have gradually developed into a strategic health management concept and one of the core responsibilities of HR management.

After an intensive phase to raise awareness of health issues – both with managers and the employees themselves – health structures and health management activities were gradually redefined on the basis of external benchmarks and the results of internal analysis. The priority was the close networking of all relevant players with regard to health issues to permit rapid, flexible and above all needs-based intervention in workplace health and safety and also to offer health-promoting and preventive measures aligned with the internal circumstances. A priority in this regard is the targeted use of resources and investments in health within the workplace.

The Health Forum, our platform for health-related measures, brings together all Bank units concerned with health, including social services, the company medical service, the health and safety team, HVB Club, the company health-insurance provider HVB-BKK (BKK Mobil Oil since 1 January 2014), our in-house caterer, Food & more, the works council and the Speaker's Committee. After evaluating the latest facts and figures on a given issue, the Forum develops and implements suitable measures such as health events, stress management workshops, back exercises, screenings, flu vaccinations and psychological or social counselling. In the reporting period, some 4,000 employees made use of the preventive measures and 3,000 took advantage of the advisory services offered by the Health Forum. For several years, the Bank's extensive track record for outstanding health management has been confirmed through its regular participation in the Corporate Health Award benchmark.

Risk culture and generation management

In the banking sector, employees are the decisive differentiating factor in the competition for customers. Consequently, strong commitment and high motivation on the part of our employees are key drivers for sustainable success. We will therefore continue to make "people engagement" a top priority in our activities and will use the results of the 2013 People Survey as a basis for identifying and implementing concrete measures.

In 2014, we will continue working to enhance the role of risk culture in our corporate culture. Risk management is explicitly included in our competency model and is thus taken into account in the assessment of employees in our performance management and of managers. In our trainee programmes, risk management is an essential part of the professional qualification of the young graduates we recruit. Moreover, our employees take part in the modules of UniCredit's Risk Academy.

In addition, we will increase our efforts in the area of age diversity in 2014 alongside the issue of gender diversity in our diversity management activities. The goal will be to achieve generational balance within the Bank in order to ensure sustainable business success.

Sustainability

On course: our sustainability strategy

Fair and equitable development that safeguards natural resources for the future while ensuring economic stability is a goal that we all share. As a bank, we contribute by generating value – for our company, our customers and society. Our way of pursuing this goal is through consistent sustainability management. We assume responsibility for people, the environment and our core business – and we seek to deliver genuine answers. Serving as our compass are

Business Situation and Trends (Continued)

the expectations of our stakeholders. A sign that we are generally on the right track in our pursuit of sustainability are the rankings by the sustainability rating agency oekom research. Our customers' trust is our most important asset. As a bank, we protect that trust through reliability and stability. With our excellent core capital ratio without hybrid core capital (core Tier 1 ratio) of 21.7%, we have a capital base that significantly exceeds the regulatory ratio: a clear indication of our solid business operations. Our business activities are backed by the company-wide management of ecological and social risks, the systematic monitoring of compliance issues and a value-based corporate culture. We seek to bring about credible solutions for a fair and forward-looking community – and we start at home: with our employees, climate-friendly bank operations and with solid business processes characterised by integrity.

At the start of 2013 HVB redefined its structure, with a further increase in the emphasis on regional responsibility. Since 2012 we have also been reinforcing sustainability management efforts at the regional level through the support of the Corporate Sustainability department for eleven regional sustainability coordinators.

Responsible corporate governance

Creating value for our customers, the company and society is our long-term business goal. For HVB, sustainability is an investment in the sustainability of the company itself, its reputation and its employees. We are guided here by the Mission Statement of UniCredit, which defines the framework of values for the Integrity Charter, which in turn sets guidelines for the conduct of all UniCredit employees. In addition to this, a Code of Conduct is in force at HVB. This code summarises existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all Bank employees.

For HVB, good corporate governance entails the responsible management and control of business activities. It is of great importance for achieving our business objectives and it increases the confidence of our stakeholders. In addition to our voluntary declaration of compliance with the German Corporate Governance Code, at the end of 2012 we became the first major bank in Germany to issue a statement of compliance with the German Sustainability Code of the German Council for Sustainability.

For HVB, responsible corporate governance includes diversity in filling management positions. We regard diversity as a competitive factor, as a wide range of abilities and viewpoints is now indispensable for effectively dealing with the rising complexity of the world in which we live and do business. We have set the goal of filling 30% of senior management positions at HVB with women by 2017.

Moreover, we have set ourselves the goal of appointing women to one third of Supervisory Board mandates by 2015. At present, one quarter of the Supervisory Board members are women.

Commitment to ethical principles of management remuneration

An important factor for sustainable corporate governance is the structure of the remuneration system. At the beginning of 2013, we jointly issued a policy paper with four other banks on ethical principles of management compensation with the objective of making remuneration systems transparent and eliminating false incentives. By complying with these principles, we wish to contribute to the sustainable success of the banking sector and demonstrate the willingness of financial institutions to regulate themselves.

Focus on stakeholders

Our business is built around the interests of our stakeholders. We take their expectations into account and involve them in the ongoing development of our sustainability strategy. In this regard, we conduct regular surveys of customers, non-customers, our staff and opinion leaders and engage in direct personal contact with them. This yields valuable insights into potential opportunities and risks for our business, hence enabling us to prepare for them at an early stage. With our Customer Centricity Board, a management-level committee in the Private Clients Bank established in 2013 that meets on a quarterly basis, we systematically examine such aspects as processes, products and services from a customer standpoint and initiate improvements.

Business with balance

Managing the risks inherent in financial transactions is one of our Bank's core tasks. HVB systematically integrates ecological and social risks into the consideration of risks under its reputational risk management process (for details, see the section of the Risk Report entitled "Reputational risk"). In 2013 we introduced a concept to improve that process further. It ensures that the reputational risk undergoes a comprehensive assessment. Our Reputational Risk Council (RRC) examined 96 cases involving ecological and social risks during the reporting period.

In addition to the UniCredit Reputational Risk Governance Guideline and the general credit policy of HVB, sector policies are also applied in our lending activities. The objective of these policies is to implement a particularly sensitive approach in certain industries, such as the defence industry and nuclear power. This means not entering into certain business transactions in doubtful cases. These sector-specific policies are based on such international standards as the International Finance Corporation Performance Standards of the World Bank with the related Environment Health & Safety Guidelines or the Equator Principles, in accordance with which we do not provide financing for projects that do not meet the environmental and social standards of the World Bank. Our policies are developed at the Group level in the course of a dialogue with NGOs such as the World Wide Fund for Nature (WWF). Moreover, in our "Undertaking to Respect Human Rights" we have also combined all previous standards regarding human rights.

Climate protection milestone achieved

For our Bank, environmental and climate protection represent both a commitment and an area of business activity. As a financial services provider, the greatest impact we can have on the conservation of natural resources is through our products and services. However, we want to start at home. For economically responsible management of banking operations and our buildings, we are striving for efficient use of resources, turning to renewable energy sources, and working hard to reduce carbon emissions. The UniCredit climate strategy provides guidance, and our ISO 14001-certified environmental management system directs our activities.

The main sources of carbon emissions through banking operations are energy consumption in buildings and from business travel, paper and water use, as well as the waste generated. Consequently, our efforts are focused in the areas of green buildings and offices, mobility, green events and food. This enables us to save costs as well as natural resources. Since 2008 UniCredit has been committed to the target of a 30% reduction in carbon emissions from bank operations by 2020 through avoidance and efficiency measures. In 2012 our carbon emissions were down 20% as compared with the baseline year 2008. When we take into account the effects of our utilisation of electric power from renewable sources and carbon emission offsets, the savings amounted to 89%. Since the summer of 2013, through the trio of avoidance, reduction and offsetting, we have arrived at 100% carbon-neutral banking operations.

To continue identifying climate-related opportunities and properly assessing risks in our business activities as well, we conducted an employee survey in 2012 on the occasion of our Climate Action Programme. At the same time, we conducted interviews to ask about 30 selected decision makers for their views on climate protection. This was rounded off with a benchmark analysis. As one of the outcomes of the interviews, we are studying the option of setting up an internal climate committee to be staffed by experts from the business segments and tasked with coordinating HVB's climate-related activities.

Business Situation and Trends (Continued)

As a financial intermediary in the economic system, we also have a major impact on which projects and technologies receive financing and are thus moved forward. Bard Offshore 1 (BO1), the largest commercial wind farm in the North Sea at present, is just one of our projects. With an annual power output of more than 1.6 billion kWh – equivalent to the power consumption of all private households in a city the size of Munich – BO1 saves 880,000 tons of CO_2 per year and generates approximately 80% of the current German offshore wind energy output (400 of 508 MW of productive output in operation).

Satisfied and confident customers

The world of finance is highly complex and the products sometimes require explanation. Consequently, our advisors speak our customers' language. We do not explicitly instruct our employees to sell certain products, nor do such transactions affect their salaries. The factor that influences their remuneration is customer satisfaction. It is included in the target agreements and performance assessments of all employees in the Bank's operational business segments. We make offers to our customers geared to their individual needs and provide them with comprehensive and understandable information on how the products work and any possible risks. In cooperation with our employees we have developed a set of guidelines comprising concrete advisory standards in the interests of excellent customer service.

We want our customers to be more than just satisfied. They should also have the confidence to make the right financial decisions. With our financial education initiative, we are using our core competency to improve public knowledge on money and financial transactions. With our unbiased content, and without promoting products, we provide training for a broad target group, from pupils, students, and young people starting their careers to seniors – on the topics of payments, investment, retirement planning, loans, mortgages and the world of finance. Videos on the individual modules can be streamed free of charge on our EURO.DE financial knowledge platform. Users can also access an interactive financial map of the world to learn about global economic policy. Moreover, our staff started offering free financial workshops in the branches in 2012. By the end of 2013, we had reached about 1,300 participants in a total of 70 workshops.

HVB has offered a wide-ranging portfolio of sustainable investment products for many years. This covers almost all investment needs and volumes, through things like mutual funds and pension products. Moreover, we invest in companies and countries that exhibit exemplary ecological and social responsibility in their actions. Our decisions in this regard are made on the basis of ratings from oekom research. We ceased to offer financial products dependent on price trends in basic foodstuffs in 2012. For some time now, HVB Asset Management and HVB Client Solutions have refrained from investing in such products. In retail banking sales, we have also subjected our products to close scrutiny and realigned the majority of them.

HVB specifically focuses on the financing of companies seeking solutions to urgent social or ecological issues with innovative business models. In December 2011, we started supporting the Social Venture Fund – the first fund providing growth capital to social enterprises across Europe with the goal of enabling social innovations through capital and knowledge transfer. Our first investment in the fund, amounting to €0.7 million, represents approximately 10% of the total volume. We also invested €1 million in the follow-up fund launched in 2013. Since 2012, we have conducted an annual mentoring programme for female start-up entrepreneurs under the auspices of the HVB Women's Council. With this initiative, we also expressly help female social entrepreneurs to launch their own businesses. We are supported in these activities with the expertise of the Social Entrepreneurship Academy in Munich under a long-term cooperative arrangement.

Society

As a bank with regional roots, we strive to promote the common good in all of the places where we do business. The goal of our activities is to enable as many people as possible to participate in social and economic life. We have formulated our long-standing commitment to society in a corporate citizenship strategy. We ensure that our activities are related to our business operations and concur with our values and Mission Statement. We have clear internal guidelines for selecting the projects we support. Together with our employees we work in the interests of social concerns, improved financial education, for the environment and to promote culture. Through cooperative activities with established institutions – on a long-term basis whenever possible – we ensure the professional and efficient implementation of our measures.

Fostering the voluntary commitments of our employees is important to us. We pool our various local activities under the umbrella of our "Wir für die Region" programme. At 140 locations all over Germany we cooperate with not-for-profit organisations on 196 regional initiatives. During the reporting period, we expanded our internal "Rest Cent" initiative (in which employees donate the cent amount of their monthly salary to charities of their choice) as well as the HVB youth mentoring programme in cooperation with the not-for-profit organisation Joblinge (in which employees help disadvantaged young people get started in the working world). In 2013, our employees performed a total of more than 76,000 hours of voluntary work for which HVB granted 430 days of special leave. Across all programmes, our employees donated some €400,000 for social causes in 2013. This amount is traditionally topped up by the UniCredit Foundation.

Ensuring that everyone can participate in society is one of the major challenges of our time and is a focal point of our social involvement. Through our "Fussball integriert" project we are now promoting the development of street football leagues all over Germany. This enables children and young people from all backgrounds to learn values such as tolerance and responsibility through sport. We are cooperating in this project with the Munich street football initiative "buntkicktgut", which we have been supporting since 2009, and with the Social Entrepreneurship Academy in Munich. In 2013, we expanded the project to Berlin and Würzburg.

With a Management Board Social Day at the Pfennigparade Foundation in April 2013, HVB took the first step in establishing a new focal point in its social corporate responsibility activities: barrier-free banking. Under a pilot project, we began in 2013 to increase barrier-free access to the products and services of HVB for people with disabilities.

Our long road to sustainability

A defining feature of our sustainability activities – now and in the future – is their social relevance. This is equally true of barrier-free banking and our work to foster inclusion in our corporate citizenship activities. Under a pilot project with our corporate parent, we will quantify our overall contribution to the public good in the future with concrete performance indicators. In order to better establish the topic of sustainability within the Bank, we intend to convene an in-house sustainability steering group in 2014 consisting of representatives from all of our business segments, central departments and the works council. In our banking operations, we will extend our ISO 14001 environmental management system through a matrix certification scheme from nine buildings at present to all Bank-owned strategic properties. Moreover, in our newly convened "sustainable investments" working group, we will examine our product portfolio in terms of potential improvements and improve the sales support for sustainable investment products. To complement the UniCredit materiality matrix, we will develop a HVB-specific sustainability matrix to enable us to apply an even stronger strategic focus.
For detailed information on our goals, our success in achieving them and our corporate social responsibility activities, see the material on our website or the annual HVB Sustainability Report at www.hvb.de/sustainabilityreport.

Relations with affiliated companies

We have prepared a separate report on our relations with affiliated companies in the 2013 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (AktG):

"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, or any disadvantages arising were compensated."

Report on subsequent events

There were no significant events at HVB after 31 December 2013 to report.

Business Situation and Trends (Continued)

Forecast report/Outlook

The Management Report 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 the 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

While 2013 was still a year of transition, the global economic upturn is projected to take root over the coming 12 to 18 months and accelerate further in the developed world. Global trade has picked up appreciably.

We expect the United States to enjoy economic growth of 2.8% in 2014. This is almost one percentage point higher than last year. This acceleration is being driven primarily by a decline in the burdens imposed by fiscal policy coupled with deleveraging in the private sector. As the recovery gathers pace, the prospects are also improving for investment activity, which has been the missing link in a self-sustaining recovery. But the leading indicators for the construction and property sector are also clearly trending upwards. Despite occasional setbacks, the labour market is also improving, which in turn is underpinning private consumption. Thus, there are sufficient reasons for the Fed to successively pare back its extremely accommodating monetary policy and curtail the scope of its securities purchases. At the end of 2013, the Fed decided to gradually pare back the monetary stimulus. It has reduced its purchases of government bonds and mortgage-backed securities in two stages from $85 billion to $65 billion per month at present. The rate of purchases is likely to be reduced further over the coming months, meaning that the purchase programme should be completely finished by the autumn. We do not expect to see a first interest rate hike before summer 2015. However, long-term interest rates should rise during 2014, including in Europe.

The ECB will oppose this implicit tightening of the financial environment with all the tools at its disposal. Its goals will remain to ensure that the banks and the economy are supplied with extensive liquidity and to reactivate the transmission mechanism of monetary policy. Alongside a consistently accommodating interest rate policy, we expect to see further cheap funds made available, as ECB president Mario Draghi already announced at the beginning of December 2013. We predict a further long-term transaction which would, however, be coupled with extra lending by the banks. A reduction of the benchmark rate (to zero) is apparently no longer on the table, despite extremely low inflation. Nonetheless, it is likely to take until autumn 2015 before the ECB starts raising its refinancing rate.

The consistently strong monetary stimulus is also a good starting point for our expectation that growth will accelerate in the eurozone this year. The clear upwards trend demonstrated by the leading and sentiment indicators is a sign of this, although it is also implied by the fundamentals. The export industry is profiting from a reviving global economy and the domestic environment is improving constantly. A recovering corporate environment coupled with the pent-up demand for capital goods imply that capital spending will pick up pace, while an easing of the demands for consolidation coupled with very low inflation (without any real deflation risks) and a slight easing on the labour market should benefit private consumption. So it comes as no great surprise that we forecast real GDP growth of 1.5% for 2014.

Germany will again set the pace in the eurozone in 2014. Following on from a more moderate end to 2013, the probability of extremely strong growth in the first quarter of 2014 has already risen tangibly. This is indicated by a further rise in expectations published by the German Ifo Institute for Economic Research, robust purchasing manager indexes, solid employment, optimistic consumers, much higher retail sales and the highly promising industry reports. However, there are even more reasons behind our GDP forecast (2.5% compared with 1.8%) which is well above the consensus expectation:

all the major eurozone countries have by now finally shaken off recession, which implies that exports by German companies to other eurozone countries will rise. The pulling power of a simultaneous recovery in the eurozone for Germany should not be underestimated, as it entails considerable spill-over and multiplier effects. The investment backlog in Germany has already started to wind down as a result – a trend that is likely to become stronger as the year wears on. Added to this will be a further rise in consumer spending in response to solid income and employment growth.

Sector development in 2014 and new banking supervisory rules

The predominant issue at the European level in 2013 was the shaping of the EU banking union. Even though this has by no means been completed, two wide-reaching decisions were taken during the reporting period: first, the European Central Bank will take over supervision of major banks in the EU; and second, the Council of the European Union approved the Bank Recovery and Resolution Directive (BRRD) at the end of June 2013. Although the directive was not adopted in 2013 as originally intended, it is still scheduled to come into force with effect from 1 January 2015 as planned. What is new is that the controversial bail-in mechanism for unsecured senior bonds is to come into force with effect from 1 January 2016.

Regulatory issues continued to dominate in the second half of 2013. In this context, the focus turned to the intention of the EU to pass supervision of banks above a certain size into the hands of the ECB. By way of preparation, the ECB is planning to gain a wide-ranging overview of the quality of the assets held by banks in the EU (including a harmonisation of reporting requirements) and their stress resistance. To this end in the second half of 2013, it announced the ECB's comprehensive assessment consisting among other things of an asset quality review to be followed by a stress test carried out by the European Banking Authority (EBA) on the basis of the results. Implementation is scheduled to take place in the first and second half of 2014. We assume that these topics will have a major impact on both reporting by banks and the opinions of investors. In the light of our very good capital base, we consider ourselves well prepared for the ECB tests described above. All in all, however, both the harmonisation of reporting requirements and the greater transparency should have a positive effect on the assessment of banks. The very low interest rates that are expected to persist will again serve to dampen bank results in 2014, while the slight improvement in the general economic outlook in the eurozone should have the opposite effect.

In January 2014, the European Commission proposed that a transition period for SEPA introduction be permitted through to August 2014 instead of the planned February 2014. The European Parliament and EU Council of Ministers have approved this proposal; translation into national law remains at the discretion of the individual member states. In Germany, this transition period has been adopted for a number of payment types.

Basel III – new capital and liquidity rules for banks

Requirements and impact of Basel III on HVB Group

Agreement was reached on the implementation of the third Basel Accord (generally known as the Basel III framework) at EU level (EU Commission, European Parliament and Council of the European Union) in the first half of 2013, as a result of which the new regulatory requirements came into force at both EU and national level on 1 January 2014. In terms of content, new requirements arise primarily with regard to liquidity (liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)), debt levels (leverage ratio) and solvency (capital quality and quantity); the capital requirements for counterparty risk (central counterparty, credit value adjustment) and regulations governing large loans in particular have also been tightened. Moreover, the new requirements call for an expansion of the content of the monitoring process and the transparency and governance requirements (such as new mandatory committees, new requirements for company management and extensions to disclosure regulations).

In order to allow as little leeway as possible across Europe for national interpretations and different country-specific options, Basel III is being implemented in the form of the Capital Requirements Regulation (CRR I) and the Capital Requirements Directive (CRD IV) in line with

Business Situation and Trends (Continued)

the single rule book principle. The CRR is a regulation that is directly binding on all EU member states and hence for all credit institutions based in the EU without having to be transposed into national law. CRD IV is a directive that the individual member states are required to transpose into national law. In line with this requirement, the national regulations based on CRD IV (such as amendments to and further regulations regarding the German Banking Act) similarly came into force on 1 January 2014. A transition period up to and including 2018 is permitted for certain requirements to give the banks enough time to prepare for the stricter requirements.

LCR, NSFR and leverage ratio as new regulatory metrics
The short-term LCR, which is to become compulsory as of 1 January 2015 following an observation period, is intended to ensure that a bank has enough high quality liquid assets on hand to survive a stress scenario for up to 30 calendar days. The ratio of high quality liquid assets to total net cash outflows must be at least 100% to comply with the LCR. The LCR is subject to transition rules introducing the compliance levels in stages from 2015 to 2019: compliance of at least 60% must already be achieved in 2015 followed by 100% in 2019.

The longer-term NSFR, which is scheduled to become mandatory as of 1 January 2018, addresses the issue of matching maturities between lending activities and funding. Under this ratio, the sum total of liabilities weighted in accordance with their long-term availability (available stable funding) must exceed the sum total of assets weighted in accordance with liquidity plus the medium-term funding requirement arising from off-balance-sheet exposures (required stable funding).

Finally, a new debt ratio (the leverage ratio) is being introduced under which a bank's core capital (Basel III: CET 1) is set against its (not risk-weighted) assets and off-balance-sheet exposures. The intention behind this additional ratio is to put a general limit on an institution's level of debt and also to provide a corrective to the possible mistakes of risk-based capital backing by banks. The leverage ratio is intended to ensure that the capital backing does not fall below a set minimum in good economic times. It is currently set at 3% for regulatory purposes; this means that, as of 2018, banks will be required to maintain equity capital amounting to at least three percent of total assets plus off-balance-sheet obligations. The final decision is to be taken in 2017. The Bank is already required to publish and report the leverage ratio as of 2014.

The wave of new regulation has not let up since Basel III. In January 2014, the Basel Committee published revised and expanded proposals for the LCR, the NSFR and the leverage ratio, which are similarly to be incorporated in European legislation in the future.

Implementation of Basel III at HVB
The Bank's Basel III project is implementing the new and modified requirements for HVB together with the associated reporting requirements to the regulatory authorities. An ongoing impact analysis regarding the much stricter regulatory capital and liquidity ratios in particular is submitted at regular intervals to the Asset Liability Committee (ALCO), the body tasked with translating the latest information into measures to preserve the excellent capital and liquidity resources and secure the associated competitive advantage. In addition, the quarterly rolling plan for regulatory capital and the inclusion of the new regulatory metrics (LCR, NSFR and leverage ratio) in the established planning process and results projections serve to ensure that the planned development is tracked at regular intervals. Furthermore, the Basel III project integrates the new regulatory requirements in the Bank as a whole with a view to generating ideas that might be incorporated in business strategy.

HVB continues to enjoy a very strong capital base. The core capital ratio without hybrid capital (core Tier 1 ratio) of HVB, expressed as the ratio of regulatory core capital to risk-weighted assets (including operational risk and market risk) rose constantly during 2013 to reach 21.5% at 31 December 2013. This means that HVB not only remains well above the present regulatory requirements but also already meets in full the regulatory minimum capital ratios that came into force on 1 January 2014 without having to take any active measures. HVB already met the new LCR and NSFR requirements by more than 100% at year-end 2013, while the Bank's excellent capital base demonstrates the leverage ratio will also be comfortably exceeded.

HVB will carry out further project and implementation activities with regard to capital adequacy requirements in 2014 and beyond. These will essentially take account of the further substantiations and interpretations of the European Banking Authority (EBA) finalised in 2014 in the form of Regulatory Technical Standards regarding CRD IV and CRR. The impact of new and amended regulatory requirements on capital adequacy will also be constantly analysed within the scope of these activities in order to enable any countermeasures that may be necessary to be taken. Furthermore, the consultation and discussion papers published by the Basel Committee regarding various topics (including the revision of the trading book arrangements and collateralisation regulations) are undergoing initial analysis regarding potential impact on regulatory capital adequacy.

Development of HVB

On account of 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, in a consistently challenging environment for the financial industry we will again be able to generate a satisfactory profit before tax in 2014 that roughly matches the previous-year total.

In this context, we assume that operating income will also match the previous-year total. The consistently low interest rates will be a major factor in any decline in net interest. Although HVB expects volumes to rise slightly in its lending activities, this will only offset part of the effects arising from low interest rates. Dividends and other income from equity instruments will decline sharply in the 2014 financial year on account of significantly smaller holdings of private equity funds. We intend to partially offset lower net interest income by a positive result from net fees and commissions, particularly through incentives for mandated business, new account and investment products and a stronger cross-selling approach. In addition, we expect another impressive amount to be generated in net income from the held-for-trading portfolio also in 2014 and to contribute to offsetting the predicted decrease in net interest income. In 2014, payroll costs are expected to be adversely affected by salary adjustments. In parallel, however, we assume that the planned restructuring measures will have a significant impact on payroll costs. We do not expect to exceed the costs from 2013, adjusted for the restructuring costs included in this figure, over 2014. As regards other administrative expenses, including standard amortization, depreciation and impairment losses on intangible and tangible assets, we anticipate the generation of further cost reduction potential based on our consistent cost management. In terms of the valuation result for lending operations that was at an unusually low level in 2013, we expect the provisions for losses on loans and receivables to normalise, representing a significant rise compared with the 2013 financial year, although they should remain at a moderate level.

We will continue to enjoy an excellent capital base in 2014, measured by the new Basel III rules. Risk-weighted assets (including market risk and operational risk) will rise tangibly overall on account of the implementation of Basel III in the case of market risk and credit risk and also on account of the anticipated expansion of volumes in the case of credit risk.

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

The opportunities described below are offset by risks that are set against the exploitation of those opportunities and plans. The risks arising from the business policy and corporate strategy are described in the Risk Report elsewhere in the present annual financial statements.

Business Situation and Trends (Continued)

HVB 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 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 in the world that continues to enjoy a financial rating of AAA. Hence, HVB, 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. Thanks to its long standing commitment to sustainability in its business model involving the Commercial Banking and Corporate & Investment Banking business segments, excellent capital resources and the investment in the modernisation of its retail banking activities planned to start in 2014, HVB stands for innovation, reliability, stability and security. This results in the opportunities described below:

Within the Commercial Banking business segment, the main purpose of the Unternehmer Bank business unit in its customer contact is to position itself as a strategic business partner that is heavily involved in the strategic considerations and customer priorities. This is built upon strong industry and product competence and distinct advisory and service quality from our employees across all customer segments. The one-stop-shop approach we take to serving companies and entrepreneurs is intended to reduce the complexity of the customer/bank relationship so as to achieve a high level of customer satisfaction. In addition, we can leverage our excellent network to add considerable value for the export-oriented German Mittelstand by accompanying its international business activities. At the same time, it facilitates the cross-border consolidation of company investment and financing needs in western, central and eastern Europe, thus opening up additional business opportunities for us. In the Private Clients Bank business unit, we are the first bank in Germany to initiate a root-and-branch modernisation of our retail banking business. By the end of 2015, we will set ourselves up as a genuine multi-channel bank and invest heavily in mobile and internet-based offerings and in the attractiveness of our branches. We want to achieve Germany-wide positioning in the market by completing a future-looking expansion of our multi-channel offer. The main strategic objectives are to implement a clearly differentiated service model aimed at upgrading the quality of the advice and service we give customers and to focus clearly on higher value customers holding their main bank account with HVB. The branch will continue to represent the core element of our multi-channel offer going forward, featuring a standard, modern and upscale appearance. The branch will, however, act as much more than just a point of contact for top-drawer advice. At the same time, service, information and advisory offerings are to be expanded in the multi-channel setting (online, mobile, remote) and made even more customer-friendly. This strategic reorientation is a great opportunity for HVB to position itself as a quality provider in order to offer customers better service going forward and to grow throughout Germany in the retail banking customer group in the future. In the Private Banking customer group, which comes under the Private Clients Bank business unit, we aim to generate further growth through our good positioning in activities involving wealthy customers growth. We benefit from our comparatively strong local presence with 46 locations in Germany and the quality and strength of the advice we offer, which is achieved by a balanced ratio of customers to relationship managers and a dense network of highly qualified specialists for wealth planning and finance. We are looking to gain further growth by increasing penetration of the customer base with HVB mandated solutions, expanding fee-based advisory offerings with the DepotGlobal flat-fee model and achieving selective growth in our lending activities.

