HypoVereinsbank Member of UniCredit

Listen, understand, respond.

2013 Annual Report

This report expresses UniCredit's approach to banking by telling everyday stories about our interactions with Customers, innovations in products and adaptability in services.

These brief but meaningful stories come directly from our colleagues. They are examples of the tangible benefits and concrete solutions offered by UniCredit, demonstrating how we make a difference in people's lives.

Our clear goal to improve everyday circumstances is rooted in our complete commitment to outcomes that ensure Customer satisfaction.

At UniCredit, listening to our Clients and engaging with them to offer simple, direct results lies at the heart of our commercial banking operations. It is part of our determined effort to contribute to the economic and social well-being of our Customers as well as the communities where we work.

We will continue with this commitment to all of you, every day.

2013 Annual Report

HVB Group Profile

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

Financial Highlights

Key performance indicators

	2013	2012
Net operating income	€1,839m	€1,807m
Cost-income ratio (based on operating income)	63.6%	58.1%
Profit before tax	€1,458m	€2,058m
Consolidated profit	€1,074m	€1,287m
Return on equity before tax[1]	7.1%	9.2%
Return on equity after tax[1]	5.8%	5.8%
Earnings per share	€1.29	€1.55

Balance sheet figures

	31/12/2013	31/12/2012
Total assets	€290.0bn	€347.3bn
Shareholders' equity	€21.0bn	€23.3bn
Leverage ratio[2]	7.1%	6.6%

Key capital ratios compliant with Basel II

	31/12/2013	31/12/2012
Core capital without hybrid capital (core Tier 1 capital)	€18.4bn	€19.1bn
Core capital (Tier 1 capital)	€18.5bn	€19.5bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€85.5bn	€109.8bn
Core capital ratio without hybrid capital (core Tier 1 ratio)[3]	21.5%	17.4%
Core capital ratio (Tier 1 ratio)[3]	21.6%	17.8%

	31/12/2013	31/12/2012
Employees (in FTEs)	19,092	19,247
Branch offices	933	941

1 return on equity calculated on the basis of average shareholders' equity according to IFRS
2 ratio of shareholders' equity shown in the balance sheet less intangible assets to total assets less intangible assets
3 calculated on the basis of risk-weighted assets, including equivalents for market risk and operational risk

Ratings

	LONG-TERM	SHORT-TERM	OUTLOOK	FINANCIAL STRENGTH	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Moody's	A3	P-2	negative	C–	15/7/2013	Aaa	Aa1	8/6/2012
Standard & Poor's	A–	A-2	negative	bbb+	16/10/2013	AAA	—	4/3/2013
Fitch Ratings	A+	F1+	stable	a–	10/2/2014	AAA	AAA	22/11/2013/ 15/10/2013

Choose

The best ways to bank.

Customers want everything a modern bank can offer, without actually having to go to a branch. To meet this need, we have become the first bank in Germany to integrate the benefits of in-branch and online banking. The online branch offers our Customers a personal relationship manager, long opening hours and the consulting expertise of a classical branch office.

Customers may choose from different modes of access: by phone or via online video link. Documents may be presented and processed live on screen while using the highest safety standards in place.

The online branch provides personal, competent consultancy irrespective of place and time.

HVB Online Branch - HypoVereinsbank - GERMANY

Contents

Support

Flexibility to meet Customer needs.

"As the result of a discussion among different sections of the Risk Division, we realized that it is important to tailor communications according to the needs of each Customer. We worked together as a team, sharing our research and knowledge. This ultimately led to more flexible reports and made us more responsive and proactive, **improving the skills and cohesion of all internal departments**."

Francesco Ivan Pomarico
Group Financial Risk - UniCredit Holding

Strategy and Results

Letter from the Supervisory Board Chairman

FEDERICO GHIZZONI
Supervisory Board Chairman

> "UniCredit Bank AG (HVB) has maintained extraordinary stability through years of substantial macroeconomic change."

Ladies and Gentlemen

We are now celebrating UniCredit's 15th anniversary. The foundations that we first laid in 1999 were significantly strengthened in 2005, when HVB became an important part of our Group. Together, we have been working to build a strong bank, deeply rooted in the heart of Europe.

UniCredit Bank AG (HVB) has maintained extraordinary stability through years of substantial macroeconomic change. In 2013, we experienced yet another economic transition – from subdued growth to a sustained recovery. Most eurozone countries met with success in their efforts to limit the fallout from the sovereign debt crisis, while Germany set the standard for export-driven growth complemented by strong investment activity and private consumption.

The banking sector, however, has remained under pressure. A series of cuts to benchmark rates by the European Central Bank were echoed by rock-bottom interest rates across the board – and correspondingly low interest income for our industry. At the same time, the implementation of Basel III has tightened regulatory requirements throughout the European Union. To add to these challenges, financial institutions in Germany continue to face overbanking and structural fragmentation.

Viewed in this light, HVB's performance in 2013 has been more than satisfactory. It saw a positive trend in non-interest income and continued its path toward higher efficiency, despite higher regulatory costs. All business segments delivered positive results, with the major contribution – as in previous years – coming from Corporate & Investment Banking.

Our next great challenge in Germany is to improve our ability to meet the changing expectations of our private clients. To accomplish this, HVB has strengthened its regional focus, expanded its support for entrepreneurship and developed its capacity to interact with customers through multiple channels, with a special emphasis on new technology. Extending still further, HVB undertook a corporate reorganization that created three new business segments: Commercial Banking, Corporate & Investment Banking, and Asset Gathering. I am confident that these changes will help make HVB one of Germany's most competitive banks.

These strategic changes have been made possible by excellent work under difficult conditions by HVB's Management Board and its employees. HVB and its people are integral to the process of making UniCredit one of Europe's leading banking networks. Beyond its core markets, our Group is a leading financial institution in much of Central and Eastern Europe, as well as in other emerging markets such as Turkey. The scale and far-reaching expertise offered by our Group provides clear benefits to HVB. At the same time, HVB competes successfully in the German market due in no small part to the strong identity of the HypoVereinsbank brand.

Our commitment to HVB and to Germany remains as strong as it was on the day we announced our merger more than eight years ago. We expect Germany to remain the growth engine of the eurozone through 2014, and HVB to retain its central importance to our Group, thanks to its market position, operating efficiency and low funding costs. The company's revised structure will only add to its competitive advantage. I am confident that HVB will continue to be a profitable and cost-efficient financial institution in 2014, and well into the future.

Sincerely

Federico Ghizzoni

Letter from the Management Board Spokesman

DR THEODOR WEIMER
Management Board Spokesman

"HypoVereinsbank has demonstrated the worth of its robust, sustainable business model and proven to be one of the most profitable banks in Germany."

Dear Customers, Investors and Partners Ladies and Gentlemen

Rarely have we experienced a year quite as ambiguous as 2013. And rarely have discussions and appraisals of the situation ended so often with "on the one hand, on the other hand" as in the past year. While this holds true for the economy in Germany and Europe, it is all the more applicable to the banking industry.

On the one hand, we have without any doubt managed to stabilise the eurozone and guide the European economy back onto a smooth path of recovery. On the other hand, almost all of southern Europe is still struggling with the aftermath of the crisis; yet the path ahead remains extremely tricky and accident-prone. On the one hand, Germany has performed relatively well and is still the cornerstone of stability and driver of growth in Europe. On the other hand, the body politic is facing a series of new long-run decisions – in everything from energy to pension policy – that could worsen our future viability. At the same time, the German business model of export orientation, together with high balance-of-trade surpluses, has come under increasing fire from our European partners.

In the finance industry, we have on the one hand made good progress on the remedial work in individual institutions and countries and on the way to a single European banking supervisor. On the other hand, much remains uncertain – in terms of both the structures and the condition of some banks. On the one hand, regulation has helped to increase the security of the finance industry and created the conditions for regaining trust. On the other hand, it is this same regulation that is heaping large additional costs on banks and making it hard for them to perform their function as a support to productive industry in full. At the same time, regional differences in regulation are leading to distorted marketplaces that are preventing a global level playing field.

The list of "on the one hand, on the other hand" could go on endlessly. It is clear that HypoVereinsbank has had to deal with highly varied and in some cases contradictory developments during the reporting period. In this difficult environment, our Bank has once again performed well.

Success is of course measured in more than just figures, but these are certainly part of the story. So we are delighted to announce good results, with a pre-tax profit of around €1.5 billion. Adjusted for non-recurring effects, we even succeeded in slightly increasing the strong profit recorded in the previous year. Such an achievement is not a matter of course, given such low interest rates, restrained demand from our customers in some areas and the investment of more than €300 million that we are making in the future of the retail banking business. All this means that HypoVereinsbank has demonstrated the worth of its robust, sustainable business model and proven to be one of the most profitable banks in Germany. It also means that we have made an important contribution to the success of UniCredit overall. Three factors have had a particular impact on this performance:

First and foremost, we have kept our operating income stable despite an extremely difficult environment. Although we had to cope with a sharp decline in our interest income due to the very low interest rates, we once more managed to exceed the very good year-ago total for net fees and commissions.

Second, we have again succeeded in effectively managing and keeping down our costs. The high level of cost awareness that we have now instilled across the Bank was one the main pillars of our success in 2013.

Third, risk management has evolved into one of the Bank's major strengths over recent years. At €214 million, our loan-loss provisions were again very low in 2013 and comfortably below the year-ago total. In the final analysis, this figure amply demonstrates that our business model is correctly attuned to current demands. The targeted concentration on the customers and their needs, coupled with the consistent analysis and pricing of risk and the all-round service offered our customers, is bearing fruit and turning our Bank into an efficient player with a long-term orientation.

Stability and efficiency are two concepts that society quite rightly demands of a bank in special measure. Probably the easiest way to assess the economic stability of a bank is with its core Tier 1 ratio. For some time now, we have put an emphasis on ensuring that this ratio is well above the statutory and regulatory minimum requirements. We managed to achieve a new record high in this regard in 2013. At 21.5 percent, we continue to enjoy a very high level by both national and international standards.

Trust in a bank cannot be expressed solely in figures, though. It also manifests itself in how a bank is integrated with society, how it performs its functions and the way in which it applies ethical standards to its behaviour. It is no secret that the banking industry has suffered a huge loss of trust in this respect. In part, it provoked such a loss through its own actions. It is also true, however, that changes in mindset and behaviour in our industry are currently being overlooked by the public at large.

So it is all the more important to anchor sustainability and social commitment in the business model. Fortunately, HypoVereinsbank integrated these elements into its fundamental policy at an early stage. We continued down this path once more in 2013. All of our Bank's banking operations are now carbon-neutral. In addition, we have started numerous initiatives with the vital support of our Women's Council that will make our Bank fit for the future. The vigorous continuation of the mentoring programmes for female employees and entrepreneurs together with the numerous schemes to realign our management models are just two of the highlights that illuminate this aspect of our activities.

We are convinced that a bank is all the more successful, the more it is widely recognised as a good corporate citizen. Specifically a service provider needs to have close links with the society in which it operates. Social recognition and a high level of trust are existential elements in sustainable, long-term viability.

All in all, we firmly believe that we have achieved much for the solidity of, and trust in, HypoVereinsbank over the past year. Both the economic performance of our Bank and our social positioning are evidence of this. Nonetheless, nothing is more convincing and motivating than outside recognition and affirmation. So we are delighted to note how our offerings and business models have been rewarded by customers and the public at large on several occasions in 2013.

To remain successful in this regard, it is essential for our Bank to keep evolving to match the rapidly changing market conditions. For some time now, we have been tracking a clear change in the needs of our retail customers – a trend that accelerated further during the course of the last financial year. Branches are frequented less and less often. By contrast, the demand for online and mobile bank services is rising. We anticipate that, by 2015, only 5 percent of customer contacts will be at conventional branches, compared with 70 percent as recently as 2000.

HypoVereinsbank started to set up digital advisory and service offerings earlier than others. We aim to leverage this momentum and continue resolutely down this path to a multi-channel bank. We intend to invest more than €300 million over the next two years to achieve this.

Investment is also the key issue for the general economic environment that we will be facing over the coming months. The German economy is anticipated to perform well, with the sometimes lamented investment backlog of recent years slowly unwinding. Stable consumption and growing exports should push up the pace of growth in Germany. Despite major uncertainties that continue to loom, we expect the eurozone to continue expanding as well. For the finance industry, though, the environment will remain challenging; we predict that yet more regulation will be coming our way. Despite this difficult market environment and the greater regulatory pressure, we are still confident of achieving a solid result again in 2014.

Ladies and gentlemen, with this annual report I can present to you a successful, stable bank that is shaping its own future with all its resources at the same time. One of the reasons I can do this is because our employees – irrespective of the many challenges and the occasional uncertainty – once again gave their all for this Bank in 2013. So I would like to finish off this letter by offering a huge vote of thanks to the employees and to the members of the works council. Each and every one of them has made a valuable contribution to the success of us all. Many of them have performed above and beyond the call of duty. On the one hand, we have a good foundation for making 2014 a successful financial year building on this hard work. On the other hand – and this should not be brushed under the carpet – our industry will continue to face major challenges.

With this in this mind, I would like to wish all of you – our customers, our investors, our business partners and also our well-wishers – a successful financial year.

Best regards

Dr Theodor Weimer

Summary of Results

Commercial Banking business segment

- Targets retail customers, wealthy individuals (private banking), and business, Mittelstand and real estate customers
- 2013: operating income at around prior-year level
- Pre-tax profit shaped by restructuring costs and reversal of loan-loss provisions in the previous year

Corporate & Investment Banking business segment

- Targets institutional customers, multinationals and corporate customers with capital market activities
- 2013: pre-tax profit close to year-ago level
- Much lower loan-loss provisions

Asset Gathering business segment

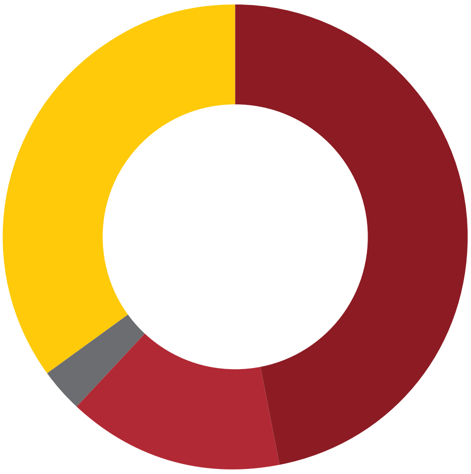
- Targets direct-banking customers, encompassing the results of HVB's DAB subsidiary
- 2013: operating income at year-ago level
- Pre-tax profit depressed by lower net income from investments

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

Business segment highlights (€ millions)

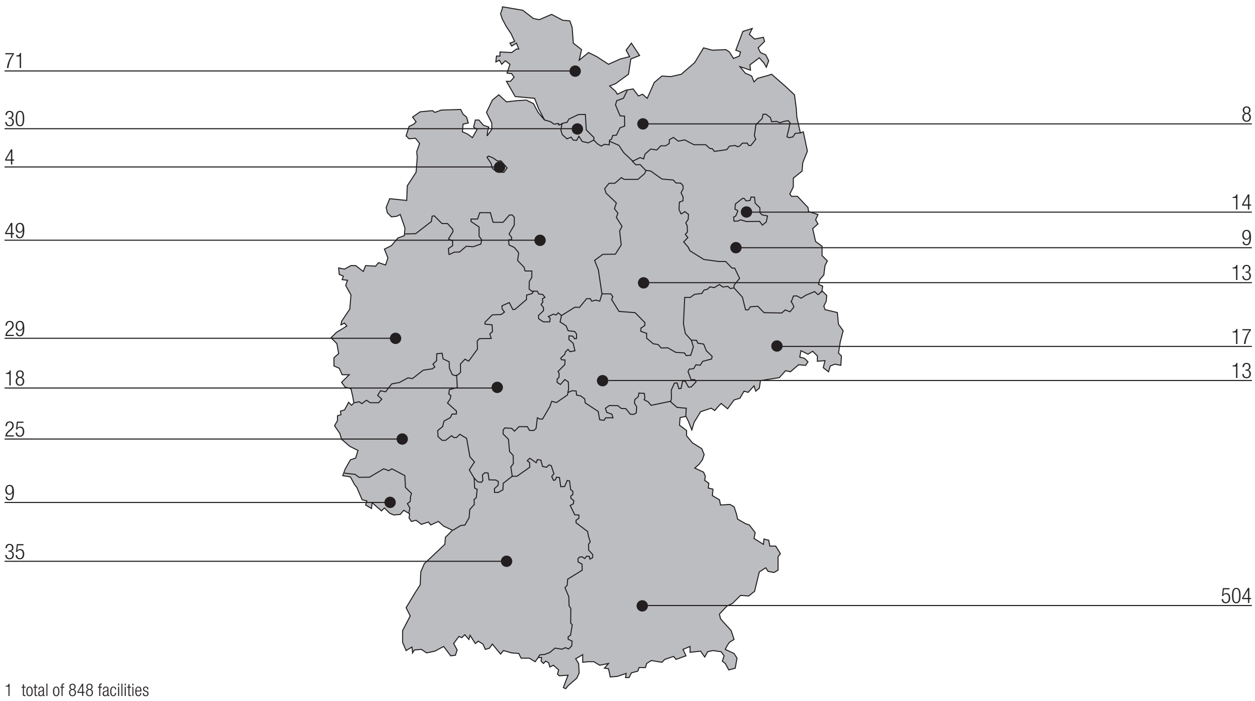
	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING	OTHER/ CONSOLIDATION
OPERATING INCOME				
2013	2,466	2,563	125	486
2012	2,529	3,083	124	314
Operating costs				
2013	(1,997)	(1,327)	(109)	(154)
2012	(1,989)	(1,255)	(112)	(160)
Net write-downs of loans				
and provisions for guarantees				
and commitments				
2013	(74)	(240)	—	100
2012	32	(1,005)	—	246
NET OPERATING PROFIT				
2013	395	996	16	432
2012	572	823	12	400
PROFIT BEFORE TAX				
2013	37	978	19	424
2012	514	1,059	28	457

Employees[1] by business segment



1 total of 19,092 employees, calculated as full-time equivalents (FTEs)

Facilities in Germany[1]



1 total of 848 facilities

Global Banking Services

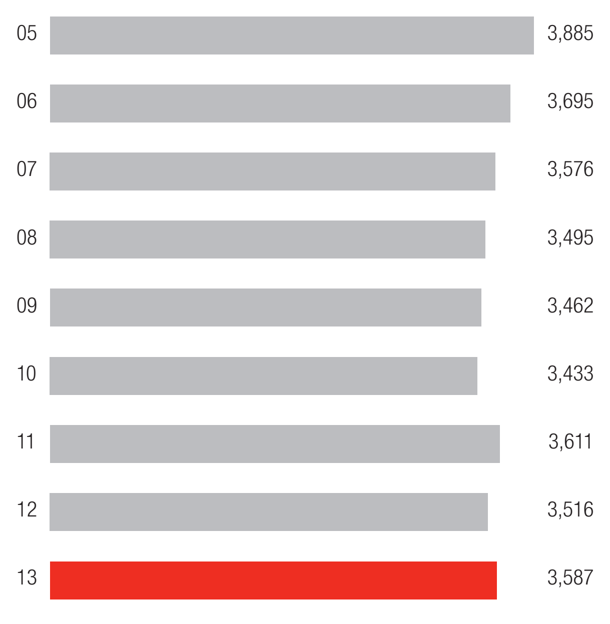
Central service hubs boost customer focus and tap synergies

Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success for UniCredit Bank AG (HVB). The departments subsumed under GBS include Organisation, Data Protection, Workout Services, Security, and Service Management & Governance, which oversee relations with the back office and IT functions outsourced to UniCredit group companies. In addition, the UniCredit Global Business Services (UGBS) subsidiary comprises the units Real Estate Management, HR Service Centre, Purchasing and Operations for Markets & Treasury products. The range of services provided by GBS was expanded in spring 2013 with the formation of an in-house consulting department based in Munich, UniCredit Management Consultancy Germany.