The activities of the CIB business segment are to be strengthened by expanding products that place less of a burden on capital and liquidity resources. The strategic focus in this context is on consistent risk-adequate pricing and enhancements in strategic customer transactions and investment banking solutions. An integrated value chain comprising network and product specialists enables us to provide top-drawer advice complete with creative, solution-oriented approaches and offer our customers wide-ranging financing and capital-procurement opportunities through an integrated platform across the whole range of capital from debt to equity. The business segment is well equipped to build upon sustainable, long-term customer relationships.

HVB 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.

HVB can respond quickly 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 on the market even in that kind of scenario.

The recipe for success at HVB entails setting strict limits for risk and managing the Bank with an awareness of risk. This approach is set to continue going forward. The HVB portfolio is in very good shape in terms of risk content and can be considered less risky than most.

HVB has 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 has been evolving into a bank with strong and consistent cost management. The ability to manage costs is well developed throughout the Bank. It is seeking to constantly enhance its operating costs over the coming years as well, partly by exploiting synergies released by the rationalisation of overlapping functions. In this regard, we are making use of the opportunities to cooperate with UniCredit across country and company lines and applying best practices wherever they can be found. We aim to reinforce the end-to-end process view and improve the interaction between our internal processes by optimising our handling processes.

As an attractive employer, HVB has opportunities to recruit highly qualified employees and managers. Both the size of UniCredit and the strategic positioning of HVB Group have a beneficial impact on the recruitment of employees and managers. 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 constantly strive to be easy to deal with.
– These commitments allow us to create sustainable value for our shareholders.

Risk Report

HVB as a risk-taking entity

By their very nature, the business activities of HVB are subject to risk. HVB defines risk as the danger of suffering losses 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. 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.

The present Risk Report deals exclusively with the risks at HVB. The opportunities are discussed separately in the section of the Management Report in the present Annual Report entitled "Opportunities in terms of future business policy and corporate strategy, performance and other opportunities".

As already announced in the 2012 Annual Report, the introduction of a new business model and reorganisation of the structure of HVB took place at the start of 2013. HVB was divided into the following segments during the implementation of the new structure:
– Commercial Banking (CB)
– Corporate & Investment Banking (CIB)
– Other/consolidation

The risk types as defined in the next section have been regrouped for the 2013 Annual Report. 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 the risk that a change in the credit rating of a counterparty induces a change in the value of the corresponding receivables. This change in value may be caused by the default of the counterparty, under which the counterparty is no longer in a position to meet its contractual obligations, or possibly by a worsening in the credit rating of the counterparty. It arises mainly in the CIB and CB business segments.

Market risk is defined as the potential loss of on- and off-balance-sheet positions in the trading and banking books that can arise in response to adverse changes in market prices (interest rates, equities, credit spreads, foreign exchange and commodities), other price-influencing parameters (volatilities, correlations) or trading-related events in the form of default or change in credit ratings of securities (especially price risk for interest net positions). Such risks are found mainly in Bank units that have trading operations or significant capital market positions.

Liquidity risk is defined as the risk that HVB will not be able to meet its payment obligations without suffering unbearable losses. Funding risk is defined as the risk that HVB is not able to raise the funds it needs to efficiently meet its expected and/or unexpected current and future payment obligations and collateral requirements, without day-to-day operations or the financial situation of HVB being impaired. Whereas liquidity risk is more of a short-term risk, funding risk is considered more of a medium- to long-term risk.

In accordance with the Bank of Italy and in line with the German Solvency Regulation (Solvabilitätsverordnung – SolvV), HVB defines **operational risk** as the risk of losses resulting from inadequate or failed internal processes, systems, human error or external events. This definition includes legal risk but not strategic risk or reputational risk. Legal risk includes, but is not limited to, fines, penalties and damages resulting from regulatory measures and settlements paid to private individuals.

All other risk types mostly accounting for a small share of the internal capital and non-quantitative risk types are grouped together under **other risks.** We define **business risk** as potential losses from 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 the 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 underlying legal conditions.

Strategic risk results from management being slow to recognize 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. In the worst case, this may have a negative impact on the Bank's profitability and risk profile. **Reputational risk** is defined as the risk of a negative P/L effect caused by adverse reactions by stakeholders due to a change perception of the Bank; this altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk or strategic risk. **Real estate risk** covers potential losses resulting from changes in the market value of the real estate portfolio of HVB. No land or properties are included that are held as security in lending transactions. **Financial investment risk** arises from equity interests held in companies that are not included in the trading book. Financial investment risk is measured as an individual risk type in order to determine the specific risk associated with the corresponding equity interests and also as a factor contributing to the internal capital. **Pension risk** can have impact on both the assets side and the liabilities side (pension commitments). Changes in market prices such as changes in the general level of interest rates may be a major factor affecting pension risk. Furthermore, actuarial risks such as longevity risk (changes to the mortality tables) may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.

Integrated overall bank management

Background

The ICAAP requirements are derived from the Minimum Requirements for Risk Management (MaRisk) and are being constantly refined. The new ICAAP-related features have already been implemented as a result of the timely examination of the new version of the MaRisk rules published on 14 December 2012. Larger adjustments are required to implement a process to plan the future capital requirement over a period of several years. The project activities required to do this have been started and the new requirements will be implemented together with the plan for the 2014 financial year.

Risk management

HVB'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 strategy. Implementation of the risk strategy is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation.

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

The segments 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 controlling and monitoring in accordance with the MaRisk rules, which is functionally and organisationally independent.

Risk controlling

Risk controlling is defined as the operational implementation of the risk strategy. The Senior Risk Management (SRM) unit and the Credit RR Germany (KRI) unit are responsible for managing credit risk for the CIB and CB business segments. The senior risk managers and the credit specialists take lending credit decisions in the defined "risk-relevant business". 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. In the "non-risk-relevant business", the front office units are authorised to take their own credit decisions under conditions set by the CRO. The Trading Risk Management unit is responsible for controlling market risk, while the operational risk managers in the individual segments are responsible for controlling operational risk and reputational risk. Controlling of the financial investments is in the hands of the segments 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. The CRO organisation is responsible for controlling strategic risk.

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. It is subdivided in accordance with risk types. The Market Risk unit performs the risk controlling functions for the following risk types: market risk, operational risk, reputational risk and liquidity risk (stress tests, calculation and monitoring of early warning indicators, calculation of the short-term concentration risk). Alongside the monitoring of liquidity risk by the Market Risk unit, further risk controlling functions are carried out by the Finance unit within the CFO organisation (ongoing monitoring of the liquidity risk situation and compliance with limits). The Credit Risk Control & Economic Capital (CEC) unit monitors credit risk, business risk, real estate risk and financial 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-taking capacity. A qualitative approach is used to monitor and manage risks that cannot be quantified; the CRO organisation has responsibility for monitoring strategic risk.

Divisions and committees

Chief Risk Officer
The control and cross-segment management of risk at HVB 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 measurement methods and systems, management and measurement of market risk and operational risk
– responsibility for and management of reputational risk
– the determination of the internal capital and the economic capital base, and the performance of stress tests
– 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 (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 segment-related controlling departments for the operating business segments CIB and CB are included here.

Asset Liability Management
The Finance department controls Asset Liability Management by managing short-term and long-term liquidity within HVB. Its main objectives are to ensure that HVB 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's return targets.

Internal Audit
A number of important tasks regarding the implementation of an efficient risk management system have been entrusted to the Internal Audit department, as described under "Position and function of Internal Audit" in the section entitled "Internal control system with regard to the financial reporting process".

Risk Committee
The Management Board has entrusted the following tasks to the Risk Committee (RC), subject to its management competence and its ultimate decision-making authority at any time:
– Development and implementation of suitable policies and methods, especially for credit risk and credit portfolio management together with other risk topics.
– Discussion and decision of strategic risk policy issues. A submission is always made to the Management Board when required for legal reasons (such as to comply with the MaRisk rules).

The RC generally meets once a month. Each meeting of the RC has a different main topic – either risk management or risk governance.

RC meetings focusing on risk management concentrate on the analysis of the business performance and risk development, and the ensuing measures. Method and process issues are also discussed during risk-governance meetings alongside the risk strategy and the internal rules and instructions.

Asset Liability Committee
The Asset Liability Committee (ALCO) makes decisions at its monthly meetings on the asset/liability management of HVB. The committee pursues the following key goals:
– establishment of uniform asset/liability management methods for HVB
– optimum utilisation of liquidity and capital resources
– coordination between the requirements of the segments for financial resources and the business strategy

Stress Test Council
The Management Board, as the body responsible for bank management, delegated stress testing to the RC and the Stress Test Council (STC) as a specialist committee. The tasks of the STC include:
– coordination of all stress testing activities within HVB, including the development of the stress test methodology
– definition and coordination of cross-risk-type stress scenarios, including the validation of the underlying parameters
– analysis and presentation of stress test 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
– special purpose entities

The full Management Board may be called in for particularly critical cases involving with high reputational risk. The reputational crisis process is employed to deal with reputational 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. It takes decisions within HVB regarding:
– all allowances in excess of €5 million
– all impairment losses in excess of a competence value of €100 million

Implementation of overall bank management

Strategy
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 strategies of HVB Group include the strategy of HVB.

The risk strategy encompasses the relevant risk types, the risk strategies of the CIB and CB business segments, the Industry Credit Risk Strategy and a summary of the risk strategies of the relevant subsidiaries. The restructuring of HVB Group was also integrated in the strategies at the same time at the beginning of 2013.

Risk Report (Continued)

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 segments.

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, liquidity 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.

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

Overall bank management

The management of HVB takes place within the framework of the overall bank management of HVB Group. 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-taking capacity at overall Bank level. The limits for the internal capital are defined and monitored in order to ensure the Bank's risk-taking capacity. For the purposes of segment management, 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.

Key performance indicators (KPIs) generally applicable across all segments have been defined for the management of HVB Group. These KPIs serve to entrench the issues of returns/profitability, growth, restrictions/limits (including the new Liquidity Coverage Ratio (LCR) required for regulatory purposes for the first time from 2014) and sustainability.

The value-based management of HVB focuses on the measurement of the business activities in accordance with return and risk considerations, with a risk-return target set for each of the business units of HVB Group. The economic yield expectations are calculated using the allocated capital principle that UniCredit introduced across its entire organisation. Within the scope of the principle of dual control, both regulatory capital, in the sense of used core capital and internal capital are allocated to the segments. Both resources are expected to yield an appropriate return, the amount of which is derived from the expectations of the capital market and which has to be earned by the respective units.

In line with the parameters defined in the business and the risk strategy, the defined targets are broken down to segment 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. 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), the business segments are required to have core capital backing for credit, market and operational risks equal to an average of 9% of equivalent risk-weighted assets. Once again, 9% has been set as the capital backing rate for regulatory capital for all segments in the plans for 2014. This means that the advanced regulatory requirements compliant with the Capital Requirements Regulation (CRR) as the implementation of Basel III at European level for systemically important banks or groups of institutions have been satisfied for HVB Group. Furthermore, the expected return on investment is derived from the average used core capital.

Management of regulatory capital adequacy requirements

To manage our regulatory core 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)

More detailed information on these ratios is provided in the section "Risk-weighted assets, key capital ratios and liquidity of HVB" in the present Management Report.

The following process has essentially been defined to determine the appropriate capital funding: 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 was 23.3% at the end of December 2013 (31 December 2012: 19.5%).

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 compliance for the structure of the risk management system and the internal control system. The improvements achieved by the successful conclusion of several complex implementation projects at the end of 2012 are reviewed constantly in everyday operations and refined in order to ensure that the requirements are permanently met.

The requirements, effects and implementation of the new equity and liquidity regulations resulting from Basel III are described in the Outlook section of the Business Situation and Trends in this Management Report.

Economic capital adequacy

HVB determines its internal capital on a quarterly basis. Pension risk was included in the calculation for the first time in June 2013. A stress test is used to calculate the economic capital for pension risk, which is included in the determination of the internal capital as a cushion. The internal capital is the sum total of the economic capital for all quantified risk types (with the exception of liquidity risk) and the cushion. A confidence level of 99.93% (previously 99.97%) and a holding period of one year have been assumed consistently for all risk types since March 2013.

When the economic capital is determined, risk-reducing portfolio effects are taken into account and parameters and correlations applied that include economic downturns.

An all-round overview of the risk situation of HVB is obtained by regularly assessing the Bank's risk-taking capacity, as shown in the following table.

Internal capital after portfolio effects (confidence level 99.93% since March 2013, previously 99.97%)

	2013		2012	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Credit risk	6,769	50.1	10,264	60.2
Market risk	1,835	13.6	2,045	12.0
Operational risk	1,847	13.7	1,818	10.7
Business risk	244	1.8	316	1.9
Real estate risk	45	0.3	50	0.2
Financial investment risk	2,161	16.0	2,561	15.0
Aggregated economic capital	**12,901**	**95.5**	**17,054**	**100.0**
Pension risk	609	4.5	—	—
Internal capital of HVB	**13,510**	**100.0**	**17,054**	**100.0**
Available financial resources of HVB	**19,907**		**20,495**	
Risk-taking capacity of HVB, in %	**147.4**		**122.0**	

1 deviations from figures published in the 2012 Annual Report due to the modified calculation for HVB since January 2013

Risk Report (Continued)

The internal capital falls by €3.5 billion overall. This can be attributed primarily to the change in the confidence level. The individual changes are described in greater detail in the sections on the respective risk types below.

Risk appetite
HVB'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 normally controls its risk-taking capacity under a gone-concern approach. In other words, the risk-taking 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-taking 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-taking capacity and the regulatory core capital backing.

Recovery and resolution plan
The preparation of a recovery and resolution plan (RRP) is intended to facilitate the restructuring and, if necessary, the orderly resolution of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important on a global level and a national level, respectively. Working closely with UniCredit S.p.A., HVB drew up a comprehensive draft recovery and resolution plan for HVB Group, which was submitted to the German banking regulators in March 2013. The plan was finalised before the end of 2013 and submitted to the German Federal Financial Supervisory Authority (BaFin) in December 2013.

Risk-taking capacity
In a quarterly analysis of our risk-taking capacity, we measure our internal capital against the available financial resources. Furthermore, a monthly update is carried out for the two biggest risk types – credit risk and market risk – and a quarterly analysis of the available financial resources for the purpose of systematically monitoring the risk-taking capacity. The risk-taking capacity arising from the planned internal capital and the planned available financial resources is analysed during the annual planning process.

HVB uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach (gone concern). Under this approach, the risk-taking capacity is defined by comparing expected losses at the confidence level (internal capital) with the ability to absorb losses using the available equity (available financial resources). When determining the available financial resources, the available capital is viewed from an economic standpoint. 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 totalled €19.9 billion at 31 December 2013 (31 December 2012: €20.5 billion).

With internal capital of €13.5 billion for HVB, the risk-taking capacity is approximately 147% (year-end 2012: 122%). We see this as a comfortable value. The increase of 25 percentage points for HVB compared with 31 December 2012 can be attributed to the sharp decline of €3.5 billion, or 20.8%, in internal capital. This effect is greater than the slight decrease of €0.6 billion, or 3.0%, in the available financial resources in 2013. The reduction in the available financial resources results from different and, in some cases, contrary developments in individual components, primarily including the expiry of limited-term subordinated capital instruments.

Limit concept
The risk limit system is a key component of the ICAAP at HVB Group. Its purpose is to ensure the Bank's risk-taking capacity at all times by means of an integrated controlling process. A wide-ranging, consistent limit system that includes the specification of limits for internal capital (IC) and economic capital (EC), risk-type-specific limits and limits for risk concentrations has been implemented to ensure this.

It covers all risks that need to be backed with capital. Consequently, unexpected losses for credit, market, operational, investment, business and real estate risk are currently recorded. In addition, pension risk is included in the IC by means of a premium.

This system of limits reflects the business and risk strategy, taking into account the risk appetite and the available financial resources of HVB Group, and ensures compliance with the risk-taking capacity. The risk limits are approved by the Management Board of HVB each year during the strategy process.

The IC limits are allocated both at the level of HVB Group broken down by risk type and for the small legal entities and for the IC as a whole. Based on the aggregate limit set for IC, the risk-taking capacity of HVB Group is ensured at all times. The correlation effects included in the IC cannot be influenced by the segments of HVB and legal entities. Consequently, EC limits adjusted for these effects and the risk-type-specific limits are used for controlling purposes in the segments of HVB and relevant legal entities. In this context, the EC limits are allocated at the level of the HVB segments and the relevant subsidiaries as well as a limit for the other small legal entities (as the aggregate total of the small legal entities) for credit, market, financial investment and real estate 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 monthly basis.

Stress tests

The MaRisk rules call for stress tests to be carried out regularly using various scenarios.

Various macroeconomic downturn scenarios and a historic scenario were calculated for the cross-risk-type stress tests in 2013:
– Contagion scenario – sovereign debt crisis becomes systemic and other countries are infected
– Grexit scenario – disorderly departure of Greece from the eurozone
– Recession scenario – recession in Germany due to a massive decline in global demand
– Historical scenario – based on the 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.

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. A simple monitoring system, the suitability of which is reviewed at regular intervals, is used as the management approach for the risk types financial investment risk and real estate risk.

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 individual customers, segments, products or regions represents a business-strategy risk for the Bank. Risk arising from concentrations of earnings is monitored regularly, as its avoidance is an important indicator of sustainable diversification and hence the viability of the business model in crisis situations.

Risk inventory

The scheduled comprehensive risk inventory was started at HVB in March 2013. Among other things, this included examining and scrutinizing both present and potential new risks by means of structured interviews with numerous decision-makers at the Bank. The results were presented to the RC in the autumn and included in the calculation and planning of the risk-taking capacity following approval. The risk profile of HVB was reviewed in parallel with the 2013 risk inventory. Various topics were identified at HVB, some of which are being incorporated in the stress tests, the validation of the main risk types and other ICAAP components.

Risk Report (Continued)

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 segments, products or industries, to be communicated to the RC and the units involved with risk management, among others.

Risk types in detail

Where minor developments affecting individual risk types have taken place, these are described under the risk type concerned.

1 Credit risk

Definition
Credit risk is defined the risk that a change in the credit rating of a counterparty induces a change in the value of the corresponding receivables. This change in value may be caused by the default of the counterparty, under which the counterparty is no longer in a position to meet its contractual obligations, or possibly by a worsening in the credit rating of the counterparty.

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). The methods used to set up net write-downs of loans and provisions for guarantees and commitments and the amounts involved are described in Note 4, “Loans and receivables with banks and customers” in the section of the notes to the annual financial statements entitled “Accounting, valuation and disclosures”. 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, replacement risk and cash risk. For HVB, 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”. At the start of 2013, HVB introduced regional and/or country-specific concentration limits for all countries outside of the eurozone.

Strategy

A risk strategy has been approved for HVB/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 HVB/HVB Group'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 HVB'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.

HVB's successful strategy in recent years of strictly limiting risk and managing the Bank in a risk-conscious manner was continued again in 2013. By selectively writing new business, employing active portfolio management and expanding its professional restructuring and workout capacity, HVB 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 financial crisis also contributed to the positive development described above. The strategy of HVB/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 now served mainly by a different UniCredit bank. Apart from key multinational customers which will continue to be served by HVB, the portfolio in these countries will be successively reduced. At the same time, the Markets unit in the CIB business segment 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:

- credit default risk
- counterparty risk
- issuer risk in the banking book and 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
- segments of HVB Group and HVB
- products and special portfolios (Leverage, Project, Aircraft Finance (LPA))

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.

Risk Report (Continued)

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.
– Concentration limits for eurozone countries and regions
  Exposures outside Germany 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. Every country and region has been assigned a limit that reflects the risk appetite and the strategic orientation (expand, reduce or maintain) of HVB.
– 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.

The utilisation of the individual limits is classified using a traffic light system:
– green: limit utilisation is below a defined threshold
– yellow: limit utilisation is below the limit but above the defined threshold
– red: limit utilisation is above the limit

If a limit or a threshold is exceeded, an escalation process is initiated to eliminate the overshoot or prevent an overshoot of the limit in the event that a threshold is exceeded. The corresponding responsibilities are defined in the escalation process to ensure the permanent controlling effect of the limits.

Credit risk reduction
In new lending, HVB 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 risk, only such collateral is used as meets the requirements of the Basel II Advanced Internal Ratings Based (A-IRB) 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, HVB 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 that are available for all significant credit portfolios form the basis for the measurement of credit risk. The reliable determination of our customers' PDs 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 to 7 are set aside for performing loans and the rating classes 8 to 10 for non-performing loans, with the rating classes 8–, 9 and 10 representing default classes.

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 (A-IRB model) 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 (A-IRB model) and the internal credit risk model.

The credit-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-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 method used to simulate the future exposure figures for pre-settlement risk was expanded within the scope of the internal model.

Risk Report (Continued)

The simulation is carried for up to 50 future dates on the basis of 3,000 market data scenarios for each calculation date. The default conditional metric was introduced within the internal model during 2013 to determine the future exposures. Among other things, this metric makes it possible to incorporate the correlation effects between market risk and credit risk, notably including the special correlation risk (specific wrong-way risk). The method used for simulation of future collateral positions in the event of existing collateral agreements to hedge non-exchange-traded derivatives was refined during 2013.

Expected loss (standard risk costs, EL)
The expected loss shows the default losses to be expected from the credit portfolio over the next 12 months, taking into account the current 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.

Risk density (RD)
The risk density is another risk metric alongside the EaD and EL that is used to manage the individual HVB sub-portfolios. HVB calculates the risk density as the ratio of EL to performing exposure in basis points. It indicates the development of risk in a given portfolio.

Unexpected loss (credit value-at-risk, credit VaR)
The economic capital measures the amount of capital required to cover the unexpected loss beyond the EL which, with a probability of 99.93%, will not be exceeded over the next 12 months. 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.

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 is quantified and assessed. The model reflects the specific characteristics of the HVB 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. Compared with the previous year, it should be noted that a portfolio-specific migration model was used to calibrate the premium factors from the end of 2012 up to and including January 2013. A complete model to map migration risk has already been designed and will be introduced at the start of 2014. Country risk is integrated using appropriate PD premiums. Risk-reducing factors are incorporated by reducing the LGD at individual transaction level. 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. The parameters PD, LGD, EaD and weighted residual maturity are used as inputs.

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/HVB Group defines limits for concentrations of credit risk on the basis of exposure 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 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 monitored right from the time the Bank enters into the transaction so that a concentration of payments on a single value date is identified 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.

Quantification and specification
The economic capital for credit risk at HVB, without taking account of diversification effects between the risk types, amounts to €6.8 billion, which is €3.5 billion lower than the total at 31 December 2012 (€10.3 billion). The reduction results mainly from the adjustment of the confidence level from 99.97% to 99.93% in March 2013, a reduction in the exposure to UniCredit Luxembourg S.A. and other model adjustments.

Credit default, counterparty and issuer risk
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 of HVB 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 €0.8 billion (31 December 2012: €1.1 billion), is earmarked for elimination without any new business being written. The aggregate credit default, counterparty and issuer exposure is called credit 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.

The expected loss of HVB declined sharply to €414 million in 2013 (31 December 2012: €513 million). This development can be attributed to an improvement in the portfolio structure resulting from both the reduction in the credit risk exposure and a relative shift in the exposure to better rating classes.

Breakdown of credit risk exposure by segment and risk category (€ billions)

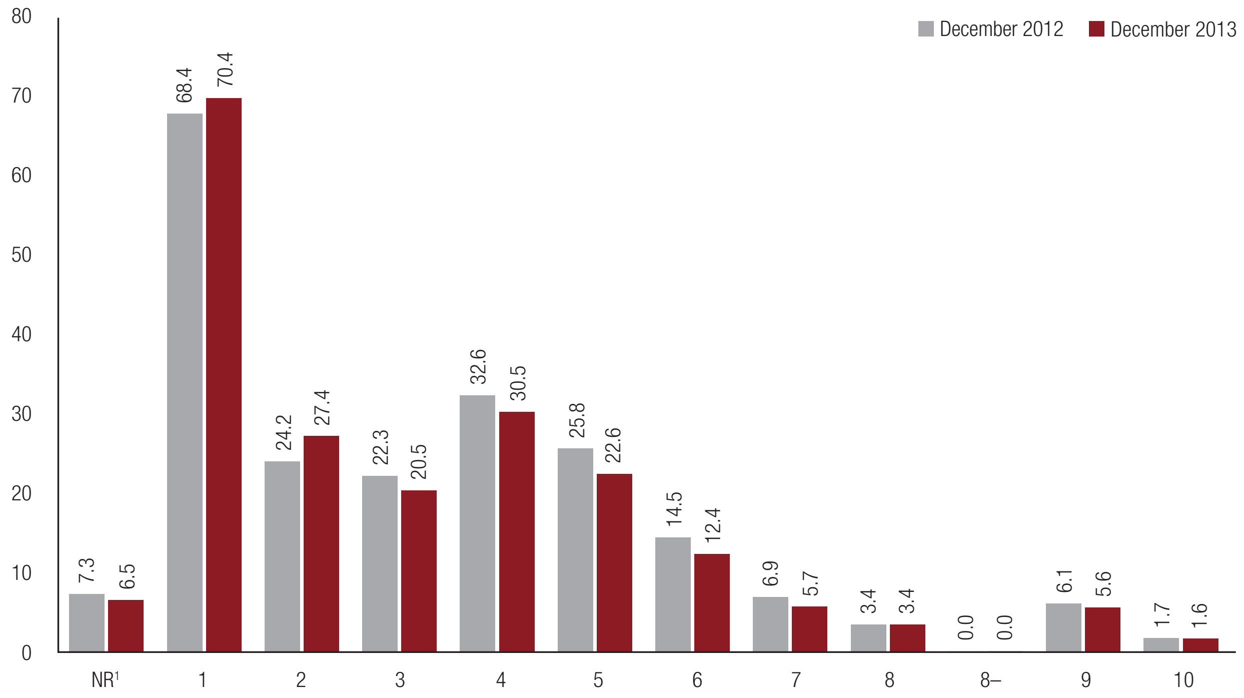
	CREDIT DEFAULT RISK		COUNTERPARTY RISK		ISSUER RISK IN TRADING BOOK		TOTAL	
Breakdown of EaD by segment	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Commercial Banking	82.6	86.7	1.8	2.8	—	—	84.4	89.5
Corporate & Investment Banking	59.0	66.0	16.4	14.7	42.6	37.7	118.0	118.4
Other/consolidation	0.3	1.0	0.0	0.0	3.9	4.3	4.2	5.3
HVB	**141.9**	**153.7**	**18.2**	**17.5**	**46.5**	**42.0**	**206.6**	**213.2**

The weak performance of the markets is reflected in the performance of the portfolio overall, especially in the CB business segment.

Exposure in the CIB business segment remained almost stable. Placements of liquidity, mainly with Deutsche Bundesbank, have been pared back, however. This development was partly offset by expanding business involving the industry groups banks, insurance companies and the public sector.

Risk Report (Continued)

Breakdown of credit risk exposure by rating class at partner level (€ billions)



1 not rated (of which €3.8 billion at 31 December 2013 with a rating at transaction level)

The rating structure of HVB improved during the course of the year.

The exposure in the rating classes 1 and 2 rose in response to changes in the portfolio structure. Above all, increases in exposure to industry groups banks, insurance companies and the public sector are reflected here.

The exposure in the weaker rating classes fell in response to a relative shift in exposure towards better rating classes caused, among other things, by the systematic implementation of the risk strategy.

Development of metrics by industry group

Industry group	EXPOSURE € billions 2013	EXPOSURE € billions 2012	EXPECTED LOSS € millions 2013	EXPECTED LOSS € millions 2012	RISK DENSITY in BPS[1] 2013	RISK DENSITY in BPS[1] 2012
Banks, insurance companies	50.3	53.8	38	47	8	9
Public sector	37.6	29.7	2	5	1	2
Real estate	22.6	23.6	27	37	13	16
Energy	10.1	11.8	23	36	23	31
Chemicals, pharmaceuticals, health	9.1	9.1	18	23	21	27
Special products	8.0	8.1	46	38	59	49
Machinery, metals	7.0	8.6	22	32	34	39
Shipping	5.7	7.9	103	107	228	167
Construction, wood	5.3	5.4	13	17	33	40
Automotive industry	5.0	6.2	8	22	17	37
Services	4.6	5.1	19	28	43	58
Food, beverages	4.2	4.6	9	11	20	25
Consumer goods	3.9	3.7	10	13	26	36
Transport, travel	3.9	4.3	11	11	32	30
Telecom, IT	2.9	3.1	8	6	26	19
Media, paper	2.1	2.4	6	11	33	54
Agriculture, forestry	1.8	1.9	5	8	26	43
Electronics	1.7	1.7	2	4	12	21
Tourism	1.4	1.6	6	8	49	57
Textile industry	1.3	1.5	5	7	41	48
Retail	18.1	19.1	33	43	18	23
HVB	**206.6**	**213.2**	**414**	**514**	**21**	**25**

1 basis points; 100 BPS = 1%

The portfolio has a balanced structure and is diversified across the various industries.

The exposure in the banks, insurance companies industry group, which declined by €3.5 billion in 2013, results to a very large extent from placements of excess liquidity with Deutsche Bundesbank. These were subject to significant fluctuations during the course of the year and declined in 2013 on account of structural changes.

Furthermore, some counterparties were transferred from the banks, insurance companies industry group to the public sector industry group in 2013 on account of a change in portfolio allocations. As a result of this together with increases in exposure to individual German states, an increase of exposure €7.9 billion was recorded in the public sector industry group.

Banks, insurance companies

Many banks around the world have seen their ratings downgraded in the wake of the financial crisis, presenting them with continued challenges in terms of procuring liquidity and capital.

HVB 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 in the banking sector. Should bank downgrades be noted, measures will be taken to reduce the risk arising from the exposure to banks. A stabilisation of the banks in terms of rating development and instability was observed in 2013, however.

Risk Report (Continued)

Part of the exposure in the banks, insurance companies industry group in 2013 resulted from credit risk exposure to UniCredit S.p.A. and other UniCredit companies (upstream exposure – with the exception of the companies that are part of the HVB subgroup). €7.4 billion of the gross upstream exposure before collateral results from the strategic orientation of HVB Group as the group-wide centre of competence for the markets and investment banking business of UniCredit and other business activities (such as export finance and guarantees).

Real estate

The real estate market in Germany proved extremely robust in 2013 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 greatly outpaced new construction for years in these conurbations (strong labour market, immigration, rising number of single households), there will be no excess supply for the foreseeable future and selling prices will rise. Rents have already responded belatedly in these sub-markets, rising accordingly. A generalization for the whole of Germany cannot be drawn from this; the populations of many rural regions as well as some cities are in long-term decline. In addition, the first signs of a slowdown in particularly expensive properties have been observed over recent months.

In line with the 2013 risk strategy, HVB is aiming to overcompensate for the declines in exposure taking place in the portfolio (due among other things to regular repayments and property sales). The financing business is restricted exclusively to Germany, with longer term demographic considerations being incorporated in financing decisions. Financing parameters, above all in terms of capital requirements and the quality of the individual properties, provide the framework for acquiring attractive portfolio financing business. The sub-markets are kept under close observation at the same time.

Partly as a result of the conservative, forward-looking risk strategy for the real estate segment that has been applied for years, the portfolio of existing properties in Germany was again robust and relatively low-risk in 2013. No risk concentrations exist with regard to the security provided and the lending standards that have been applied for years.

We expect the German real estate markets to remain stable in the long run and do not anticipate any slump in the markets in the short to medium term, provided the economic environment similarly remains intact.

All in all, the real estate portfolio is expand to grow in terms of quality and in line with the projected economic growth, taking into account the proven financing parameters and high quality requirements for the individual properties.

Special products

Within the scope of the 2013 risk strategy, HVB had planned a growth strategy in clearly defined asset classes complete with conservative lending standards for the special products industry group. This growth could not be achieved, however, on account of the difficult market environment (due to the competitive situation and downward pressure on margins, among other things). Consequently, the existing portfolio shrank faster than new business could be written.

Even though no improvement in the general market situation is expected, HVB will maintain the growth strategy in 2014 with a focus on certain asset classes and consistently conservative lending standards. The growth strategy might have to be revisited, should newly planned (European) regulations that are currently still in the draft/comments phase have a negative impact on the market and our portfolio.

Machinery, metals
The machinery, metals portfolio contracted heavily in 2013, due among other things to a defensive risk strategy, especially on the metals side.

HVB had adopted a 'maintain' position for the machinery industry in the 2013 risk strategy on account of the weakening sector outlook for the investment goods industry. Against the backdrop of the very good liquidity base and lack of investment in this industry, the portfolio has contracted with very good portfolio quality.

The European steel and metalworking industry has been in recession since 2012. Overcapacity, high volatility and downward pressure on margins are negative factors. Against this backdrop, we have deliberately applied a very defensive risk strategy for the metals segment together with intensive monitoring of the exposures and a conscious reduction of the portfolio. We focus on those companies that demonstrate the industry-specific success factors. Since this situation will not improve in the immediate future either, we will again systematically apply this strategy in 2014.

Shipping
The industry remains dogged by the structural weakness in the shipping market, which is hindering rapid, lasting recovery in freight rates in many segments. Nevertheless, the fall in freight rates came to a stop in some sub-markets. Slight signs of recovery can be observed here, caused in part by the sharp decline in orders on hand for new tonnage.

The prices on the market for new ships and the secondary market that had come under strong pressure during the course of the ongoing crisis have stabilised at a low level in many areas. After the Bank had greatly increased its risk provisions for shipping loans in previous years on the basis of conservative assumptions, additions were reduced considerably during the reporting period.

HVB is pursuing a strategy of reduction of its ship financing business. The targeted reduction in the exposure in this portfolio depends on the euro/US dollar exchange rate, as most ship loans are denominated in US dollars. The non-core segment of the shipping portfolio will be reduced by at least €700 million as planned in 2014 (based on the current US dollar price).

Automotive industry
Contrary to the 2013 risk strategy defined for automotive manufacturers and their suppliers, which had called for our credit volume to be maintained, HVB's exposures to these two industry sub-groups fell further during 2013. The good liquidity position of the larger companies and the raising of funds on the capital market in the form of promissory notes and bonds contributed to this development.

The risk content of the portfolio improved again in 2013 and is now at a relatively low level. This was aided by the continued reduction in the exposure to a large industrial counterparty.

Continual growth in automotive production and sales of around 4% is expected globally in 2014. Within this, demand in western Europe is projected to stabilise at the low level seen in 2013, with growth starting to appear again later in the year. A number of automotive manufacturers and their suppliers that rely disproportionately on western Europe should benefit from this, although their share of HVB's total automotive exposure is low.

To prevent a further contraction of the automotive portfolio, HVB has already proactively specified growth frameworks for those customers whose risk profile satisfies defined credit and industry criteria.

Risk Report (Continued)

Global project finance

Industry group	EXPOSURE € billions 2013	EXPOSURE € billions 2012	EXPECTED LOSS € millions 2013	EXPECTED LOSS € millions 2012	RISK DENSITY in BPS[1] 2013	RISK DENSITY in BPS[1] 2012
Global project finance	4.7	5.7	19	19	46	37

1 basis points; 100 BPS = 1%

Against the backdrop of a slow European project financing market, scheduled and early repayments together with selective secondary market sales were not offset by new business.

Since the exposure declined by around 17% compared with the prior, the risk density rose with no change in the expected loss. This trend is being driven largely by increased sovereign risks and expected changes to the regulatory frameworks in Spain and Greece, among others.

The lending standards reflect these changed conditions, with growth potential seen notably in the disinvestment programmes of major energy suppliers, state environmental regulations for power generation and greater interest in long-term project financing on the part of institutional investors.

In terms of new project loans, HVB concentrates 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 2014 are to increase the granularity of the portfolio and to enhance the regional portfolio structure.

Global acquisition finance

Acquisition finance is included in the credit risk exposure of the individual industry groups. The specific financing structures are controlled separately in line with the HVB risk strategy.

The market for acquisition finance declined in 2013 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 the HVB standards regarding financing structures and financial ratios. All in all, the portfolio benefited from rating upgrade, especially among major exposures. Concentration risk management was stepped up in 2013 and notable successes were achieved. In accordance with the strategy, no new business was written in Greece, Ireland or Portugal.

In new acquisition finance business, HVB continues to concentrate on consortium-leader mandates. The goal here is to consolidate the leading market position in Germany and increase market shares in the UK, France, the Benelux and Scandinavia. New acquisition finance facilities are supported in Spain on a selective basis.

Exposure development of countries/regions by risk category

The following tables show the exposure of HVB to customers on the basis of the country of their registered office (excluding Germany). Compared with the 2012 Risk Report, the risk view has been expanded to cover all countries, with some exposures grouped together on a regional basis. Thus, the tables show the full concentration risk at country level. In return, the presentation of the exposure relevant for country risk, which only takes account of cross-border business denominated in foreign currency (from the point of view of the borrower), is no longer shown. The tables and charts for credit risk at 31 December 2013 show exposures with reference to the country where the risk partner has its registered office and without the remaining exposures assigned to the former Real Estate Restructuring segment.

Exposure developments of eurozone countries, broken down by risk category (€ millions)

	CREDIT DEFAULT RISK		COUNTERPARTY RISK		ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL		OF WHICH SOVEREIGN
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Italy	2,719	1,375	2,640	1,730	4,605	4,598	2,402	3,656	12,366	11,359	2,795
Luxembourg	2,195	1,622	1,194	1,430	3,804	1,988	852	424	8,045	5,464	4
France	2,800	2,439	1,228	1,851	1,491	1,313	1,173	892	6,692	6,495	1,232
Netherlands	2,443	2,943	274	307	1,028	993	264	311	4,009	4,554	—
Austria	2,275	1,073	252	228	736	1,048	586	902	3,849	3,251	398
Spain	1,070	1,298	65	92	1,575	1,743	293	130	3,003	3,263	25
Ireland	1,024	1,274	140	64	464	674	161	295	1,789	2,307	—
Greece	443	578	66	102	—	—	2	2	511	682	2
Belgium	96	20	50	76	35	35	173	102	354	233	71
Finland	106	111	23	39	—	—	88	101	217	251	1
Portugal	75	116	43	64	35	72	49	25	202	277	25
Malta	189	242	2	6	—	—	1	2	192	250	—
Slovenia	45	39	67	106	—	—	1	6	113	151	1
Cyprus	112	204	0	2	—	—	0	2	112	208	—
Slovakia	12	67	41	95	—	—	17	45	70	207	17
Estonia	6	9	—	—	—	—	—	6	6	15	—
HVB	**15,610**	**13,410**	**6,085**	**6,192**	**13,773**	**12,464**	**6,062**	**6,901**	**41,530**	**38,967**	**4,570**

Italy
The relatively large portfolio involving Italy results from the HVB's role as UniCredit's investment bank. This portfolio is also being actively managed in accordance with market standards (such as secured derivatives activities). 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 industry group).

Luxembourg
The exposure in Luxembourg, which is not subject to a reduction strategy, increased by €2.6 billion as a result of a major finance facility in connection with the European Financial Stability Facility (EFSF), among other things.

Development of the weaker eurozone countries
The measures taken in 2012 to reduce the credit risk of weaker countries were continued. Among other things, these include defining limits for all countries together with general controlling triggers and monitoring the banks/sovereigns portfolio complete with a weekly review of individual counterparties.

The portfolio in the weaker eurozone countries has been actively managed in 2013, albeit with different strategies. Differentiated reduction strategies exist for certain countries, including Greece, Estonia, Malta, Slovakia, Slovenia, Cyprus, Portugal and Spain. In the banks, insurance companies portfolio (financial institutions, banks and sovereigns), new business in the weaker countries is being guided by targeted product and maturity standards. This automatically leads to less new business being written.

The weaker eurozone countries do not represent core markets for HVB 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.

The reduction strategy for Greece that was already initiated in May 2010 continued to be systematically implemented, as a result of which the exposure was reduced by a further €171 million in 2013. The sovereign exposure remained unchanged from 31 December 2012 at €2 million.

Measures aimed at reducing the Portugal portfolio were also initiated and successfully implemented. This is reflected by a €75 million decline in exposure in 2013.

Risk Report (Continued)

Spain is not one of HVB's core markets. Nevertheless, we do support a few multinational corporate with connections to Germany. The Spain exposure still arising from the previous strategic orientation was reduced as planned. Maturing loans are extended again by a different UniCredit company outside of HVB rather than being rolled over. We see no increased risk with regard to the creditworthiness of the customers who only generate a small proportion of the cash flow in Spain.

These measures served to reduce the exposure in Spain by a strong €260 million in 2013.

Exposure development by region/country outside the eurozone

(€ millions)

	TOTAL		OF WHICH ISSUER RISK IN TRADING BOOK	
Region/country	2013	2012	2013	2012
UK	9,603	9,566	563	622
USA	8,327	7,535	232	670
Asia/Oceania	5,296	4,600	75	95
Switzerland	3,792	4,359	319	257
Turkey	2,079	2,350	31	72
Western Europe (without Switzerland, UK)	1,597	2,085	315	259
North America (including offshore jurisdictions, without USA)	1,536	1,938	75	70
Eastern Europe	1,224	997	238	289
Russia	1,094	1,653	85	132
Middle East/North Africa	983	984	16	11
Southern Africa	746	1,122	24	1
Central and South America	317	513	45	45
Central Asia (without Russia, Turkey)	118	216	7	22
HVB	**36,712**	**37,918**	**2,025**	**2,545**

HVB pursued a strategy of reduction for its ship financing business. The €1.2 billion reduction of the portfolio is seen in declining exposure in Turkey, countries in the regions of western Europe and southern Africa, among others.

Derivative transactions

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 relevant for purposes of default risk as replacement values for the OTC derivatives, which represent the potential costs that HVB would incur to replace all of the original contracts with equivalent transactions in case of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB at 31 December 2013 totalled €78.9 billion (31 December 2012: €109.4 billion).

In accordance with the banking supervision regulations under Basel II (German Banking Act/Solvency Regulation), risk-weighted assets arising from counterparty risk for HVB amounted to €9.0 billion at 31 December 2013 (31 December 2012: €12.9 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 of HVB.

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2013	2012	2013	2012	2013	2012
Interest rate derivatives	**880,579**	**982,442**	**897,339**	**2,760,360**	**3,139,854**	**67,908**	**116,640**	**65,649**	**116,260**
OTC products									
Forward rate agreements	119,022	289	—	119,311	196,526	8	72	10	43
Interest rate swaps	628,881	854,838	728,824	2,212,543	2,404,661	63,767	110,368	60,663	108,929
Interest rate options									
– purchased	30,200	61,423	82,692	174,315	218,894	3,755	5,620	236	240
– written	30,148	45,516	84,032	159,696	188,567	343	347	4,708	6,906
Other interest rate derivatives	12,829	—	—	12,829	27,017	35	233	31	142
Exchange-traded products									
Interest rate futures	34,571	20,376	1,051	55,998	53,761	—	—	1	—
Interest rate options	24,928	—	740	25,668	50,428	—	—	—	—
Foreign exchange derivatives	**162,618**	**23,696**	**593**	**186,907**	**234,233**	**2,597**	**2,979**	**2,616**	**2,948**
OTC products									
Foreign exchange forwards	143,152	17,501	475	161,128	187,323	2,223	2,413	2,197	2,306
Foreign exchange options									
– purchased	9,495	3,428	50	12,973	23,462	269	349	121	240
– written	9,938	2,767	68	12,773	23,430	105	217	298	402
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	33	—	—	33	18	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,451**	**133,360**	**74,267**	**243,078**	**250,601**	**3,909**	**5,075**	**4,292**	**5,644**
Equity/index derivatives	**85,635**	**38,648**	**17,911**	**142,194**	**114,528**	**3,226**	**3,209**	**3,374**	**3,604**
OTC products									
Equity/index swaps	4,334	6,178	1,155	11,667	11,601	220	200	225	292
Equity/index options									
– purchased	5,096	6,521	1,164	12,781	17,609	919	1,268	109	32
– written	52,510	11,304	14,899	78,713	53,214	35	69	1,743	1,723
Other equity/index derivatives	6,856	1,245	—	8,101	3,389	677	212	2	1
Exchange-traded products									
Equity/index futures	6,614	77	—	6,691	2,758	8	—	31	—
Equity/index options	10,225	13,323	693	24,241	25,957	1,367	1,460	1,264	1,556
Credit derivatives[1]	**27,702**	**80,094**	**2,852**	**110,648**	**145,027**	**1,072**	**1,592**	**1,079**	**1,486**
Other transactions	**4,171**	**2,473**	**515**	**7,159**	**7,373**	**228**	**210**	**272**	**263**
HVB	**1,196,156**	**1,260,713**	**993,477**	**3,450,346**	**3,891,616**	**78,940**	**129,705**	**77,282**	**130,205**

1 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 €561,543 million at 31 December 2013 (thereof credit derivatives: €7,791 million).

Risk Report (Continued)

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2013	2012	2013	2012
Central governments and central banks	3,798	4,466	1,709	2,468
Banks	51,045	90,777	50,978	93,795
Financial institutions	21,775	31,031	23,155	32,554
Other companies and private individuals	2,322	3,431	1,440	1,388
HVB	**78,940**	**129,705**	**77,282**	**130,205**

Credit derivatives

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2013	2012	2013	2012	2013	2012
Banking book	**80**	**354**	**—**	**434**	**441**	**1**	**7**	**9**	**10**
Protection buyer									
Credit default swaps	80	254	—	334	316	1	7	7	4
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	—	100	—	100	125	—	—	2	6
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Trading book	**27,622**	**79,740**	**2,852**	**110,214**	**144,586**	**1,071**	**1,585**	**1,070**	**1,476**
Protection buyer									
Credit default swaps	13,229	38,832	1,146	53,207	71,456	304	851	700	622
Total return swaps	—	26	—	26	136	3	70	—	—
Credit-linked notes	803	1,345	167	2,315	2,786	51	73	27	26
Protection seller									
Credit default swaps	13,403	39,283	1,463	54,149	69,789	702	585	335	809
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	187	254	76	517	419	11	6	8	19
HVB	**27,702**	**80,094**	**2,852**	**110,648**	**145,027**	**1,072**	**1,592**	**1,079**	**1,486**

Credit derivatives by reference asset

(€ millions)

	NOMINAL AMOUNT				
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	TOTAL 2013	TOTAL 2012
Public sector bonds	41,561	—	1,040	42,601	49,930
Corporate bonds	60,354	—	1,776	62,130	87,699
Equities	—	—	—	—	13
Other assets	5,875	26	16	5,917	7,385
HVB	**107,790**	**26**	**2,832**	**110,648**	**145,027**

Single-name credit derivatives made up 51.5% of the total; multi-name credit derivatives, relating to baskets or indices, accounted for a share of 48.5%.

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, ad hoc 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 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.

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 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 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 of on- and off-balance-sheet positions in the trading and banking books that can arise in response to adverse changes in market prices (interest rates, equities, credit spreads, foreign exchange and commodities), other price-influencing parameters (volatilities, correlations) or trading-related events in the form of default or change in credit ratings of securities (especially price risk for interest net positions).

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.

Strategy

Our market risk is essentially managed by the CIB business segment and to a lesser extent by our subsidiaries. As was already the case in previous years, the focus in 2013 was again on customer transactions. The mandate for primary trading in Italian government bonds was discontinued in spring 2013. Residual holdings in this portfolio were held to maturity, although they have essentially expired in the meantime. Following the reduction of the credit correlation business, credit trading was repositioned and trading in credit indexes was stepped up. Newer types of currency options were added to the product range for FX trading. 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. Market risk outside of the trading market is concentrated in legacy holdings of bonds and in the Treasury business. These activities are included in the limit system as part of market risk management.

Risk Report (Continued)

Limit system
All transactions exposed to market risk in the trading and banking books of HVB are aggregated every day to form a total VaR and set against the risk limits. The Management Board of HVB approves and, if necessary, adjusts the risk limits every year. Limits are defined for trading books with 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 January 2013, the trading book limit for HVB Group was reduced from €50 million in 2012 to €45 million in line with the risk strategy. The risk strategy was again updated in March, as a result of which the trading book limit was lowered slightly to €43 million. The VaR warning level used to restrict all market risks for HVB Group was modified from €130 million to €120 million at the same time. Instead of the limit of €120 million used for the CIB business segment in 2012, a VaR warning level of €100 million was set for CIB in January 2013 before being reduced to €90 million in March.

In addition to the market risk under the responsibility of the trading units, market risk also arises from positions that are allocated directly to the full Management Board. The VaR warning level used for such positions was not changed and remained at €40 million in 2013.

Monitoring of the new regulatory metrics (stressed value-at-risk and incremental risk charge) 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
The value-at-risk (VaR) shows the maximum expected loss caused by market price fluctuations that with a certain probability (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, risk management and risk limits.

We use a historical simulation to calculate the VaR. This simple method 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. It encompasses the generation of the hypothetical distribution of earnings (gains and losses) from a portfolio of financial instruments using the historical market price fluctuations over the last two years (observation period).

For the purposes of internal risk management, HVB calculates and defines limits for the new market risk metrics defined in the current German Solvency Regulation on a weekly basis 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.

- The stressed VaR is calculated in the same way as the VaR, although the 12-month observation period has been selected covering the most significant negative market changes for HVB's trading portfolio. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99%.
- The incremental risk charge (IRC) for credit-risk-sensitive positions is the internal approach used to determine the specific risks (especially price risk for net interest positions). This includes default risk and migration risk, meaning that both the change in ratings (migration) and the potential default on a credit product are taken into account. The calculated amount for both regulatory and internal reporting relates to a holding period of one year and a confidence level of 99.9%.
- The specific risks for securitizations and Nth-to-default credit derivatives are covered by the regulatory Standard Approach.

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 business segment. 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 2013, 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.

Market Risk Controlling has direct access to the front-office systems used in trading operations. The supervision of trading activities comprises 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 calculate and allocate the economic capital requirements for market risk, starting in December 2013 the hypothetical distribution used to determine the VaR has been expanded to a six-year observation period and combined with the results arising from the credit value adjustment risk. 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 2013. In addition, market risk arising from the IRC and the market risk Standard Approach is also taken into account. All risks are scaled accordingly to obtain a confidence level of 99.93% and a holding period of one year.

Simulation of interest income

In addition, a dynamic simulation of interest income in the banking book is carried out for on a quarterly basis. The future development of the net interest income is simulated under various scenarios regarding the development of interest rates. Assuming that the excesses over the 3-month Euribor close, a parallel interest shock of plus 100 basis points would result in a €19 million decrease in net interest (31 December 2012: minus 100 basis points: €191 million).

Quantification and specification

The economic capital for the market risk of HVB, without taking account of diversification effects between the risk types, amounts to €2.4 billion, down by €0.3 billion on the figure at 31 December 2012 (€2.7 billion). The decline results from the adjustment of the confidence level from 99.97% to 99.93% in March 2013 together with the expiry of CDS positions that were originally entered into to hedge fluctuations in the own credit spread.

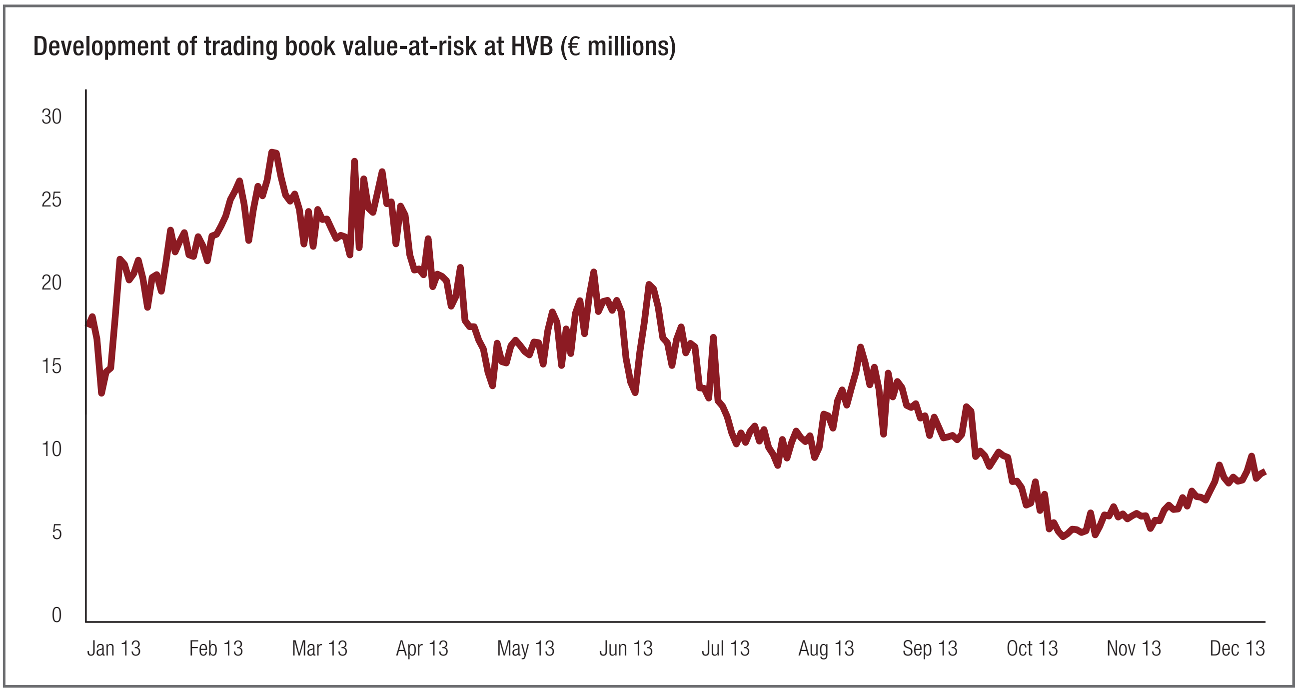
The following table shows the aggregated market risk for our trading positions at HVB over the course of the year. The temporary increase in market risk in the first quarter of the year results from the greater risk assumed during that period.