Cost optimisation project continues to slow rise in operating costs

As in previous years, HVB Group again succeeded in improving its cost base by further streamlining its internal workflows, continually enhancing its processes and expediting the Mindset 440 cost-optimisation project that was launched at the end of 2012 in conjunction with UniCredit. Operating costs amounted to €3,587 million (2012: €3,516 million).

Operating costs of HVB Group (€ millions)



Data security is a key issue for the IT security organisation

The concept of the integrated security organisation was refined across all units during the reporting period in order to reflect changes in the general risk situation. We updated our IT security standards to take account of the evolving threats from cyber criminality and the expanded requirements under the Minimum Requirements for Risk Management (MaRisk). Compulsory training courses on data security and correct behaviour in social networks help to underpin this objective.

The system used to manage and control IT security and business continuity management was refined in collaboration with the IT service provider, UniCredit Business Integrated Solutions (UBIS). A new system of metrics was introduced to improve the control options and initialise harmonisation with the reporting on the IT services provided.

We continue to take a restrictive approach to the granting of access rights. The management of such authorisations was optimised by rolling out a central control and monitoring mechanism under the Access Rights programme.

The conceptional integration of the security organisation was deepened in collaboration with both other banks and public authorities. In this context, HVB joined forces with Commerzbank AG and ING DiBa AG in an institutionalised public-private partnership to set up an association to combat cybercrime. The German Competence Centre against Cybercrime (G4C) is a not-for-profit association based in Wiesbaden.

Cooperation centres around efforts to enhance protection against cybercrime. The G4C association represents a novel form of operating centre linking members of the business community with the Federal Criminal Police Office (Bundeskriminalamt) to devise measures to prevent cybercrime and draw up solutions to current and future cybercrime threats. The focus at this stage is on online banking fraud. We are convinced that cybercrime can be combated more fully by pooling the expertise of commercial enterprises, research institutions, and the business and scientific communities.

All the measures taken have been a major factor in keeping HVB far above the industry for its level of protection in such areas as internet security and phishing.

Advice from Data Protection unit ensures appropriate protection level

Various measures aimed at enhancing the level of data protection were implemented during the reporting period and awareness for data protection issues in both day-to-day operations and in projects was significantly increased among the workforce.

A good example of this in the reporting period is the outsourcing of the central IT infrastructure under the GIBSON project. Compliance with all relevant data protection requirements is ensured through the wording of the contracts for the European joint venture between the corporate IT service provider, UBIS, and IBM.

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

Service Management & Governance safeguards standardised management of back office services

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

Back office service providers

The customer-account-partner back office services (core banking) and real estate loan servicing have been performed by UniCredit group subsidiaries since 2009, and by UBIS since 2011. The projected cost cuts were again achieved in 2013 while maintaining a high level of service and rolling out new, action-oriented services.

IT services

The IT services for the Bank are provided mainly by the group company UBIS. To steer these services, the Bank und UBIS have worked together under the CRESCENDO project in recent years to refine the processes and constantly expand the control system. In 2013, the control system was again extended and enhanced to exploit the potential for improvement identified in 2012 and utilise audit findings.

To optimise the services of UBIS, some portions of the services portfolio were sub-outsourced to third parties in 2013, including infrastructure operations for the data centre and parts of application support (GIBSON project). Service Management & Governance and all relevant functional units were heavily involved in these projects.

Outsourcing of securities settlement

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

Payment services

Betriebs-Center für Banken has handled all payment services since 2007. All credit cards handled to date by external services providers were migrated to UniCredit's own credit card platform at UBIS set up in previous years.

Global Banking Services (Continued)

Banking Support activities
The Banking Support unit manages the purchasing services outsourced to UGBS, the Cross Medial Products competence centre (providing information for customers in paper form as well as increasingly electronic form, including PDFs and text messages) and mobility management. It also acts as a central service provider for financial accounting. The Insurance Management centre of competence for HVB was recently added.

GSM5 is a central internal service provider ensuring that the required insurance cover is in place. This is done in conjunction with a respected insurance broker who secures access to national and international insurance markets. The collaboration in this regard is to be reorganised in 2014.

HVB's outsourcing portfolio is analysed for potential optimisation at regular intervals taking cost and risk considerations into account and discussed by the Management Board as part of the strategic refinement process.

Real estate management

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

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

The units listed above manage both the real estate required by the Bank for its operations (such as administration buildings and Group-owned branches) and any real estate not used by the Bank.

In connection with the real estate portfolio used by the Bank, the GEMINI concept set up in 2010 and 2011 for the headquarters buildings in Munich and Hamburg was continued in 2013. The facility plans in Hamburg and Munich call for the optimisation of space utilisation, and the renovation and sale of buildings, and for HVB to vacate the empty buildings along with the relocation of the units affected. The facility plan for Hamburg was successfully concluded in 2013 with the sale of the Alter Wall building and the relocation of the Bank units to the Neuer Wall, Graskeller and Hansa Carree buildings. Implementation of the facility plan for Munich is running to plan and is expected to continue until 2018.

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

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

Workout services

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

The classical workout function is called for whenever all the restructuring measures in a debtor/creditor relationship have failed. The aim is to obtain as much of the amounts receivable from the borrower as possible and, if necessary, exercising all possible measures such as foreclosures and sequestrations. At the same time, however, it is important to work with the administrator and other creditors to find a solution that is acceptable for the company and the employees, not least taking account of social and welfare considerations.

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

With a high recovery rate for non-performing loans as well as appropriate settlements of legal positions, these units play a vital role in minimising risks and defaults for the Bank.

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

The Trading department is facing changed requirements resulting from new international regulations, leading to a wide-ranging adjustment of processes and controls in the Corporate & Investment Banking (CIB) business segment. Markets Business Support (GMS) in GBS pools the competencies required to support the trading units in their day-to-day business activities and implement the new regulations and controls.

Following the integration of the Middle Office in 2012 (previously in CIB) together with the systematic alignment with operational risk requirements and the restructuring and centralisation of the unit over the past 12 months, further units were added to the control mechanisms in GMS during the course of 2013. The Markets Business Support unit now comprises the Markets Middle Office, Global Margin Management, Reconciliation Services and Product Support departments.

GMS safeguards the completeness of trades in the Bank's books by ensuring the correct reproduction of the trades by the Middle Office, securing data consistency in the systems by means of transaction reconciliations and instrument data, and carrying out a regular portfolio reconciliation with customers and counterparties in the collateral management system. The control mechanisms form the basis for implementing the risk-mitigating measures in line with the European Market Infrastructure Regulation (EMIR), the US Dodd-Frank Act and Basel III, which provides the framework for GMS to measure target achievement (such as prompt validation of the trades and timely mailing of the portfolio reconciliation).

Tax Implementation & Operation

The Tax Implementation & Operation department set up in 2012 handles every aspect of capital gains taxes and financial market transaction taxes in order to provide prompt, comprehensive tax services for HVB's customers and to allow the Bank the leeway it needs to attract new customers at the same time.

For this purpose, Tax Implementation & Operation has assumed responsibility for central process analysis, implementation and operational support with regard to all tax-related issues relevant to customers within HVB.

The main priorities this year are the timely delivery of the tax certificates in line with the benchmark set the previous year, the implementation of the Italian financial market transaction tax and the international FATCA project.

In-house consulting unit set up by HVB

UniCredit Management Consultancy Germany (UMCG) was set up at the Munich facility in April 2013. The focus at HVB is on operational consulting for the implementation of regulatory requirements and the handling of technical questions, among other things. In response, the HVB Management Board decided to create an in-house consulting unit at HVB in line with the successful predecessor model at corporate level. The goal is to replace external consultants with internal staff with a view to reducing dependencies and cutting costs. UMCG works on high priority projects for senior management across the full spectrum of an international financial institution. The internal consultants support projects across the complete organisational structure of HVB and assist their colleagues in the Bank with their project skills and expertise. In addition, UMCG acts as a talent factory, offering motivated employees opportunities for career development within the Bank. With just under 30 employees at present, the new unit has not yet reached its planned overall size; the workforce is intended to grow to around 65 by the end of 2014.

Outlook: continuation of strict productivity management and cost optimisation

HVB will again focus on enhancing its internal processes and improving the quality of its customer service in 2014. The restructuring of various back office processes in connection with the service provider UGBS and the UniCredit-wide service provider UBIS will continue to provide a fixed framework for realising further gains in productivity.

A special word of thanks goes to our highly trained, dedicated staff who have performed outstanding work this last year.

Facilitate

Finding solutions to make everything easier.

"Due to an internal bug, one of my Customers received funds to pay staff salaries two days late.
I did everything I could to find a solution. I asked my colleagues for help, and together we came up with a response: we compensated for the two lost days in their wages the next month. The Customer called to thank me for solving the issue quickly.
We showed that our **bank is easy to deal with**."

Peter Tschöp - Financial Institutions Group - CIB Global Division
UniCredit Bank Austria

Financial Statements (1)

Management's Discussion and Analysis

Financial Review

Corporate structure

Legal corporate 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 under Note 91, "Members of the Supervisory Board", and Note 92, "Members of the Management Board", in the consolidated financial statements.

HVB Group's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the principle of overall bank management based on the determination of regulatory and economic capital requirements and risk-taking 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"). The key performance indicators (KPIs) applied within the framework of the overall bank management at HVB Group are stated at the relevant places in the Financial Review.

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 Group has a well-developed network of branches in Germany via which it serves its customers. Because of its past, the Bank is particularly strong in Bavaria as well as in Hamburg and the surroundings. In total, HVB Group has 933 offices around the world, including 584 HVB offices in Germany. A breakdown of the offices of HVB Group by region is shown in Note 89, "Offices", in the notes to the consolidated financial statements.

HVB Group 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 Group also lies in consistently leveraging the advantages gained from economies of scale and other strategic assets resulting from our integration into UniCredit. UniCredit has a 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 Group 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 Group was divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking
– Asset Gathering
– Other/consolidation

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.

Financial Review (Continued)

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 Group 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 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 Group continues to be the centre of competence for the international markets and investment banking operations of the entire UniCredit corporate group. In addition, the Corporate & Investment Banking business segment 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.

Asset Gathering business segment

The activities of the DAB Group (DAB) with a total of 621,000 customers are reflected in the Asset Gathering business segment.

DAB provides financial services for retail and business customers. Set up in 1994 as Germany's first direct broker, its traditional focus is on securities operations. DAB gives its customers access to securities and offers a full range of security account management services. By constantly expanding and enhancing the range of products and services it provides, DAB today now has a full offer in the fields of banking, investment and trading. DAB started to apply an offensive market strategy on the retail side at the end of 2012 with a view to becoming the first bank for its customers, among other things. With regard to business customers, it is seeking to sustainably extends its market leadership in serving independent asset managers.

DAB has positioned itself as an efficient first bank for present and potential retail customers. The following are considered core products among the constantly evolving range of highly competitive products and services offered: free current accounts; debit and credit cards; savings, payments and lending products; securities accounts; wide-ranging online brokerage services; an independent range of investment solutions; and a high quality package of products and services for the demanding trader. The internet is by far the most important distribution channel. By concentrating on this channel, DAB is able to provide its products and services at particularly attractive terms and conditions.

Other/consolidation business segment

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

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.

Financial Review (Continued)

The Group Corporate Centre pools the competence lines of HVB Group. They contain the organisations of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and Human Resources Management. The Group Corporate Centre encompasses profit contributions that do not fall within the jurisdiction of the individual business segments. Among other items, this includes the profits and losses of consolidated subsidiaries and of non-consolidated holdings, provided they are not assigned to the business segments. In addition, income from securities holdings for which the Management Board is responsible are reflected here. Also incorporated in this business segment are the amounts arising from decisions taken by management with regard to asset/liability management. This includes contributions to earnings from securities and money trading activities involving UniCredit S.p.A. and its subsidiaries. The Other/consolidation business segment also includes the Real Estate Restructuring (RER) customer portfolio.

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 €362 million have been recognised in the HVB Group income statement for the 2013 financial year, the majority of which 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 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.

Corporate acquisitions and sales, and other major changes to the group of companies included in consolidation

HVB Group has included the BARD Group in the consolidated financial statements for the first time at 31 December 2013. The BARD Group discontinued its operating activities when it handed over the wind farm to Ocean Breeze Energy GmbH & Co. KG at year-end 2013. The corporate group is currently being restructured. A majority of the economic opportunities and risks rest with HVB as the dominant creditor of the BARD Group, meaning that the companies of the BARD Group (except for immaterial companies) have been fully consolidated for the first time with effect from 31 December 2013 in accordance with IFRS provisions (SIC 12). The full consolidation includes the balance sheet of the BARD Group at 31 December 2013 accordingly; the income statement for 2013 has not been consolidated as it relates to the period prior to the consolidation date. A list of the individual companies of the BARD Group and further details on the initial consolidation are included in Note 5, "Companies included in consolidation", in the present Consolidated Financial Statements.

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, the Volcker Rule 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.

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; the company left the group of companies fully consolidated by HVB Group at that time. HVB continues to hold a 5.1% interest in Internationales Immobilien-Institut GmbH for the time being.

In December 2013, we sold our interest of 5% in HVB Global Assets Company, L.P., to the majority shareholder in line with the equity interest held. The company was an affiliated company over which HVB exerted a controlling influence through management. As this influence ceased with the disposal of our interest, the company left the group of companies included in consolidation as of the sale date.

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

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).

Financial Review (Continued)

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 of HVB Group by the Management Board

In this persistently challenging economic and financial environment, HVB Group generated a good profit before tax of €1,458 million in the 2013 financial year. Although last year's very good profit before tax of €2,058 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 €362 million (2012: €102 million) and the year-ago total also benefited from a non-recurring item of €395 million in net trading income. Adjusted for the restructuring costs in the two years and the non-recurring effect in net trading income in 2012, the profit before tax of €1,820 million in 2013 would have even been €55 million higher than the adjusted result of €1,765 million for 2012. Consolidated profit after tax amounted to €1,074 million in the reporting period (2012: €1,287 million).

The decline in reported profit before tax can be attributed to a fall of €552 million in net interest to €2,912 million in the operating business on the back of persistently extremely low interest rates. Net trading income came to a respectable €1,118 million, up 40.6% or €323 million on last year's result adjusted for the non-recurring item resulting from the reversal of credit value adjustments. Net fees and commissions developed extremely well, rising by 5.2%, or €58 million, over the high year-ago total to €1,166 million. Furthermore, net other expenses/income increased by €186 million to €327 million. Operating costs rose by a mere 2.0% to €3,587 million year-on-year, with an inflation rate of 1.5% and high regulatory costs. The cost-income ratio of 63.6% in the reporting period (2012 excluding non-recurring effect in net trading income: 62.2%) remained at a good level for a universal bank by both national and international standards. At €214 million, net write-downs of loans and provisions for guarantees and commitments are at a very low level and are thus significantly lower than the €727 million recorded in 2012, although this does contain technical additions to loan-loss provisions totalling €287 million (€240 million for the exposure relating to the Bard Offshore 1 offshore wind farm and €47 million to cover legal risks arising from derivatives) offset by reversals of provisions in the same amount.

Overall, the results achieved, adjusted for restructuring costs, have met our expectations about the development of the profit before tax described in the Outlook in last year's Management's Discussion and Analysis. The decline in operating income is a result of extremely low interest rates and the general decline in volumes. By contrast, there was a pleasing year-on-year rise in net fees and commissions. Operating costs, which we had predicted to be similar to 2012, were slightly higher than last year due to inflation and the rise in regulatory costs. As a result of the sharp decline compared with last year, net write-downs of loans and provisions for guarantees and commitments developed much more favourably than planned.

Financial Review (Continued)

All the segments contributed to the good profit before tax of HVB Group. The Commercial Banking (CB) business segment recorded a profit before tax of €37 million which, however, is adversely affected by restructuring costs of €325 million in connection with the modernisation of the retail customer operations of HVB Group. Without these restructuring costs, Commercial Banking would have generated a profit before tax of €362 million (2012: €514 million). Within this total, operating income fell by €63 million to €2,466 million, primarily on account of lower net interest and a decline in net fees and commissions. Operating costs rose slightly by 0.4% to €1,997 million and are thus lower than the inflation rate of 1.5% for Germany. Net write-downs of loans and provisions for guarantees and commitments continue to be at a very low level with a net addition of €74 million (2012: net reversal of €32 million). The Corporate & Investment Banking (CIB) business segment recorded operating income of €2,563 million (2012: €3,083 million). The year-on-year decline of €520 million results mainly from a decrease of €552 million in net interest which can be partly attributed to the very low interest rates. Net fees and commissions developed very well in the CIB business segment, rising sharply by €89 million to €231 million compared with last year. By contrast, net trading income fell by €103 million as last year's non-recurring item mentioned above of €395 million from credit value adjustments is no longer included in 2013. There was a substantial decline to €240 million in net write-downs of loans and provisions for guarantees and commitments (2012: €1,005 million). The profit before tax of the CIB business segment amounted to €978 million after €1,059 million last year (without the non-recurring item named above, profit before tax would have been €314 million higher than the adjusted year-ago total). The Asset Gathering business segment generated a profit before tax of €19 million after €28 million last year. The decline in profit is primarily due to declines of €11 million in net interest and €10 million in net income from investments. In comparison, net fees and commissions developed well, rising €12 million.

HVB Group 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 21.5% at 31 December (year-end 2012: 17.4%), which is an excellent level by both national and international standards. The shareholders' equity shown in the balance sheet fell by €2.3 billion compared with year-end 2012 to €21.0 billion. This reflects 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 consolidated profit of €1,074 million generated in the 2013 financial year. In addition, the minority interest contained in shareholders' equity shown in the balance sheet decreased by €747 million, primarily on account of the deconsolidation of HVB Global Asset Company. With total assets down by 16.5% compared with year-end 2012 to €290.0 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 7.1% at 31 December 2013 after 6.6% at year-end 2012.

HVB Group enjoyed a very comfortable liquidity base and a solid financing structure at all times in the reporting period. In this context, it is worth mentioning that HVB Group 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's Discussion and Analysis 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 Group 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 of HVB Group

All the statements regarding the operating performance of HVB Group in this Management's Discussion and Analysis refer to the structure of our segmented income statement (see Note 28, "Income statement broken down by segment") which we set out below. By doing so, we are following the Management Approach incorporated into our segment reporting.

	2013	2012	CHANGE	
Income/Expenses	€ millions	€ millions	€ millions	in %
Net interest	2,912	3,464	(552)	(15.9)
Dividends and other income from equity investments	117	147	(30)	(20.4)
Net fees and commissions	1,166	1,108	58	5.2
Net trading income	1,118	1,190	(72)	(6.1)
Net other expenses/income	327	141	186	>+ 100.0
OPERATING INCOME	**5,640**	**6,050**	**(410)**	**(6.8)**
Payroll costs	(1,810)	(1,839)	29	(1.6)
Other administrative expenses	(1,567)	(1,499)	(68)	4.5
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(210)	(178)	(32)	18.0
Operating costs	**(3,587)**	**(3,516)**	**(71)**	**2.0**
OPERATING PROFIT	**2,053**	**2,534**	**(481)**	**(19.0)**
Net write-downs of loans and provisions for guarantees and commitments	(214)	(727)	513	(70.6)
NET OPERATING PROFIT	**1,839**	**1,807**	**32**	**1.8**
Provisions for risks and charges	(222)	195	(417)	
Restructuring costs	(362)	(102)	(260)	>+ 100.0
Net income from investments	203	158	45	28.5
PROFIT BEFORE TAX	**1,458**	**2,058**	**(600)**	**(29.2)**
Income tax for the period	(384)	(771)	387	(50.2)
PROFIT AFTER TAX	**1,074**	**1,287**	**(213)**	**(16.6)**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT	**1,074**	**1,287**	**(213)**	**(16.6)**

Net interest

Net interest generated in the reporting period fell by a tangible €552 million, or 15.9%, to €2,912 million compared with the same period last year in an environment weighed down by persistently very low interest rates. This can be attributed mainly to the decrease of €552 million in net interest in the CIB business segment to €1,194 million. However, net interest also fell in the other business segments, amounting to €1,600 million in the CB business segment (2012: €1,647 million) and €39 million in Asset Gathering business segment (2012: €50 million), while net interest in the Other/consolidation business segment increased to €79 million (2012: €21 million).