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

	AVERAGE 2013[1]	31/12/2013	30/9/2013	30/6/2013	31/3/2013	31/12/2012
Interest rate positions (incl. credit spread risks)	16	9	12	15	26	17
Foreign exchange derivatives	1	1	1	1	1	2
Equity/index positions[2]	4	2	3	4	5	4
Diversification effect[3]	(5)	(3)	(4)	(4)	(6)	(7)
HVB	**16**	**9**	**12**	**16**	**26**	**16**

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

Risk Report (Continued)



The VaR development in the first half of 2013 reflects a temporary increase in the risk values, while the second half of the year shows risk values that are tending to fall.

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

(€ millions)

	31/12/2013	30/9/2013	30/6/2013	31/3/2013	31/12/2012
Stressed value-at-risk	27	22	27	34	22
Incremental risk charge	288	211	267	313	201
Market risk Standard Approach	4	5	5	16	22

1 risk values based on internal reporting (HVB trading book only)

Alongside the market risk arising 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 in the trading and banking books of HVB are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB business segment at HVB. Market risk fell sharply in September and October 2013, as several days with significant market price fluctuations fell out of the two-year observation period. A significant effect at the beginning of October stems from a change in the assignment of ABS risk factors in line with changed market practice.

Market price risk of HVB (€ millions)

The chart "Market price risk of HVB" 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 €25 million (0.1% of the regulatory capital) in the banking book of HVB (31 December 2012: a decrease of €4 million).

Value change in case of a 10% FX depreciation against the euro

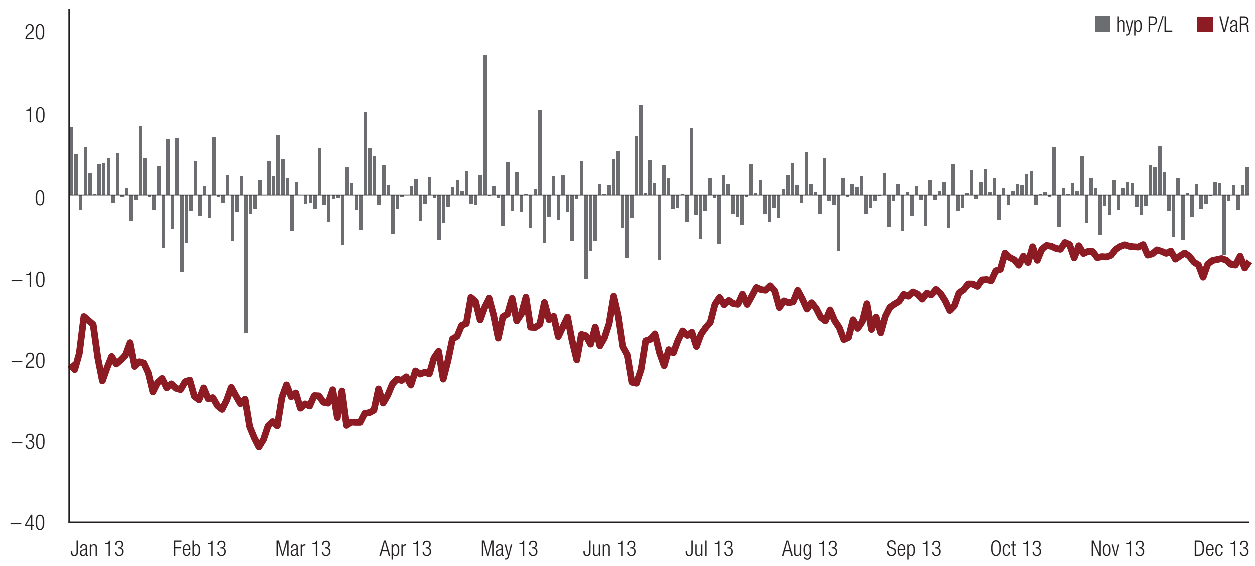
at 31 December 2013 (€ millions)

HVB BANKING BOOK	
Total	(24.59)
USD	(24.91)
GBP	2.75
CHF	(2.24)
JPY	0.27
TRY	(2.55)
HKD	(0.01)

The forecasting quality of the VaR measurement method is checked by means of a regular back-test that compares the calculated VaR values with the hypothetical market value changes derived from the positions. An outlier is a day on which the hypothetical loss is greater than the forecast VaR figure. No reportable back-testing outliers were observed in 2013 (see chart "Back-testing of internal model: HVB trading activities in 2013").

Risk Report (Continued)

Back-testing of internal model: HVB trading activities in 2013 (€ millions)



Starting in 2012, we have used a back-test based on an adjusted economic P/L ("dirty P/L") to validate the model alongside the back-test using the hypothetical value change ("hyp P/L"). There was an outlier at the end of October caused by the monthly update of the CVA figure. The statement regarding the quality of the model is not affected by this special case.

Besides back-testing, further methods are used at regular intervals to check the quality of the model. These involve analysing the suitability of both the modelling and the risk factors used and adjusting them as required. Risks that cannot be satisfactorily modelled are monitored and limits defined for them at regular intervals.

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 risk. 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. Among other things, the FVAs include a premium for close-out costs and non-liquid positions related to the assessment of fair values.

In the course of stress tests, the risk from deteriorating market liquidity is analysed. In this regard, analysis is carried out to determine the amount of losses that would result from the liquidation of trading and banking book positions of HVB in a market environment with greatly expanded bid-offer spreads. For December 2013, the tests showed a potential loss of €373 million (31 December 2012: €404 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 HVB examines range from large movements in interest rates, currency and equity markets through to disruptions in the underlying volatilities.

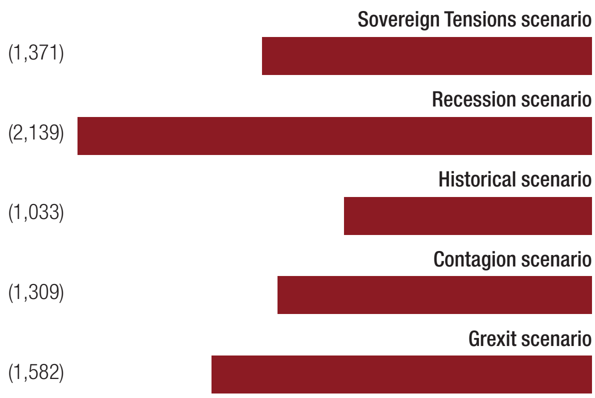
Further scenarios are also considered, such as a widening of credit spreads. We also analyse macroeconomic stress scenarios based on real market upheavals (historical stress tests) or current threats (hypothetical stress tests).

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 2013, with a potential loss of €2.1 billion (2012: €1.7 billion), results from the Recession scenario. This scenario is also used in the cross-risk-type stress tests, where it is analysed for risk-taking capacity.

HVB stress testing at 31 December 2013 (€ millions)



As described in the section covering the implementation of overall bank management, inverse stress tests were again performed in 2013. 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 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 0.5% (31 December 2012: 0.5%), or 3.3%, excluding the model book (31 December 2012: 4.2%), of its regulatory equity capital at the end of the year 2013, HVB is well below the 20% above which the banking supervisory authorities consider a bank to have increased interest rate risk.

Summary and outlook

As was already the case in 2013, efforts will again be made in 2014 to concentrate on low-risk customer business in our financial market activities. HVB 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

Short-term liquidity risk relates to the risk of a discrepancy in the amount and/or maturity of incoming and outgoing payments in the short run (less than one year).

Risk Report (Continued)

Operational liquidity risk, which is part of the short-term liquidity risk
Operational liquidity risk arises when a financial institution cannot meet its intraday payment obligations from its current incoming and outgoing payments, hence becoming technically insolvent. This can be considered a special type of short-term liquidity risk.

Funding risk
Funding risk/structural liquidity risk refers to the risk of not being able to fund the Bank's balance sheet in a stable, sustainable manner over the long term (more than one year) or that, if necessary, it is only possible to procure sufficient liquidity for funding at increased market interest rates and the future earnings of the company are impaired accordingly. Funding risk is a risk that requires observation, albeit not a significant one, and is assessed at regular intervals as part of the risk inventory.

Market liquidity risk
Market liquidity risk relates to the risk that the Bank would suffer losses when selling assets that can only be liquidated on the market at a discount or, in the extreme case, is not able to sell such a position as the market does not offer sufficient liquidity, or it holds a position that is too large set against the market turnover. Market liquidity risk is managed by the CRO primarily using the VaR measurement method and is not the focus of the liquidity guideline.

Strategy
Liquidity management at HVB 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 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 a minimum balance to be observed during the day, 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.

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.

Furthermore, stress scenarios based on the liquidity profiles of the HVB units are simulated at regular intervals and the impact on liquidity calculated. The corresponding stress scenarios take account of both company-specific influences (e. g. possible HVB-specific incidents), external factors (e. g. disruptions in global financial markets) and a combination of company-specific and external factors (e. g. scenario demanded under the MaRisk rules). A time horizon of up to two months is defined for the individual stress scenarios, during which the available liquidity reserves are expected to exceed the simulated outflows of liquidity. This ensures that counter-measures can be initiated promptly, if required.

Alongside this internal measurement methodology, HVB is 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. The long-term funding need, which is used to set the funding targets and is presented to the ALCO, takes into account the assets and liabilities falling due in the planning period. Limiting maturity mismatches between the long-term assets and liabilities ensures a balanced funding structure in defined maturity buckets with a view to maintaining an adequate structural liquidity ratio (SLR). 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 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.

The funding risk of HVB 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 regular intervals. The liquidity policy is implemented by the operational business units and is coordinated and monitored for the relevant HVB units by the Finance department in the CFO organisation.

Operational liquidity risk

To monitor operational liquidity risk, HVB 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.

Risk Report (Continued)

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 €33.1 billion in HVB for the next banking day at the end of December 2013 (31 December 2012: €37.9 billion). The portfolio of highly liquid securities eligible at short notice to compensate for unexpected outflows of liquidity amounted to €28.6 billion at the end of December of 2013 (31 December 2012: €26.6 billion).

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB during the year to date. The funds available to HVB exceeded its payment obligations for the following month by an average of €30.3 billion for HVB in 2012 (31 December 2012: €29.7 billion) and €29.8 billion at 31 December 2013. This means that we are comfortably above the internally defined trigger.

Funding risk

The funding risk of HVB was again quite low in the year 2013 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 obtained longer-term funding with a volume of €7.2 billion on the capital market during 2013 (end of 2012: €7.5 billion). At the end of December 2013, 102.5% (2012: 101.3%) 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.

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 2013 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded in each case.

Summary and outlook

The banking industry again felt the effects of the European sovereign debt crisis in 2013. Various measures taken by the European Union in particular failed to completely calm the markets. 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 put in a solid performance in 2013 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 situation to remain very comfortable. HVB expects the industrialised nations to enjoy moderate economic growth in 2014, whereas economic growth in the emerging markets is anticipated to weaken. There are still factors serving to depress the global economy, such as the not fully resolved budget and debt conflict in the United States and the curtailing of the Federal Reserve's extremely loose monetary policy. Against this backdrop, it is safe to assume that the markets in the industrialised nations in particular will tend to stabilise further.

4 Operational risk

Definition

As a subsidiary of UniCredit S.p.A., HVB has 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 and 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. This approach is intended above to reduce or prevent significant losses by applying suitable measures, which additionally helps to boost sustainable profitability.

In this context, operational risk that is potentially grave or could seriously damage the Bank must be subject to planning measures that go beyond mere profitability concerns.

To make the risk strategy more specific, Bank-wide and segment-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 business segments and each subsidiary of HVB Group are responsible for identifying, analysing and managing operational risk.

Loss events that have occurred and significant risks are reported to the Management Board, the RC and the Audit Committee of the Supervisory Board at regular intervals. On a local level, operational risk managers report losses and risks to their senior management on a quarterly basis.

Risks identified by HVB 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. Analysis of the risks revealed that, from the organisational standpoint, there is a further concentration of risk in the CIB business segment.

Employees in the Business Continuity Management, Outsourcing, Compliance and Legal departments perform a risk-management function in a special way and carry out risk-controlling and -monitoring tasks.

IT

HVB'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 was expanded and improved in 2013 in order to exploit the potential for improvement identified in 2012 and incorporate findings from audits.

Business continuity management and crisis management

The business continuity and crisis 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, including a wide-ranging open system cross-divisional test involving the IT function, showed that the handling of the processes in business continuity and crisis management is operating well.

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 legal framework requirements, regulations, agreements, obligatory practices or ethical standards.

Risk Report (Continued)

The Compliance department is responsible for the management of compliance risk. It focuses primarily on the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the German Money Laundering Act (Geldwäschegesetz – GwG), MaRisk (since December 2013), financial sanctions, fraud prevention, anti-corruption, bank secrecy, consumer loans and consumer protection, and supporting rules and regulations. Among other things, Compliance carries out risk analyses at regular intervals from which the scope and emphasis of Compliance's activities are derived. These insights are used to draw up a monitoring plan. The results of the individual controls are integrated in the next risk analysis on which the monitoring plan is based. Alongside the monitoring of the employee transaction and trading activities of HVB, this contains various second level controls for all areas covered by Compliance, enabling the strategies and processes in the company to be evaluated together with the measures taken to remedy any shortcomings. The results of the controls and audits are also reported directly to the Management Board and the Supervisory Board in the annual report together with the compliance measures, the problems identified and the current status of compliance at HVB.

The Legal, Corporate Affairs & Documentation (LCD) department is responsible for managing legal risk. LCD provides advice to all units at HVB on legal matters. Excluded from this are tax law relating to the Bank's tax position, labour law (apart from legal disputes) and the legal areas covered only by the Compliance department.

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 the HVB subgroup 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 anti-money-laundering laws, privacy and data-protection rules and regarding avoidance conflict of interest. Failure to do so may lead to additional litigation and investigations and subject HVB 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 VIP4 Medienfonds, but granted loans to all private investors for a part of the amount invested in the fund; and 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. An outstanding final decision with respect to the question of HVB's liability for the prospectus in the proceeding pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz), which is currently pending at the German Federal Court of Justice (Bundesgerichtshof), will affect only a few pending cases since a general settlement has already been reached with the vast majority of the investors. In the fiscal proceedings initiated by the fund which are pending alongside the civil proceedings and concern the tax declaration of the fund for the 2004 financial year, no final decision has been issued regarding whether the tax benefits were revoked rightfully.

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 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.

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. Munich Higher Regional Court (Oberlandesgericht) will presumably deal with the issue relating to prospectus liability.

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 established practice, the customer has to prove the conditions for the lapse of his repayment obligation or alleged violations of obligations to give information and advice on the part of HVB. Based on the experience gained to date, HVB can assume that noteworthy legal risks will not arise from these cases.

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. 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 unstable conditions on the financial markets, customers who invested in securities that have been negatively affected by the financial crisis have filed complaints; even though the number is declining, such complaints continue to be filed. 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.

A class action that was filed against several members of an underwriting consortium, including UniCredit Capital Markets, Inc. (UCCM) was dismissed as to the underwriters by the trial court. This action continues against the issuer, which means that the plaintiffs are not yet able to appeal the dismissal of claims against the underwriters.

Proceedings related to derivative transactions

The number of complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative market value has continued at a high level. Among other things, the arguments produced are that the Bank allegedly did not sufficiently inform the customers with respect to the relevant investment and potential risks related to such transactions. Generally, there has been a trend for consumer-friendly judgments with respect to derivative-related lawsuits. Latest rulings confirm that the characteristics of the relevant product and the individual circumstances of each case are decisive. Thus the rulings issued by the courts are inconsistent, while the statute of limitations under Section 37a WpHG a.F. (Securities Trading Act earlier regulation) may be a relevant question.

Proceedings related to German tax credits

During the years 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 €124 million. The client and its 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 upon HVB a secondary liability notice 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.

Risk Report (Continued)

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 (Ermittlungsverfahren) against the client and others (including former and current employees of HVB), the General Public Prosecutor (Generalstaatsanwaltschaft) in Frankfurt am Main searched inter alia the Munich premises of HVB. HVB is fully cooperating with the prosecutor and the tax police (Steuerfahndung). 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 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 domestic and foreign (tax) authorities of the possibility of certain proprietary trading of HVB undertaken in domestic and foreign equities and equity derivatives close to dividend dates and related withholding tax credits claimed or applications for refund of related taxes by HVB. In response to the customer case, the Management 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. This audit is supported by UniCredit without reservation. The investigations are currently ongoing. HVB expects results of the internal audit during the first halfyear 2014. An interim report by the external advisors mandated by the Supervisory Board describes facts which allow the conclusion that there are trading patterns in parts of the proprietary trading of HVB in domestic and foreign equities and equity derivatives that are similar to the client case described above. In addition, the Management Board of HVB has been and will be 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 Munich tax authorities and the German Central Federal Tax Authority (Bundeszentralamt für Steuern) are currently especially examining above mentioned proprietary transactions close to dividend dates in which withholding tax credits were claimed or applications for refund of related taxes have been made. Also in this respect, 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. The Public Prosecutor (Staatsanwaltschaft) Cologne has opened a Preliminary Investigation (Ermittlungsverfahren) against former and current employees of the Bank with regard to applications for refunds vis-à-vis the Central Federal Tax Authority. The Public Prosecutor (Staatsanwaltschaft) Munich has opened a Preliminary Investigation (Ermittlungsverfahren) with regard to withholding tax credits claimed in the corporate tax returns. In addition to that, HVB is in contact with foreign (tax) authorities insofar as potential consequences of transactions in domestic and foreign equities and equity derivatives are concerned. HVB has declared full cooperation with the Prosecutors and competent authorities in all of these cases.

German tax authorities have denied withholding tax credits in certain types of trades undertaken near dividend dates. The related questions on the tax treatment of such transactions have not been ruled out in higher German tax courts so far.

The impact of any review by the competent domestic and foreign (tax) authorities regarding above mentioned proprietary trades is currently open. In relation to the above-described transactions in domestic and foreign equities and equity derivatives HVB could be subject to substantial tax and liability and interest claims in relation to these matters, as well as penalties, fines and profit claw backs, and/or other tax- or criminal- or administrative exposure. In addition HVB could be exposed to damage claims from third parties.

HVB is in communication with its relevant regulators regarding these matters.

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. One case has been decided in favour of HVB in a first-instance ruling and one case also in favour of HVB also in a second-instance rulings; both rulings are not final and binding as of today. One case has been abandoned by the plaintiff.

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 has appealed against this decision.

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 had challenged in court the repayment of the money borrowed and sued HVB for payment of a middle double digit million euro sum. The competent court of first instance dismissed the claims; the ruling is not yet final and binding. A ruling by the appeal court is still pending.

Repo transactions
Two customers belonging to the same group of companies have 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. HVB is defending itself against said claims. In one out of two pending cases, a first-instance ruling was issued partly going against the Bank; the Bank appealed against the decision.

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.

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 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 30 July 2008. 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, are currently pending at Munich Higher Regional Court.

Other administrative proceedings
In March 2011, HVB received a subpoena from the New York District Attorney's Office (NYDA) relating to historic transactions involving certain Iranian entities designated by the US Treasury Department's Office of Foreign Assets Control (OFAC) and their affiliates. In June 2012, the US Department of Justice (DOJ) opened an investigation of OFAC-related compliance by HVB generally. HVB is cooperating with OFAC, the DOJ and the NYDA and is updating other relevant authorities as appropriate. 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 lead to liquidity outflows and could potentially have a material adverse effect on the net assets and operating results of HVB in any particular period.

Risk Report (Continued)

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

Measurement

The operational risk of HVB Group is calculated for HVB and its major subsidiaries – Bankhaus Neelmeyer AG, DAB Bank AG, HVB Immobilien AG, UniCredit Luxembourg S.A. and UniCredit Leasing GmbH (together with subsidiaries) – using an internal model in accordance with the Advanced Measurement Approach (AMA model). 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 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.

Quantification and specification

The economic capital for operational risk is determined as a whole for HVB Group using the internal AMA model and then allocated to HVB and its AMA subsidiaries using a risk-sensitive allocation mechanism.

The economic capital for operational risk at HVB, without taking account of the diversification effects between the risk types, amounted to €2.5 billion at 31 December 2013 (31 December 2012: €2.5 billion). The main changes relate to an increase in the economic capital in response to the higher number and amount of loss events from selling risks offset by the adjustment of the confidence level from 99.97% to 99.93% (reduction of €0.3 billion) in March 2013.

Stress test

The impact of macroeconomic scenarios on operational risk is analysed within the scope of the cross-risk-type stress tests.

Summary and outlook

The risk strategy specifies the specific action areas that have been identified for strengthening risk awareness with regard to operational risk in the Bank and expanding the management of operational risk.

5 Other risks

HVB groups together business risk, real estate risk, shareholdings/financial investments risk, reputational risk, strategic risk and pension risk under other risks. These risk types are only discussed briefly on account of their mostly low share of internal capital or because they cannot be quantified. The definitions of the individual risk types can be found under “Risk types” above. The risk arising from outsourcing activities does not constitute a separate risk type at HVB Group; instead, it is treated as a cross-risk-type risk and consequently listed under other risks.

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, or changes to the legal framework.

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 2013 was on consistent pricing in line with risks, more intensive value creation for the customer to generate earnings and an expansion of the market position and customer orientation achieved by enhancing quality in the core business.

HVB's business risk is managed overall on the basis of the IC limit for HVB Group. Based on this limit, HVB Group has additionally defined early warning indicators in the form of targets and thresholds in order to identify an overshoot of the limit in advance.

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

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

The data used to calibrate the business risk model were adjusted in the first half of 2013 to reflect the modified business segment structure and supplemented with data from 2012.

The VaR, without taking account of diversification effects between the risk types, declined by €143 million to €572 million in 2013 (year-end total calculated on the basis of the P&L data from November). The fully diversified economic capital for the business risk of HVB amounted to €245 million at the end of 2013 (31 December 2012: €316 million). In addition to the effect arising from the update of the data series and the associated change in volatilities and correlations, the rise also includes the effect of the update of the correlation matrix between the risk types. Part of this increase is reduced by the modification of the confidence level from 99.97% to 99.93% in March 2013.

The impact of macroeconomic scenarios on business risk is analysed within the scope 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.

The banking industry again felt the effects of the European sovereign debt crisis in some areas in 2013. Various measures taken by the European Union in particular had an impact, however, serving to calm the markets. The industrialized nations are expected to enjoy moderate, albeit not constant, growth in 2014. 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 performed well in this challenging market environment in 2013. 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 2014. Given low interest rates and the associated historically narrow interest rate spreads coupled with a very tough competitive environment, it remains challenging to achieve or expand the earnings targets despite moderate growth prospects. Targeted cost management will continue to play an extremely important role.

Real estate risk

Real estate risk covers potential losses resulting from changes in the market value of the real estate portfolio of HVB. No land or properties are included that are held as security in lending transactions.

A fundamental distinction is made in real estate risk between (strategic) real estate required for operations and non-strategic real estate, although cost optimisation was the main focus across both portfolios in 2013. Besides the cost-optimised provision of real estate for HVB's banking activities, the operating and utilisation strategy for strategic real estate in 2013 consisted primarily of preferring Bank-owned properties over third-party properties. Facility concepts are drawn up for both the Bank-owned portfolio and the rented properties, under which the requirements of the business segments and also profitability are the key factors for decisions.

HVB's real estate risk is managed overall on the basis of the IC limit for HVB Group. Based on this limit, HVB Group has additionally defined early warning indicators in the form of targets and thresholds in order to identify an overshoot of the limit in advance.

Risk Report (Continued)

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. The adjustment of the data used to calibrate the real estate risk to reflect the current portfolio was improved in the first half of 2013 and the mapping procedure updated.

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

The VaR, without taking account of diversification effects between the risk types, declined by €6 million in 2013 to total €58 million at 31 December 2013. The figure is based on a portfolio worth €243 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2013	2012	2013	2012
Strategic real estate	157	255	64.7	77.5
Non-strategic estate	86	74	35.3	22.5
HVB	**243**	**329**	**100.0**	**100.0**

The economic capital for real estate risk at HVB taking into account diversification effects totals €45 million (31 December 2012: €44 million). Alongside the effect arising from the update of the index mapping, this figure also includes the effects arising from the update of the correlation matrix. The changes were almost offset by the modification of the confidence level in March 2013 from 99.97% to 99.93%.

The impact of macroeconomic scenarios on real estate risk is analysed within the scope of the cross-risk-type stress tests. These quarterly analyses provide information on the lower real estate market values that would result should the scenario occur compared with the base scenario.

Again for 2014, it is planned to reduce the holding of non-strategic real estate by selling properties. The situation on the real estate markets will again depend on economic developments in 2014. The demand from investors for core real estate continues to increase. The extent to which the demand for other locations evolves remains to be seen.

Financial investment risk

Financial investment risk arises from equity interests held in companies that are not in the trading book. Financial investment risk is measured as a separate risk type to determine the risk inherent in the relevant equity interests and also as a factor contributing to the internal capital. The investment portfolio contains mainly listed and unlisted interests, private equity investments and holdings in private equity funds.

All the investments to be included in the financial investment risk are either considered strategic and allocated to a business segment or competence line, or deemed non-strategic and can thus in principle be eliminated through disposals, mergers or liquidation.

HVB's financial investment risk is managed overall on the basis of an IC limit for HVB Group. In addition, standalone EC limits adjusted for diversification effects were allocated to the business segments of HVB in the context of overall bank management. Based on these limits, HVB Group has additionally defined early warning indicators in the form of thresholds in order to identify an overshoot of the limits in advance.

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 financial investment risk.

CEC calculates the economic capital for shareholdings and financial investments, and reports it to the business segments, 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 VaR, without taking account of diversification effects between the risk types, fell by €475 million in 2013 to total €2.6 billion at the end of 2013. The decline can be attributed mainly to a reduction of the portfolio. The fully diversified economic capital of HVB amounts to €2.2 billion (31 December 2012: €2.6 billion).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € billions		SHARE in %	
	2013	2012	2013	2012
Private equity funds	0.4	0.8	11.7	22.9
Other holdings	3.0	2.9	88.3	77.1
HVB	**3.4**	**3.7**	**100.0**	**100.0**

The impact of macroeconomic scenarios on financial investment risk is analysed within the scope of the cross-risk-type stress tests. These quarterly analyses provide information about the changes in market value that would result should the scenario occur compared with the base scenario. The change in the VaR is calculated on the basis of this.

As in 2013, the Bank will continue to dispose of non-strategic shareholdings in 2014. 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 HVB.

Reputational risk

Reputational risk is defined as the risk of a negative P/L effect caused by adverse reactions by stakeholders due to a change perception of the Bank; this altered perception may be triggered by a primary risk such as credit risk, market risk, operational risk, liquidity risk, business risk or strategic risk. Customers, employees, regulatory authorities, rating agencies, creditors and owners are defined as key stakeholders.

HVB applies a holistic approach to reputational risk management. This means that all significant new activities and transactions at the Bank are normally analysed with regard to potential reputational risk – "change-the-bank" approach – and individual units at the Bank are examined at regular intervals regarding existing reputational risk at the same time – "run-the-bank" approach.

Risk Report (Continued)

Commercial transactions and new activities like the new product process, outsourcing, projects and particular investments (such as SPVs) are included in the "change-the-bank" approach, as well any other new activity as is appropriate. The employees responsible in each case are required to analyse the transactions/activities to identify any potential reputational risk, taking into account the existing guidelines. Once a potential reputational risk has been identified, the appropriate specialist departments must be called in, the reputational risk assessed in terms of quality and the decision proposal prepared for the Reputational Risk Council (RRC).

Under the "run-the-bank" approach, the individual units of the Bank are examined at regular intervals with regard to existing and/or latent reputational risk. The process starts with risk self-assessments by important function owners (risk managers) together with the operational risk managers. A list of questions is used to carry out the self-assessments. Building on this, senior management is interviewed about reputational risk. The senior manager has the opportunity to review the reputational risk identified in his unit during the interview and add further material reputational risks. Where it is possible and makes sense to do so, countermeasures are defined for the individual risks and tracked.