The decline in net interest results mainly from two key developments. First, trading-induced interest declined by a sharp €230 million. Second, net interest decreased primarily in lending operations on account of both contracting volumes and further declines in margins, especially in activities involving our corporate customers.

Dividends and other income from equity investments

The income generated from dividends and other income from equity investments, which results mainly from dividends paid by private equity funds, declined by €30 million compared with last year to total €117 million in the reporting period.

Financial Review (Continued)

Net fees and commissions

In 2013, net fees and commissions showed a very pleasing development compared with last year, increasing by €58 million to €1,166 million. The rise of €18 million to €573 million in management, brokerage and consultancy services is partly attributable to higher income in the securities business particularly at our DAB Bank AG subsidiary. In lending operations, net fees and commissions grew by €15 million to €342 million, primarily on account of our corporate banking business with multinationals. The rise of €11 million to €227 million in net fees and commissions from collection and payment services is mainly attributable to higher earnings in the credit card business and higher account-management income. In other service operations, we achieved a €14 million increase in net fees and commissions to €24 million.

Net trading income

HVB Group recorded a respectable net trading income of €1,118 million in 2013, which is only slightly lower than the high year-ago figure (€1,190 million) that also benefited from a non-recurring effect of €395 million arising from the reversal of credit value adjustments in the first quarter of 2012. Adjusted for this effect, net trading income would have increased by €323 million compared with last year. In this context, valuation effects also accrued on the financial liabilities held for trading, resulting from the inclusion of the own credit spread. This served to benefit net trading income year-on-year by an amount of €172 million.

The CIB business segment generated net trading income of €964 million in the reporting period compared with €1,067 million in the equivalent period last year, which benefited from the effect from the reversal of credit value adjustments as described above. Adjusted for this effect, net trading income increased by €292 million. The key driver of net trading income was customer transactions involving fixed-income securities, interest rate derivatives and structured equity products.

In order to enhance the capital structure of HVB Group and to exploit the low interest rate levels at the same time, further buy-backs of hybrid capital instruments were carried out in 2013. The resulting gains have been allocated to the Other/consolidation business segment, for which we have recorded net trading income of €135 million for the 2013 financial year (2012: €131 million, likewise including gains from the buy-back of hybrid capital instruments and supplementary capital).

Net other expenses/income

Net other expenses/income increased by a sharp €186 million to €327 million in the year under review compared with last year. In addition to the recognition of income from services in earlier years, this rise can be attributed to income in connection with the commissioning of the Bard Offshore 1 offshore wind farm in 2013 as well as lower expenses for the bank levy in Germany and a reimbursement of the bank levy in the UK. This is offset by lower results from the disposal of loans and receivables and an expense from the initial consolidation of the BARD Group.

Operating costs

For years, operating costs have been reflecting our very successful cost management. In the reporting year, operating costs, at €3,587 million, are significantly lower than the level at the time of HVB's integration into UniCredit (2005: €3,885 million). Compared with last year, operating costs rose slightly by 2.0%, or €71 million. Within this total, payroll costs fell by €29 million to €1,810 million due to a lower headcount and a decrease in pension expenses. By contrast, there was a slight increase of €68 million, or 4.5%, to €1,567 million in other administrative expenses. The main increases within this total relate to expenses for the implementation of greater regulatory requirements, also in the area of IT, the cost of external service providers and marketing expenses. Amortisation, depreciation and impairment losses on intangible and tangible assets increased by €32 million to €210 million, mainly as a result of impairment losses recognised on items of property plant and equipment in our offshore wind farm.

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

The operating profit of HVB Group fell by a sharp €481 million, or 19.0%, to €2,053 million in the reporting period particularly on account of the decline in net interest. With a slight rise in operating costs, this produced a cost-income ratio (ratio of operating expenses to operating income) of 63.6% (2012: 58.1%, without the non-recurring income in net trading income: 62.2%) which, in view of the historically low interest rates, is still a good level for a universal bank.

Net write-downs of loans and provisions for guarantees and commitments and net operating profit
At €214 million, net write-downs of loans and provisions for guarantees and commitments in the reporting period were at a very low level and thus significantly below the figure of €727 million posted for the equivalent period last year. However, this does contain technical additions to loan-loss provisions totalling €287 million (€240 million for the exposure relating to the Bard Offshore 1 offshore wind farm and €47 million to cover legal risks arising from derivatives) offset by reversals of provisions in the same amount. A net reversal from additions and reversals of value adjustments in the Other/consolidation business segment resulted in this low level of net write-downs of loans and provisions for guarantees and commitments, which arose among other things from the successful reduction of expiring portfolios. In total, a historically low cost-of-risk is calculated for HVB Group (ratio of net write-downs of loans and provisions for guarantees and commitments to average holdings of receivables with customers) of 18 basis points compared with the 55 basis points a year earlier.

In gross terms, the expenses of €1,709 million for additions in the current reporting period (2012: €1,705 million) are largely offset by releases and recoveries from write-offs of loans and receivables amounting to €1,495 million (2012: €978 million).

At €1,839 million, net operating profit developed well, surpassing the high year-ago total, which benefited from a non-recurring item in net trading income, by 1.8% or €32 million.

Provisions for risks and charges
There was net expense of €222 million from net additions/net reversals for risks and charges in the current reporting period which resulted particularly from additions for legal risks in addition to provisions for derivative transactions. A detailed description of the legal risks is provided in the section of the Risk Report in Management's Discussion and Analysis entitled "Operational risk".

By contrast, a net gain of €195 million was posted for reversals and additions for provisions for risks and charges in 2012. The largest individual item within the net gains from reversals of provisions amounted to €240 million, relating to the construction of an offshore wind farm for which appropriate impairment losses were simultaneously taken on the loans extended under the item net write-downs of loans and provisions for guarantees and commitments in the income statement.

Restructuring costs
Restructuring costs in the year under review totalled €362 million, relating for the most part to the creation of restructuring provisions related to the modernisation of the retail customer business of HVB Group (see the explanations in the section entitled "Modernisation of the retail banking business" in the present Management's Discussion and Analysis). These restructuring provisions mainly include provisions for severance payments and the cost of closing branch offices.

The restructuring costs of €102 million included in 2012 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.

Net income from investments
Net income from investments came to €203 million in the reporting period, resulting chiefly from gains of €247 million which were partially offset by expenses of €44 million for write-downs and value adjustments. Of the gains, €169 million relate to available-for-sale financial assets mainly originating from the sale of private equity funds; this figure also includes the gain on the sale of parts of the private equity portfolio to SwanCap. In addition, gains of €54 million were generated on the disposal of land and buildings in connection with the sale of properties in Hamburg. Write-downs and value adjustments of €44 million were taken on the available-for-sale financial assets (€50 million).

The year-ago total of €158 million was largely generated from gains of €220 million which were partially offset by expenses for write-downs and value adjustments of €62 million. Of the gains, €134 million

Financial Review (Continued)

related to available-for-sale financial assets mainly originating from the sale of private equity funds and to the gains on the disposal of land and buildings of €49 million in connection with the sale of properties in central locations at the Bank's facilities in Munich. The write-downs and value adjustments were particularly due to private equity funds.

Profit before tax, income tax for the period and consolidated profit
HVB Group generated a good profit before tax of €1,458 million in the 2013 financial year, although this was affected by the restructuring costs of €362 million mentioned above. Compared with the year-ago total of €2,058 million, it must be taken into account that last year's result was depressed by restructuring costs of €102 million while also benefiting from the non-recurring effect of €395 million in net trading income. Adjusted for the restructuring costs in both years and non-recurring item in net trading income in 2012, the profit before tax of €1,820 million in 2013 would have even been €55 million higher than the adjusted year-ago total of €1,765 million.

Income tax in the reporting period totalled €384 million – due above all to the lower profit – and was €387 million down on the income tax reported for the equivalent period last year (€771 million). As in 2012, write-ups were recognised on deferred tax assets on tax losses carried forward, albeit on a smaller scale. After deducting income tax, HVB Group generated a consolidated profit of €1,074 million in the reporting period (2012: €1,287 million).

Return on equity
The return on equity after tax sets the consolidated profit accruing to HVB shareholders against the average shareholders' equity reported in the balance sheet consisting of subscribed capital, additional paid-in capital and other reserves without valuation changes of financial instruments and without consolidated profit and minority interest. It amounted to 5.2% in the 2013 financial year (2012: 5.8%). The evaluation of this figure is to be seen particularly against the backdrop of the relatively high capital base of HVB Group. In this context, the decline over the previous year can be attributed to the decrease of 17.1% in consolidated profit accruing to shareholders with a 7.1% decline in average shareholders' equity.

Appropriation of net income
The profit available for distribution based on the German Commercial Code (Handelsgesetzbuch – HGB) disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €756 million. We will propose to the Shareholders' Meeting that a dividend of €756 million be paid in total to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.94 per share.

The consolidated profit of €2,462 million (around €3.07 per share) reported last year was distributed to UniCredit in accordance with a resolution passed by the Shareholders' Meeting on 7 May 2013 and consisted of the net profit of €1,462 million generated by UniCredit Bank AG in 2012 and a withdrawal of €1,000 million from other retained earnings.

Segment results by business segment
The business segments contributed the following amounts to the profit before tax of €1,458 million of HVB Group

Commercial Banking	€37 million
Corporate & Investment Banking	€978 million
Asset Gathering	€19 million
Other/consolidation	€424 million

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

Financial situation

Total assets
The total assets of HVB Group decreased by €57.3 billion, or 16.5%, to €290.0 billion at 31 December 2013 compared with year-end 2012.

On the assets side, financial assets held for trading fell by €39.7 billion to €91.3 billion, resulting in part from a decline in the positive fair values of derivative financial instruments as a result of an increase in medium-term interest rates and less volatility in foreign currency derivatives. In addition, adjustments were made to the derivatives portfolios through bilateral arrangements and corresponding institutions which led to a reduction of the volume of derivatives and thus the financial assets held for trading. By contrast, the financial instruments reported in the balance sheet were up by €3.0 billion, particularly due to a larger holding of equity instruments (up €3.1 billion) and the €2.2 billion increase in reverse repos with fixed-income securities falling by €2.4 billion. Loans and receivables with customers also declined by €12.6 billion to €109.6 billion, due mostly to decreases of €8.9 billion in other receivables and of €1.7 billion in the volume of mortgage loans. The lower funding requirements, particularly of our corporate customers, also had an impact on this development. The cash and cash equivalents of €10.6 billion reflect our very comfortable liquidity base and the placement of our high liquidity reserves with Deutsche Bundesbank. Partly as a result of this high liquidity reserve, we see ourselves adequately prepared to face difficult situations on the capital and financial markets. The decline of €5.0 billion in cash and cash equivalents took place most notably in deposits with central banks and is also related to the increase in reverse repos within loans and receivables with banks and the financial assets at fair value through profit or loss. Loans and receivables with banks declined by €1.0 billion to €35.3 billion on account of the reduction of €3.8 billion in cash collateral and credit balances pledged as collateral, partially compensated by the increase of €2.9 billion in reverse repos. The financial assets at fair value through profit or loss increased by €5.4 billion to €29.7 billion.

On the liabilities side, financial liabilities held for trading fell by €48.0 billion year-on-year to €73.5 billion due to lower negative fair values of derivative financial instruments (down €44.9 billion to €60.6 billion) in line with the development on the assets side. Other financial liabilities held for trading also fell by €3.1 billion to €12.9 billion. There was also a decline of €2.4 billion to €107.9 billion in deposits from customers. Within this total, there were decreases of €4.1 billion in credit balances on current accounts and of €1.8 billion in other liabilities, while repurchase agreements increased by €1.8 billion and term deposits by €2.1 billion. There was also a net decline of €4.1 billion to €31.8 billion in debt securities on account of issues due. By contrast, deposits from banks rose by €2.6 billion to €47.8 billion compared with year-end 2012, caused essentially by an increase of €4.9 billion in repurchase agreements. Deposits payable on demand and term deposits decreased by €1.2 billion in total and other liabilities by €0.8 billion.

The loan-to-deposit ratio used by the Bank is calculated by dividing customer loans by customer deposits. At year-end 2013, the ratio was 1.02%, which represents a decline of 0.09 percentage points.

The shareholders' equity shown in the balance sheet fell by €2.3 billion to €21.0 billion over year-end 2012. At the same time, the dividend payment of €2,462 million made in the second quarter of 2013 in accordance with the resolution by the Shareholders' Meeting was only partially offset by the consolidated profit of €756 million posted in the reporting period. While the subscribed capital and additional paid-in capital remained unchanged, the other reserves increased by €161 million. The available-for-sale financial assets recognised in shareholders' equity also rose by a slight €33 million. By contrast, there was a sharp €747 million decline in minority interest over year-end 2012, particularly on account of the deconsolidation of HVB Global Asset Company L.P. carried out in 2013.

The contingent liabilities and other commitments not included in the balance sheet increased by €1.3 billion to €57.2 billion at 31 December 2013 compared with the 2012 year-end total. This figure includes contingent liabilities in the form of financial guarantees of €19.6 billion (2012: €19.9 billion); these contingent liabilities are offset by contingent assets of the same amount. Other commitments of €37.6 billion (2012: €36.0 billion) primarily consist of irrevocable credit commitments which rose by €1.7 billion year-on-year to €37.4 billion.

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

The total risk-weighted assets of HVB Group (including market risk and operational risk) determined on the basis of Basel II (German Banking Act/Solvency Regulation – KWG/SolvV) amounted to €85.5 billion at 31 December 2013 (31 December 2012: €109.8 billion), which represents a decrease of €24.3 billion compared with year-end 2012.

Financial Review (Continued)

In the process, the risk-weighted assets for credit risks (including counterparty default risk) determined by applying partial use decreased by €20.3 billion to €62.8 billion. The decline results primarily from a reduction of €16.2 billion in risk-weighted assets at HVB, €2.3 billion at UniCredit Luxembourg S.A. and €0.8 billion at our subsidiaries in the leasing business and the sale of HVB Global Asset Company L.P. amounting to €0.7 billion. At HVB, credit risk fell by €11.9 billion as a result of improved risk weightings caused in part by the annual adjustment of the loss given default parameters, improved ratings and the expansion of the application of A-IRB and by lower volumes. Furthermore, HVB's counterparty risk decreased by €4.3 billion, mainly due to declines in exposures in the derivatives business and improved risk weightings. The reduction at UniCredit Luxembourg was mainly caused by declines in exposures and improved ratings. At subsidiaries in the leasing business the decline in risk-weighted assets can be attributed to the first-time application of the IRB approach.

The risk-weighted assets for market risk decreased by €3.7 billion to €9.2 billion. This development is mainly due to a reduction in holdings of Italian sovereign bonds and to the lapse of the duty to report foreign-currency risks from subsidiaries consolidated for regulatory purposes (standard procedure) as a result of falling below the relevant minimum limits based on the German Solvency Regulation.

The risk-weighted equivalents for operational risk remained almost unchanged, falling slightly by a total of €0.3 billion to €13.5 billion.

At 31 December 2013, the core capital of HVB Group compliant with the German Banking Act excluding hybrid capital (core Tier 1 capital) amounted to €18.4 billion, down €0.7 billion on year-end 2012 on account of the sale of HVB Global Assets Company L.P. The core Tier 1 ratio (ratio of core capital excluding hybrid capital instruments to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) increased to 21.5% at 31 December 2013 after 17.4% at year-end 2012. The core capital of HVB Group (Tier 1 capital) decreased to €18.5 billion at 31 December 2013 on account of the sale of HVB Global Assets Company L.P. and buy-backs of hybrid capital instruments (31 December 2012: €19.5 billion). The core capital ratio under Basel II (Tier 1 ratio; including market risk and operational risk) rose to 21.6% (31 December 2012: 17.8%). The equity capital amounted to €20.1 billion at 31 December 2013 and was thus €1.1 billion lower than year-end 2012, primarily due to the sale of HVB Global Assets Company L.P., the regular expiry of long-term subordinated liabilities and buy-backs of hybrid capital instruments (31 December 2012: €21.2 billion). The equity funds ratio was 23.4% at the end of December 2013 (31 December 2012: 19.3%).

To manage and ensure adequate risk-taking capacity, the Bank conducts analyses of its risk-bearing capacity on a regular basis. In this context, the risk-bearing capacity is defined by the comparison between the maximum losses possible (internal capital) and the ability to absorb losses with existing equity (available financial resources). The ratio of available financial resources to internal capital is referred to as risk-taking capacity and amounted to 173% at year-end 2013 (year-end 2012: 152%). We consider this figure to be very comfortable and it is also considerably higher than the minimum figure defined by the Bank as a threshold. Further details on the calculation and definition of the risk-taking capacity are given in the Risk Report.

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 of this Annual Report. A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure declined slightly 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 Group has disclosed provisions totalling €362 million for restructuring measures in the 2013 financial year under "Restructuring costs" in the income statement. These essentially relate to 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's Discussion and Analysis entitled "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.

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 Group 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.

Financial Review (Continued)

HVB Group's workforce (measured in FTEs) decreased to 19,092 by year-end 2013 (2012: 19,247), although this figure contains 680 full-time employees added by the first-time inclusion of the BARD Group in the group of consolidated companies of HVB Group in December. Without the initial consolidation of the BARD Group, the decrease would have amounted to 835 FTEs. The workforce at HVB decreased from 15,209 in 2012 to 14,449 in 2013.

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 Group'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.

HVB Group 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 (see also the Corporate Governance section of this HVB Group Annual Report). 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

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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 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 21.5%, 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.

Financial Review (Continued)

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.

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 (neither of which is included in the consolidated financial statements).

Financial Review (Continued)

Report on subsequent events

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

Forecast report/Outlook

Management's Discussion and Analysis and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by 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

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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 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 and HVB Group

The Bank's Basel III project is implementing the new and modified requirements for HVB and HVB Group 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 and HVB Group continue to enjoy a very strong capital base. The core capital ratio without hybrid capital (core Tier 1 ratio) of HVB Group, 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 Group 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 Group 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 Group 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 Group

The group of companies included in consolidation used as the basis for planning in 2014 will not change materially compared with the 2013 financial year. All the companies initially consolidated or deconsolidated in the reporting period were incorporated appropriately when the budget was drawn up. With regard to the BARD Group which was initially consolidated with effect from 31 December 2013, the figures from the income statement are also being taken into account for the first time in 2014.

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 is only slightly below the previous-year total. That we are planning for a lower profit is attributable to the fact that interest rates will remain low, the significantly smaller private equity portfolio will affect income from dividends and a return to more normal net write-downs of loans and provisions for guarantees and commitments is expected.

In this context, we assume that operating income will be slightly below the previous-year total. The consistently low interest rates will be a major factor in a minor decline in net interest. Although HVB Group 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 Review (Continued)

financial year on account of significantly smaller holdings of private equity funds. We also anticipate that the very good total for net trading income recorded in the previous year will not be matched. It should be noted, however, that the 2013 total benefited from a significant gain on the disposal of hybrid capital instruments which will not recur in 2014. We assume that we will be able to generate a considerable net trading profit at HVB Group nonetheless. In contrast, we expect to record a strong performance in terms of net fees and commissions, helping the total to again exceed the good amount recorded in the previous year in all business segments. We are planning for higher net fees and commissions among other things from an intensification of mandated business, new account and investment products and an increase in activities in the Global Capital Markets unit. Operating costs are projected to rise notably on account of the initial inclusion of the BARD Group in the income statement. Excluding this effect, the planned operating costs at HVB Group would remain at the previous-year level thanks to the consistent application of the strict cost management we have employed for years, despite an inflation rate expected to reach 1.4%. We expect payroll costs to remain practically unchanged (excluding the effect arising from the consolidation of the BARD Group), with pay rises being offset by a smaller workforce. Other administrative expenses and amortization, depreciation and impairment losses on intangible and tangible assets are likely to rise, although this increase will similarly result mainly from the initial consolidation of the BARD Group. Due to the rise in expenses coupled with the simultaneous slight decline in operating income, the cost-income ratio is projected to be slightly higher than the previous-year level. In terms of net write-downs of loans and provisions for guarantees and commitments, which were at an unusually low level in 2013, we expect the need for additions to normalise in 2014, representing a significant rise compared with the 2013 financial year, although it will remain at a moderate level. The cost of risk is likely to rise sharply accordingly.