The Bank has decided not to directly quantify reputational under the "run-the-bank" process on account of the fundamental difficulty of accurately assessing the possible effects of reactions from stakeholders. Instead, the risk is classified in accordance with a three-tier system (traffic light logic) as part of the "run-the-bank" approach. This involves determining the aggregate risk across two dimensions: influence on the income statement and probability of occurrence. Any reputational risk identified is documented in the Bank's own IT system (possibly during the year).

The individual business segments and central units are responsible for reputational risk management. Overall responsibility for controlling rests with the OpRisk Control unit (CRO unit). OpRisk Control consolidates the results of the risk assessments and interviews and prepares a RepRisk Report covering the largest reputational risks at HVB.

Strategic risk

Strategic risk results from management being slow to recognize 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. In the worst case, this may have a negative impact on the Bank's profitability and risk profile.

Strategic risk is measured primarily using qualitative methods. For this purpose, we continually monitor the domestic and international environment in which HVB operates (e.g. political, economic, regulatory or bank-specific environment) while subjecting our own strategic positioning to an ongoing review process.

Strategic risk is monitored by the Management Board and its staff offices on an ongoing basis and ad hoc. It forms an inherent part of the day-to-day running of HVB. 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 at least once a year. An ongoing dialogue with external experts (such as management consultants and independent auditors) regarding strategic issues and options at Management Board level and below ensures that the expertise of external experts is incorporated.

Risk arising from the overall economic environment

Based on the strategic orientation of HVB with its CB and CIB business segments offering customer-oriented products and concentrating on the core market of Germany, general economic developments in Germany in particular together with developments on the international financial and capital markets are of great importance for the assets, liabilities, financial position, and profit or loss of HVB.

The global economy is picking up more pace and GDP growth in the eurozone is expected to accelerate further in 2014. Within the eurozone, it is anticipated that Germany will remain the engine of growth. Furthermore, we assume that the ECB will continue to make cheap liquidity available, although this would probably be dependent on lending. Nevertheless, factors like political disturbances and the continued euro crisis do contain downside risks. The banking sector is suffering badly from the persistently low interest rate levels. We do not anticipate negative deposit rates, while we do not expect the funding rate to be raised significantly in 2014. The risk of 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. The regular economic analysis carried out by HVB covers the macro-economic developments in the European Union and at a global level, the monetary policy of central banks and the discussions surrounding the deleveraging of highly indebted countries. As a solid commercial bank with excellent customer relationships, HVB views considers itself fundamentally in good shape to continue operating successfully in this challenging environment. Should, however, the measures taken to stem the eurozone crisis fail to have the desired effect, for instance, or economic growth slow in Europe or globally, or further turmoil roil the financial markets, this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

Risks from the strategic orientation of HVB's business model
HVB is a universal bank that focuses on the regional management of the German market and also acts as the centre of competence for the investment banking activities of UniCredit as a whole. 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.

Thus, the low interest levels that have persisted for some time now have severely dampened earnings in the CB business segment. Low interest rates are leading to falling margins in the deposit-taking business in particular, which is having a direct effect on earnings.

HVB aims to grow its retail banking business throughout Germany through the planned modernisation of its retail banking activities coupled with the related transition to a multi-channel bank with comprehensive service, information and advisory offerings. The main strategic objectives are to implement a clearly differentiated service model aimed at upgrading the quality of the advice and service we give customers and to focus clearly on higher value customers holding their main bank account with HVB.

The branch will continue to represent the core element of our multichannel offer going forward, featuring a standard, modernised and upscale appearance. It will, however, act as much more than just a point of contact for top-drawer advice. It is possible that this strategic adjustment will result in the loss of a few customers, which may have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

The strategic orientation of the CIB business segment is to be a leading, integrated European corporate and investment bank, offering customers added value through specific relationship models geared to individual customers' needs. Despite the customer-oriented approach of our investment banking activities, 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 has continued for a many years. 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 could be negatively affected by an associated increase in the market power of its competitors. HVB does, however, enjoy a high level of flexibility that would allow it to quickly and actively exploit suitable opportunities at the right time thanks to its excellent capital base. The associated acquisition risk is adequately addressed on the basis of the available internal expertise and potentially by calling in external specialists.

Risk Report (Continued)

Risks arising from changing competitive conditions in the German financial sector
The German financial services market as HVB'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 with different profitability requirements still exist on the retail side of the German market despite some mergers and acquisitions. In addition, more and more European and international players in retail and corporate banking are seeking to enter the German market. The result is intensive competition for customers and market share, in which HVB 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.

The regulatory environment for HVB may change; non-compliance with regulatory requirements may result in enforcement measures
The activities of HVB are regulated and supervised by the central banks and regulatory authorities in the countries where HVB does business. The regulatory requirements in the individual countries are subject to change at regular intervals and this is set to increase. The new and planned regulatory framework for banks is complex and its cumulative effect is hard to assess at present (this includes the legislation to segregate commercial and investment banking around the world). We assume that the trend towards more stringent regulatory provisions will persist.

Changes to the regulatory provisions in one state could yield further obligations for the HVB. Besides a possible impact on the business model coupled with a higher cost of capital and a direct impact on the profitability of HVB, additional costs would accrue in particular for the implementation of the new regulatory requirements and the necessary adjustments of the IT systems of HVB. Differences in the regulatory requirements between countries or regions could lead to considerable distortions of competition that could have a direct impact on profitability. In addition, implementation of the modified regulatory requirements and their compliance could lead to a significant rise in operating costs, which would similarly have a negative impact on the financial position, and profit or loss of HVB.

The introduction of a single European banking regulator was announced for November 2014. The move means that the European Central Bank (ECB) will take over the task of supervising the 130 biggest, systemically important banks in the eurozone. We presume that this will include HVB on account of its affiliation with the UniCredit. Since the details in this regard are not yet known to us, it is not possible to assess the effects on the scenarios mentioned above.

Risks from the introduction of new charges and taxes to stabilize the financial markets and involve banks in the sharing of costs for 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 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 funds, but mostly to generate budgetary funds. Furthermore, 11 EU states, including Germany, Austria, Italy and France, are currently discussing the introduction of a tax on financial transactions. Similar taxes already exist in some countries, like France, the UK (stamp duty) and Italy. Furthermore, the creation of a 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 crises. The measures also have a political purpose. HVB was charged the bank levy in Germany, Austria and the UK for the first time in 2011. The effects of the other tax initiatives remain to be seen.

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

Pension risk

HVB has undertaken to provide a range of different pension plans to current and former employees which are largely financed by various forms of investment, some of which are external. Market risk may arise in connection with the pension plans on both the assets side and the liabilities side. This is possible due to decreases in the market value of the plan assets on the assets side as well as increases in the obligations on the liabilities side, caused for instance by changes to the discount rate. Furthermore, actuarial risks, such as longevity risk, may arise on the obligation side. In this context, pension risk is the risk that the pension provider will have to provide additional capital to service the vested pension commitments.

The risks described above are calculated and monitored at regular intervals in our risk management programme using a model devised specifically for pension risk. A risk figure is determined periodically using calculations based on changes in key risk parameters for both the various capital investments and the cash flows on the obligation side. Using the model described, we have determined a figure of €609 million for the pension risk of HVB at 31 December 2013 (30 June 2013, calculated for the first time: €560 million), which is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the internal capital of HVB accordingly since June 2013.

Low interest rates continue to be seen as the main negative factor for both the amount of the pension commitments disclosed and the amount of the income that can be generated from the capital investment with acceptable risk. It is perfectly conceivable that, should low interest rate levels persist for a longer period of time, the discount rate will have to be lowered again, thus causing the pension commitments to rise further.

Risks arising from outsourcing activities

Outsourcing risk is considered a cross-risk-type risk at HVB and not treated as a separate risk type. Outsourcing activities affect the following risk types in particular: operational risk, reputational risk, strategic risk, business risk, credit, market and liquidity risk. Those risks are managed as part of the respective risk type that are identified and assessed in an in-depth risk analysis. Specific risks arising from outsourcing activities that cannot be assigned directly to a specific risk type are managed by the unit responsible for the outsourcing activity in question.

Outsourcing involves the transfer of activities and processes to external service providers. This involves the transfer of some of the operational risk, while contractual risks arising from the outsourcing arrangement remain with HVB or a subsidiary of HVB Group. An outsourcing arrangement is deemed to exist when a different company is contracted to carry out activities and processes in connection with the performance of banking business, financial services or other typical banking services that would otherwise be performed by the outsourcing company itself. This includes outsourcing arrangements within UniCredit as well as the subcontracting of outsourced activities and functions to subcontractors.

The respective project team and defined functional departments (including Operational Risk Management, Compliance, Legal, Corporate Affairs & Documentation, Data Protection and Business Continuity Management) use 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 of HVB in the processes defined for the risk types concerned. The operational risk managers and the central OpRisk Control function help the project manager and the heads of the RTOs to prepare and/or update the related risk analysis.

In order to make the presentation of the outsourcing risk situation more transparent, work began in 2012 on expanding the existing methods and modifications to the required IT systems were commissioned. No significant new outsourcing arrangements were entered into in 2013 apart from the provision of services for our newly formed Paris branch covered by intra-Group contracts, although larger subcontracting arrangements were assessed on the IT side with regard to their risk content and associated risk-minimising measures drawn up.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definitions 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 regard 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 is presented in the Risk Report in the present Management Report. 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 financial statements together with the Management Report 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 annual 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 financial statements and the Management Report. The Management Board states that, to the best of its knowledge and in accordance with applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Bank. 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 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 three of its meetings in 2013 on the basis of documents and verbal explanations provided by the Management Board. In the process of preparing the annual 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 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 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 financial statements, the Management Report and the proposal for the appropriation of net profit, and whether it approves the annual 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 2013, 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.

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.

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. 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. In particular, the Regulatory Reporting (CFR) department submits HVB's reports to the banking supervisors. Among other things, this includes the Common 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. In addition, the department interprets existing and new national and international reporting standards and ensures that they are implemented and transformed into IT rules for regulatory reporting.
- 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 some 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.
– **Regional Planning & Controlling (CCP)** is tasked with central business management, cost controlling and equity capital management at HVB. In addition, this department is responsible for the preparation of income budgets and income projections.
– Furthermore, the business segment-related controlling departments for all the segments are assigned to CCP.

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 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. 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. Furthermore, external service providers have been engaged to process securities transactions in Germany and for the Milan branch.

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. The trading income calculated for purposes of financial reporting is checked on a monthly basis 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.

ICS – Internal Control System (Continued)

Responsibility for checking, creating and adjusting specific allowances for losses on guarantees and indemnities rests with the respective restructuring and workout units. Where there is objective evidence of an impairment, 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. The allowances are determined and set up in the IME systems on a collective basis (portfolio allowances) using 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. Any required allowance is similarly calculated by the IME system on the basis of the cash flows determined by the restructuring or workout specialist within the framework of impairment measurement. When determining the allowance, the following factors specified in the Operating Guidelines must be taken into account:

– the borrower's financial situation
– future opportunities and risks in relation to the extent to which restructuring is deemed possible
– anticipated repayment
– collateral values

The risk assessment/request to set up an allowance prepared by the responsible restructuring or workout specialist 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 employs the IME system to determine 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 UniCredit Business Integrated Solutions S.C.p.A. (UBIS), the subsidiary of UniCredit responsible for IT. 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 financial reporting-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 essentially extends to various reports prepared by external service providers relating to such things as the valuation of, and accounting for, pension provisions.

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).

Based on the requirements under Law 262 and the legal requirements under the Corporate Governance section of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG), a number of financial reporting processes complete with the risks and controls included therein 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 involved in 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. The unit CFA7 (Internal Control System – CFO) within the CFO organisation is tasked with supporting the Management Board in the ongoing development and efficient monitoring of the ICS with regard to the financial reporting process.

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 business segment, 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 in the financial reporting process.

To ensure the greatest possible efficiency in the process of preparing the annual 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.

Income Statement of UniCredit Bank AG

For the year ended 31 December 2013

Expenses (€ millions)

				2013	2012
1	Interest payable			2,727	3,689
2	Fees and commissions payable			359	418
3	Net expense from the held-for-trading portfolio			—	—
4	General administrative expenses				
	a) payroll costs				
	aa) wages and salaries	1,585			1,389
	ab) social security costs and expenses for				
	pensions and other employee benefits	312			312
			1,897		1,701
	including: for pensions				
	€134 million				(125)
	b) other administrative expenses		1,857		1,718
				3,754	3,419
5	Amortisation, depreciation and impairment losses				
	on intangible and tangible assets			57	181
6	Other operating expenses			352	256
7	Write-downs and impairments for receivables and				
	certain securities as well as additions to provisions				
	for losses on guarantees and indemnities			—	129
8	Write-downs and impairments on participating				
	interests, shares in affiliated companies				
	and investment securities			15	—
9	Expenses from absorbed losses			12	6
10	Extraordinary expenses			22	22
11	Taxes on income			280	533
12	Other taxes, unless shown under				
	"Other operating expenses"			(17)	11
13	Net income			756	1,462
	Total expenses			8,317	10,126

Income (€ millions)

		2013	2012
1 Interest income from			
a) loans and money market operations	4,401		5,254
b) fixed-income securities and government-inscribed debt	734		1,342
		5,135	6,596
2 Current income from			
a) equity securities and other variable-yield securities	112		58
b) participating interests	79		103
c) shares in affiliated companies	155		253
		346	414
3 Income earned under profit-pooling and profit-and-loss transfer agreements		119	106
4 Fees and commissions receivable		1,208	1,574
5 Net income from the held-for-trading portfolio		969	1,048
including: transfer as per Section 340e HGB		141	117
6 Write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities		129	—
7 Write-ups on participating interests, shares in affiliated companies and investment securities		—	52
8 Other operating income		411	336
9 Net loss		—	—
Total income		**8,317**	**10,126**
1 Net income		756	1,462
2 Withdrawal from retained earnings			
a) from the reserve for shares in a controlling or majority interest-holding company	—		4
b) from other retained earnings	19		1,000
		19	1,004
3 Transfer to retained earnings			
a) to the reserve for shares in a controlling or majority interest-holding company	19		—
b) to other retained earnings	—		4
		19	4
4 Profit available for distribution		**756**	**2,462**

Balance Sheet of UniCredit Bank AG

at 31 December 2013

Assets (€ millions)

		31/12/2013	31/12/2012
1 Cash and cash balances			
a) cash on hand	521		571
b) balances with central banks	9,778		14,840
including: with Deutsche Bundesbank			
€5,915 million			(13,399)
		10,299	15,411
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
b) bills of exchange	—		—
		—	—
3 Loans and receivables with banks			
a) repayable on demand	4,413		16,232
b) other loans and receivables	26,681		26,601
		31,094	42,833
including: mortgage loans			
€— million			(—)
municipal loans			
€146 million			(233)
against pledged securities			
€18 million			(388)
4 Loans and receivables with customers		87,605	96,959
including: mortgage loans			
€39,330 million			(40,990)
municipal loans			
€10,915 million			(11,722)
against pledged securities			
€647 million			(3)
Amount carried forward:		128,998	155,203

Liabilities

(€ millions)

			31/12/2013	31/12/2012
1 Deposits from banks				
a) repayable on demand		6,183		14,303
b) with agreed maturity dates or periods of notice		38,740		34,315
			44,923	48,618
including: registered mortgage bonds in issue				
€601 million				(608)
registered public-sector bonds in issue				
€381 million				(288)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€— million				(1)
and registered public-sector bonds				
€— million				(—)
2 Deposits from customers				
a) savings deposits				
aa) with agreed period of notice of three months	14,532			14,402
ab) with agreed period of notice				
of more than three months	134			157
		14,666		14,559
b) registered mortgage bonds in issue		6,688		7,365
c) registered public-sector bonds in issue		3,203		3,381
d) other debts				
da) repayable on demand	51,769			57,826
db) with agreed maturity dates or periods of notice	36,481			34,005
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€4 million				(4)
and registered public-sector bonds				
€4 million				(8)
		88,250		91,831
			112,807	117,136
Amount carried forward:			157,730	165,754

Balance Sheet of UniCredit Bank AG (Continued)

Assets

(€ millions)

			31/12/2013	31/12/2012
Amount brought forward:			128,998	155,203
5 Bonds and other				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	3			3
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(—)
ab) issued by other borrowers	4,281			1,974
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(195)
		4,284		1,977
b) bonds and notes				
ba) issued by public authorities	19,392			16,478
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€19,131 million				(16,355)
bb) issued by other borrowers	27,412			29,025
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€18,738 million				(21,261)
		46,804		45,503
c) own bonds		1,001		1,390
nominal value €1,000 million				(1,388)
			52,089	48,870
6 Equity securities and other variable-yield securities			1,208	1,192
6a Held-for-trading portfolio			48,828	143,531
7 Participating interests			558	978
including: in banks				
€16 million				(22)
in financial service institutions				
€9 million				(—)
8 Shares in affiliated companies			2,798	2,722
including: in banks				
€1,204 million				(1,148)
in financial service institutions				
€497 million				(426)
Amount carried forward:			234,479	352,496

Liabilities

(€ millions)

			31/12/2013	31/12/2012
Amount brought forward:			157,730	165,754
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	11,481			12,877
ab) public-sector bonds	2,171			3,346
ac) other bonds	4,562			5,185
		18,214		21,408
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			18,214	21,408
3a Held-for-trading portfolio			29,233	132,327
4 Trust liabilities			4	31
including: loans taken out on a trust basis				
€4 million				(31)
5 Other liabilities			6,571	8,169
6 Deferred income				
a) from issuing and lending operations		23		29
b) other		138		133
			161	162
6a Deferred tax liabilities			—	—
7 Provisions				
a) provisions for pensions				
and similar commitments		—		—
b) tax provisions		693		875
c) other provisions		2,610		2,666
			3,303	3,541
8 Subordinated liabilities			1,560	2,379
9 Participating certificates outstanding			—	—
including: those due in less than two years				
€— million				(—)
10 Fund for general banking risks			572	431
thereof: as per Sect. 340e HGB				
€281 million				(140)
Amount carried forward:			217,348	334,202

Balance Sheet of UniCredit Bank AG (Continued)

Assets

(€ millions)

			31/12/2013	31/12/2012
	Amount brought forward:		234,479	352,496
9	**Trust assets**		4	31
	including: loans granted on a trust basis			
	€4 million			(31)
10	**Intangible assets**			
	a) internally generated intellectual property rights			
	and similar rights and assets	—		—
	b) purchased franchises, intellectual property rights, and similar			
	rights and assets, as well as licences to such rights and assets	36		57
	c) goodwill	—		—
	d) advance payments	8		10
			44	67
11	**Property, plant and equipment**		158	174
12	**Other assets**		957	1,393
13	**Prepaid expenses**			
	a) from issuing and lending operations	52		66
	b) other	68		63
			120	129
14	**Deferred tax assets**		—	—
15	**Excess of plan assets over pension liabilities**		695	727
	Total assets		**236,457**	**355,017**

Liabilities (€ millions)

			31/12/2013	31/12/2012
Amount brought forward:			217,348	334,202
11 Shareholders' equity				
a) called-up capital				
subscribed capital		2,407		2,407
divided into:				
802,383,672 shares of common				
bearer stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for shares in a controlling				
or majority interest-holding company	25			6
cc) statutory reserve	—			—
cd) other retained earnings	6,130			6,149
		6,155		6,155
d) profit available for distribution		756		2,462
			19,109	20,815
Total liabilities and shareholders' equity			**236,457**	**355,017**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		30,297		29,359
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			30,297	29,359
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		27,054		27,166
			27,054	27,166

Notes to the Annual Financial Statements

Legal basis

The annual financial statements of UniCredit Bank AG ("HVB") for the 2013 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

HVB is active in all of the sectors served by commercial and mortgage banks.

HVB has published the voluntary declaration of compliance with the German Corporate Governance Code in accordance with Section 161 AktG on its website at www.hvb.de/investorrelations/reportsfinancedata.

Accounting, valuation and disclosure

The amounts shown in the tables and text below are figures at the reporting date of December 31 in the case of disclosures of balances and developments from 1 January to 31 December of the year in question in the case of disclosures regarding the income statement.

1 Consistency

The same accounting and valuation methods have essentially been applied as last year. Changes in accounting and valuation methods as well as disclosure modifications are indicated for the respective items.

2 Cash and cash balances

The cash and cash balances (asset item 1) are stated at nominal amounts.

3 Treasury bills and bills of exchange

Treasury bills and other bills (asset item 2) are shown at their cash value, less any discounted amounts.

4 Loans and receivables with banks and customers

Loans and receivables with banks and customers (asset items 3 and 4) are always stated at the nominal amount plus any accrued interest. Differences between acquisition cost and nominal amount (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income and taken to the income statement under net interest income in the correct period over the term of the underlying items. Any necessary write-downs and provisions compliant with Section 340 HGB are deducted.

Loans and receivables are valued at the lower of cost or market as stipulated in Section 253 (4) 1 HGB. HVB creates specific loan-loss provisions and accruals to the amount of the anticipated loss for all identifiable exposure to acute counterparty default risk. The expected flow-backs discounted with the original effective interest rate were used when determining the level of write-downs compliant with Section 253 HGB. Specific loan-loss provisions and accruals are reversed as soon as the default risk has ceased, or used if the receivable is classified as irrecoverable and written off.

Country risk is covered by specific loan-loss provisions for loans at risk of default; a distinction is no longer made between the default risk of the borrower and the transfer risk from the borrower to the Bank.

Latent lending risks are covered by global provisions. When assessing domestic latent lending risks, HVB applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. When assessing foreign latent lending risks, HVB similarly applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. The only exception is the calculation of latent lending risks for the Athens branch, where the global provisions are set up on the basis of Greek law (1% of the average volume of loans and receivables with customers).

Like other loans and receivables, mortgage loans are shown at their nominal values. Differences between the nominal amount and the actual amount paid out are included under either prepaid expenses or deferred income, and amortised over the period to which they apply.

The purpose defined at the time of acquisition (Section 247 (1) and (2) HGB) determines the assignment of loans, receivables and securities to the held-for-trading portfolios, the liquidity reserve or investment assets.

The Bank has made use of the option permitted by Section 340 (3) et seq. HGB for the first time in the 2013 financial year to net the write-downs and impairments for receivables and certain securities as well as additions to provisions for losses on guarantees and indemnities with the write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities. The corresponding year-ago figure has been adjusted accordingly.

5 Bonds and other fixed-income securities, and equity securities and other variable-yield securities

Investment securities and securities held for liquidity purposes (securities treated neither as held for trading purposes nor as investment securities) are shown under bonds and other fixed-income securities (asset item 5) and equity securities and other variable-yield securities (asset item 6).

We measure investment securities in accordance with the modified lower of cost or market principle compliant with Section 253 (3) 3 HGB, under which impairments are only to be deducted from the acquisition cost if the loss of value is expected to be permanent. In the case of equity instruments, we recognise an impairment loss if the fair value at the reporting date is significantly lower than the carrying amount or if the fair value has exceeded the carrying amount for a long period of time. In the case of debt instruments, on the other hand, an impairment that is likely to be permanent occurs when the issuer of the securities defaults. In the event of a loss of value that is attributable to market prices, we assume that the impairment is only temporary, as these losses will be balanced out again by the due date at the latest. On the other hand, securities held for liquidity purposes are treated as current assets valued at the lower of cost or market (Section 253 (4) 1 HGB) and carried at their acquisition cost or market, or fair value, whichever is the lower. Appropriate write-downs are taken to take account of the creditworthiness of the issuer and the liquidity of the financial instrument (for more information about these fair value adjustments, please refer to the comments regarding the held-for-trading portfolio). Where the reasons for a write-down to the lower of cost or market no longer apply, the write-down is reversed compliant with Section 253 (5) HGB.

The Bank sets up valuation units documented in advance for certain interest-bearing securities, promissory notes held for liquidity purposes (with a carrying amount of €28,104 million (2012: €22,995 million)) and certain interest rate derivatives hedged against interest rate risk by equivalent hedging derivatives (notably interest rate swaps). The hedge of the dynamic portfolio within the framework of the valuation unit is of unlimited duration; the hedging period of the individual hedging derivatives is always related to the residual maturity of the respective hedged items in the portfolio. The offset changes in the value of the interest-bearing securities amount to an increase of €423 million (2012: €899 million) for the portfolios whose hedged items encompass securities and promissory notes. At the same time, both the interest rate risk and the foreign currency risk inherent in a bond denominated in US dollars is hedged in a further valuation unit (with a carrying amount of €364 million (2012: €367 million)) using a cross-currency interest rate swap. The offset change in the value of interest-bearing securities totals an increase of €80 million (2012: decrease of €66 million) for this valuation unit. The requirements of Section 254 HGB regarding valuation units have been met. The changes in value arising from the hedged items and hedges are set against each other and offset within the individual valuation units. Under the net hedge presentation method, no net valuation gain is taken to the income statement; provisions are set up to cover any net loss on the ineffective portion of the changes in value. Any valuation loss arising from the unhedged risk is included in the respective hedged items and hedging derivatives in accordance with the imparity principle.

The Bank has made use of the option permitted by Section 340 (3) et seq. HGB for the first time in the 2013 financial year to net the write-downs and impairments for receivables and certain securities as well as additions to provisions for losses on guarantees and indemnities with the write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities. The corresponding year-ago figure has been adjusted accordingly.

6 Held-for-trading portfolio

Compliant with Section 340e (3) HGB, financial instruments held by banks for trading purposes are measured at fair value less a risk discount and recognised in the balance sheet. Any ensuing changes in value and provisions relating to trading transactions are recognised in the income statement under net income from the held-for-trading portfolio. In addition, compliant with Section 340e (4) HGB in the event of a net profit being recorded on financial operations, 10% of the net income from the held-for-trading portfolio is allocated to the “Fund for general banking risks” in accordance with Section 340g HGB, and shown in the balance sheet separately. HVB assigns all financial instruments (bonds, equity securities, derivatives, loans and receivables, and liabilities, including delivery obligations arising from short sales of securities) to the held-for-trading portfolio that are acquired and sold with the intention of generating a short-term gain on proprietary trading. This is done to exploit existing or anticipated differences between buying and selling prices or fluctuations in market rates, prices, values or interest rates to generate a trading gain or margin. No changes have been made compared with last year regarding the criteria for assignment to the trading portfolio (definition of the intention to trade). No financial instruments have been reclassified to or from the held-for-trading portfolio. The assets and liabilities that are held for trading are shown separately in the balance sheet (asset item 6a and liability item 3a).

Notes to the Annual Financial Statements (Continued)

We have determined the fair value of the financial instruments held for trading purposes in accordance with the valuation hierarchy specified in Section 255 (4) HGB. The fair value is normally defined as the amount at which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The market price is used for financial instruments for which there is an active market. Where there is no active market that can be used to determine the market price, the fair value is determined with the aid of generally recognised valuation methods (notably present value and option price models).

The fair values of securities and derivatives are assumed on the basis of either external price sources (such as stock exchanges or other price providers like Reuters) or determined using internal valuation models. For the most part, prices from external sources are used to calculate the fair value of securities. HVB's credit risk is included in the fair value of liabilities held for trading purposes. Derivatives are primarily measured on the basis of valuation models. The parameters for our internal valuation models (such as yield curves, volatilities and spreads) are taken from external sources, and checked for their validity and correctness by the Risk Control unit.