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. In this context, the core Tier 1 ratio (in accordance with Basel III: CET 1) will only be slightly below the figure recorded at the previous year-end. We are not planning for any substantial change in the loan/deposit ratio in 2014.

We expect that all the business segments will contribute a profit before tax to the results of HVB Group in the 2014 financial year as a whole. The results trends for the individual business segments in the 2014 financial year are discussed below.

HVB Group's performance in the 2014 financial year will again depend in large part on the operating performance of the CIB business segment, and in particular its earnings and net write-downs of loans and provisions for guarantees and commitments. We expect the CIB business segment to record a slight decline in operating income in the 2014 financial year compared with the reporting period. In this context, we assume that net interest will probably decline slightly in a setting of very low interest rates that are expected to persist, due above all to the persistently strong downward pressure on margins which will only be offset in part by expected expansions of volume. Dividends and other income from equity investments in the 2014 financial year will fall sharply on account of much lower holdings of private equity funds. We expect net trading income to provide a considerable contribution to earnings in 2014, although this will not match the good result achieved in 2013. In terms of net fees and commissions, on the other hand, we project a sharp rise compared with the already good total recorded in the 2013 financial year. The rise in net fees and commissions is planned to come mainly from Financing & Advisory and Global Transaction Banking products. With regard to Financing & Advisory products, we are planning to expand cross-selling and considerably boost earnings in the Global Capital Markets unit. The increase in Global Transaction Banking is planned to come from Transactions & Trade products. At the same time, net other expenses/income should also improve markedly. This results from our investment in an offshore wind farm. Part of the wind farm was still under construction in 2013, meaning that it was not fully operational. The increase in operating costs will be dominated by the expense-driving effect arising from the offshore wind farm in 2014. This includes both the depreciation charges accruing as of 2014 and ongoing operating and maintenance costs. Net write-downs of loans and provisions for guarantees and commitments will rise sharply after reaching a very low level in the 2013 financial year, although they will remain at a moderate level. Even though downward pressure on margins and non-recurring income items in 2013 will serve to depress income in 2014, the CIB business segment is planning to largely offset this decline by expediting sales initiatives in units and products mentioned above. Nevertheless, the profit before tax in 2014 will in all probability be lower than the very good result recorded in 2013.

The profit before tax in the Commercial Banking business segment was depressed by restructuring costs of €325 million. We expect to record a profit before tax in the 2014 financial year which, adjusted for restructuring costs, is below the previous-year level. We anticipate a slight increase in operating income resulting mainly from improved net fees and commissions. This will essentially be driven by an extension of cross-selling with corporate customers built on the deployment of production specialists in the Transaction Banking, Corporate Treasury Sales and Capital Market Products units and a further expansion of the mandated business. In contrast, net interest will decline year-on-year due in part to the low interest rates that are expected to persist. Operating costs will in all probability fall slightly. This should stem from lower payroll costs while other administrative expenses are likely to remain practically unchanged. Following on from the very low level of loan-loss provisions in the 2013 financial year, we expect to see a normalisation in 2014, leading to a moderate rise in the cost of risk.

The Asset Gathering business segment is expected to record a pre-tax profit for the 2014 financial year that is higher than the total in 2013. This pleasing development will be driven mainly by higher operating income in both net interest and net fees and commissions. Our present assessments indicate that net fees and commissions will rise slightly on the back of the anticipated expansion of the operating activities and the external underlying conditions that are projected to prevail. The development of net interest will continue to be affected by low interest rates, although the refinement of our funding structure, slightly higher returns on the capital market, further growth in customer deposits and active management of interest expense will be reflected in a moderate increase in net interest. We expect operating costs to rise slightly in the 2014 financial year compared with 2013, attributable primarily to the additional, growth-related variable costs.

The profit before tax in the Other/consolidation business segment will decline significantly in 2014 compared with the 2013 financial year. The reason for this is the lower net trading income within the similarly sharply lower operating income; in 2013, net trading income still included gains in connection with the buy-back of hybrid capital instruments that will not recur in 2014. In addition, we expect to see a much lower net reversal of net write-downs of loans and provisions for guarantees and commitments in 2014 than in the 2013 financial year.

The performance of HVB Group will again depend on the future development on the financial markets and the real economy in 2014 as well as other remaining imponderables. In this environment, HVB Group will continually adapt its business strategy to reflect changes in market conditions and carefully review the management signals derived from this on a regular basis. With its strategic orientation and excellent capital resources, HVB Group is in a good overall position to effectively exploit the opportunities that may arise from the new operating environment, the further volatility that can still be expected on the financial markets and an expanding real economy.

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 consolidated financial statements.

Financial Review (Continued)

HVB Group is an important part of one of the largest, best-positioned banking groups in Europe, UniCredit. It is one of the largest financial institutions in Germany and has core competence for all UniCredit customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB Group operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries in the world that continues to enjoy a financial rating of AAA. Hence, HVB Group, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers. Thanks to its long-standing commitment to sustainability in its business model involving the Commercial Banking, Corporate & Investment Banking and Asset Gathering business segments, excellent capital resources and the investment in the modernisation of its retail banking activities planned to start in 2014, HVB Group 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 Group will proactively exploit opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany.

HVB Group 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 Group 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 Group 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 Group 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 Group as a risk-taking entity

By their very nature, the business activities of HVB Group are subject to risk. HVB Group defines risk as the danger of suffering losses on account of internal or external factors. Deliberately taking on risk, actively managing it, and monitoring it on an ongoing basis: these are core elements of profit-oriented management of business and risk transactions by HVB Group. In the course of our business activities, risks are identified, quantified, assessed, monitored and actively managed. We therefore regard it as one of our core objectives to apply these considerations in order to integrate risk-management, risk-controlling and risk-monitoring processes in all segments and functions. These activities are the precondition for providing adequate capital backing and maintaining an adequate liquidity base.

The present Risk Report deals exclusively with the risks at HVB Group. The opportunities are discussed separately in the section of the Financial Review 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 Group took place at the start of 2013. HVB Group was divided into the following segments during the implementation of the new structure:
– Commercial Banking (CB)
– Corporate & Investment Banking (CIB)
– Asset Gathering
– Other/consolidation

The income statements for each segment and the comments on their economic performance are provided in Note 28, "Income statement broken down by segment" in the present Annual Report. The tasks and objectives of each segment are described in detail in Note 27, "Notes to segment reporting by segment". The previous year's figures have been adjusted to reflect the changes in the segment allocations described above.

All HVB Group companies that are included in the consolidated financial statements of HVB Group prepared in accordance with International Financial Reporting Standards (IFRS) are incorporated in the risk management programme of HVB Group. These Group companies are classified by applying various criteria as part of the Internal Capital Adequacy Assessment Process (ICAAP), such as size, portfolio structure and risk content. The economic capital for large and complex companies is measured differently for the individual risk types. A simplified approach is applied for all other companies.

The 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 Group will not be able to meet its payment obligations without suffering unbearable losses. Funding risk is defined as the risk that HVB Group 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 Group 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 Group 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 Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and special purpose vehicles (SPVs). 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 consolidated by HVB Group under IFRS or 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 Group's risk management programme is now built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk 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.

Risk Report (Continued)

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 monitoring

The central risk monitoring function within the CRO organisation is responsible for identifying, measuring and evaluating the risks at HVB Group. It is subdivided in accordance with risk types. The 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 Group fall within the competence of the CRO. This is where all the key functions involved in the identification, analysis, assessment and reporting of risk are performed together with the ongoing tracking, handling, monitoring and controlling of risk. These activities are supported and complemented by various CFO units, notably with regard to liquidity risk.

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

At the same time, there are units that cover operational and strategic aspects of risk monitoring. Their main functions include:
– the development, enhancement, validation, parameterisation and calibration of the rating models used to determine the probability of our customer defaulting
– the development of concepts used to identify and control credit risk and concentrations, including country risk
– responsibility for and refinement of 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 Group (Asset Liability Management) acting in concert with the front office units and Asset Liability Management. They have also been tasked with central business management, cost controlling and equity capital management. The CFO units are responsible for the preparation of income budgets and income projections. They also prepare and validate the segment report in accordance with IFRS that is published externally. Furthermore, the 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 Group. Its main objectives are to ensure that HVB Group has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and refinancing requirements. As part of liquidity risk management, for instance, it defines underlying conditions, limits and processes, specifies responsibilities and oversees funding activities together with the front office units. The internal cost of funds for the lending and deposit-taking business is continually reviewed for appropriateness and regularly adjusted to reflect the market situation. The measures implemented in connection with these functions serve to support HVB Group's return targets.

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 in the section entitled "Responsibilities for the ICS in connection with financial reporting".

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 Group
– optimum utilisation of liquidity and capital resources
– coordination between the requirements of the segments for financial resources and the business strategy

Risk Report (Continued)

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 Group, 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 Group. It takes decisions within HVB Group regarding:

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

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 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.

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

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

Overall bank management

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 Group 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 Group" in the Financial Review in the present Management's Discussion and Analysis.

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 Group and UniCredit S.p.A. agreed with the relevant regulators beyond the statutory minimum requirements that HVB Group would not fall below an equity funds ratio of 13%. This agreement remains in force until the measures required to remedy findings from earlier audits of annual financial statements and regulatory requirements regarding statutory and regulatory requirements in Germany have been implemented. The equity funds ratio of HVB Group was 23.4% at the end of December 2013 (31 December 2012: 19.3%).

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 Financial Review in this Management's Discussion and Analysis.

Risk Report (Continued)

Economic capital adequacy

HVB Group determines its internal capital on a monthly 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), the cushion and the economic capital for small legal entities. 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. On account of the low risk content, the economic capital for small legal entities of HVB Group is calculated with no differentiation by risk type.

An all-round overview of the risk situation of HVB Group is obtained by regularly assessing the Bank's risk-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[1]	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Credit risk	5,840	49.6	7,982	57.6
Market risk	2,134	18.1	2,183	15.8
Operational risk	1,894	16.1	1,965	14.2
Business risk	336	2.8	263	1.9
Real estate risk	371	3.2	378	2.7
Financial investment risk	517	4.4	995	7.2
Aggregated economic capital	**11,092**	**94.2**	**13,766**	**99.4**
Economic capital of small legal entities	63	0.5	81	0.6
Pension risk	619	5.3	—	—
Internal capital of HVB Group	**11,774**	**100.0**	**13,847**	**100.0**
Available financial resources of HVB Group	**20,401**		**21,008**	
Risk-taking capacity of HVB Group, in %	**173.3**		**151.7**	

1 deviations from figures published in the 2012 Annual Report due to the modified calculation of the internal capital to reflect the structure in effect since January 2013

Aggregated economic capital[1] after portfolio effects (confidence level 99.93% since March 2013, previously 99.97%)

	2013		2012[2]	
Broken down by segment	**€ millions**	**in %**	**€ millions**	**in %**
Commercial Banking	2,185	19.6	3,436	24.8
Corporate & Investment Banking	6,757	60.6	8,487	61.3
Asset Gathering	182	1.6	207	1.5
Other/consolidation	2,031	18.2	1,717	12.4
Aggregated economic capital of HVB Group[1]	**11,155**	**100.0**	**13,847**	**100.0**

1 aggregate of economic capital of the individual risk types and economic capital of small legal entities, excluding pension risk
2 deviations from figures published in the 2012 Annual Report due to the modified calculation of the internal capital to reflect the structure in effect since January 2013

The internal capital falls by €2.1 billion overall. This can be attributed primarily to the change in the confidence level (total of minus €1.7 billion). The individual changes are described in greater detail in the sections on the respective risk types below.

Risk appetite

HVB Group's risk appetite is defined as part of the annual strategy and planning process. The risk appetite ratios comprise ratios for capital adequacy and for profitability as a proportion of risk and liquidity. Thresholds and limits are defined for these ratios that allow risk to be identified and counter-measures initiated at an early stage. The matter is escalated to the appropriate committees and the Management Board, should the defined limits be exceeded.

Gone concern/going concern

HVB Group normally controls its risk-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 monthly 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 monthly analysis of the available financial resources for the purpose of systematically monitoring the risk-taking capacity. Moreover, the risk-taking capacity is analysed as part of our planning process with an appropriate internally defined forecast period of one year.

HVB Group 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 Group totalled €20.4 billion at 31 December 2013 (31 December 2012: €21.0 billion).

With internal capital of €11.8 billion, the risk-taking capacity is approximately 173% (year-end 2012: 152%). We see this as a comfortable value. The increase of 21 percentage points for HVB Group compared with 31 December 2012 can be attributed to the sharp decline of €2.1 billion, or 15.0%, 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, including the expiry of limited-term subordinated capital instruments, the buy-back of hybrid capital instruments and a reduction in the expected loss.

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.

Risk Report (Continued)

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 and legal entities. Consequently, EC-limits adjusted for these effects and the risk-type-specific limits are used for controlling purposes in the segments and relevant legal entities.

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. The risk-taking capacity would currently be ensured, even if the stress scenarios listed above were to materialize.

Furthermore, inverse stress tests are carried out. This involves analysing what events could endanger the continued existence of the Bank as a going concern. The continued existence as a going concern is considered at risk when the original business model proves to be no longer feasible or viable. Inverse stress tests are based on the interviews that are conducted regularly as part of the risk inventory and the Bank's risk structure. The hypothetical events analysed included fraud by a trader, rating downgrades, a bank run or default by the biggest customers. The STC discussed the most serious events at length and examined whether such events were already covered by the Bank's risk management programme. As this was the case, no further measures were considered necessary.

Ad hoc stress tests are carried out in response to internal and external events that might have a considerable impact on HVB Group. Examples of ad hoc stress tests include: spreading of the Syria conflict, crash in China, and consequences of the US government shutdown.

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 Group 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 larger subsidiaries adapted this approach as appropriate for their situation, while the smaller subsidiaries used a simplified procedure to determine the relevant risks. 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 Group was reviewed in parallel with the 2013 risk inventory, leading to no material changes at the subsidiaries. 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.

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 Notes 38, 51, 52 and 53 in the notes to the consolidated financial statements. 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 Group, 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.

Risk Report (Continued)

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 Group introduced regional and/or country-specific concentration limits for all countries outside of the eurozone.

Strategy

A risk strategy has been approved for HVB Group that operationalises the strategic controlling of credit risk. This is done by setting targets and limits for different metrics as needed. Controlling using economic capital together with volume and risk metrics is particularly important in this regard. The planning of the targets and limits is embedded in 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 Group'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 Group'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 Group has evolved into a bank that has a lower than average risk profile for the industry. The goal was to continue this trend and stabilise the overall portfolio at a sustainable level.

Industry-specific controlling of credit risk had a positive effect, leading to a deliberate reduction of the portfolio in defined industries. The details of industry-specific controlling are specified in the Industry Credit Risk Strategy. This strategy includes an assessment of the opportunities and risks for every industry, from which controlling signals and quantitative ceilings for new business are derived.

Active management of the exposure in the countries badly affected by the financial crisis also contributed to the positive development described above. The strategy of HVB Group in its role as a universal bank was to concentrate on strong regional core markets like Switzerland, the UK, Belgium and France that have been less badly hit by the crisis alongside the domestic market of Germany. The markets in Spain, the Netherlands and Scandinavia are now served mainly by a different UniCredit bank. Apart from key multinational customers which will continue to be served by HVB Group, 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 Group:
- 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.

In order to avoid concentrations of risk in credit default risk, counterparty risk and, in specific aspects, also issuer risk, the following concentration limits and, where appropriate, target portfolios are used for controlling purposes:

– Single name concentrations
  The references unit for setting limits on single name concentrations are economic or legal borrower groups with an unsecured exposure of more than €50 million.
– Industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB Group.
– Concentration limits for eurozone countries 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 Group.
– Country risk (transfer and conversion risk)
  Volume limits are used to set limits. These are divided into sub-limits at product and maturity level. The limit system is exposed to credit default risk taking account of realisable collateral, counterparty risk and issuer risk in the banking book. The exposure underlying the limit system is the maximum of externally committed credit lines and credit disbursed less realisable collateral and the exposure in the trading positions.

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 Group 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.

Risk Report (Continued)

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. 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
The risk density is another risk metric alongside the EaD and EL that is used to manage the individual HVB Group sub-portfolios. HVB Group 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 Group is quantified and assessed. The model reflects the specific characteristics of the HVB Group portfolio and is validated by HVB Group 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 Group. 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 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 Group facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate timeframe. For counterparty risk, this applies to both replacement risk and settlement risk. For the latter, the risk for the future value date is monitored right from the time the Bank enters into the transaction so that a

Risk Report (Continued)

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 Group 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 Group, without taking account of diversification effects between the risk types, amounts to €5.9 billion, which is €2.3 billion lower than the total at 31 December 2012 (€8.2 billion). Among other things, the reduction results from the adjustment of the confidence level from 99.97% to 99.93% in March 2013 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 Group 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.

Development of metrics by segment

(€ millions)

	EXPECTED LOSS		ECONOMIC CAPITAL[1]	
	2013	2012	2013	2012
Commercial Banking	191	241	998	2,541
Corporate & Investment Banking	269	428	3,594	4,938
Asset Gathering	1	4	36	113
Other/consolidation	36	45	1,291	631
HVB Group	**497**	**718**	**5,919**	**8,223**

1 without taking account of diversification effects

The expected losses of HVB Group declined during 2013. 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

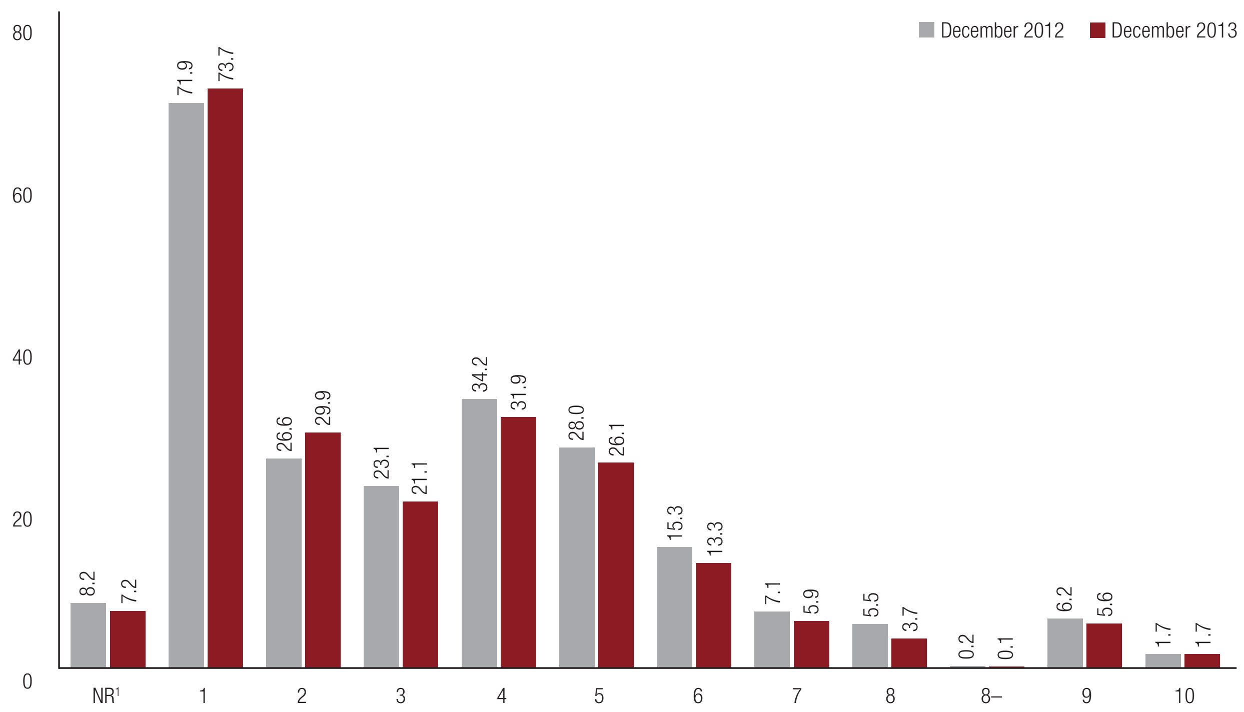
(€ billions)

	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	88.9	92.4	1.8	2.8	0.2	0.2	90.8	95.4
Corporate & Investment Banking	61.0	68.9	16.3	14.7	42.9	38.3	120.2	121.9
Asset Gathering	1.1	1.0	0	0	2.5	2.8	3.6	3.8
Other/consolidation	1.7	2.6	0	0	3.9	4.3	5.6	6.9
HVB Group	**152.6**	**164.9**	**18.2**	**17.5**	**49.5**	**45.6**	**220.2**	**228.0**

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

Exposure in the CIB business segment has been reduced by €1.7 billion. Placements of liquidity, mainly with Deutsche Bundesbank, have been pared back. This development was partly offset by expanding business involving the industry groups banks, insurance companies and the public sector.