Appropriate adjustments (referred to as fair value adjustments) are made to the fair values calculated in this way in order to take account of further influences on the fair value (such as the liquidity of the financial instrument or model risks when the fair value is calculated using a valuation model). Rating-related default risk in trading-book derivatives is covered by applying suitable valuation adjustments (CVAs and DVAs).

The main conditions that can influence the amount, timing and certainty of future cash flows from derivatives essentially relate to the following features of derivatives:
– Where the cash flows under derivatives are linked to current market prices or rates, the respective market price or market rate at the payment date determines the amount payable (in the case of interest rate swaps, for instance, the payment of the variable interest rate on the payment date depends on the interest rate fixed on this date, such as Euribor).
– Where the derivatives allow for cash settlement at market value on the due date, the amount payable is calculated as the difference between the price set when the derivative was entered into and the current market price (in the case of a foreign exchange forward with cash settlement, for instance, the difference between the agreed forward price and the current price is payable).
– In the case of American options, unlike European options, the option buyer has the right to exercise the option at any time during the term of the option.
– Where it is possible to terminate a derivative prior to maturity (as is the case with all exchange-traded derivatives, for instance), the derivative may be terminated by paying the current fair value.
– The counterparty's credit rating and solvency are a further important consideration. If the counterparty becomes insolvent, it can no longer be expected that it will meet its obligations arising from the derivative.

These features may be included in the terms agreed for any type of derivative. Thus it is possible that foreign exchange, interest rate and equity options may be exercised at any time (American option) or only at maturity (European option). It is generally possible to determine the size of the derivative positions entered into from the respective nominal amounts.

In order to obtain the final figures disclosed in the balance sheet for the held-for-trading portfolios, the risk discount required by Section 340e (3) 1 HGB is deducted from the fair values of the financial instruments held for trading purposes determined in this way. Including the risk discount in net trading income reflects the risk of possible price losses up until the earliest possible date of realisation of unrealised valuation gains or losses. In accordance with the relevant regulatory rules, the risk discount is determined on the basis of the internal risk management system using an accounting value-at-risk approach (holding period of ten days; confidence level: 99%; 2-year observation period). We have deducted the risk discount determined for the entire held-for-trading portfolio from the assets held for trading purposes in the balance sheet (asset item 6a) and recognised it in the net income from the held-for-trading portfolio.

HVB employs derivative financial instruments both for trading purposes and to hedge balance sheet items. The vast majority are trading derivatives which are disclosed at their fair value in the held-for-trading portfolio items on the assets side and liabilities side of the balance sheet and taken to the income statement.

Derivatives that are not associated with the held-for-trading portfolio continue to be treated in accordance with the principle of the non-recognition of pending transactions. Only cash flows that have started, such as option premiums and accrued upfront payments on unvalued banking book derivatives, are disclosed under other assets (asset item 12), other liabilities (liability item 5) and deferred income or prepaid expenses (asset item 13 and liability item 6). Irrespective of whether it results from the hedged item or the hedging derivative, any net loss arising from valuation units set up for the netting (compensation) of the change in value of the hedged item and hedging derivative associated with the hedged risk is to be taken to the income statement as a provision for valuation units. In accordance with German GAAP, any change in fair value arising from the unhedged risk in both the hedged item and the hedging instrument is recognised on a gross basis in compliance with individual valuation under the imparity principle.

The interest derivatives employed for asset/liability management of the general interest rate risk associated with receivables and liabilities in the banking book are measured as part of the aggregate interest position. Please refer to the Risk Report for a discussion of the management of the overall interest rate position.

The few remaining standalone derivatives outside the trading book are valued in accordance with the imparity principle. A provision for anticipated losses on pending transactions is set up for unrealised valuation losses; unrealised valuation gains are not recognised.

Derivatives held for trading purposes that were concluded under master agreements together with a credit support annex allowing for daily exchange of collateral were netted for each counterparty for the first time in the 2013 financial year. Such netting encompasses both the carrying amount of the derivatives and the collateral provided for each counterparty. In the same way, the scope of netting for OTC derivatives concluded with the same counterparty was expanded to include the collateral provided.

Extensive information about our derivative financial instruments, complete with detailed breakdowns by product and risk type, and showing the nominal amounts, fair values and the counterparty structure, is included in the note to the annual financial statements regarding derivative financial instruments.

The Risk Report contains a detailed overview of the Bank's derivative transactions.

7 Participating interests and shares in affiliated companies

Participating interests and shares in affiliated companies (asset items 7 and 8) are shown at the lower of acquisition cost or – if there is a permanent impairment – fair value prevailing at the balance sheet date.

Where HVB holds a controlling interest, profits and losses of partnerships as well as dividends paid by limited or incorporated companies are recognised in the year in which they arise, provided the relevant legal conditions are met.

Compliant with Section 340c (2) 2 HGB, HVB nets income from write-ups on participating interests, shares in affiliated companies and investment securities (income item 7) with write-downs on these investments (expense item 8). In addition, HVB includes the expense and income items which reflect the results from the disposal of financial assets are included in this netting process in accordance with the option permitted by Section 340c (2) 2 HGB.

Notes to the Annual Financial Statements (Continued)

8 Intangible assets
Goodwill and software are disclosed under intangible assets (asset item 10).

Purchased goodwill is calculated by setting the acquisition cost of a company against the value of the company's individual assets, less the liabilities at the time of acquisition. It is normally amortised over the standard useful life of five years assumed by law. In justified cases, the goodwill may be amortised over a longer period, provided the individual expected useful operating life exceeds five years. An impairment is recognised in the event of a permanent loss of value. Should the reasons for the impairment no longer apply, the lower amount recognised for derivative goodwill is retained.

Purchased intangible assets are capitalised at cost and amortised over their expected useful life of three to five years (software) or a longer contractual useful life of up to ten years (other intangible assets). Impairments are recognised where necessary. HVB has not made use of the capitalisation option for internally generated intangible assets classified as non-current.

9 Property, plant and equipment
Property, plant and equipment (asset item 11) is valued at acquisition or production cost, less – insofar as the assets are depreciable – depreciation using the straight-line method based on their expected useful life. In such cases, the useful lives are closely related to the depreciation rules specified in Section 7 of the German Income Tax Act (Einkommensteuergesetz – EStG) in conjunction with the depreciation tables for equipment. Pro rata depreciation is taken to the income statement for additions to furniture and office equipment in the year of acquisition.

Low-value assets with acquisition costs of up to €150 are fully expensed in the year of acquisition and shown as additions and disposals in the analysis of non-current assets. We set up a collective item for all items of property, plant and equipment with acquisition costs of between €150 and €1,000 (pool depreciation in accordance with Section 6 (2) 2a EstG), one-fifth of which we reverse in the financial year of creation and each of the following four years in the income statement.

10 Liabilities
Liabilities (liability items 1 to 3, 8 and 9) are stated at the amount repayable plus accrued interest. Differences between the amount repayable and the amount disbursed (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income, and reversed under net interest income in the correct accounting period. Liabilities without current interest payments (zero-coupon bonds) are stated at their present value calculated using a constant discount rate over the relevant terms.

11 Provisions
In accordance with the principles of sound commercial judgement, we assess provisions for taxes, uncertain liabilities and anticipated losses on pending transactions (liability item 7) at the amount repayable, taking into account anticipated future price and cost increases. Provisions falling due in more than one year are discounted using the average market rate of the past seven financial years determined and published by Deutsche Bundesbank as appropriate for the respective maturities.

HVB offers its employees various types of company pension plans. To fund the company pension plans, has covered its pension commitments largely with plan assets managed as external trustee assets with limited access. These plan assets are set against the liabilities arising from pension commitments or similar long-term commitments. If the plan assets of the pension funds, pension guarantee associations or retirement benefit corporations in question do not cover the amount of the equivalent pension commitments payable, HVB recognises a provision for pension funds and similar obligations in the amount of the shortfall. If the fair value of the plan assets exceeds the commitments, the difference is recognised as the excess of plan assets over pension liabilities. The associated income and expenses to be offset are recognised in net interest income.

We measure payment obligations arising from pension commitments at the amount payable calculated using the projected unit credit method on the basis of biometric probabilities. Anticipated future salary and pension increases are taken into account when measuring the pension commitment. Insofar as the amount of the pension commitments is determined exclusively by the fair value of securities, we recognise provisions for this at the fair value of these securities where it exceeds a guaranteed minimum amount. HVB has made use of the option to employ the average market rate determined and published by Deutsche Bundesbank as the discount rate for an assumed residual maturity of 15 years.

The discount rate for November 2013 published by Deutsche Bundesbank for a residual maturity of 15 years at 4.89% p.a. (2012: 5.05% p.a.) and a pension trend of 1.80% p.a. (2012: 1.70% p.a.) were applied in the actuarial calculation of the amount payable at 31 December 2013. A figure of 2.50% p.a. (2012: 2.00% p.a.) has been included in the calculation for the anticipated wage and salary increases; a figure of 0.50% (2012: 0.50–1.50%) has been included in the calculation for the career trend. Life expectancies are based on the modified Heubeck 2005 G tables. The life expectancy has been reduced to 75% for men and 90% for women, and the probability of invalidity to 80%, of the figures shown in the tables.

Whereas the income and expenses arising from the compounding and discounting of provisions for pensions are shown in net interest income, the current service cost accruing during the period and the effects arising from changed assumptions regarding the wage, salary and pension trend and biometric probabilities are disclosed under payroll costs. The same principles apply for the impact on earnings arising from the change in the group of beneficiaries and the change in provisions for pension in connection with company restructuring activities. Similarly, the impact on earnings of the change in the discount rate arising during the course of the 2013 financial year is allocated to payroll costs.

An allocation totalling €332 million is required as the recognised provision for pensions and similar commitments rises on account of the inclusion of future pay and pension increases and the change in the discount rate caused by the changeover to the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). HVB makes use of the option compliant with Section 67 (1) 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The annual allocation of €22 million is charged to extraordinary income/expenses in the income statement.

Furthermore, IDW RS BFA 3 requires the Bank to check whether it has incurred a loss on the aggregate holding of interest-bearing transactions in the banking book. The Bank applies the net present value approach to ascertain whether there are any circumstances beyond the individual valuation that had already occurred in economic terms at the reporting date that would lead to losses in the future. In this instance, it would be necessary to set up a provision for anticipated losses on pending transactions to ensure loss-free valuation in the banking book. To do this, the cash flows from the interest-bearing transactions in the banking book are discounted on the basis of the market interest rates at the reporting date and set against their carrying amounts using the net present value approach. All on- and off-balance-sheet, interest-bearing financial instruments outside of the held-for-trading portfolio are included in this process. All costs to be incurred in connection with the interest-bearing transactions such as risk costs, administration costs for handling the transactions through to their maturity, funding costs and so on are taken into account for discounting. This also includes imputed costs for equity capital that are stated in compliance with the rules for internal interest rate risk management. The contractual cash flows are normally used as the basis; appropriate assumptions regarding the anticipated utilisation are only made and hence an economic maturity used as the basis for financial instruments with no fixed maturity (such as demand and savings deposits) in compliance with the internal risk management rules. The present values calculated in this way are set against the carrying amounts; derivatives concluded to hedge interest rate risk in the banking book are recognised at their fair value and generally set against a carrying amount of zero as they are not carried as general hedging derivatives individually in the banking book. A provision for anticipated losses on pending transactions needs to be set up to cover any shortfall between the present value determined in this way and the carrying amount. In this context, positive differences on interest-bearing transactions may not be offset against negative differences unless the transactions concerned are controlled together in internal interest rate risk management.

12 Plan assets
Assets serving exclusively to settle pension commitments or similar long-term commitments, and to which all other creditors do not have recourse, are measured at fair value and offset against the underlying commitment.

If the offsetting results in an excess of commitments over plan assets, we recognise a provision for pensions and similar commitments (liability item 7) to this amount. If the value of the assets exceeds the commitments, the amount is recognised under excess of plan assets over pension liabilities (asset item 15).

The plan assets consist mainly of investment fund shares that are recognised at the current redemption price (fair value).

Income and expenses arising from plan assets and from the compounding and discounting of the corresponding obligations are offset against each other and shown in net interest income.

Compliant with Section 8a of the German Semi-Retirement Act (Altersteilzeitgesetz – AltTZG), employee credits for semi-retirement are secured by pledging securities to the trustee.

Notes to the Annual Financial Statements (Continued)

13 Deferred tax assets and liabilities
Compliant with Section 274 HGB, deferred tax items are determined for temporary differences between the carrying amount of an asset, liability or deferred item shown in the commercial balance sheet and the corresponding amount disclosed for tax reporting purposes as well as for tax loss carryforwards and tax credits. German corporations are normally charged a corporate income tax rate of 15%, irrespective of any dividend distribution. Deferred taxes are measured using the uniform corporate income tax rate of 15.8%, including the solidarity surcharge, and the municipal trade tax dependent upon the applicable municipal trade tax multiplier. At HVB, this results in an overall valuation rate for the domestic portion of deferred taxes of 31.4%. The respective local tax rates are applied analogously for the foreign establishments. Compliant with Section 274 (1) 2 HGB, the deferred tax assets involved have not been recognised on account of an aggregate future reduction in tax. This results mainly from tax valuation provisions regarding general provisions and risk provisions as well as tax loss carryforwards.

14 Foreign currencies
Amounts in foreign currency are translated in accordance with the principles set forth in Section 340h and Section 256a HGB. As a result, assets and liabilities denominated in foreign currency and spot transactions outstanding at the balance sheet date are always converted into euros using the mean spot rate applicable at the balance sheet date. On the other hand, investment securities denominated in foreign currency that are not specifically covered in the same currency are carried at their historical cost. Outstanding forward transactions are translated using the forward rate effective at the balance sheet date.

The foreign currency positions in the portfolio not held for trading that are concluded in each currency are transferred to the held-for-trading portfolio on a daily basis under a standard system of currency risk management that is applicable across the Bank as a whole. The translation gains on the foreign currency positions managed in the held-for-trading portfolio are recognised at fair value in the income statement in accordance with the valuation methods applicable to the held-for-trading portfolio (Section 340e (3) 1 HGB). Consequently, the entire net income from FX trading is disclosed under net income from the held-for-trading portfolio in the income statement.

Notes to the Balance Sheet

15 Breakdown by maturity of selected asset items

The following table shows the breakdown by maturity of selected asset items:

(€ millions)

			2013	2012
A 3 b)	Other loans and receivables with banks			
	with residual maturity of	less than 3 months	16,939	16,555
		at least 3 months but less than 1 year	3,544	2,468
		at least 1 year but less than 5 years	5,332	6,275
		5 years or more	866	1,303
A 4)	Loans and receivables with customers			
	with residual maturity of	less than 3 months	4,701	5,509
		at least 3 months but less than 1 year	7,564	6,411
		at least 1 year but less than 5 years	28,193	31,317
		5 years or more	36,700	40,411
		No fixed maturity	10,447	13,311
A 5)	Bonds and other fixed-income securities, amounts due in the following year		11,021	8,946

16 Breakdown by maturity of selected liability items

The following table shows the breakdown by maturity of selected liability items:

(€ millions)

			2013	2012
L 1	Deposits from banks			
L 1 b)	with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	15,384	11,654
		at least 3 months but less than 1 year	9,108	7,622
		at least 1 year but less than 5 years	9,344	9,892
		5 years or more	4,904	5,147
L 2	Deposits from customers			
L 2 ab)	savings deposits with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	12	15
		at least 3 months but less than 1 year	16	24
		at least 1 year but less than 5 years	98	100
		5 years or more	8	19
L 2 b)	registered mortgage bonds in issue			
L 2 c)	registered public-sector bonds in issue			
L 2 db)	other debts with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	20,099	16,677
		at least 3 months but less than 1 year	10,069	9,968
		at least 1 year but less than 5 years	6,479	7,077
		5 years or more	9,725	11,029
L 3	Debt securities in issue			
L 3 a)	bonds, amounts due in following year		4,164	5,836
L 3 b)	other debt securities in issue			
	with residual maturity of	less than 3 months	—	—
		at least 3 months but less than 1 year	—	—
		at least 1 year but less than 5 years	—	—
		5 years or more	—	—

Notes to the Balance Sheet (Continued)

17 Amounts receivable from and payable to affiliates and companies in which participating interests are held

(€ millions)

	2013		2012	
	AFFILIATES	PARTICIPATING INTERESTS	AFFILIATES	PARTICIPATING INTERESTS
Loans and receivables with banks	15,584	158	19,609	377
of which: UniCredit S.p.A.	1,222	—	938	—
Loans and receivables with customers	3,290	1,993	3,446	912
Bonds and other fixed-income securities	4,543	4,841	5,022	6,050
of which: UniCredit S.p.A.	4,177	—	4,311	—
Deposits from banks	7,896	55	9,702	157
of which: UniCredit S.p.A.	789	—	2,761	—
Deposits from customers	1,243	364	1,554	338
Debt securities in issue	1,671	—	2,012	—
of which: UniCredit S.p.A.	351	—	351	—
Subordinated liabilities	276	—	1,047	—

Besides the relationships with affiliated companies, there have been a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies since the integration of HVB into the UniCredit group of companies.

In its role as centre of competence for markets and investment banking for the entire UniCredit corporate group, HVB acts as counterparty for derivative transactions conducted by UniCredit companies. For the most part, this involves hedge derivatives of UniCredit group companies that are externalised on the market by HVB.

18 Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2013	2012
Trust assets	**4**	**31**
Loans and receivables with banks	—	—
Loans and receivables with customers	4	31
Equity securities and other variable-yield securities	—	—
Participating interests	—	—
Trust liabilities	**4**	**31**
Deposits from banks	3	3
Deposits from customers	1	28
Debt securities in issue	—	—
Other liabilities	—	—

The significantly lower volume of trustee activities compared with last year can be attributed to the modified business policy in the field of foreign currency loans.

19 Foreign-currency assets and liabilities

65.9% of HVB's foreign-currency holdings consist of US dollars, 16.0% of pounds sterling, 7.7% of Japanese yen and 2.4% of Swiss francs. (€ millions)

	2013	2012
Assets	**29,687**	**30,628**
Cash and cash balances	3,863	1,443
Treasury bills and other bills eligible for refinancing with central banks	—	—
Loans and receivables with banks	3,320	1,831
Loans and receivables with customers	13,374	17,466
Bonds and other fixed-income securities	2,441	2,449
Equity securities and other variable-yield securities	113	37
Held-for-trading portfolio (assets held for trading purposes)[1]	6,392	6,746
Participating interests	46	221
Shares in affiliated companies	35	284
Trust assets	—	27
Intangible assets	—	—
Property, plant and equipment	2	4
Other assets	93	113
Prepaid expenses	8	7
Liabilities	**16,783**	**21,914**
Deposits from banks	7,671	10,851
Deposits from customers	4,956	5,174
Debt securities in issue	12	43
Held-for-trading portfolio (liabilities held for trading purposes)[1]	3,764	5,215
Trust liabilities	—	27
Other liabilities	161	119
Deferred income	28	33
Provisions	57	92
Subordinated liabilities	134	360

1 due to system-related restrictions, only derivative volumes denominated in euros are included

The amounts shown represent the euro equivalents of all currencies.

20 Subordinated asset items

The following balance sheet items contain subordinated assets totalling €3,624 million (2012: €4,272 million): (€ millions)

	2013	2012
Subordinated asset items	**3,624**	**4,272**
Loans and receivables with banks	703	1,273
Loans and receivables with customers	137	175
Bonds and other fixed-income securities	2,570	2,587
Equity securities and other variable-yield securities	8	8
Held-for-trading portfolio	206	229

Notes to the Balance Sheet (Continued)

21 Marketable debt and investments

The listed and unlisted marketable securities included in the respective balance sheet items break down as follows:

(€ millions)

	2013			2012		
	TOTAL MARKET-ABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED	TOTAL MARKET-ABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED
Bonds and other fixed-income securities	52,089	40,442	11,647	48,562	41,622	6,940
Equity securities and other						
variable-yield securities	80	4	76	80	26	55
Held-for-trading portfolio	26,051	19,147	6,904	28,435	20,017	8,417
Participating interests	103	103	—	104	104	—
Shares in affiliated companies	322	322	—	288	288	—

Non-current marketable securities contain financial instruments carried at an amount higher than their fair value.

(€ millions)

	2013		2012	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Non-current securities	18,525	18,486	19,929	19,610
Bonds and other fixed-income securities	18,525	18,486	19,929	19,610
Equity securities and other variable-yield securities	—	—	—	—

Given the development of interest and rating risks, we do not believe that these securities have suffered a permanent loss of value.

The marketable debt and investments, and loans and receivables (including promissory notes), at 31 December 2013 included no Greek sovereign bonds.

22 Held-for-trading portfolio

The following table shows the breakdown of assets held-for-trading purposes (asset item 6a) by financial instruments totalling €48,828 million (2012: €143,531 million):

(€ millions)

	2013	2012
Assets held-for-trading	**48,828**	**143,531**
Derivative financial instruments (positive market values)	13,888	108,472
Loans and receivables	7,962	5,838
Bonds and other fixed-income securities	18,086	24,109
Equity securities and other variable-yield securities	8,919	5,164
Less risk discount (for entire portfolio of assets held for trading purposes)	(27)	(52)

The following table shows the breakdown of liabilities held-for-trading purposes (liability item 3a) by financial instruments totalling €29,233 million (2012: €132,327 million):

(€ millions)

	2013	2012
Liabilities held-for-trading	**29,233**	**132,327**
Derivative financial instruments (negative market values)	10,366	107,770
Liabilities (including delivery obligations arising from short sales of securities)	18,867	24,557

Derivatives held-for-trading purposes that were concluded under master agreements together with a credit support annex allowing for daily exchange of collateral were netted for each counterparty for the first time in the 2013 financial year. The netting for each counterparty encompasses both the carrying amount of the derivatives and the collateral provided. This involved netting positive market values of €49.7 billion with negative market values of €51.0 billion on derivatives held-for-trading with the associated receivables (€8.2 billion) and liabilities (€6.9 billion) from collateral provided. At the same time, adjustments were made to the derivative portfolios through bilateral arrangements and corresponding institutions, which led to a reduction of the volume of derivatives and thus assets held-for-trading. Furthermore, the decline can be attributed to higher medium-term interest rates and reduced volatilities in foreign currency derivatives and hence the associated market values.

23 Investment funds

The following table contains information regarding shares in investment funds compliant with Section 285 No. 26 HGB for which the Bank's holding exceeds 10% of the total number of shares:

(€ millions)

	31/12/2013			31/12/2012		
FUND TYPE	CARRYING AMOUNT	FAIR VALUE	DIVIDEND PAYMENTS	CARRYING AMOUNT	FAIR VALUE	DIVIDEND PAYMENTS
Total investment funds	**752**	**760**	**1.6**	**496**	**498**	**1.9**
Equity funds	225	231	—	91	93	—
Money market funds and near-money market funds	31	31	0.2	19	19	—
Mixed funds	320	322	0.1	188	188	0.6
Index funds	127	127	0.9	115	115	0.6
Bond funds	49	49	0.4	83	83	0.7

In addition, the Bank holds all the shares in the "European-Office-Fonds" property special purpose entity, which is fully consolidated in the Bank's consolidated financial statements in accordance with SIC 12.

Under Section 246 (2) HGB, assets to which all other creditors do not have access and which serve exclusively to settle liabilities arising from pension commitments or similar long-term commitments must be offset against these liabilities. Where these assets represent shares in investment funds, they are not shown in this table.

The shares listed in this table are held in either the Bank's held-for-trading portfolio or its liquidity reserve. Where necessary, the holdings are always written down to the lower fair value.

In the case of the information regarding the dividend payments, it should be noted that the positions included in the table frequently represent investment funds that reinvest dividends in themselves. Consequently, the dividend payments shown in the table serve only as a limited indicator for the performance of the investment funds.

There are no indications of a restriction on daily return for most of the shares listed here.

Notes to the Balance Sheet (Continued)

24 Analysis of non-current assets

(€ millions)

	ACQUISITION/ PRODUCTION COST	ADDITIONS DURING FINANCIAL YEAR	DISPOSALS DURING FINANCIAL YEAR	RECLASSIFICATIONS DURING FINANCIAL YEAR[1]
Intangible assets	**724**	**14**	**—**	**(1)**
thereof:				
Software	714	6	—	9
Downpayments	10	8	—	(10)
Other intangible assets	—	—	—	—
Property, plant and equipment	**485**	**7**	**6**	**(2)**
thereof:				
Land and buildings used by HVB in its operations	203	2	2	—
Furniture and office equipment	282	5	4	(2)
Other non-current assets	**21**	**—**	**—**	**—**
	ACQUISITION COST			**CHANGES +/–[2]**
Participating interests	1,103			(545)
Shares in affiliated companies	3,079			(280)
Investment securities	19,929			(1,404)

1 the "Reclassifications during financial year" column shows the changes in value as a result of currency translation, among other things
2 use has been made of the possibility of combining amounts allowed by Section 34 (3) RechKredV

25 Other assets

The following table shows the main items included in other assets totalling €957 million (2012: €1,393 million):

(€ millions)

	2013	2012
Claims to tax reimbursements	514	477
Claims to dividends from affiliated companies	266	347
Proportion of income from commission/interest not yet received	39	37
Proportion of income from portfolio fees	38	35
Trade debtors	22	22
Works of art	21	21
Capital investments with life insurers	18	19
KG shares intended for re-sale	4	4
Collection paper, such as cheques, matured debentures, interest and dividend coupons	3	3
Adjustment item for tied currency positions	1	12
Variation margin for listed futures contracts	—	118
Land and buildings classified as current assets	—	52

The claims to tax reimbursements consist of claims of €433 million (2012: €362 million) arising from income tax and of €81 million (2012: €115 million) arising from non-income taxes. The claims to dividends from affiliated companies include €130 million (2012: €181 million) in prorated income from UniCredit Luxembourg.

(€ millions)

WRITE-UPS DURING FINANCIAL YEAR	DEPRECIATION/ AMORTISATION ACCUMULATED	SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR	NON-SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR	DISPOSALS DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR	NET BOOK VALUE 31/12/2013	NET BOOK VALUE 31/12/2012
—	**693**	**36**	**—**	**1**	**44**	**67**
—	693	36	—	1	36	57
—	—	—	—	—	8	10
—	—	—	—	—	—	—
—	**326**	**18**	**4**	**7**	**158**	**174**
—	98	7	4	1	105	115
—	228	11	—	6	53	59
—	**—**	**—**	**—**	**—**	**21**	**21**
					NET BOOK VALUE 31/12/2013	**NET BOOK VALUE 31/12/2012**
					558	978
					2,799	2,722
					18,525	19,929

26 Prepaid expenses

The prepaid expenses arising from issuing and lending operations include the following:

(€ millions)

	2013	2012
Discounts on funds borrowed	52	66
Premiums on amounts receivable	—	—

27 Excess of plan assets over pension liabilities

An amount payable of €968 million arising from liabilities due to pension and similar commitments was set against offsetting plan assets with a fair value of €1,663 million. Under the initial application provisions of the BilMoG, use was made of the option to spread the amount allocable to pension provisions equally over a period of 15 years. One-fifteenth of the transitional amount was allocated to the provision for pensions in the 2013 financial year. The omitted transitional allocation in the year under review totalled €243 million. The excess of assets over commitments, taking into account the omitted transitional allocation, is disclosed in the balance sheet as the excess of plan assets over pension liabilities (€695 million). The acquisition cost of the offsetting plan assets totalled €1,526 million. The assets involved are essentially fund shares, investments, and cash and cash equivalents.