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



1 not rated (of which €4.0 billion at 31 December 2013 with a rating at transaction level)

The rating structure of HVB Group 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.

Risk Report (Continued)

Development of metrics by industry group

Industry group	EXPOSURE € billions		EXPECTED LOSS € millions		RISK DENSITY in BPS[1]	
	2013	2012	2013	2012	2013	2012
Banks, insurance companies	53.7	58.1	39	50	7	9
Public sector	38.0	30.0	6	5	2	2
Real estate	22.9	24.0	31	40	14	18
Energy	10.4	12.5	25	38	24	31
Special products	9.8	9.9	64	172	68	179
Chemicals, pharmaceuticals, health	9.3	9.3	19	25	22	28
Machinery, metals	7.9	9.4	27	37	37	41
Shipping	5.9	8.1	104	107	221	164
Construction, wood	5.5	5.6	15	19	34	42
Consumer goods	5.5	5.3	12	14	22	27
Automotive industry	5.2	6.6	9	26	18	40
Services	5.0	5.5	21	31	44	59
Transport, travel	4.5	4.8	16	15	39	35
Food, beverages	4.4	4.8	10	13	22	28
Telecom, IT	3.0	3.2	8	6	27	20
Media, paper	2.2	2.5	7	12	36	55
Agriculture, forestry	2.0	2.0	5	8	25	43
Electronics	1.8	1.8	2	4	13	22
Tourism	1.4	1.6	7	9	51	60
Textile industry	1.4	1.5	5	7	42	49
Retail	20.4	21.5	65	80	32	38
HVB Group	**220.2**	**228.0**	**497**	**718**	**23**	**33**

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 €4.4 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 €8.0 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 Group has deployed a monitoring tool known as the "Radar screen for financial institutions/banks" in order to be in a position to promptly identify and counter negative developments 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.

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 Group is aiming to over-compensate 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 Group 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 Group 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 Group 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.

Risk Report (Continued)

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 Group 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 Group'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 car makers and their suppliers that rely disproportionately on western Europe should benefit from this, although their share of HVB Group's total automotive exposure is low.

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

Global project finance (GPF)

	EXPOSURE € billions		EXPECTED LOSS € millions		RISK DENSITY in BPS[1]	
Industry group	**2013**	**2012**	**2013**	**2012**	**2013**	**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 Group 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 Group 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 Group 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 Group 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.

Special focus facilities
Among other things, the HVB Group portfolio includes exposures relating to the completion of an offshore wind farm (Ocean Breeze). HVB Group had undertaken to finance this offshore wind farm located in the North Sea, around 100 kilometres off the German coast. Delays to the completion of the wind farm made it necessary to restructure the exposure – especially with regard to the general contractor.

The erection of the wind farm was finally completed in August 2013. This also enabled the handover of the facility from the general contractor to the company Ocean Breeze to be concluded at the end of 2013 as planned under the restructured exposure. Outstanding work identified in the course of the handover was analysed and assessed accordingly.

With 80 turbines and an output of up to 400 MW, the facility is currently the biggest commercial wind farm in the German sector of the North Sea – regardless of the fact that no wind farm has ever been erected either at this distance from the coast (around 100 km) or in this water depth. In light of the dimensions of this unparalleled project, and is usually the case with other major projects as well, various remedial works still need to be carried after the handover.

The remedial work still to be carried out will help to ensure that the farm can be operated sustainably for at least 25 years and enhance the technical availability and performance of the turbines. As has been the case with other wind farm projects, the optimisation of the turbines may well take a period of 18 to 24 months, as certain work can only be carried out in periods of gentle winds (in the summer, for instance).

Based on the performance parameters of the wind farm, it can now be assumed that the cash flow generated after erection has been completed and regular operation is under way will be enough to ensure that the level debt will be reduced over a timeframe that is usual for the industry.

Exposure development of countries/regions by risk category
The following tables show the exposure of HVB Group 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.

Risk Report (Continued)

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	2,874	1,480	2,640	1,730	4,856	4,859	2,402	3,656	12,772	11,725	2,795
Luxembourg	5,456	4,873	1,194	1,430	3,846	2,029	852	424	11,348	8,756	4
France	2,811	2,450	1,228	1,851	1,773	1,790	1,173	892	6,985	6,983	1,232
Austria	2,546	1,413	252	228	1,044	1,365	586	902	4,428	3,908	398
Netherlands	2,456	2,951	274	307	1,353	1,302	264	311	4,347	4,871	—
Spain	1,070	1,374	65	92	1,575	1,762	293	130	3,003	3,358	25
Ireland	1,024	1,274	140	64	481	715	161	295	1,806	2,348	—
Greece	443	579	66	102	—	—	2	2	511	683	2
Belgium	96	30	50	76	60	35	173	102	379	243	71
Finland	107	112	23	39	12	15	88	101	230	267	1
Portugal	75	116	43	64	35	72	49	25	202	277	24
Malta	189	243	2	6	—	—	1	2	192	251	—
Slovenia	45	39	67	106	—	17	1	6	113	168	1
Cyprus	113	204	0	2	—	—	0	2	113	208	—
Slovakia	13	67	41	95	—	2	17	45	71	209	17
Estonia	6	9	—	—	—	—	—	6	6	15	—
HVB Group	**19,324**	**17,214**	**6,085**	**6,192**	**15,035**	**13,963**	**6,062**	**6,901**	**46,506**	**44,270**	**4,570**

Italy
The relatively large portfolio involving Italy results from the HVB Group'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 Group overall. The existing portfolios have been identified for reduction for various reasons and concrete objectives to that effect have been formulated and agreed.

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

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 €172 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.

Spain is not one of HVB Group'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 Group 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 €355 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	11,196	11,440	563	622
USA	8,507	8,222	232	670
Asia/Oceania	5,436	4,800	75	95
Switzerland	3,897	4,561	319	257
Turkey	2,079	2,351	31	72
Western Europe (without Switzerland, UK)	1,873	2,538	315	259
North America (including offshore jurisdictions, without USA)	1,559	1,955	75	70
Eastern Europe	1,290	1,097	238	289
Russia	1,098	1,654	85	132
Middle East/North Africa	984	1,133	16	11
Southern Africa	748	1,124	24	1
Central and South America	319	516	45	45
Central Asia (without Russia, Turkey)	119	218	7	22
HVB Group	**39,105**	**41,609**	**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 Group 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 Group at 30 June 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 Group amounted to €9.0 billion at 30 June 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 Group.

Risk Report (Continued)

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	**879,876**	**982,952**	**896,955**	**2,759,783**	**3,134,770**	**67,897**	**116,634**	**65,586**	**116,207**
OTC products									
Forward rate agreements	119,022	289	—	119,311	196,526	8	72	10	43
Interest rate swaps	628,178	855,348	728,440	2,211,966	2,399,577	63,754	110,359	60,597	108,869
Interest rate options									
– purchased	30,200	61,423	82,692	174,315	218,894	3,756	5,622	236	240
– written	30,148	45,516	84,032	159,696	188,567	343	347	4,711	6,913
Other interest rate derivatives	12,829	—	—	12,829	27,017	36	234	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	**160,431**	**23,688**	**593**	**184,712**	**231,944**	**2,588**	**2,995**	**2,582**	**2,816**
OTC products									
Foreign exchange forwards	140,965	17,493	475	158,933	185,034	2,214	2,428	2,162	2,173
Foreign exchange options									
– purchased	9,495	3,428	50	12,973	23,462	269	349	122	240
– written	9,938	2,767	68	12,773	23,430	105	218	298	403
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**	**3,910**	**5,077**	**4,295**	**5,649**
Equity/index derivatives	**85,635**	**38,648**	**17,911**	**142,194**	**114,528**	**3,228**	**3,211**	**3,376**	**3,608**
OTC products									
Equity/index swaps	4,334	6,178	1,155	11,667	11,601	220	200	225	293
Equity/index options									
– purchased	5,096	6,521	1,164	12,781	17,609	919	1,269	109	32
– written	52,510	11,304	14,899	78,713	53,214	36	69	1,745	1,724
Other equity/index derivatives	6,856	1,245	—	8,101	3,389	678	213	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	1,558
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**	**211**	**272**	**264**
HVB Group	**1,193,267**	**1,261,214**	**993,093**	**3,447,574**	**3,884,243**	**78,923**	**129,720**	**77,190**	**130,030**

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 €559,326 million at 31 December 2013 (thereof credit derivatives: €7,791 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2013	2012	2013	2012
Central governments and central banks	3,800	4,489	1,710	2,474
Banks	51,026	90,770	50,864	93,584
Financial institutions	21,773	31,030	23,175	32,583
Other companies and private individuals	2,324	3,431	1,441	1,389
HVB Group	**78,923**	**129,720**	**77,190**	**130,030**

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 Group	**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 Group	**107,790**	**26**	**2,832**	**110,648**	**145,027**

Risk Report (Continued)

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 Group continues to enjoy a positive risk situation.

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

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 Group will constantly refine its risk management programme in order to continue optimally meeting future changes and the ensuing requirements.

2 Market risk

Definition
Market risk is defined as the potential loss 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.

Limit system

All transactions exposed to market risk in the trading and banking books of HVB Group are aggregated every day to form a total VaR and set against the risk limits. The Management Board 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.

Risk Report (Continued)

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. 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 Group, without taking account of diversification effects between the risk types, amounts to €2.7 billion, down by €0.2 billion on the figure at 31 December 2012 (€2.9 billion). The decline results mainly from the adjustment of the confidence level from 99.97% to 99.93% in March 2013 (minus €0.2 billion) 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 Group 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 Group (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 (inclusive 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 Group	**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

Development of trading book value-at-risk at HVB (€ millions)

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)

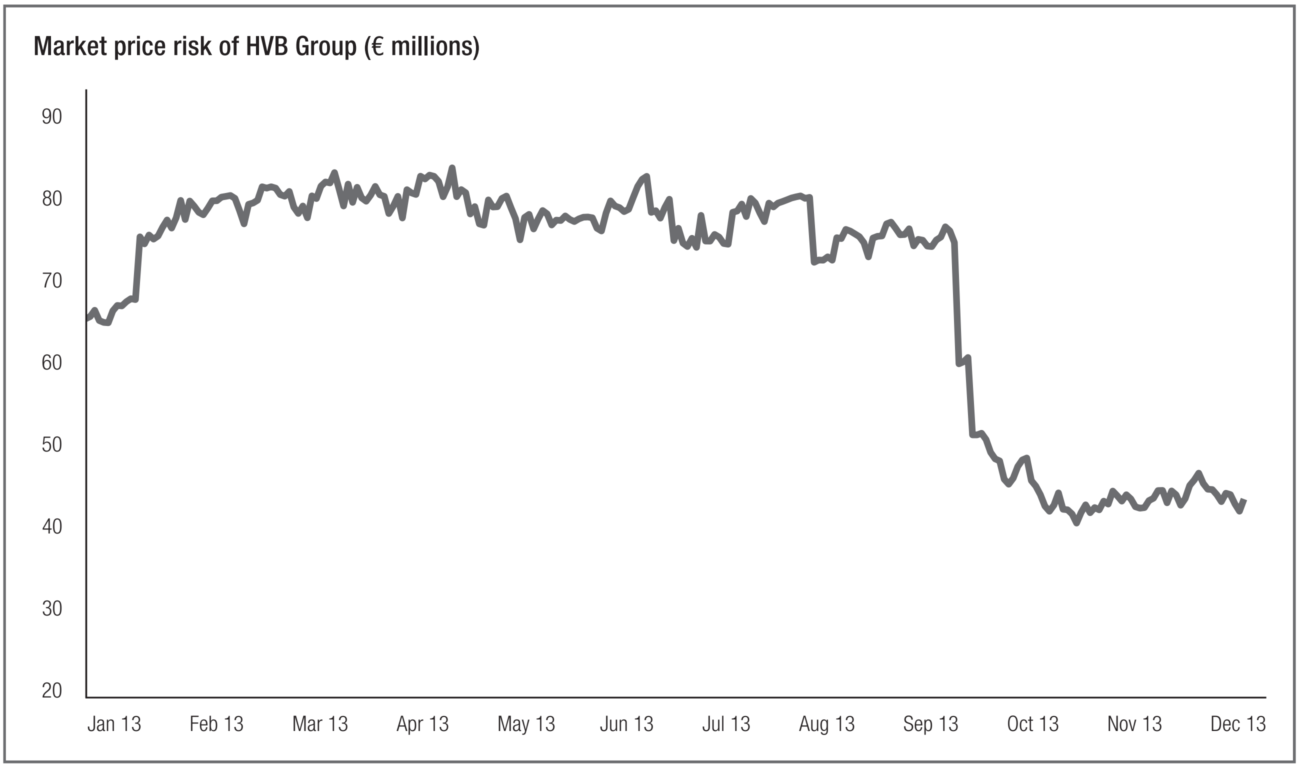
(€ millions)

	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 Group are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB business segment at HVB Group. Market risk fell sharply in September and October 2013, as several days with significant market 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.

Risk Report (Continued)



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

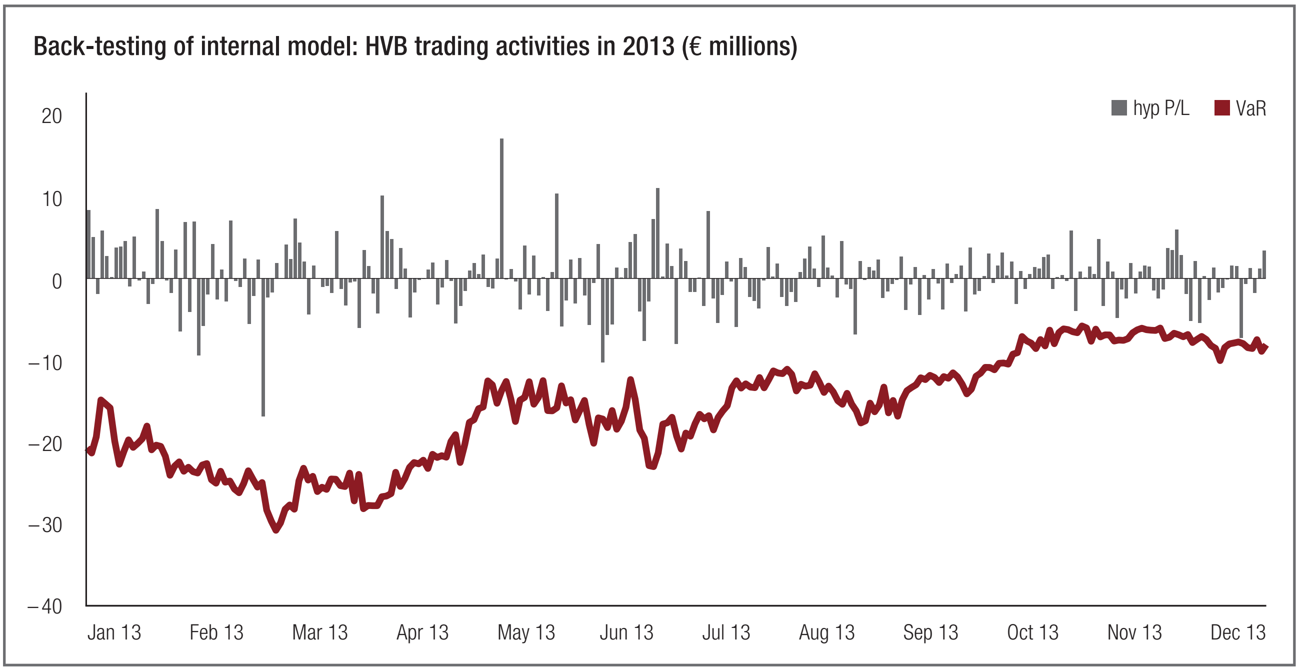
In addition to calculating the value-at-risk, the risk profile of the banking book is examined using sensitivity analyses. A 10% depreciation of all foreign currencies (FX sensitivity) results in a decrease in the portfolio value by €25 million (0.1% of the regulatory capital) in the banking book of HVB Group (31 December 2012: a decrease of €48 million).

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

at 31 December 2013 (€ millions)

HVB GROUP BANKING BOOK	
Total	(25.21)
USD	(27.93)
GBP	(6.81)
CHF	0.89
JPY	8.09
TRY	(2.46)
HKD	1.33

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").



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.

Risk Report (Continued)

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

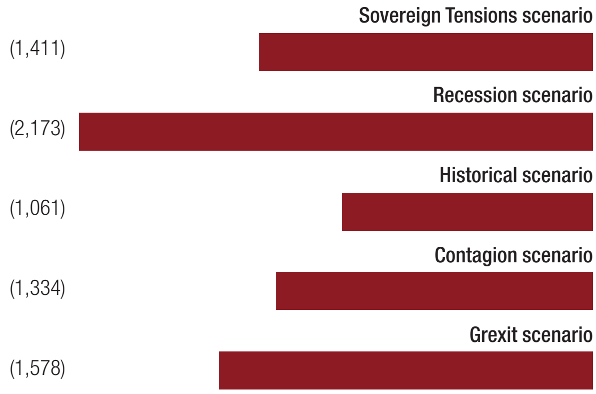
In addition to calculating the value-at-risk and the new risk metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates,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

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

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

The most significant stress result from this package of stress test scenarios at 31 December 2013, with a potential loss of €2.2 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 Group 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 0.2% (31 December 2012: 0.3%), or 3.9%, excluding the model book (31 December 2012: 4.6%), of its regulatory equity capital at the end of the year 2013, HVB Group 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 Group will continue to invest in the development and implementation of electronic sales platforms.

3 Liquidity risk

Definition

We define liquidity risk as the risk that the Bank will not be able to meet its payment obligations in full or on time. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount. Liquidity risk comprises the following risk categories: short-term liquidity risk, operational liquidity risk (part of short-term liquidity risk), funding risk and market liquidity risk.

Categories

Short-term liquidity risk

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).

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. An intraday cushion is set up as part of the short-term liquidity cushion with a view to balancing the intraday liquidity requirement and covering unforeseen payment obligations.

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

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

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

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

Limit system

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

Risk Report (Continued)

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 Group.

Furthermore, stress scenarios based on the liquidity profiles of the HVB Group 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 Group-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 and its domestic subsidiaries engaged in banking activities are subject to the regulatory standards defined in the German Liquidity Regulation for short-term liquidity risk.

Funding risk

To measure funding risk, long-term funding needs are determined using a coordinated process which is based on the expected business development reported and updated. 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 Group limits operational liquidity risk as part of short-term liquidity risk by monitoring positions constantly during the day and forecasting the relevant account balances. Furthermore, a minimum volume of unused liquidity must be kept available to cover any additional intraday liquidity required due to unexpected outflows of liquidity (intraday liquidity buffer).

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

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

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

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

Operational liquidity risk

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

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

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

Quantification and specification

Short-term liquidity risk

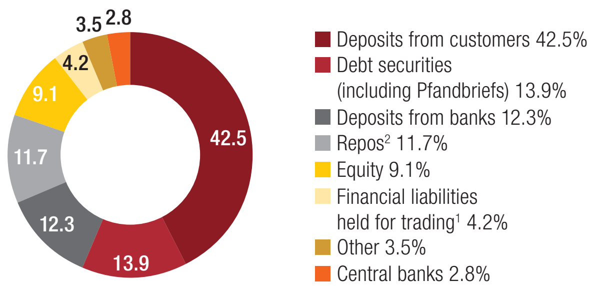
Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €33.9 billion in HVB Group for the next banking day at the end of December 2013 (31 December 2012: €39.5 billion). The portfolio of highly liquid securities eligible at short notice to compensate for unexpected outflows of liquidity amounted to €29.9 billion at the end of December of 2013 (31 December 2012: €28.4 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 2013 (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 Group 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 Group obtained longer-term funding with a volume of €5.7 billion on the capital market during 2013 (end of 2012: €7.5 billion). At the end of December 2013, 102.4% (2012: 100.8%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Breakdown of sources of funding of HVB Group (31 December 2013)



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

Risk Report (Continued)

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

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 Group 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

Risk Report (Continued)

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.

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.

Risk Report (Continued)

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.

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 Group checks the plausibility of the results on a regular basis and validates the model to ensure that it is appropriate.

The VaR is determined using a Monte Carlo simulation, taking account of correlations between the event categories as well as risk-reducing measures such as insurance. Finally, the VaR is modified to reflect the internal control and business environment factors.

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 Group, 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.

Risk Report (Continued)

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 Group 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.

Business risk is managed overall on the basis of an 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, rose by €130 million to €726 million in the year 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 Group amounted to €336 million at the end of 2013 (31 December 2012: €264 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. This increase is reduced by €58 million 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 Group 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 Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and SPVs. 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 Group'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.

Real estate 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 segments and the relevant subsidiaries for 2013 in the context of overall bank management. Based on these limits, 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.

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 €49 million in 2013 to total €478 million at 31 December 2013. The figure is based on a portfolio worth €3.0 billion.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € billions		SHARE in %	
	2013	2012	2013	2012
Strategic real estate	1.5	1.6	49.9	53.0
Non-strategic estate	1.5	1.5	50.1	47.0
HVB Group	**3.0**	**3.1**	**100.0**	**100.0**

Risk Report (Continued)

The economic capital for real estate risk at HVB Group taking into account diversification effects totals €372 million (31 December 2012: €378 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% (decrease of €35 million). The real estate portfolio of HVB Group is assigned primarily to Munich, which accounts for 34% of the total.

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 further 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 consolidated by HVB Group under IFRS or included 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.

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 segments and the relevant subsidiaries for 2013 in the context of overall bank management. Based on these limits, HVB Group has additionally defined early warning indicators in the form of targets and 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 and without the economic capital of small legal entities, fell by €640 million in 2013 to total €659 million at the end of 2013. The decline can be attributed mainly to a reduction of the portfolio. The fully diversified economic capital of HVB Group (without small legal entities) amounts to €517 million (31 December 2012: €995 million).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	2013	2012	2013	2012
Private equity funds	403	900	45.8	58.6
Private equity business	205	399	23.2	26.0
Other holdings	274	236	31.0	15.4
HVB Group	**882**	**1,535**	**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 and HVB Group.

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 Group (HVB and its most important subsidiaries) 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.

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.

Risk Report (Continued)

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 Group 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 Group. 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 Group with its CB, CIB and Asset Gathering 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 Group.

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 European Central Bank (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 Group 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 Group views considers itself fundamentally in good shape to continue operating successfully in this challenging environment. Should, however, the measures taken to stem the financial 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 Group.

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

HVB Group 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 Group.

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 Group could be negatively affected by an associated increase in the market power of its competitors. HVB Group 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.

Risks arising from changing competitive conditions in the German financial sector

The German financial services market as HVB Group's core market can readily be described as difficult for retail and corporate banking operations on account of the German banking system's three-pillar structure and strong competition. Overcapacity and market players 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 Group is facing a lasting trade rivalry.

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

The regulatory environment for HVB Group may change; non-compliance with regulatory requirements may result in enforcement measures

The activities of HVB Group are regulated and supervised by the central banks and regulatory authorities in the countries where HVB Group does business. The regulatory requirements in the individual countries are subject to change at regular intervals and this is set to

Risk Report (Continued)

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 Group companies. Besides a possible impact on the business model coupled with a higher cost of capital and a direct impact on the profitability of HVB Group, additional costs would accrue in particular for the implementation of the new regulatory requirements and the necessary adjustments of the IT systems of HVB Group. 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 Group.

The introduction of a single European banking regulator was announced for November 2014. The move means that the ECB will take over the task of supervising the 130 biggest, systemically important banks in the eurozone. We presume that this will include HVB Group 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 Group 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 Group.

Pension risk
HVB Group 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 €619 million for the pension risk of HVB Group at 31 December 2013 (30 June 2013, calculated for the first time: €566 million), which is incorporated in the calculation of the risk-taking capacity in the form of an additive component to the internal capital 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 Group 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 Group 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. None of the subsidiaries of HVB Group set up any material new outsourcing arrangements in 2013.

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 in our corporate group is presented in the Risk Report in the present Management's Discussion and Analysis. The respective risk types are described in detail in the sections entitled "Risk types" and "Risk types in detail".

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

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

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

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

Responsibilities for the ICS in connection with financial reporting

Responsibilities of the Management Board and Supervisory Board

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

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

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

Position and function of Internal Audit

Internal Audit

The Internal Audit department is a process-independent instrument of the Management Board and is required to report directly to it. According to its internal regulations, the Management Board bears the overall responsibility for setting up the Internal Audit department and ensuring that it functions properly. In 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.

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

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

ICS – Internal Control System (Continued)

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 throughout UniCredit.

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 and preparing the consolidated financial statements. Furthermore, it prepares the external reporting in the annual reports for HVB and HVB Group. The Accounting (CFA4) and Accounting Markets (CFA3) units and the Foreign Branches (CFM) department are responsible for accounting in the narrow sense. The Accounting Markets unit is responsible for the financial reporting on the markets and investment banking activities of HVB in Germany. The local accounting units in the foreign branches of HVB report to CFM. Responsibility for the management and administration of participating interests rests with the Shareholdings (CFS) department. The Tax Affairs (CFT) department is responsible for all tax-related concerns of HVB, including its foreign branches. 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. Moreover, CCP prepares and validates the segment report prepared in accordance with IFRS that is published externally.
– 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 compliant with IFRS is governed by the orientation of the operating unit. Risk control staff are responsible for checking the valuations of the trading portfolios in the front office systems. Depending on the market parameters and asset classes, market data are supplied both by the trading departments and external sources such as Bloomberg, Reuters and MarkIT. In accordance with the separation of functions, the back office handles the further processing of HVB trades. 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.

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

ICS – Internal Control System (Continued)

allowances. The exposures involved are transferred in accordance with defined criteria. The allowances are determined and set up in the IME system 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, consolidated and interim financial statements, detailed timetables are drawn up on a regular basis showing precise dates for the individual process steps. These timetables serve to ensure the timely completion of financial reporting tasks and to identify the dependencies between the individual process steps and the units involved.

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

Consolidated financial statements in accordance with IFRS

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

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

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

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

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

Understand

Customer needs and quick responses.

"I received a call from a new Customer who told me his company's employees were having trouble withdrawing money from ATM machines. I wanted to solve the problem as quickly as possible, so I went that evening to check in person. I found that the ATM was only allowing Customers to insert cards one way.
I helped a Customer who was having trouble withdrawing cash.
But I knew that our ATMs were supposed to allow Customers to insert cards in either direction, so I immediately called the ATM company to resolve the issue. **By quickly responding to a client's problem, everyone was helped**."

Sergey Chekhonadskikh - ZAO UniCredit Bank Ekaterinburg - RUSSIA

Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

for the year ended 31 December 2013

Income/Expenses	NOTES	2013 € millions	2012 € millions	CHANGE € millions	in %
Interest income		5,734	7,189	(1,455)	(20.2)
Interest expense		(2,822)	(3,725)	+ 903	(24.2)
Net interest	32	2,912	3,464	(552)	(15.9)
Dividends and other income from equity investments	33	117	147	(30)	(20.4)
Net fees and commissions	34	1,166	1,108	+ 58	+ 5.2
Net trading income	35	1,118	1,190	(72)	(6.1)
Net other expenses/income	36	327	141	+ 186	>+ 100.0
Payroll costs		(1,810)	(1,839)	+ 29	(1.6)
Other administrative expenses		(1,567)	(1,499)	(68)	+ 4.5
Amortisation, depreciation and impairment losses on intangible and tangible assets		(210)	(178)	(32)	+ 18.0
Operating costs	37	(3,587)	(3,516)	(71)	+ 2.0
Net write-downs of loans and provisions for guarantees and commitments	38	(214)	(727)	+ 513	(70.6)
Provisions for risks and charges	39	(222)	195	(417)	
Restructuring costs	40	(362)	(102)	(260)	>+ 100.0
Net income from investments	41	203	158	+ 45	+ 28.5
PROFIT BEFORE TAX		**1,458**	**2,058**	**(600)**	**(29.2)**
Income tax for the period	42	(384)	(771)	+ 387	(50.2)
PROFIT AFTER TAX		**1,074**	**1,287**	**(213)**	**(16.6)**
Impairment on goodwill	43	—	—	—	—
CONSOLIDATED PROFIT		**1,074**	**1,287**	**(213)**	**(16.6)**
attributable to the shareholder of UniCredit Bank AG		1,033	1,246	(213)	(17.1)
attributable to minorities		41	41	—	—

Earnings per share (in €)

	NOTES	2013	2012
Earnings per share (undiluted and diluted)	44	1.29	1.55

Consolidated statement of total comprehensive income for the year ended 31 December 2013

(€ millions)

	2013	2012
Consolidated profit recognised in the income statement	**1,074**	**1,287**
Income and expenses recognised in other comprehensive income		
Income and expenses not to be reclassified to the income statement in future periods		
Actuarial profit/(loss) on defined benefit plans (pension commitments)	(75)	(586)
Assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	23	184
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	(29)	(26)
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	47	245
Unrealised gains/(losses)	71	245
Gains/(losses) reclassified to the income statement	(24)	—
Changes in valuation of financial instruments (hedge reserve)	(1)	3
Unrealised gains/(losses)	—	—
Gains/(losses) reclassified to the income statement	(1)	3
Other changes	(57)	(49)
Taxes on income and expenses to be reclassified to the income statement in future periods	(16)	(68)
Total income and expenses recognised in equity under other comprehensive income	**(108)**	**(297)**
Total comprehensive income	**966**	**990**
of which:		
attributable to the shareholder of UniCredit Bank AG	948	1,004
attributable to minorities	18	(14)

Consolidated Balance Sheet

at 31 December 2013

Assets

	NOTES	2013 € millions	2012 € millions	CHANGE € millions	CHANGE in %
Cash and cash balances	45	10,626	15,655	(5,029)	(32.1)
Financial assets held for trading	46	91,301	131,017	(39,716)	(30.3)
Financial assets at fair value through profit or loss	47	29,712	24,282	+ 5,430	+ 22.4
Available-for-sale financial assets	48	4,576	5,482	(906)	(16.5)
Investments in associates and joint ventures	49	71	65	+ 6	+ 9.2
Held-to-maturity investments	50	217	261	(44)	(16.9)
Loans and receivables with banks	51	35,312	36,320	(1,008)	(2.8)
Loans and receivables with customers	52	109,589	122,212	(12,623)	(10.3)
Hedging derivatives	54	1,053	3,262	(2,209)	(67.7)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		67	193	(126)	(65.3)
Property, plant and equipment	55	2,913	3,013	(100)	(3.3)
Investment properties	56	1,456	1,557	(101)	(6.5)
Intangible assets	57	518	540	(22)	(4.1)
of which: goodwill		418	418	—	—
Tax assets		1,654	2,098	(444)	(21.2)
Current tax assets		431	370	+ 61	+ 16.5
Deferred tax assets		1,223	1,728	(505)	(29.2)
Non-current assets or disposal groups held for sale	58	154	70	+ 84	>+ 100.0
Other assets	59	799	1,258	(459)	(36.5)
Total assets		**290,018**	**347,285**	**(57,267)**	**(16.5)**

Liabilities

		2013	2012	CHANGE	
	NOTES	€ millions	€ millions	€ millions	in %
Deposits from banks	61	47,839	45,216	+ 2,623	+ 5.8
Deposits from customers	62	107,850	110,268	(2,418)	(2.2)
Debt securities in issue	63	31,804	35,863	(4,059)	(11.3)
Financial liabilities held for trading	64	73,535	121,501	(47,966)	(39.5)
Hedging derivatives	65	373	1,386	(1,013)	(73.1)
Hedge adjustment of hedged items					
in the fair value hedge portfolio	66	1,646	2,858	(1,212)	(42.4)
Tax liabilities		906	1,581	(675)	(42.7)
Current tax liabilities		700	893	(193)	(21.6)
Deferred tax liabilities		206	688	(482)	(70.1)
Liabilities of disposal groups held for sale	67	4	20	(16)	(80.0)
Other liabilities	68	3,083	3,375	(292)	(8.7)
Provisions	69	1,969	1,948	+ 21	+ 1.1
Shareholders' equity	70	21,009	23,269	(2,260)	(9.7)
Shareholders' equity attributable to the					
shareholder of UniCredit Bank AG		20,962	22,475	(1,513)	(6.7)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		7,920	7,759	+ 161	+ 2.1
Changes in valuation of financial instruments		88	56	+ 32	+ 57.1
AfS reserve		63	30	+ 33	>+ 100.0
Hedge reserve		25	26	(1)	(3.8)
Consolidated profit		756	2,462	(1,706)	(69.3)
Minority interest		47	794	(747)	(94.1)
Total shareholders' equity and liabilities		**290,018**	**347,285**	**(57,267)**	**(16.5)**

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €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.

Statement of Changes in Consolidated Shareholders' Equity

			OTHER RESERVES	
	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
Shareholders' equity at 1/1/2012	**2,407**	**9,791**	**9,389**	**(197)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised				
in equity under other comprehensive income[3]	**—**	**—**	**(410)**	**(402)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(402)	(402)
Reserve arising from foreign currency translation	—	—	(11)	—
Other changes	—	—	3	—
Total other changes in equity	**—**	**—**	**(1,220)**	**—**
Dividend payouts	—	—	—	—
Transfers to consolidated profit	—	—	(1,216)	—
Changes in group of consolidated companies	—	—	(4)	—
Shareholders' equity at 31/12/2012	**2,407**	**9,791**	**7,759**	**(599)**
Shareholders' equity at 1/1/2013	**2,407**	**9,791**	**7,759**	**(599)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised				
in equity under other comprehensive income[3]	**—**	**—**	**(117)**	**(52)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(52)	(52)
Reserve arising from foreign currency translation	—	—	(8)	—
Other changes	—	—	(57)	—
Total other changes in equity	**—**	**—**	**278**	**3**
Dividend payouts	—	—	—	—
Transfers to consolidated profit	—	—	277	—
Changes in group of consolidated companies	—	—	1	3
Shareholders' equity at 31/12/2013	**2,407**	**9,791**	**7,920**	**(648)**

1 The Shareholders' Meeting of 10 May 2012 resolved to distribute the 2011 consolidated profit in the amount of €1,017 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €1.27 per share of common stock.
The Shareholders' Meeting of 7 May 2013 resolved to distribute the 2012 consolidated profit in the amount of €2,462 million as a dividend to our sole shareholder, UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.07 per share of common stock.

2 UniCredit Bank AG (HVB)

3 see Consolidated statement of total comprehensive income

(€ millions)

CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS					
AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[2]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
(134)	**22**	**1,017**	**22,492**	**826**	**23,318**
—	**—**	**1,246**	**1,246**	**41**	**1,287**
164	**4**	**—**	**(242)**	**(55)**	**(297)**
165	—	—	165	12	177
(1)	4	—	3	—	3
—	—	—	(402)	—	(402)
—	—	—	(11)	(15)	(26)
—	—	—	3	(52)	(49)
—	**—**	**199**	**(1,021)**	**(18)**	**(1,039)**
—	—	(1,017)	(1,017)	(32)	(1,049)
—	—	1,216	—	—	—
—	—	—	(4)	14	10
30	**26**	**2,462**	**22,475**	**794**	**23,269**
30	**26**	**2,462**	**22,475**	**794**	**23,269**
—	**—**	**1,033**	**1,033**	**41**	**1,074**
33	**(1)**	**—**	**(85)**	**(23)**	**(108)**
52	—	—	52	1	53
(19)	(1)	—	(20)	(3)	(23)
—	—	—	(52)	—	(52)
—	—	—	(8)	(21)	(29)
—	—	—	(57)	—	(57)
—	**—**	**(2,739)**	**(2,461)**	**(765)**	**(3,226)**
—	—	(2,462)	(2,462)	(32)	(2,494)
—	—	(277)	—	—	—
—	—	—	1	(733)	(732)
63	**25**	**756**	**20,962**	**47**	**21,009**

Consolidated Cash Flow Statement

for the year ended 31 December 2013

(€ millions)

	2013	2012
Consolidated profit	**1,074**	**1,287**
Write-downs, provisions for losses on, and write-ups of,		
loans and receivables and additions to provisions for losses on guarantees and indemnities	285	788
Write-downs and depreciation less write-ups on non-current assets	180	266
Change in other non-cash positions	(2,251)	(669)
Profit from the sale of investments, property, plant and equipment	(82)	(223)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(2,380)	(3,399)
Subtotal	**(3,174)**	**(1,950)**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	(8,089)	7,823
Loans and receivables with banks	992	7,900
Loans and receivables with customers	11,768	13,309
Other assets from operating activities	599	118
Deposits from banks	2,723	(12,372)
Deposits from customers	(2,580)	2,960
Debt securities in issue	(3,427)	(5,657)
Other liabilities from operating activities	(3,703)	(3,677)
Taxes on income paid	(588)	(54)
Interest received	5,792	7,130
Interest paid	(3,000)	(4,021)
Dividends received	99	170
Cash flows from operating activities	**(2,588)**	**11,679**
Proceeds from the sale of investments	2,565	4,992
Proceeds from the sale of property, plant and equipment	233	151
Payments for the acquisition of investments	(1,644)	(2,357)
Payments for the acquisition of property, plant and equipment	(235)	(343)
Effects of the change in the group of companies included in consolidation	72	(6)
Effect of the disposal of discontinued operations	—	—
Cash flows from investing activities	**991**	**2,437**

(€ millions)

	2013	2012
Change in additional paid-in capital	—	—
Dividend payments	(2,462)	(1,017)
Issue of subordinated liabilities	6	38
Repayment/buyback of subordinated liabilities and hybrid capital	(810)	(1,256)
Other financing activities (debt, fund for general banking risks) (+)	—	—
Other financing activities (debt, fund for general banking risks) (-)	(166)	(493)
Cash flows from financing activities	**(3,432)**	**(2,728)**
Cash and cash equivalents at end of previous period	**15,655**	**4,267**
Net cash provided/used by operating activities	**(2,588)**	**11,679**
Net cash provided/used by investing activities	**991**	**2,437**
Net cash provided/used by financing activities	**(3,432)**	**(2,728)**
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale and discontinued operations	—	—
Cash and cash equivalents at end of period	**10,626**	**15,655**

Notes to the Consolidated Financial Statements

for the period from 1 January 2013 to 31 December 2013

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

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 24 February 2014 and adopted by the Supervisory Board on 7 March 2014. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC), respectively. All the standards and interpretations subject to mandatory adoption in the EU for the 2013 financial year have been applied. Section 315a HGB also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

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

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

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

– Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße, Munich
– HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG, Munich
– Ocean Breeze Energy GmbH & Co. KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG, Munich
– Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Centerpark KG, Munich
– Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG, Munich
– Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. oHG Saarland, Munich
– Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum, Munich
– SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich
– Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG, Munich
– TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs KG, Munich
– TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG, Munich
– Vermietungsgesellschaft mbH & Co. Objekt MOC KG, Düsseldorf

Compliant with Section 264 (3) HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH, Munich
– BV Grundstücksentwicklungs-GmbH, Munich
– CUMTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– HVB Capital Partners AG, Munich
– HVB Immobilien AG, Munich
– HVB Principal Equity GmbH, Munich
– HVB Profil Gesellschaft für Personalmanagement mbH, Munich
– HVB Projekt GmbH, Munich
– HVB Tecta GmbH, Munich
– HVB Verwa 4.4 GmbH, Munich
– Interra Gesellschaft für Immobilienverwaltung mbH, Munich
– MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich
– MILLETERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– NF Objekt FFM GmbH, Munich
– NF Objekt München GmbH, Munich
– NF Objekte Berlin GmbH, Munich
– Orestos Immobilien-Verwaltungs GmbH, Munich
– RHOTERRA Gesellschaft für Immobilienverwaltung mbH, Munich
– Selfoss Beteiligungsgesellschaft mbH, Grünwald
– Spree Galerie Hotelbetriebsgesellschaft mbH, Munich
– Status Vermögensverwaltung GmbH, Schwerin
– Transterra Gesellschaft für Immobilienverwaltung mbH, Munich
– UniCredit Direct Services GmbH, Munich
– Verwaltungsgesellschaft Katharinenhof m.b.H., Munich

Accounting and Valuation

1 Uniform Group accounting policies

The separate financial statements of the domestic and foreign subsidiaries are incorporated in the consolidated financial statements of HVB in accordance with uniform principles of accounting and valuation. Where options have been exercised, the details are explained under the balance sheet items concerned.