(€ millions)

	2013	2012
Amount payable for offset pension and similar commitments	968	823
Fair value of the offsetting plan assets	1,663	1,551
Omitted transitional allocation	243	266
Excess of plan assets over the commitments, including the shortfall	695	727
Acquisition cost of the offsetting plan assets	1,526	1,430

Notes to the Balance Sheet (Continued)

28 Assets assigned or pledged as security for own liabilities

Assets totalling €53,583 million (2012: €46,505 million) were assigned or pledged as security for the following liabilities:

(€ millions)

	2013	2012
Assets assigned or pledged as security for own liabilities	**53,583**	**46,505**
Deposits from banks	34,147	29,797
Deposits from customers	19,436	16,708

The collateral provided for deposits from banks includes all collateral pledged to the ECB, irrespective of whether this is actually used to borrow funds or not. At 31 December 2013 and 2012, the volume of collateral pledged significantly exceeded the funds borrowed from the ECB.

Examples of own liabilities for which HVB provides collateral are special credit facilities provided by KfW and similar institutions, which the Bank has passed as loans in compliance with their conditions.

As a seller under repurchase agreements, HVB has transferred securities with a book value of €42,841 million (2012: €36,402 million) to its funding partners. These securities continue to be shown under HVB's assets, and the consideration received in return is stated under liabilities. They comprise mainly open-market transactions with Deutsche Bundesbank and international money market transactions.

At the same time, further assets totalling €18,225 million (2012: €18,220 million) were pledged as security for securities lending transactions and exchange-traded derivatives.

In setting up a contractual trust arrangement (CTA), HVB transferred collateral to the asset administrator to hedge pension and semi-retirement obligations. Pursuant to Section 8a AltTZG, employers are required to hedge credit exceeding three times the amount of normal earnings, including the associated employer's contribution to the total social security charge, against the risk of insolvency. Recognised provisions and obligations to cover the costs of other group companies are not considered suitable means of security.

29 Other liabilities

The following table shows the main items included in other liabilities of €6,572 million (2012: €8,169 million):

(€ millions)

	2013	2012
Amounts owed to special purpose entities	4,629	6,009
Obligations arising from debts assumed	1,285	1,297
Taxes payable	106	173
Other amounts owed to employees	108	97
Trading book valuation reserves	41	38
Liabilities from losses absorbed from subsidiaries	12	6
Amounts yet to be distributed from outplacements, etc.	11	13
Variation margin for listed futures contracts	—	89

The true sale transaction Rosenkavalier 2008 included under amounts owed to special purpose entities was carried out with a view to using the securities generated as collateral for repurchase agreements with the ECB. The underlying receivables are still recognised by HVB. All tranches are retained by the Bank, meaning that there is no corresponding reduction in risk-weighted assets.

The obligations arising from debts assumed essentially reflect obligations arising from the liquidation of media funds.

The taxes payable consist of liabilities from non-income taxes of €106 million (2012: €161 million) and income tax payable of €0 million (2012: €12 million).

30 Deferred income

Discounts on amounts receivable shown at nominal value totalled €12 million (2012: €15 million). Furthermore, other deferred income includes accrued commissions of €20 million (2012: €58 million) and interest of €57 million (2012: €69 million) collected in advance.

31 Provisions

Other provisions include the following items: (€ millions)

	2013	2012
Total other provisions	**2,610**	**2,666**
Provisions for losses on guarantees and indemnities	305	619
Anticipated losses on pending transactions[1]	28	159
Provisions for uncertain liabilities	2,277	1,888
of which:		
Restructuring	396	182
Payments to employees	325	300
Valuation units	190	186
Anniversary bonus payments	44	44
Payments for early retirement, semi-retirement, etc.	40	9
Bonuses on savings plans	22	21

1 the provisions for valuations units (€186 million) carried under provisions for anticipated losses on pending transactions in 2012 were reclassified to provisions for uncertain liabilities

Among other things, the provisions for uncertain liabilities include provisions for legal risks, litigation fees, damage payments, valuation units, rental guarantees and pre-emptive rights, long-term liabilities to employees and restructuring.

Restructuring provisions totalling €343 million were set up in the 2013 financial year, mainly in connection with the modernisation of the retail banking business and the expansion of HVB's multi-channel offering. They are intended to cover severance payments and the costs involved in the closure of branch offices, and are expected to be used primarily in 2014 and 2015.

Notes to the Balance Sheet (Continued)

32 Subordinated liabilities

This item includes accrued interest of €49 million (2012: €52 million). HVB incurred interest expenses of €107 million in 2013 (2012: €161 million).

The borrower cannot be obliged to make early repayment in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated loans are only repaid after the claims of all primary creditors have been settled. For the purposes of a bank's liable funds as defined under banking supervisory regulations, subordinated liabilities are regarded as supplementary or Tier III capital.

On 5 February 2002, HVB issued a subordinated bond with a volume of €750 million. This subordinated bond matures on 5 February 2014. The coupon is 6% p.a.

33 Participating certificates outstanding

In accordance with the terms and conditions of the participating certificates, all bearer participating certificates issued by HVB 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. No more interest payments were disbursed for the 2013 financial year.

Shareholders' Equity

34 Analysis of shareholders' equity shown in the balance sheet

(€ millions)

a) Called-up capital		
Subscribed capital		
Balance at 1 January 2013	2,407	
Balance at 31 December 2013		2,407
b) Additional paid-in capital		
Balance at 1 January 2013	9,791	
Balance at 31 December 2013		9,791
c) Retained earnings		
ca) Legal reserve		
Balance at 1 January 2013	—	
Balance at 31 December 2013		—
cb) Reserve for shares in a controlling or majority interest-holding company		
Balance at 1 January 2013	6	
Transfer to the reserve for shares in a controlling or majority interest-holding company	19	
Balance at 31 December 2013		25
cc) Reserve set up under the Articles of Association		
Balance at 1 January 2013	—	
Balance at 31 December 2013		—
cd) Other retained earnings		
Balance at 1 January 2013	6,149	
Withdrawal for the transfer to the reserve for shares in a controlling		
or majority interest-holding company	(19)	
Balance at 31 December 2013		6,130
d) Profit available for distribution		
Balance at 1 January 2013	2,462	
Dividend payout of HVB for 2012	(2,462)	
Net profit 2013	756	
Balance at 31 December 2013		756
Shareholders' equity		
Balance at 31 December 2013		19,109

35 Holdings of HVB stock in excess of 5%

(in %)

	2013	2012
UniCredit S.p.A.	100.0	100.0

Compliant with Section 271 (2) HGB, HVB is an affiliated company of UniCredit S.p.A., Rome (UniCredit), and is included in the consolidated financial statements of UniCredit, which can be obtained from the Trade and Companies Register in Rome, Italy.

36 Amounts not available for distribution

The measurement at fair value of offsetting plan assets in connection with pension commitments and semi-retirement agreements gives rise to an amount of €137 million (2012: €121 million). Compliant with Section 268 (8) HGB, freely disposable provisions have been set up to cover the amount not available for distribution.

37 Holdings pursuant to Section 285 No. 11 and 11a HGB

The complete list of shareholdings as a constituent part of the notes to the financial statements is given in the section entitled "List of Holdings" in this Annual Report.

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

38 Breakdown of income by region

The following table shows a breakdown by region of
– interest receivable
– current income from equity securities and other variable-yield securities, participating interests and shares in affiliated companies
– fees and commissions receivable
– other operating income
– net profit on financial operations:

(€ millions)

	2013	2012
Total income	**8,069**	**9,968**
Germany	6,840	7,871
UK	455	619
Italy	523	1,107
Rest of Europe	51	56
Americas	136	222
Asia	64	93

The income earned under profit-pooling and profit-and-loss transfer agreements shown in 2012 is no longer included in the reporting period. The year-ago figure for income in Germany has been reduced by €106 million accordingly.

39 Net interest income

The following table shows the breakdown of net interest income of €2,873 million:

(€ millions)

	2013	2012
Net interest income	**2,873**	**3,427**
Interest income from		
lending and money market transactions	4,401	5,254
fixed-income securities and government-inscribed debt	734	1,342
Current income from equity securities and other variable-yield securities,		
participating interests and shares in affiliated companies	346	414
Income from profit-pooling and profit-and-loss transfer agreements	119	106
Interest expenses	2,727	3,689

The interest portion of the change in provisions for pensions and similar commitments is reported under net interest income and relates to the expenses and income from the compounding and discounting of commitments. However, we disclose any effects on net income from the change in discount rate as payroll costs.

Furthermore, net interest income includes current interest income and expenses related to the held-for-trading portfolios as well as dividend income (so-called trading-induced interest) of €392 million.

(€ millions)

	2013	2012
Net interest income from pension commitments	**(25)**	**(2)**
Income from plan assets used to offset pension and similar commitments	26	51
Expense component of the change in provisions for pensions and similar commitments	51	52
Expenses from plan assets used to offset pension and similar commitments	—	1

The interest expense of €94 million (2012: €83 million) arising from the compounding of provisions is included in net interest income.

40 Services performed for third parties

HVB performed significant services for third parties notably in portfolio, asset and trust-loan management, in the brokerage of insurance, savings and loan contracts and investments funds, in investment and securities commission activities, and in the handling of payments.

41 Net income from the held-for-trading portfolio

The net income from the held-for-trading portfolio (net trading income) of €969 million (2012: €1,048 million) includes the offset income and expenses arising from transactions involving financial instruments held for trading purposes, complete with the full net income from FX operations. Also carried here are fees and commissions in connection with transactions involving financial instruments held for trading purposes and trading with precious metals. The total already includes as an expense the risk discount to be applied to the held-for-trading portfolios measured at fair value. Current interest and dividends from securities held for trading are carried in interest income/expense and/or current income from equities. In addition, we carry the current interest income/expense resulting from held-for-trading portfolios in net interest income rather than net trading income. The net income from the held-for-trading portfolio declined by €79 million year-on-year to €969 million. The year-ago total was significantly affected by the reversal of rating-related value adjustments taken in 2011 in the amount of €395 million. This effect is largely offset in disclosed net trading income by the reclassification of trading-related commission of €319 million. Key earnings components in 2013 were the new customer business in both equity- and interest-rate-related operations. In addition, there was a reduction in model-based valuation adjustments, particularly due to methodical improvements to models. Net income from the held-for-trading portfolio includes income of €57 million from foreign currencies relating to other periods.

42 Breakdown of other operating income and expenses

This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€143 million (2012: €170 million)) and payroll costs and cost of materials passed on (€58 million (2012: €61 million)). The total includes income from the sale of the Alter Wall complex in Hamburg and the recognition of income from services performed in earlier years.

Other operating expenses include the following:
- compensation and ex gratia payments (€19 million (2012: €47 million))
- additions to provisions other than provisions for lending and securities operations (€274 million (2012: €169 million)); the total includes provisions for expenses arising from services performed in earlier years.

43 Net income from securities held for liquidity purposes

The net income from securities held for liquidity purposes rose by €46 million year-on-year to €374 million. The total benefited from gains on the buy-back of hybrid capital instruments and supplementary capital. In addition, write-downs taken in the previous year were reversed in the form of write-ups.

44 Expenses from absorbed losses

There were no expenses from absorbed losses in other accounting periods in the 2013 financial year.

45 Extraordinary income/expenses

The initial application of the new provisions set forth in the BilMoG at 1 January 2010 resulted in expenses of €22 million in 2013 (2012: €22 million) arising from the revaluation of provisions for pensions to be disclosed under extraordinary income/expenses.

46 Taxes on income

All of the taxes on income relate to income from ordinary operations.

47 Net profit

The profit available for distribution amounts to €756 million. We will propose to the Shareholders' Meeting that a dividend of €756 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.94 per share after around €3.07 in 2012. In accordance with a resolution adopted by the Shareholders' Meeting on 7 May 2013, the profit available for distribution of €2,462 million generated in 2011 was distributed to UniCredit.

Other Information

48 Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €30,297 million (2012: €29,359 million):

(€ millions)

	2013	2012
Guarantees and indemnities	16,373	15,841
Loan guarantees	11,475	10,957
Documentary credits	2,449	2,561
Total	**30,297**	**29,359**
thereof: to affiliated companies	12,754	11,901

Irrevocable lending commitments totalling €27,054 million (2012: €27,166 million) break down as follows:

(€ millions)

	2013	2012
Book credits	24,926	24,619
Mortgage and municipal loans	1,061	1,519
Guarantees	1,067	1,026
Bills of exchange	—	2
Total	**27,054**	**27,166**
thereof: to affiliated companies	795	670

Utilisation by the Bank on account of the contingent liabilities and other commitments that it has entered into is possible as part of its banking activities. Thus, every loan is fundamentally granted by utilising a previously made lending commitment that is shown under other commitments. Although utilisation by the Bank under contingent liabilities is not very probable in the case of guarantees it has issued, the possibility cannot be excluded. Utilisation is also the general case with regard to the documentary credits also shown here, as these are employed in the handling of foreign trade payments.

The key factor in this regard is that utilisation by the Bank under its contingent liabilities and other commitments does not generally lead to a loss. Instead, it results in the loan granted being recognised as is the case when a lending commitment is utilised. Provisions for anticipated losses on pending transactions that are required due to commitments to make payouts to defaulting borrowers are set up and deducted from the disclosed contingent liabilities and other commitments.

Other financial commitments arising from real estate and IT operations total €293 million (2012: €304 million). A large part of the total relates to contracts with subsidiaries (€150 million (2012: €140 million)). The contracts run for standard market periods, and no charges have been put off to future years.

At the reporting date, HVB had pledged securities worth €1,265 million (2012: €915 million) as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main.

As part of real estate financing and development operations, HVB assumes rental obligations or issues rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds offered by its H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Provisions have been set aside to cover identifiable risks arising from such guarantees.

Commitments for uncalled payments on shares not fully paid up amounted to €128 million (2012: €277 million) at year-end 2013, and similar obligations for shares in cooperatives totalled €1 thousand (2012: €1 thousand). HVB was not liable for any defaults on such calls under Section 22 (3) and Section 24 GmbHG.

Where employees are granted a bonus that is disbursed over a period of several years under their variable compensation arrangements, such a bonus represents an expense for the period from 2010 to 2013 and is taken to the income statement on a pro rata basis accordingly. Especially in the case of the group of employees identified as “risk-takers”, the German regulations governing institutions’ remuneration systems (Instituts-Vergütungsverordnung) requires such a bonus to be disbursed over a period of several years. The bonus is granted subject to the proviso that the beneficiaries satisfy specific criteria (in the case of bonuses granted in the form of shares, stock options or deferred cash payments) that comply with the both the regulatory requirements and the Bank’s own rules. In addition, the bonus is linked to further conditions (such as a malus arrangement that ensures that no loss is recorded at either the UniCredit corporate level or the level of the individual beneficiary or there is a significant reduction in the results achieved). Provisions totalling €109.2 million were set aside in the income statement at 31 December 2013 in connection with bonus commitments. The final amount disbursed may be higher, should the plan conditions be met.

Under Section 26 GmbHG, we were liable for calls for additional capital of €57 million with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2013. 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, Berlin.

In its function as personally liable shareholder, HVB had unlimited liability arising from shares in three partnerships at the reporting date.

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 the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

49 Off-balance-sheet transactions

Special purpose entities

HVB maintains business relations with a number of special purpose entities that pursue varying business models and hold various different types of assets. HVB’s business relations with the special purpose entities are recognised in the financial statements either on or off the balance sheet.

The Bank uses special purpose entities to securitise both the Bank’s own receivables and customer receivables. The latter involve commercial paper conduits for which the Bank provides guarantees and liquidity facilities.

In the case of the Bank’s own receivables, the special purpose entities serve among other things to procure liquidity and reduce risk. These do not, however, result in the securitised receivables being taken off the books as they involve either synthetic securitisations aimed at reducing risk or securitisation transactions with all risks retained to create securities as collateral with central banks. The securitisation of customer receivables is generally accompanied by an improvement in the customer’s liquidity situation and a broadening of the funding base, whereby the Bank generates income from the structuring service and the facilities provided. HVB may face economic disadvantages, in particular, should the facilities provided be drawn down.

In addition, there are special purpose entities for which HVB acts solely as an investor, for instance to purchase securities or grant loans. The ensuing risks may lead to write-downs being recognised on the positions involved.

In some instances, the situation may exist where the majority of the risks and rewards of a given special purpose entity are attributable to HVB. In these cases, the special purpose entity is attributable to HVB for accounting purposes, which entails full consolidation of the special purpose entity in the consolidated financial statements of HVB.

Other Information (Continued)

Revocable credit commitments
HVB has granted its customers credit and liquidity facilities that are callable at any time and are not shown either on or off the balance sheet. The advantage for HVB from this customary, standardised product lies in the possibility of generating additional interest and commission income. This is set against the risk of a deterioration in the financial situation of those customers to whom these credit commitments were made.

Outsourcing of activities
Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A., Milan. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services.

Furthermore, HVB has transferred certain activities relating to the settlement of transactions to UniCredit Global Business Services GmbH, Unterföhring and UniCredit Business Integrated Solutions S.C.p.A., Milan, companies affiliated with the Bank that provide settlement services for HVB and other affiliated companies in line with a standard business and operating model. The advantage for HVB lies in the generation of synergies.

HVB has outsourced the handling of securities transactions in Germany and its Milan branch to an external service provider. The purpose of this for HVB is to permanently reduce its operating costs.

HVB has transferred new business involving consumer loans, instant-approval loans and credit cards to a German branch office of UniCredit S.p.A. This office is more specialised in these fields, from which HVB also benefits accordingly. Thus, the transactions brokered by HVB in this regard are no longer recognised on or off the balance sheet.

50 Auditor's fees
The following table shows the breakdown of the total fees of €9 million paid to the auditor Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, in the reporting period:

(€ millions)

	2013
Fees for	**9**
Auditing of the financial statements	4
Other auditing services	2
Tax consulting services	—
Other services	3

51 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
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

HVB's commitment arising from the above Statement of Responsibility declines by the extent to which HVB's shareholding decreases in the future with regard to such commitments of the relevant company that did not arise until after HVB's 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.

52 Key capital ratios

Pursuant to Section 10 (1d) KWG, equity capital for solvency purposes consists of the modified available capital and Tier III capital.

The modified available capital, consisting of core capital (Tier I) and supplementary capital (Tier II), based on annual financial statements approved by the Supervisory Board totalled €19,836 million (2012: €20,608 million) at year-end. There was no Tier III capital. We have not allocated any unrealised reserves to supplementary capital compliant with Section 10 (2b) 1 No. 6 and 7 KWG.

The liable funds totalling €19,771 million (2012: €20,636 million) calculated in accordance with Section 10 (2) KWG are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits.

Other Information (Continued)

53 Derivative financial instruments

The following table provides detailed information about the nominal amount and fair values of all derivative transactions and credit derivative transactions of HVB:

(€ 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	2013	2012	2013	2012	2013	2012
Interest rate derivatives	**880,579**	**982,442**	**897,339**	**2,760,360**	**3,139,854**	**67,908**	**116,640**	**65,649**	**116,260**
OTC products									
Forward rate agreements	119,022	289	—	119,311	196,526	8	72	10	43
Interest rate swaps	628,881	854,838	728,824	2,212,543	2,404,661	63,767	110,368	60,663	108,929
Interest rate options									
– purchased	30,200	61,423	82,692	174,315	218,894	3,755	5,620	236	240
– written	30,148	45,516	84,032	159,696	188,567	343	347	4,708	6,906
Other interest rate derivatives	12,829	—	—	12,829	27,017	35	233	31	142
Exchange-traded products									
Interest rate futures	34,571	20,376	1,051	55,998	53,761	—	—	1	—
Interest rate options	24,928	—	740	25,668	50,428	—	—	—	—
Foreign exchange derivatives	**162,618**	**23,696**	**593**	**186,907**	**234,233**	**2,597**	**2,979**	**2,616**	**2,948**
OTC products									
Foreign exchange forwards	143,152	17,501	475	161,128	187,323	2,223	2,413	2,197	2,306
Foreign exchange options									
– purchased	9,495	3,428	50	12,973	23,462	269	349	121	240
– written	9,938	2,767	68	12,773	23,430	105	217	298	402
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	33	—	—	33	18	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,451**	**133,360**	**74,267**	**243,078**	**250,601**	**3,909**	**5,075**	**4,292**	**5,644**
Equity/index derivatives	**85,635**	**38,648**	**17,911**	**142,194**	**114,528**	**3,226**	**3,209**	**3,374**	**3,604**
OTC products									
Equity/index swaps	4,334	6,178	1,155	11,667	11,601	220	200	225	292
Equity/index options									
– purchased	5,096	6,521	1,164	12,781	17,609	919	1,268	109	32
– written	52,510	11,304	14,899	78,713	53,214	35	69	1,743	1,723
Other equity/index derivatives	6,856	1,245	—	8,101	3,389	677	212	2	1
Exchange-traded products									
Equity/index futures	6,614	77	—	6,691	2,758	8	—	31	—
Equity/index options	10,225	13,323	693	24,241	25,957	1,367	1,460	1,264	1,556
Credit derivatives	**27,702**	**80,094**	**2,852**	**110,648**	**145,027**	**1,072**	**1,592**	**1,079**	**1,486**
Other transactions	**4,171**	**2,473**	**515**	**7,159**	**7,373**	**228**	**210**	**272**	**263**
Total	**1,196,156**	**1,260,713**	**993,477**	**3,450,346**	**3,891,616**	**78,940**	**129,705**	**77,282**	**130,205**

Most of the derivatives are held for trading purposes. The proportion of derivatives concluded for hedging purposes is insignificant.

The banking book contains derivatives with positive market values of €1.7 billion (2012: €0.8 billion) and negative market values of €1.6 billion (2012: €1.0 billion).

54 Employees

The average number of staff employed was as follows:

	2013	2012
Employees (excluding trainees)	15,329	15,657
of whom:		
full-time	11,573	11,930
part-time	3,756	3,727
Trainees	855	937

The staff's length of service was as follows: (in %)

	WOMEN	MEN	2013	2012
	(EXCLUDING TRAINEES)		TOTAL	
Staff's length of service				
25 years or more	20.8	22.0	21.4	20.8
15 to 25 years	35.6	23.9	30.1	30.5
10 to 15 years	11.3	11.0	11.1	12.0
5 to 10 years	21.8	24.1	22.9	23.4
less than 5 years	10.5	19.0	14.5	13.3

55 Emoluments

(€ thousands)

	FIXED COMPENSATION		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVES[2]		PENSION COMMITMENTS		TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Members of the Management Board of										
UniCredit Bank AG	5,069	4,513	1,575[1]	910[1]	2,989[3,4]	1,479[5]	1,302	1,071[6]	10,935	7,973
Members of the Supervisory Board of										
UniCredit Bank AG for Supervisory Board										
activities	558	558	210[7]	210[7]	—	—	—	—	768[7]	768[7]
Members of the Supervisory Board of										
UniCredit Bank AG for worker's representation										
activities	456	444	71	67	—	—	44	38	571	549
Former members of the Management Board of										
UniCredit Bank AG and their surviving dependants	—	—	—	—	—	—	—	—	1,858	1,716[8]
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 of which €578 thousand relates to the 2012 financial year
4 prorated disclosure of 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 2011 and 2012 financial years
5 prorated disclosure of the long-term incentive plan 2011 to 2013 and stock options (period of 2012 to 2015) and shares for the 2011 financial year
6 of which a prorated pension expense of €18,500 could not be posted until 2012
7 the performance-related component for the 2013 financial year totals €210 thousand, provided the Shareholders' Meeting adopts a resolution regarding the appropriation of net income as proposed. The performance-related component for the 2012 financial year totalled €210 thousand after the Shareholders' Meeting adopted a resolution regarding the appropriation of net income as proposed
8 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

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 of 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: fixed salary and a variable element.

Pension commitments for seven members of the Management Board are shown in the table alongside the direct emoluments. Seven members took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2013. The Bank will provide/has provided 35% of the fixed salary contributions (2013: €1,302,000, 2012: €1,071,496). 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.

Other Information (Continued)

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.

At 31 December 2013, there were pension provisions in the amount of €36 million (2012: €35 million) payable to former members of the Management Board, and retired members of the Management Board of HVB and their surviving dependants, as calculated in accordance with actuarial principles using the projected unit credit method, taking into account anticipated future rises in salaries and pensions. Pension commitments for former executives of HVB were transferred to HVB Trust Pensionsfonds AG when it was set up.

Share-based compensation was granted to the members of the Management Board in the reporting period in the form of performance shares. A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of three years, the relevant targets have been met and the recipient is still working for UniCredit; otherwise, the performance shares are normally forfeited.

Details of share-based compensation

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	2013	2012
Options		
Stock options	—	708,781
Fair value per option on grant date (€)	—	1.8670
Performance shares		
Performance shares	719,983	187,869
Fair value per performance share on grant date (€)	3.520	4.010

56 Loans to executive board members

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 their respective immediate family members are considered related parties. (€ thousands)

	2013			2012		
	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES
Members of the Management Board	937	7	5,709	1,180	6	4,623
Members of the Supervisory Board	4,682	15	8,424	2,752	23	3,664

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 3.3% and 3.96% and falling due in the period from 2016 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 6% and no fixed maturity, overdraft facilities with interest rates of between 2% and 11.15% with no fixed maturity and mortgage loans with interest rates of between 0.9% (including a discount) and 4.35% falling due in the period from 2016 to 2029.

All banking transactions involving the group of people listed were conducted at customary market terms with the usual collateral.