2 Consistency

In accordance with the IFRS Framework together with IAS 1 and IAS 8, we apply the accounting and disclosure principles consistently from one period to the next. Where significant accounting and valuation errors from earlier periods are corrected, the amounts involved are adjusted retroactively. Where retroactive adjustment is not possible in exceptional circumstances, the amounts involved are adjusted against retained earnings. Where we effect changes in accounting policies, any resulting adjustments are similarly recognised retrospectively.

With regard to the requirement to offset deferred tax assets and liabilities, the Bank has decided to adopt what is now the predominant opinion and changed the accounting method it applies in this context (IAS 8.14). Deferred tax assets are offset with deferred tax liabilities of €751 million for the first time in 2013 accordingly. The prior year figures have been adjusted. The amount disclosed for deferred tax assets and liabilities has declined by the balance of €751 million accordingly (2012: €1,015 million). This decision has no impact on the income statement. The change of accounting method helps to increase the transparency of the annual financial statements as the assets and liabilities are more accurately presented.

In addition, we carried out an adjustment in accordance with IAS 8.41 in the reporting period to reclassify income of €60 million (2012: €55 million) recorded by a subsidiary from fee and commission income to interest income, as the commissions in question are interest income by their nature.

Furthermore, an error from earlier periods was corrected during the reporting period, for which IAS 8.43 requires the previous-year figures to be adjusted retroactively. This relates to two matters: the measurement of the liability to be recognised on a potential obligation to purchase the shares in three consolidated companies that should be taken to the income statement and the valuation of real estate held by these three companies on which impairment losses should be recognised. For simplification and materiality reasons, we have not adjusted the previous-year figures; the effect is recognised in retained earnings instead. Consequently, we have reduced retained earnings by €57 million overall; this effect is shown under other changes in other reserves in 2013 in the statement of changes in consolidated shareholders' equity. The retroactive impairment losses for the previous years are carried under other disposals in the analysis of investment properties in 2013 accordingly (see Note 56).

Changes in estimates have been recognised in net income for the period affected by the change in the estimation method. Provided the change in the estimation method does not affect the income statement, the carrying amount of the concerned asset or liability, or shareholders' equity position has been adjusted.

The consolidated financial statements are prepared under the assumption of a going concern. Accounting and valuation in accordance with IFRS contains values that have been determined reliably using estimates and assumptions. The estimates and assumptions applied are based on past experience and other factors such as budgets, expectations and forecasts regarding future events which seem appropriate under the present circumstances. This mainly effects the determination of the fair values of certain financial assets and liabilities, net write-downs of loans and provisions for guarantees and commitments, deferred taxes, and the accounting and valuation of provisions. The actual values may differ from the assumptions and estimates made.

The following matters in particular are affected by estimates, assumptions and discretionary decisions:
– Measurement of goodwill: The multi-year plan drawn up by the Bank forms the main basis for the impairment test for goodwill. The multi-year plan contains forecasts of future trends in terms of both the Bank's respective business units and macroeconomic developments. This means that the impairment test for goodwill is also subject to estimates, assumptions and discretionary decisions.
– Determination of loan-loss allowances:
  Specific allowances: These represent the difference between the estimated, discounted expected future cash inflows and the carrying amount. This means that, to determine the loan-loss allowances, assumptions and forecasts must be made regarding the payments that may still be received from the borrower and/or proceeds from the realisation of the collateral.
  Portfolio allowances: Portfolio allowances are determined on the basis of the Bank's credit portfolio model described in the Risk Report. This internal model similarly draws on forecasts and assumptions which are thus relevant for the measurement of the portfolio allowance.

– Determination of fair values: The Bank employs internal models to determine the fair value of financial instruments for which no price is available on an active market. The application of these internal models presupposes assumptions and forecasts, among other things, the scope of which depends on the complexity of the financial instrument involved.
– Provisions are recognised for present or future obligations to cover the payments required to settle these obligations. In this context, it is necessary to estimate the amount of these expenses or costs and also the date at which the liabilities are expected to be settled. This involves making assumptions regarding the actual amount of the costs occuring and, in the case of long-term provisions, also estimating possible cost increases up until the settlement date. If the settlement date is more than one year in the future, the forecast expenses and costs are discounted over the period until the liability is settled.
– Deferred tax assets and liabilities: Apart from a few exceptions defined in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (liability method). Accounting and valuation are performed in accordance with IAS 12 on the basis of local tax regulations that are expected to apply to the period when an asset is realised or a liability is settled. The regulations and applicable local tax rates are assumed that are enacted or substantively enacted at the reporting date. Deferred tax assets are not recognised to the extent that is seems unlikely that sufficient taxable profit will be available in future periods. Furthermore, deferred tax assets are recognised for unused tax losses carried forward and unused tax credits to the extent that recoverability is demonstrated. This is done on the basis of a five-year plan for HVB Group, which is subject to segment-specific and macroeconomic assumptions and takes account of local tax regulations. Appropriate haircuts are applied in the multi-year plan. Estimation uncertainties are inherent.
– Share-based compensation: Assumptions must similarly be made to determine the cost of share-based compensation programmes. The costs for the instruments to be transferred are amortised over the vesting period or the beneficiaries' claims expire if they leave UniCredit first. This makes it necessary to forecast what proportion of employees will leave UniCredit during the vesting period. At the same time, the shares granted must be measured at fair value at the grant date. The comments made above regarding the determination of fair values are applicable analogously.
– Property, plant and equipment: These assets are depreciated over their useful lives. Since the useful life is not independent of the usage of the actual asset in question, it must be estimated in light of the circumstances in each case.
– Intangible assets: With the exception of goodwill, intangible assets are amortised over their useful life. Here, too, suitable assumptions must be made to estimate the useful life.
– Investment properties: These assets are depreciated over the useful life of the property, meaning that a forecast is also required here.

HVB Group reviews the estimated useful lives of property, plant and equipment once a year, adjusting them as appropriate should the expectations differ from earlier estimates. The useful lives of individual buildings in our real estate holdings were adjusted during the reporting period. The extension of the depreciation period arising from the modified estimate for reporting purposes more accurately reflects the actual loss of value of the property, plant and equipment, allowing for depreciation that was €15 million lower to be recognised in the consolidated income statement in the reporting period. Assuming that the assets concerned are held through to the end of the anticipated useful life, the remaining volume of depreciation will be distributed over the longer useful life with lower annual depreciation amounts in subsequent periods. An analysis of property, plant and equipment can be found in Note 55, Property, plant and equipment.

Apart from this, the accounting, valuation and disclosure principles applied in 2013 are the same as those applied in the consolidated financial statements for 2012, with the exception of the new IFRS rules to be applied as described in Note 3 below.

3 Initial adoption of new IFRS accounting rules

The following standards adopted or revised by the IASB were subject to initial adoption in the 2013 financial year:
– IFRS 13 "Fair Value Measurement"
– Amendments to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities"
– Amendments to IAS 1 "Presentation of Financial Statements – Other Comprehensive Income"
– Amendments to IAS 12 "Deferred Tax: Recovery of Underlying Assets"
– Amendments to IAS 19 "Employee Benefits"
– "Annual Improvements to IFRSs 2009-2011 Cycle"

The new IFRS 13 "Fair Value Measurement" brings together and harmonises the provisions used to determine the fair value, which were previously found in various standards. In addition, the relevant disclosures in the notes have been harmonised and expanded (see Notes 76 and 77).

Accounting and Valuation (Continued)

The amendments to IFRS 7 "Offsetting Financial Assets and Financial Liabilities" give rise to new disclosure requirements regarding financial assets and liabilities offset in the balance sheet or for certain offsetting agreements for financial instruments, which are shown in Note 78 "Disclosures regarding the offsetting of financial assets and liabilities".

In accordance with the amendment to IAS 1 "Other Comprehensive Income", disclosures have been added to the items in other comprehensive income indicating whether these items can be recycled to the income statement in the future or whether they will permanently remain in other comprehensive income and not taken to the income statement.

Among other things, the corridor approach used to recognise actuarial gains and losses is no longer permitted under the amendment to IAS 19 "Employee Benefits". Instead, such effects are to be recognised in shareholders' equity (other comprehensive income). This does not have any impact on HVB Group as we have always used this approach. The further amendments and expanded disclosure requirements have been incorporated in the disclosures regarding pension provisions (see Notes 24 and 69).

The further amendments to individual IFRS standards (IAS 12; Annual Improvements to IFRSs 2009-2011 Cycle) subject to mandatory adoption have little or no effect on HVB Group.

4 Published IFRS that are not yet the subject of mandatory adoption and that have not been the subject of early adoption
As permitted, we have decided against the early voluntary adoption of the standards and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2014 financial year or thereafter. The Bank will apply these standards and interpretations in the financial year in which the new provisions in question become applicable for EU-based enterprises for the first time.

The EU has adopted the following into European law:
- IFRS 10 "Consolidated Financial Statements"
  IFRS 11 "Joint Arrangements"
  IFRS 12 "Disclosures of Interests in Other Entities"
  IAS 27 "Separate Financial Statements" (revised version)
  IAS 28 "Investments in Associates and Joint Ventures" (revised version)
  Amendments to the consolidation standards IFRS 10, IFRS 11 and IFRS 12 – "Transition Guidance"
  The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2014.
- Amendments to the consolidation standards IFRS 10, IFRS 12 and IAS 27 – "Investment Entities". The consolidation provisions for investment entities are subject to mandatory adoption for reporting periods beginning on or after 1 January 2014.
- Amendments to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2014.
- Amendments to IAS 36 "Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2014.
- Amendments to IAS 39 "Financial Instruments – Novation of Derivatives and Continuation of Hedge Accounting". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2014.

The EU has not yet adopted the following into European law:
- IFRS 9 "Financial Instruments (2013) – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 July 2018.
- Amendments to IAS 19 "Employee Benefits – Defined Benefit Plans: Employee Contributions". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 July 2014.
- IFRIC Interpretation 21 "Levies". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2014.
- "Annual Improvements to IFRSs 2010-2012 Cycle". These minor amendments and corrections to various existing standards are subject to mandatory adoption for reporting periods beginning on or after 1 July 2014.
- "Annual Improvements to IFRSs 2011-2013 Cycle". These minor amendments and corrections to various existing standards are subject to mandatory adoption for reporting periods beginning on or after 1 July 2014.

The new IFRS 9 “Financial Instruments”, only part of which has so far been published by the IASB and which has not yet been transformed into European law by the EU, will have a significant impact on the presentation and management of financial instruments. The effects are still being analysed. The definitive IFRS 9 is subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.

The consolidation provisions are revised by the new IFRS 10, IFRS 11 and IFRS 12 and the associated amendments to IAS 27 and IAS 28, which are subject to mandatory adoption in the EU as of 1 January 2014.

IFRS 10 “Consolidated Financial Statements” replaces SIC 12 “Consolidation: Special Purpose Entities” and parts of IAS 27 “Consolidated and separate financial statements/Separate Financial Statements”, which has been renamed and the content of which has been revised.

IFRS 10 creates a common definition of control that replaces the concept of the majority of the risks and rewards contained in SIC 12. The standard lists three criteria for the control of an entity: the parent company must have power over the entity; it must be exposed to variable returns from the entity; and it must be able to use its power to affect the amount of the variable returns. The definition of control is applicable in the future irrespective of the type of financial relationship between parent company and subsidiary.

The initial adoption of IFRS 10 at 1 January 2014 will lead to minor changes in the group of companies included in consolidation. Some investment funds for which the ability of HVB to affect the variable returns implies control will now be consolidated. Some loans will be consolidated under IFRS 10 in the future, where HVB is the only party to receive material variable returns and has the power to affect these returns. The initial adoption of IFRS 10 will not give rise to any material changes in the group of companies included in consolidation among the operating subsidiaries and the special purpose entities previously consolidated in accordance with SIC 12. All in all, the impact of IFRS 10 on the group of companies included in consolidation will be insignificant for the consolidated financial statements of HVB Group.

IFRS 11 revises the provisions regarding the consolidation of joint ventures. The standard replaces IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers” and the content of IAS 28 “Investments in Associates and Joint Ventures” has been amended. IFRS 11 places more emphasis on the rights and obligations of the parties than the legal structure of the agreement for the classification of joint ventures and eliminates the option to consolidate joint ventures using the proportionate method. The initial adoption of IFRS 11 at 1 January 2014 will not lead to any changes in the consolidated financial statements. The group of consolidated companies does not include any companies for which the proportionate consolidation method is applied and joint ventures are insignificant for the corporate group.

IFRS 12 requires much more extensive disclosures regarding subsidiaries, joint ventures, associates and non-consolidated structured units in the consolidated financial statements than IAS 27, IAS 28 and IAS 31. The greater disclosure requirements will have an impact on the notes to the consolidated financial statements of HVB Group at 31 December 2014.

We do not expect the remaining amended standards to be applied in the future to have any significant effects on the consolidated financial statements.

5 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 164 (2012: 169) subsidiaries. The group of consolidated companies also includes 45 (2012: 25) companies and fund assets which SIC 12 requires to be consolidated as special purpose entities.

The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the supervisory authorities that regulate UniCredit. In order to avoid coordination and reconciliation problems, we have decided to gradually expand the group of companies included in consolidation. The fully consolidated subsidiaries prepared their annual financial statements for the period ending 31 December 2013.

The following companies have different year-end dates:

– Grand Central Funding Corporation, New York	31 May
– Kinabalu Financial Products LLP, London	30 November
– Kinabalu Financial Solutions Limited, London	30 November

When the consolidated financial statements are being prepared, interim financial statements are prepared at the corporate year-end date for all these companies.

Accounting and Valuation (Continued)

No financial statements at 31 December 2013 were available for the associated companies listed below valued using the equity method when the consolidated financial statements were prepared. The following financial statements were used for valuation using the equity method:

– Adler Funding LLC, Dover	30 September 2013
– Bulkmax Holding Ltd., Valetta	30 September 2013
– Comtrade Group B. V., Amsterdam	30 November 2013
– Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Istanbul	30 November 2013
– SwanCap Partners GmbH, Munich	30 November 2013

There were no significant events at these companies between the date when the above financial statements were prepared and 31 December 2013 that could have an impact on the assets, liabilities, financial position, and profit or loss.

The financial statements at 30 September 2013 adjusted for a capital increase paid into the company in October 2013 was used to value the associated company Nautilus Tankers Limited, Valletta, which is valued using the equity method. There were no further significant events at Nautilus Tankers Limited, Valletta, apart from this capital increase.

The group of consolidated companies does not include any companies for which the proportionate consolidation method is applied.

In 2013, the following companies were newly added to the group of companies included in consolidation at HVB Group:
- Elektra Purchase No. 31 Ltd., Dublin
- Elektra Purchase No. 911 Ltd., St. Helier
- Geldilux TS 2013 S.A., Luxembourg
- Pure Funding No. 10 Ltd., Dublin
- Vermietungsgesellschaft mbH & Co. Objekt MOC KG, Munich

The two special purpose entities (Geldilux TS 2013 S.A., Luxembourg, and Pure Funding No. 10 Ltd., Dublin) are new entities that have entered into their assets (receivables) and liabilities (notes issued) at normal market terms and conditions. Thus, the carrying amounts correspond to the fair values upon addition or at the date of initial consolidation, meaning that it is not necessary to carry out a remeasurement in line with the application of IFRS 3.

The BARD Group comprises the following companies consolidated for the first time:
- Alexanda GV GmbH & Co. Vermietungs KG, Wiesbaden
- BARD Building GmbH & Co. KG, Emden
- BARD Emden Energy GmbH & Co. KG, Emden
- BARD Engineering GmbH, Emden
- BARD Holding GmbH, Emden
- BARD Logistik GmbH, Emden
- BARD Nearshore Hooksiel GmbH, Emden
- BARD Phönix Verwaltungs GmbH, Emden
- BARD Schiffsbetriebsgesellschaft mbH & Co. Natalie KG, Emden
- BARD Service GmbH, Emden
- Buitengaats Holding B. V., Eemshaven
- Cuxhaven Steel Construction GmbH, Cuxhaven
- OSI Off-shore Service Invest GmbH, Hamburg
- OWS Logistik GmbH, Emden
- OWS Natalia Bekker GmbH & Co. KG, Emden
- OWS Ocean Zephyr GmbH & Co. KG, Emden
- OWS Off-shore Wind Solutions GmbH, Emden
- OWS Windlift 1 Charter GmbH & Co. KG, Emden

The Bank is merely a creditor of these companies and does not hold any direct participating interests, so the requirements for consolidation as a subsidiary compliant with IAS 27 are not met. Up until now, the BARD Group's operations involved manufacturing wind farms, meaning that it did not satisfy the criteria for classification as a special purpose entity in the sense of SIC 12. The BARD Group essentially acted as a manufacturer of offshore wind farms and constructed the BARD Offshore 1 wind farm on behalf of Ocean Breeze Energy GmbH & Co. KG, a fully consolidated subsidiary of HVB. At the same time, the group carried out a number of smaller orders and obtained licences for further offshore wind farms in order to lay the foundation for constructing other offshore wind farms. As a result of the unfavourable market conditions, the BARD Group failed to acquire any additional orders for offshore wind farms.

The BARD Group discontinued its operating activities at year-end following the handover of the wind farm to Ocean Breeze Energy GmbH & Co. KG. The group is currently being restructured:
– A service group is being set up to ensure repair and maintenance of the wind farm for Ocean Breeze Energy GmbH & Co. KG following the handover; this service group will work exclusively for Ocean Breeze Energy GmbH & Co. KG over the coming years.
– The remaining BARD companies will be the subject of voluntary liquidation.