57 Executive Boards

Supervisory Board

Federico Ghizzoni	Chairman
Peter König Dr Wolfgang Sprissler	Deputy Chairmen
Aldo Bulgarelli Beate Dura-Kempf Klaus Grünewald Werner Habich Dr Marita Kraemer since 1 January 2014 Dr Lothar Meyer Marina Natale Klaus-Peter Prinz Jens-Uwe Wächter Dr Susanne Weiss until 31 December 2013	Ordinary Members

Management Board

Dr Andreas Bohn	Corporate & Investment Banking
Peter Buschbeck	Commercial Banking/ Private Clients Bank
Jürgen Danzmayr	Commercial Banking/ Private Clients Bank (main focus Private Banking)
Lutz Diederichs	Commercial Banking/ Unternehmer Bank
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

List of Executives and Outside Directorships[1]

58 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 of the Supervisory Board of UniCredit Bank AG		
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. R. Pfleger Chemische Fabrik GmbH, Bamberg (Deputy Chairman)
Aldo Bulgarelli Attorney, BULGARELLI & CO. AVVOCATI, Verona		AMMANN Italy S.p.A., Bussolengo (President of the Collegio Sindacale)
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 Marita Kraemer since 1 January 2014 Member of the Management Board of Zürich Beteiligungs-Aktiengesellschaft (Deutschland) and member of the Management Board of Zurich Service GmbH, Frankfurt am Main	DAB Bank AG, Munich, until 31 December 2013	

1 as of 31 December 2013

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
Dr Lothar Meyer Former Chairman of the Managment Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach	ERGO Versicherungsgruppe AG, Düsseldorf	
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]
Klaus-Peter Prinz Employee, UniCredit Luxembourg S. A., Trier		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		HypoVereinsbank Betriebskrankenkasse (HVB BKK), Munich (Chairman), until 31 December 2013
Dr Susanne Weiss until 31 December 2013 Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich	Giesecke & Devrient GmbH, Munich ROFA AG, Kolbermoor (Chairman) Wacker Chemie AG, Munich Schattdecor AG, Thansau, since 24 June 2013	Allgemeine Baugesellschaft – A. Porr AG, Vienna

1 as of 31 December 2013
2 Group directorship

List of Executives and Outside Directorships[1] (Continued)

59 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 Corporate & Investment Banking	HVB Capital Partners AG, Munich (Chairman)[2], until 19 January 2014	FSL Holdings Pte. Ltd., Singapore, until 31 May 2013 HVB Principal Equity GmbH, Munich, (Chairman)[2] SwanCap Partners GmbH, Munich (Chairman)[2], since 5 December 2013 Tikehau Investment Management S.A.S., Paris
Peter Buschbeck born 1961 Commercial Banking/Private Clients Bank	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] UniCredit Global Business Services GmbH, Munich[2]	Wealth Management Capital Holding GmbH, Munich (Chairman)[2], since 1 January 2013
Jürgen Danzmayr born 1950 Commercial Banking/Private Clients Bank (main focus Private Banking)		Schoellerbank AG, Vienna Wealth Management Capital Holding GmbH, Munich[2] UniCredit Luxembourg S.A., Luxembourg[2]
Lutz Diederichs born 1962 Commercial Banking/Unternehmer Bank		UniCredit Luxembourg S.A., Luxembourg[2] UniCredit Leasing GmbH, Hamburg (Chairman)[2], since 15 February 2013 UniCredit Leasing Finance GmbH, Hamburg (Chairman)[2], since 15 February 2013
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]
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], until 31 October 2013 BVV Pensionsfonds des Bankgewerbes AG, Berlin (Chairman) UniCredit Global Business Services GmbH, Munich (Chairman)[2]	BVV Versorgungskasse des Bankgewerbes e. V., Berlin (Chairman) BVV Versicherungsverein des Bankgewerbes a. G., Berlin (Chairman) ESMT European School of Management and Technology GmbH, Berlin
Andrea Umberto Varese born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2] UniCredit Global Business Services GmbH, Munich[2]	UniCredit Credit Management Bank S.p.A., Verona, until 12 March 2013 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 of 31 December 2013
2 Group directorship

60 List of employees and outside directorships

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Thomas Breiner	AGROB Immobilien AG, Ismaning[2]
Joachim Dobrikat	VALOVIS BANK AG, Essen
Dr Jochen Fischer	Bankhaus Neelmeyer AG, Bremen[2] PlanetHome AG, Unterföhring near Munich[2]
Matthias Glückert	Oechsler AG, Ansbach
Christian Klatt	Bankhaus Neelmeyer AG, Bremen[2]
Dr Andreas Luber	ConCardis GmbH, Eschborn
Jörg Pietzner	Bankhaus Neelmeyer AG, Bremen[2]
Dr Guido Schacht	AVAG Holding SE, Augsburg
Peter Weidenhöfer	AGROB Immobilien AG, Ismaning[2]

1 as of 31 December 2013
2 Group directorship

List of Holdings

Compliant with Section 313 (2) German Commercial Code for the consolidated financial statements and Section 285 No. 11 and 11a German Commercial Code for the annual statements of UniCredit Bank AG

61 List of Holdings

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	63,400	[1.1]
DAB Bank AG	Munich	81.4		EUR	207,777	18,198
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	160,013	[2]
1.1.1.2 Foreign banks and financial institutions						
direktanlage.at AG	Salzburg	100.0	100.0	EUR	45,350	3,303
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,315,927	129,135
1.1.2 Other consolidated companies						
Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	27	709
Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	32	9,441
Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	36	646
Active Asset Management GmbH	Grünwald	100.0	100.0	EUR	198	(10)
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	21,564	1,574
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	(44,501)	951
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	(37,263)	(3)
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	6,409	495
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	87	2
Bank Austria ImmobilienService GmbH	Vienna	100.0	100.0	EUR	566	38
B.I. International Limited	George Town	100.0	100.0	EUR	(1,045)	(96)
BIL Immobilien Fonds GmbH & Co Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	3,148	(1,291)
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	6,593	8,956
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	511	70
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	705	109
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(1,608)	(67)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	485	154
Food & more GmbH	Munich	100.0		EUR	235	[1.2]

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
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	34,192	(11,502)
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	(4)
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	(28)
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	(16)
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	187
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	277	3
HVB Asia Limited[4,5]	Singapore	100.0		EUR	3,662	(3)
HVB Asset Leasing Limited	London	100.0	100.0	USD	2,137	1,991
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 Partners AG[3]	Munich	100.0		EUR	12,671	[1,3]
HVB Export Leasing GmbH	Munich	100.0		EUR	39	0
HVB Finance London Limited	London	100.0		EUR	25	0
HVB Funding Trust II	Wilmington	100.0		GBP	2	0
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	27	1
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	8,528
HVB Global Assets Company (GP), LLC	City of Dover	100.0		USD	155	8
HVB Hong Kong Limited	Hong Kong	100.0		USD	5,262	223
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1,4]
HVB Investments (UK) Limited	George Town	100.0		GBP	0	(23)
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	1,014	(11)
HVB London Investments (AVON) Limited	London	100.0		GBP	0	(23)
HVB London Investments (CAM) Limited	London	100.0		GBP	100	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	126	10
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	65	740
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	9	1
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	41	(2)
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	(21,764)
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	11	2
Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(1,877)
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	2,106	207
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	51	[2]

List of Holdings (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
Keller Crossing Texas, LP	Wilmington	100.0	100.0	USD	1,871	209
Kinabalu Financial Products LLP	London	100.0		GBP	858	(26)
Kinabalu Financial Solutions Limited	London	100.0		GBP	3,988	(11)
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	(763)	911
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	7,852	3,469
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	16	(1)
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	18	7,382
Ocean Breeze Asset GmbH & Co. KG	Munich	100.0	100.0	EUR	(8)	0
Ocean Breeze Energy GmbH & Co. KG[3]	Munich	100.0	100.0	EUR	(24,994)	34,525
Ocean Breeze GmbH	Munich	100.0	100.0	EUR	24	1
Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG[3]	Munich	100.0	94.0	EUR	26	(1)
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	(142)
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	25	2
PlanetHome AG	Unterföhring	100.0		EUR	21,035	(5,364)
PlanetHome GmbH	Mannheim	100.0	100.0	EUR	627	67
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	(4,250)
"Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	29	1
Redstone Mortgages Limited	London	100.0		GBP	(188,061)	12,214
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)	0
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	553
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	8,383
Selfoss Beteiligungsgesellschaft mbH[3]	Grünwald	100.0	100.0	EUR	25	[2]
Simon Verwaltungs-Aktiengesellschaft i.L.[4]	Munich	<100,0		EUR	3,102	(27)
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)	0
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Status Vermögensverwaltung GmbH[3]	Schwerin	100.0		EUR	2,102	[1,10]
Structured Invest Société Anonyme	Luxembourg	100.0		EUR	9,278	484
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	36,750	[2]
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(7,000)	(9)
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,489)	(23)
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	(420)	(18)
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	16,666	9,150
Transterra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]

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
TRICASA Grundbesitz Gesellschaft mbH & Co.						
1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	7,495	691
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	18,018	876
Trinitrade Vermögensverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0		EUR	1,321	(2)
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,147	1.11
UniCredit CAIB Securities UK Ltd.	London	100.0		GBP	444	(9)
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	22,878	1,453
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	1,888	226
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	888	1.12
UniCredit Global Business Services GmbH	Unterföhring	100.0		EUR	7,096	1,278
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	(2,433)	(6,995)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	452,026	1.13
UniCredit London Investments Limited	London	100.0		EUR	0	0
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	39,539	175
US Property Investments Inc.	Dallas	100.0		USD	714	43
Verba Verwaltungsgesellschaft mit beschränkter Haftung	Munich	100.0		EUR	757	(5)
Vermietungsgesellschaft mbH & Co. Objekt MOC KG[3]	Munich	88.0	88.0	EUR	(106,230)	5,655
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	1.14
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	2
VuWB Investments Inc.	Atlanta	100.0	100.0	USD	509	397
Wealth Capital Investments, Inc.	Wilmington	100.0	100.0	USD	1,433	(8)
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,475	1.15
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	(1,512)	(2,012)
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	639	614
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	(571)	(1,083)
WealthCap Initiatoren GmbH	Munich	100.0	100.0	EUR	329	(1,205)
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	2
WealthCap Leasing GmbH	Grünwald	100.0	100.0	EUR	0	8
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	8	(21)
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	1,519	473
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	2
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	44	8
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	153	103
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	EUR	435	391
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH	Ebersberg	98.8	98.8	EUR	278	252
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.8			
Apir Verwaltungsgesellschaft mbH & Co.						
Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(20,769)	953
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			
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			

List of Holdings (Continued)

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
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 i.L.	Hamburg	100.0	100.0			
CL Dritte Car Leasing Verwaltungsgesellschaft mbH i.L.	Hamburg	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.8	EUR	26	2
Ferra Immobilien- und Projektentwicklungs GmbH & Co.						
Projekt Großenhainer Straße KG	Munich	100.0	100.0	EUR	(10,733)	0
FGB Grund und Boden GmbH & Co. KG	Munich	100.0	100.0	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			
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	(49,216)	(38)
Hotel Seddiner See GmbH	Munich	100.0	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			
HVBFF Objekt Leipzig GmbH	Leipzig	70.0	70.0			
HVB Life Science GmbH	Munich	100.0				
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
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0			

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
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			
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			
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	[2]
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	390	3,474
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)	0
Tishman Speyer Berlin Friedrichstraße KG i.L. (share of voting rights: 96.6% total, of which 7.1% held indirectly)	Munich	97.1	5.9			
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(25,897)	0
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
Vintners London Investments (Nile) Limited	George Town	100.0	100.0			
WCREM Canadian Management Inc.	Toronto	100.0	100.0			
Wealth Capital Management, Inc.	Wilmington	100.0	100.0			
WealthCap Aircraft 27 GmbH & Co. geschlossene Investment KG	Grünwald	100.0	100.0			
WealthCap Aircraft 27 Komplementär GmbH	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			
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 36 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 37 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 38 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 38 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Leasing 1 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Leasing 2 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Leasing 3 GmbH & Co. KG	Grünwald	100.0	100.0			

List of Holdings (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
WealthCap Leasing 4 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Objekt Düsseldorf GmbH & Co. KG	Munich	94.0	94.0			
WealthCap Objekt Hufelandstraße GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Riem 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 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 SachWerte Portfolio 2 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap SachWerte Portfolio 2 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial-AIF 1 GmbH & Co. geschlossene Investment KG	Munich	100.0	100.0			
WealthCap Spezial-AIF 1 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Vorrats-1 GmbH	Grünwald	100.0	100.0			
WealthCap Vorrats-2 GmbH	Grünwald	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			
WMC Aircraft 27 Leasing Limited	Dublin	100.0	100.0			
2 Joint ventures[6]						
Minor joint ventures						
Other companies						
Heizkraftwerk Cottbus Verwaltungs GmbH	Munich	33.33				
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.33		EUR	105	798
3 Associated companies[6]						
3.1 Associated companies valued at equity						
Other companies						
Adler Funding LLC	Dover	32.8		USD	7,999	13,518
Bulkmax Holding Ltd.	Valletta	45.0	45.0	USD	8,799	(154)
Comtrade Group B.V.	Amsterdam	21.1	21.1	EUR	16,895	2,508
Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S.	Istanbul	20.0	20.0	TRY	155,795	44,886
Nautilus Tankers Limited	Valletta	45.0	45.0	USD	21,469	(37)
SwanCap Partners GmbH (share of voting rights: 49.0%)	Munich	75.2				
3.2 Minor associated companies						
Other companies						
BIL Leasing GmbH & Co Hotel Rostock KG	Rostock	19.8	19.8	EUR	128	807
BIL Leasing GmbH & Co Hotel Ulm KG i.L.	Munich	29.0	29.0			
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg/Martinsried	23.5		EUR	2,156	(4)
CMP Fonds I GmbH (share of voting rights: 25.0%)	Berlin	32.7		EUR	10,192	3,890
DFA Deggendorfer Freihafen Ansiedlungs-GmbH	Deggendorf	50.0	50.0			
DFA Deggendorfer Freihafen Ansiedlungs-GmbH & Co.						
Grundstücks-KG	Deggendorf	50.0	50.0			
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	(3,457)	(2,723)
MOC Verwaltungs GmbH	Munich	23.0	23.0			
MOC Verwaltungs GmbH & Co. Immobilien KG[7]	Munich	23.0	23.0	EUR	(12,511)	(12,522)
SK BV Grundstücksentwicklung GmbH & Co. KG i.L.	Cologne	25.0	25.0			

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
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	13,608	429
WealthCap Immobilienfonds Deutschland 37 GmbH & Co. KG	Munich	33.3	33.3			
4 Holdings in excess of 20%						
without significant influence						
Other companies						
BayBG Bayerische Beteiligungsgesellschaft mbH[11]	Munich	22.5		EUR	186,171	10,660
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	2,874	1,063
B.I.I. Creditanstalt International Ltd. (share of voting rights: 0%)[6]	George Town	40.2				
Engelbert Rütten Verwaltungsgesellschaft						
Kommanditgesellschaft[6]	Düsseldorf	30.2				
Felicitas GmbH i.L.[6]	Munich	20.8				
GermanIncubator Erste Beteiligungs GmbH						
(share of voting rights: 9.9%)	Munich	39.6		EUR	588	207
HVB Trust Pensionsfonds AG (share of voting rights: 0%)[8]	Munich	100.0	100.0	EUR	3,806	111
IPE Euro Wagon L.P. (share of voting rights: 0%)[9]	St. Helier	37.5	37.5			
Lauro Ventidue S.p.A. (share of voting rights: 0%)	Milan	24.2	24.2	EUR	128,697	(43,658)
Meditinvest Gayrimenkul Danismanlik A.S.	Istanbul	42.1		TRY	20,523	(1,715)
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	4,109	2,415
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share of voting rights: 0%)	Luxembourg	38.3	38.3	EUR	21,003	(6)
Starspace Ltd.	Nicosia	31.8		USD	45,333	(17)
SwanCap FLP SCS (share of voting rights: 37.5%)[10]	Senningerberg	0.0				

List of Holdings (Continued)

NAME		REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SHARE OF VOTING RIGHTS OF HVB in %
5	**Holdings in large corporations**			
	in which the holding exceeds 5% of the voting rights			
	but is not already listed under holdings below 20%			
5.1	**Banks and financial institutions**			
AKA Ausfuhrkredit-Gesellschaft mbH		Frankfurt am Main	15.4	15.4
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen		Munich	10.5	10.5
Bürgschaftsbank Brandenburg GmbH		Potsdam	7.8	7.8
Bürgschaftsbank Mecklenburg-Vorpommern GmbH		Schwerin	9.1	9.1
Bürgschaftsbank Sachsen GmbH		Dresden	4.7	5.4
Bürgschaftsbank Sachsen-Anhalt GmbH		Magdeburg	8.9	8.9
Bürgschaftsbank Schleswig-Holstein GmbH		Kiel	5.4	6.0
Bürgschaftsbank Thüringen GmbH		Erfurt	8.7	8.7
Bürgschaftsgemeinschaft Hamburg GmbH		Hamburg	10.5	10.5
Liquiditäts-Konsortialbank GmbH		Frankfurt am Main	5.7	5.7
5.2	**Other companies**			
ConCardis Gesellschaft mit beschränkter Haftung		Eschborn	6.0	6.0
VBW Bauen und Wohnen GmbH		Bochum	10.1	10.1
Wüstenrot & Württembergische AG		Stuttgart	7.5	7.5

NAME		REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SUBSCRIBED CAPITAL € MILLIONS
6	**Other selected holdings below 20%**			
6.1	**Banks and financial institutions**			
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH		Berlin	4.3	3.2
Saarländische Investitionskreditbank AG		Saarbrücken	3.3	5.2
6.2	**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
Kepler Capital Markets SA		Paris	5.2	83.5
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH		Stuttgart	5.0	3.6
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH		Mainz	8.7	2.9
MBG Mittelständische Beteiligungsgesellschaft Schleswig-Holstein mbH		Kiel	3.6	1.4
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

NAME	REGISTERED OFFICE	SHARE OF CAPITAL in %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
7 Fully consolidated special purpose entities pursuant to IAS 27/SIC 12 without shareholding				
Alexanda Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Wiesbaden	0	EUR	5
Altus Alpha Plc	Dublin	0	EUR	40
Arabella Finance Ltd.	Dublin	0	EUR	< 1
Bandon Leasing Ltd.	Dublin	0	USD	< 1
BARD Building GmbH & Co. KG	Emden	0	EUR	1
BARD Emden Energy GmbH & Co. KG	Emden	0	EUR	90
BARD Engineering GmbH	Emden	0	EUR	100
BARD Holding GmbH	Emden	0	EUR	25
BARD Logistik GmbH	Emden	0	EUR	25
BARD Nearshore Hooksiel GmbH	Emden	0	EUR	26
BARD Phönix Verwaltungs GmbH	Emden	0	EUR	25
BARD Schiffsbetriebsgesellschaft mbH & Co. Natalie KG	Emden	0	EUR	5
BARD Service GmbH	Emden	0	EUR	25
Buitengaats Holding B.V.	Eemshaven	0	EUR	18
Chiyoda Fudosan GK	Tokyo	0	JPY	< 1
Cuxhaven Steel Construction GmbH	Cuxhaven	0	EUR	25
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
Elektra Purchase No. 31 Ltd.	Dublin	0	EUR	< 1
Elektra Purchase No. 911 Ltd.	St. Helier	0	EUR	< 1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-PP-2011 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-TS-2013 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
OSI Off-shore Service Invest GmbH	Hamburg	0	EUR	25
OWS Logistik GmbH	Emden	0	EUR	1
OWS Natalia Bekker GmbH & Co. KG	Emden	0	EUR	13
OWS Ocean Zephyr GmbH & Co. KG	Emden	0	EUR	6
OWS Off-shore Wind Solutions GmbH	Emden	0	EUR	25
OWS Windlift 1 Charter GmbH & Co. KG	Emden	0	EUR	1
Pure Funding No. 10 Ltd.	Dublin	0	EUR	< 1
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Royston Leasing Ltd.	Grand Cayman	0	USD	1
Salome Funding Plc	Dublin	0	EUR	38

List of Holdings (Continued)

Exchanges rates for 1 euro at 31 December 2013
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

China	1 euro =	8.3491	CNY
Japan	1 euro =	144.72	JPY
Turkey	1 euro =	2.9605	TRY
UK	1 euro =	0.8337	GBP
USA	1 euro =	1.3791	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 UniCredit Bank AG has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Bankhaus Neelmeyer AG, Bremen	0
1.2	Food & more GmbH, Munich	179
1.3	HVB Capital Partners AG, Munich	85,408
1.4	HVB Immobilien AG, Munich	(11,556)
1.5	HVB Principal Equity GmbH, Munich	1,274
1.6	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	1,183
1.7	HVB Verwa 1 GmbH, Munich	(1)
1.8	HVB Verwa 4 GmbH, Munich	(197)
1.9	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	747
1.10	Status Vermögensverwaltung GmbH, Schwerin	44
1.11	UniCredit Beteiligungs GmbH, Munich	3,310
1.12	UniCredit Direct Services GmbH, Munich	339
1.13	UniCredit Leasing GmbH, Hamburg	17,000
1.14	Verwaltungsgesellschaft Katharinenhof mbH, Munich	1,410
1.15	Wealth Management Capital Holding GmbH, Munich	8,500

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 2012 annual accounts are indicated for this consolidated company.

5 The company has been liquidated and is expected to be deleted from the local register of companies in the first quarter of 2014.

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 The company is held by a trustee for UniCredit Bank AG.

9 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 UniCredit Bank AG holds less than half of the shares.

10 UniCredit Bank AG has the position of a limited partner under company law and participates in the profit of the company.

11 Despite a holding of 22.5%, UniCredit Bank AG has no significant influence over the company on account of the ownership structure and voting patterns to date.

Mortgage Banking

62 Coverage

The statement of coverage is as follows:

(€ millions)

	2013	2012
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks		
Mortgage loans	—	—
2. Loans and receivables with customers		
Mortgage loans	23,060	24,478
Other eligible cover[1]		
1. Other lending to banks	—	—
2. Bonds and other fixed-income securities	1,193	2,016
3. Equalisation claims on government authorities	—	—
Subtotal	**24,253**	**26,494**
Total mortgage bonds requiring cover	18,478	20,494
Excess coverage	**5,775**	**6,000**
B. Public-sector bonds		
Standard coverage		
1. Loans and receivables with banks	246	380
Mortgage loans	—	—
Municipal loans	246	380
2. Loans and receivables with customers	7,253	7,121
including:		
Mortgage loans	23	26
Municipal loans	7,230	7,095
3. Bonds and other fixed-income securities	439	1,286
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**7,938**	**8,787**
Total public-sector bonds requiring cover	5,656	6,894
Excess coverage	**2,282**	**1,893**

1 compliant with Section 19 (1) of the German Pfandbrief Act
2 compliant with Section 20 (2) of the German Pfandbrief Act

63 Mortgage bonds outstanding and covering assets used

The following table shows mortgage bonds outstanding and covering assets, broken down by mortgage bonds and public-sector bonds: (€ millions)

	2013			2012		
	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE
1. Mortgage bonds						
Covering assets[1]	24,253	26,185	25,402	26,494	29,164	29,838
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	18,478	20,004	19,265	20,494	22,785	23,539
Excess coverage	**5,775**	**6,181**	**6,137**	**6,000**	**6,379**	**6,299**
2. Public-sector bonds						
Covering assets[2]	7,938	8,592	8,248	8,787	9,769	9,404
thereof: derivatives	—	—	—	—	—	—
Public-sector bonds	5,656	6,295	6,027	6,894	7,805	7,508
Excess coverage	**2,282**	**2,297**	**2,221**	**1,893**	**1,964**	**1,896**

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act

64 Maturity structure of mortgage bonds outstanding and fixed-interest periods of respective covering assets

The following table shows the maturity structure of mortgage bonds outstanding and fixed-interest periods of covering assets, broken down by mortgage bonds and public-sector bonds: (€ millions)

	2013		2012	
	COVERING ASSETS	MORTGAGE BONDS	COVERING ASSETS	MORTGAGE BONDS
1. Mortgage bonds[1]	**24,253**	**18,478**	**26,494**	**20,494**
less than 1 year	4,747	2,808	5,465	3,297
at least 1 year but less than 5 years	12,623	10,049	13,689	11,791
thereof:				
at least 1 year but less than 2 years[3]	3,886	4,548	3,940	2,977
at least 2 years but less than 3 years[3]	3,035	2,197	3,916	4,436
at least 3 years but less than 4 years[3]	3,209	2,350	3,177	2,181
at least 4 years but less than 5 years[3]	2,493	954	2,656	2,197
at least 5 years but less than 10 years	6,000	3,512	6,560	3,051
10 years or more	883	2,109	780	2,355
2. Public-sector bonds[2]	**7,938**	**5,656**	**8,787**	**6,895**
less than 1 year	1,463	647	1,432	1,564
at least 1 year but less than 5 years	3,545	2,711	4,390	2,998
thereof:				
at least 1 year but less than 2 years[3]	1,000	618	1,438	542
at least 2 years but less than 3 years[3]	1,269	1,420	971	609
at least 3 years but less than 4 years[3]	685	454	1,239	1,450
at least 4 years but less than 5 years[3]	591	219	742	397
at least 5 years but less than 10 years	1,917	1,361	1,845	1,179
10 years or more	1,013	937	1,120	1,154

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds
3 breakdown as per amended German Pfandbrief Act 2009

Mortgage Banking (Continued)

65 Loans and receivables used to cover mortgage bonds, broken down by size

The following table shows loans and receivables used to cover mortgage bonds, broken down by size:

(€ millions)

	2013	2012
Mortgage covering assets	**23,060**	**24,478**
up to and including €300,000	10,108	11,939
over €300,000 up to and including €5,000,000	5,447	6,367
more than €5,000,000	7,505	6,172

66 Loans and receivables used to cover mortgage bonds, broken down by region in which the mortgaged properties are located and by type of occupancy

The following table shows loans and receivables used to cover mortgage bonds, broken down by region in which the mortgage properties are located and by type of occupancy:

(€ millions)

	2013		2012	
	RESIDENTIAL PROPERTY	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	COMMERCIAL PROPERTY
1. Germany	**15,751**	**7,302**	**16,808**	**7,662**
Apartments	4,166	—	4,564	—
Single-family houses	5,003	—	5,373	—
Multi-family houses	6,205	—	6,369	—
Office buildings	—	3,489	—	3,317
Commercial buildings	—	2,212	—	2,370
Industrial buildings	—	553	—	586
Other commercially used buildings	—	684	—	706
Buildings under construction	364	292	486	597
Building sites	13	72	16	86
2. France/Monaco	**2**	**—**	**2**	**—**
Single-family houses	2	—	2	—
Multi-family houses	—	—	—	—
3. Italy/San Marino	**—**	**—**	**1**	**—**
Single-family houses	—	—	1	—
4. Austria	**—**	**5**	**—**	**5**
Office buildings	—	5	—	5
	15,753	**7,307**	**16,811**	**7,667**

67 Loans and receivables used to cover public-sector bonds, broken down by type of debtor or guarantor and its home country

The following table shows loans and receivables used to cover public-sector bonds, broken down by type of debtor or guarantor and its home country:

(€ millions)

	2013	2012
1. Germany	**7,721**	**8,512**
Central government	—	2
Regional authorities	2,917	3,578
Local authorities	3,863	3,827
Other	941	1,105
2. Austria	**200**	**250**
Central government	200	250
3. Spain	**17**	**25**
Public-sector authorities	17	25
	7,938	**8,787**

Mortgage Banking (Continued)

68 Payments in arrears

The covering assets for payments in arrears on mortgages and public-sector loans and receivables due between 1 October 2012 and 30 September 2013 break down as follows:

(€ millions)

	2013	2012
1. Payments in arrears on mortgages	**—**	**1**
Germany	—	1
2. Payments in arrears on public-sector loans and receivables	**—**	**—**
Germany		
Regional authorities[1]	—	—
Other[1]	—	—

1 officially guaranteed loans and receivables

69 Foreclosures and sequestrations

The following table shows the breakdown of foreclosures and sequestrations carried out in 2013:

		OF WHICH IN 2013:	
	NUMBER OF PROCEEDINGS	COMMERCIAL PROPERTY	RESIDENTIAL PROPERTY
1. Foreclosures and sequestrations			
a) Pending at 31 December 2013			
Foreclosure proceedings	368	63	305
Sequestration proceedings	17	3	14
Foreclosure and sequestration proceedings	301	55	246
	686	**121**	**565**
comparative figures from 2012	762	142	620
b) Foreclosures finalised in 2013	**86**	**9**	**77**
comparative figures from 2012	132	22	110
2. Properties auctioned or repossessed			
The Pfandbrief bank did not have to repossess any properties during the year			
under review to prevent losses on mortgage loans.			

70 Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2012 and 30 September 2013 breaks down as follows:

(€ millions)

	2013	2012
Interest in arrears	**—**	**—**
Commercial property	—	—
Residential property	—	—

The present annual financial statements were prepared on 24 February 2014.

UniCredit Bank AG
The Management Board

Dr Bohn | Buschbeck | Danzmayr | Diederichs

Hofbauer | Laber | Varese | Dr Weimer

Declaration by the Management

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of HVB, and the Management Report includes a fair review of the development and performance of the business and the position of HVB, together with a description of the principal opportunities and risks associated with the expected development of HVB.

Munich, 24 February 2014

UniCredit Bank AG
The Management Board

Dr Bohn	Buschbeck	Danzmayr	Diederichs
Hofbauer	Laber	Varese	Dr Weimer

Independent Auditor's Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the UniCredit Bank AG, Munich, for the business year from 1 January to 31 December 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. 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 annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements of the UniCredit Bank AG, Munich, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 3 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Leuschner	Kopatschek
German Public Auditor	German Public Auditor

Financial Calendar

Important Dates 2014[1]

Annual Press Conference	12 March 2014
Interim Report at 31 March 2014	13 May 2014
Half-yearly Financial Report at 30 June 2014	6 August 2014
Interim Report at 30 September 2014	12 November 2014

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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