Following discontinuation of the BARD Group's operating activities at year-end and in light of the restructuring programme, the companies of the BARD Group meet the definition of a special purpose entity in the sense of SIC 12. The companies now pursue one, narrowly defined objective: voluntary liquidation and, in the case of the service group, the repair and maintenance of the wind farm owned by Ocean Breeze Energy GmbH & Co. KG.

In light of the economic difficulties facing the BARD Group, a majority of the economic opportunities and risks resides with the Bank as the dominant creditor, meaning that the companies of the BARD Group (with the exception of insignificant companies) were fully consolidated for the first time at year-end compliant with SIC 12.

The BARD Group represents a business as defined in IFRS 3, meaning that IFRS 3 is applicable. The BARD Group was acquired at 31 December 2013, as described above. Full consolidation encompasses the balance sheet of the BARD Group at 31 December 2013 accordingly; the income statement has not been consolidated as it relates to the period prior to the consolidation date.

Accordingly, the credit extended by HVB to the BARD Group represents the consideration for the acquisition of the BARD Group. The BARD Group is not in a position to service its obligations arising from the credit extended in full on account of the economic difficulties it faces. All relevant matters were taken into account when measuring the loan-loss provisions, meaning that the fair value corresponds to the carrying amount of €123 million after loan-loss provisions. The fair value of the net assets of the acquired BARD Group amounts to €110 million, which breaks down as follows:

Assets (without receivables from HVB consolidated in the consolidated financial statements) totalling €201 million, notably including
– the service company's property, plant and equipment of €67 million, essentially comprising operating premises and ships required to carry out the work on the offshore wind farm
– assets held for sale (essentially real estate and a project licence) of €83 million
– other assets of €51 million, essentially consisting of other receivables of €41 million and the inventories of the new service company of €6 million

Less liabilities (without receivables from HVB consolidated in the consolidated financial statements) of €91 million, notably including
– provisions of €30 million
– other liabilities of €61 million

This gives rise to a loss on initial consolidation of €13 million, which has been taken to the income statement under other operating expenses. No goodwill has been recognised.

HVB does not hold any participating interests in the BARD Group. In light of the economic difficulties of the BARD Group, the shareholders' equity is negative; no amounts have been recognised as a minority interest.

Accounting and Valuation (Continued)

The fair value of the receivables is the same as the nominal amount, as they are essentially payable within one year and there is no indication of impairment.

Furthermore, the Bank consolidated SwanCap Partners GmbH, Munich, for the first time using the equity method. SwanCap Partners GmbH is the former UniCredit Merchant Partners GmbH which has been renamed. When the Bank sold a private equity portfolio, the company was restructured, a participating interest of 25% sold and a restriction of voting rights to 49% of the votes agreed. As a result of this transaction, HVB has lost control over the company and now only exercises a significant influence. Compliant with IAS 27.34, the participating interest retained by HVB was measured at fair value through profit or loss, with a gain of €7.7 million posted to net income from investments.

In 2013, the following companies left the group of companies included in consolidation of HVB Group due to absorption, sale or liquidation:
– Black Forest Funding LLC, Dover
– GELDILUX-TS-2007 S.A., Luxembourg
– HVB Alternative Advisors LLC, Wilmington
– HVB Capital LLC VI, Wilmington
– HVB Expertise GmbH, Munich
– HVB Global Assets Company, L.P., City of Dover
– Internationales Immobilien-Institut GmbH, Munich
– UniCredit Merchant Partners GmbH, Munich

At year-end 2013, we had a total of 149 (2012: 145) affiliated and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they do not have a material impact for the Group.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these minor non-consolidated affiliated companies makes up around 0.46% (2012: 0.58%) of the consolidated profit of HVB Group, while such companies provide around 0.04% (2012: 0.02%) of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets.

	2013	2012
Total subsidiaries	**299**	**301**
Consolidated companies	164	169
Non-consolidated companies	135	132
Joint ventures	**2**	**2**
of which:		
accounted for using the equity method	—	—
Associated companies	**18**	**16**
of which:		
accounted for using the equity method	6	5

6 Principles of consolidation

Consolidation is performed by offsetting the purchase price of a subsidiary company against the value of the interest held in the completely remeasured shareholders' equity at the time of acquisition, provided the transactions involved are not internal to UniCredit. This amount represents the difference between the assets and liabilities of the acquired company measured at the fair value at the time of initial consolidation. The difference between the higher acquisition cost and the prorated recalculated shareholders' equity is recognised as goodwill under intangible assets in the balance sheet. Goodwill on companies accounted for using the equity method is carried under shares in associates valued at equity and joint ventures valued at equity. Compliant with IAS 36, depreciation is not recognised on goodwill. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies arising from the business combination. At HVB Group, these cash-generating units are the business segments. Where the commercial activities of a company span more than one segment, the goodwill is distributed in line with the expected contribution to results at the time of acquisition. The goodwill is tested for impairment at least once a year at cash-generating unit level. This involves comparing the carrying amount of the cash-generating unit with the recoverable amount defined as the maximum of the unit's value in use and the fair value less costs to sell.

The most recent multi-year plan approved by the Management Board normally covering a period of five years and created at segment level forms the basis for testing impairment. In this context, the earnings drivers are net trading income, net interest, fees and commissions, operating costs and the projected net write-downs of loans and provisions for guarantees and commitments. To allow the earnings components to be planned, the multi-year plan includes an income budget as well as budgets for risk-weighted assets and loans and receivables with customers and deposits from customers. The budgets are based on forecasts by the UniCredit Economics department, with the forecasts for overall economic development (gross domestic product) and interest and inflation rates playing a crucial role. Furthermore, the multi-year plan also reflects the experience gained by management from past events and an assessment of the underlying economic conditions.

We have used the multi-year plan as the basis for determining appropriate values in use for the CGUs to which goodwill is allocated. The values in use are determined using the discounted cash flow method. The figures for profit before tax from the segments‘ multi-year plans are included as cash flows. The average cash flows in the multi-year plan are assumed for the subsequent period. The segment-specific cost of capital rates used for discounting average 12.4% (2012: 12.2%) for the Corporate & Investment Banking business segment and 10.5% (2012: 10.5%) for the Commercial Banking business segment. No growth factor has been assumed for the government perpetuity. These values in use are employed as recoverable amounts and exceed the carrying amount and goodwill of the CGU. It is not necessary to estimate the selling price unless the value in use is less than the carrying amount.

IFRS 3 is not applicable to combinations of businesses under common control (IFRS 3.2 (c)). IAS 8.10 requires an appropriate accounting and valuation method to be developed accordingly for such cases. Given that HVB Group is part of UniCredit, the carrying amounts of the parent company are retained for business combinations within UniCredit. Any difference between the purchase price paid and the net carrying amount of the company acquired is recognised in equity under reserves.

Compliant with IAS 28, shares in associates are accounted for using the equity method and disclosed in the balance sheet accordingly. HVB is able to exercise significant influence over associates without being able to control them. Significant influence is assumed when a company holds more than 20% but less than 50% of the voting rights in an associate. This assumption of association can be refuted where a qualitative analysis demonstrates that significant influence over the financial and strategic decisions of the associate is not possible. Shares in associates are recognised at cost upon initial inclusion in the consolidated financial statements. For the purposes of subsequent measurement, the carrying amount increases or decreases in accordance with the share of HVB in the profit or loss of the associate. This share of the associate’s profit or loss attributable to HVB is measured on the basis of the fair values of the associate’s assets, liabilities and contingent liabilities when the shares were acquired. The accounting and valuation principles of HVB Group are applied for subsequent measurement.

SIC 12 requires us to consolidate special purpose entities provided, in substance, the majority of the risks and rewards incident to the activities of these special purpose entities is attributable to us or, in substance, we control the special purpose entities. Where they are material, they are included in consolidation. An interest in the equity capital of the special purpose entities is immaterial in this regard.

The assets and liabilities of a special purpose entity are included at the reporting date measured at their fair value when initially consolidated in accordance with SIC 12. They are subsequently measured in accordance with the uniform principles of accounting and valuation used across the corporate group. The expenses and income of the special purpose entity in question are included in the consolidated income statement from the date of initial consolidation. Equity interests held by third parties in a special purpose entity consolidated by us in accordance with SIC 12 are recognised under minority interest, provided the criteria for recognition as equity are met. Otherwise they are carried as debt.

Business transactions between consolidated companies are eliminated. Any profits or losses arising from intercompany transactions are also eliminated.

7 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one company and a financial liability or equity instrument of another company.

Accounting and Valuation (Continued)

The classes required by IFRS 7.6 are defined as follows:
– Cash and cash reserves
– Financial assets and liabilities held for trading
– Financial assets at fair value through profit or loss
– Available-for-sale financial assets (measured at cost)
– Available-for-sale financial assets (measured at fair value)
– Held-to-maturity investments
– Loans and receivables with banks (classified as loans and receivables)
– Loans and receivables with customers (classified as loans and receivables)
– Receivables under finance leases (classified as loans and receivables)
– Hedging derivatives
– Other liabilities (deposits from banks, deposits from customers, debt securities in issue)
– Financial guarantees and irrevocable credit commitments

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within Management's Discussion and Analysis. Compliant with IFRS 7.36 (a), the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 79 for the guarantee/amount of the lending commitments not yet utilised.

IAS 39 requires all financial instruments to be recognised in the balance sheet, classified in the given categories and measured in line with this classification.

The regulations set forth in IAS 39 regarding reclassifications have been observed. Purchases and sales of financial assets are normally recognised at the settlement date. Derivatives are recognised at the trade date. The reclassifications carried out in 2008 and 2009 are disclosed in Note 74, "Application of reclassification rules defined in IAS 39.50 et seq.".

Financial assets and liabilities at fair value through profit or loss
The "at fair value through profit or loss" category is divided into two categories:

– Financial assets and liabilities held for trading

  Financial assets and liabilities classified as held for trading at the time of initial recognition are financial instruments acquired or incurred for the purpose of short-term profit-taking as a result of changes in market prices or of realising a profit margin. This category also includes all derivatives (apart from hedging derivatives) which qualify for hedge accounting. Financial assets and liabilities held for trading purposes are shown under financial assets and liabilities held for trading.

– All financial assets designated as financial instruments measured at fair value through profit or loss upon initial recognition (fair value option)

  We only use the fair value option for certain financial assets designated as at fair value through profit or loss upon initial recognition. In this context, we have limited ourselves mostly to the designation option of the accounting mismatch by means of which recognition or measurement inconsistencies are avoided or considerably reduced in economic hedges for which hedge accounting is not applied. Only for a specific, smaller portfolio is the designation based on fair value-based risk management.

Financial assets and liabilities at fair value through profit or loss are disclosed upon initial recognition at their fair value without any transaction costs.

Both financial assets held for trading and fair value option portfolios are measured at fair value. Changes in value are recognised in the income statement.

Loans and receivables
The category "loans and receivables" includes non-derivative financial assets – both originated by us and acquired – with fixed or determinable payments that are not quoted in an active market unless they are classified as at fair value through profit or loss or available for sale. We classify leveraged buyout financing as loans and receivables. Loans and receivables are measured at amortised cost and capitalised under loans and receivables with banks and loans and receivables with customers. Premiums and discounts are taken to the income statement under net interest over the term of the underlying items. This is done using the effective interest method. Loans and receivables are disclosed upon initial recognition at their fair value including any transaction costs.

Held-to-maturity investments
Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity, unless they are designated as at fair value through profit or loss or available for sale. We take a very restrictive approach when assessing whether the intention to hold to maturity exists and premature resale can be excluded. This means that investments are only classified as held-to-maturity in exceptional cases. When classifying financial instruments as held-to-maturity investments, we ensure that it is possible to hold the instruments to maturity taking liquidity considerations into account. Held-to-maturity investments are disclosed upon initial recognition at their fair value including any transaction costs and thereafter measured at amortised cost, with premiums and discounts taken to the income statement under net interest over the term of the underlying items. This is done using the effective interest method.

Available-for-sale financial assets
All other non-derivative financial assets are classified as available-for-sale (AfS) securities and receivables. A distinction is made within this category between measurement at fair value and measurement at amortised cost.

– Debt instruments and equity instruments for which the fair value can be reliably determined are measured at fair value. The difference between the fair value and amortised cost is carried in a separate item under shareholders' equity (AfS reserve) in the balance sheet until the asset is sold or an impairment to be recognised in profit or loss has occurred. Premiums and discounts on debt instruments are taken to the income statement under net interest over the term of the underlying items.

– Equity instruments for which there is no quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost. Besides shares in unlisted companies, this primarily concerns investments in private equity funds, which we measure at cost. It is not possible to reliably determine a fair value for these equity instruments since there is no active market in these instruments and, especially with regard to investments in private equity funds, the Bank as shareholder with a small holding does not have enough influence to obtain the necessary data promptly for a model-based determination of fair value. Consequently, they are not included in the AfS reserve.

With the exception of the effect on results arising from the translation of monetary available-for-sale financial assets denominated in foreign currency, gains or losses on available-for-sale financial assets are recognised in net income from investments in the income statement (see Note 41).

Determination of fair value
We can normally reliably determine the fair value of financial instruments measured at fair value. Certain equity instruments classified as available-for-sale represent an exception to this rule; these are measured at amortised cost as described above. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (no forced liquidation or distress sale) between market participants at the measurement date. Thus, the fair value based on a notional transfer corresponds to a selling or, in the case of a liability, the transfer price (exit price). In addition, the entity's own credit risk must be taken into account in the fair value of liabilities.

Accounting and Valuation (Continued)

The fair value is determined using the same three-level fair value hierarchy under IFRS 13 as is applicable for the disclosures regarding the fair value hierarchy (Note 76):
– Level 1: Financial instruments measured using (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
– Level 2: Assets or liabilities for which no price can be observed on an active market and whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data
– Level 3: Assets or liabilities for which the fair value cannot be measured exclusively on the basis of observable market data; the fair values also include measurement based on model assumptions instead (non-observable input data)

HVB Group refined the methods it uses to determine model-based measurement adjustments to fair values in 2013. In particular, the methods used to determine the rating-related adjustments to the values of derivative financial instruments were modified to reflect valuations observable on the market.

The risk of a counterparty defaulting on derivatives is covered by credit valuation adjustments (CVAs). We have exercised the option permitted by IFRS 13 under certain circumstances to determine fair value on a portfolio basis for certain OTC derivative portfolios and recognised portfolio-related credit valuation adjustments and bid ask adjustments.

In accordance with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the positive and negative market values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty (CCP).

The own credit spread is also included in the underlying valuation parameters for liabilities held for sale.

Suitable adjustments are taken on the fair values determined in this way to reflect further factors affecting the fair value (such as the liquidity of the financial instrument or model risks when the fair value is determined using a valuation model).

In addition to the method described above for the valuation or determination of fair values, the fair values in the hierarchy compliant with IFRS 13 are shown in Note 76 for further information. A three-level, fair value hierarchy is listed for every class of financial asset and financial liability carried at fair value in the balance sheet. Note 76 similarly contains a detailed description of this hierarchy, which is only used for the purpose of disclosure in the notes.

Financial guarantees
Under IAS 39, a financial guarantee contract is a contract that requires the issuer to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Viewed overall, the fair value of a financial guarantee is zero when the contract is concluded because the value of the premium received will normally match the value of the guarantee obligation in standard market contracts. The guarantee premium is recognised on a pro-rata basis. The existence of an impairment is checked during the subsequent measurement.

Credit derivatives, and most notably standardised credit default swaps (CDS), are measured at fair value through profit or loss as they are considered derivatives held for trading and not financial guarantees.

Embedded derivatives
Outside the portfolio held for trading purposes or designated at fair value through profit or loss, embedded derivative financial instruments that must be separated within a structured product are detached from the underlying contract and recorded as separate derivative financial instruments. The underlying contract is then accounted for in accordance with the classification made. The change in value arising from the derivatives that are detached and carried at fair value is recognised in net trading income in the income statement.

Hedge accounting
Hedges between financial instruments are recognised in accordance with the forms of the fair value hedge described in IAS 39. In 2008 and 2009, HVB Group changed the previously applied macro cash flow hedge accounting to the fair value hedge similarly permitted by IAS 39 for interest rate risk at portfolio level in large areas of asset/liability interest rate risk management. This is described additionally below alongside the principles covering general fair value hedges.

A fair value hedge is generally a hedge of the exposure to changes in the fair value of a recognised asset, liability or an unrecognised firm commitment – or an identified portion thereof – that is attributable to a particular risk and that might affect net income for the period. In this respect, a high level of effectiveness is required, with the changes in the fair value of the hedged item with regard to the hedged risk and hedging derivative compensating each other within a range of 80% to 125%. In fair value hedge accounting, we use interest rate and credit derivatives to hedge changes in the fair value of recognised assets and liabilities. Under this method, the hedging instrument is measured at fair value through profit or loss. The carrying amounts of the hedged item are adjusted by the valuation results relating to the hedged risk in a way that affects the income statement.

Starting in 2009, we have applied fair value hedge accounting for credit risks (micro fair value hedge). The purpose of hedge accounting for credit risks is to reduce the volatility in the income statement. This is done by including existing hedges in hedge accounting. Otherwise existing inconsistencies upon valuation (accounting mismatch) are corrected by hedge accounting.

As part of hedge accounting for credit risks, in accordance with IAS 39.86 (a) the credit-induced changes in the fair value of selected hedged items such as loans and receivables with customers and irrevocable credit commitments (off-balance-sheet fixed commitments) and the full-induced changes in the fair value of the hedging instrument (CDS) are offset.

The change in the credit-induced fair value determined for the hedged items is taken to the income statement under effects arising from hedge accounting in net trading income. Where the hedged items are assets recognised in the balance sheet, the carrying amount is adjusted for the changes in the credit-induced fair value. Irrevocable credit commitments (fixed commitments not shown in the balance sheet), on the other hand, are not recognised in the balance sheet. The credit-related changes in the fair value relating to these are carried under other assets in the balance sheet.

We show the associated hedging instruments (CDS) at their fair value as hedging derivatives; the changes in the fair value are similarly taken to the income statement as effects arising from hedge accounting in net trading income.

The hedge is terminated compliant with IAS 39.91 if either the hedging instrument or the hedged item expires, the hedge is no longer efficient, or the Bank decides to terminate the hedge.

When the hedge is terminated, the credit-induced changes in the fair value accruing to that date with regard to the hedged risk (hedge adjustment) are amortised over the remaining term of the hedged item. This amortisation is disclosed in net interest. If the hedged item similarly expires upon termination of the hedge exceptionally (e.g. in the event of early repayment by the borrower), the hedge adjustment accruing to that date is taken directly to the income statement.

Accounting and Valuation (Continued)

If the hedge is terminated prior to the hedging instrument maturing, this derivative is assigned to the held-for-trading portfolio at fair value and continues to be recognised at fair value under net trading income in the income statement.

We apply the fair value hedge accounting for a portfolio hedge of interest rate risk for the accounting treatment of interest rate risk in asset/liability interest rate risk management. Recognising a fair value hedge for a portfolio of interest-bearing financial assets and liabilities using interest rate derivatives makes it possible to largely reflect the standard bank risk management procedures for the hedging of fixed interest rate risks in the accounts.

Under this accounting treatment of hedges across several items, the changes in the value of the hedged amount of the hedged items attributable to the hedged risk are carried altogether as a separate asset or liability item and not as an adjustment to the carrying amount of individual items as is the case with micro hedges. The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately. The hedged amount of the hedged items is determined as part of interest rate risk management and cannot be directly allocated to individual assets or liabilities. Where the hedge conditions are met, the offsetting changes in value of the hedged amount of the hedged items and the hedging instruments (interest derivatives) are recognised directly in profit and loss. Hedge inefficiencies arising within the necessary hedge efficiency thresholds of 80% to 125% are recognised as profit or loss in net hedging income.

Furthermore, cross-currency interest rate swaps (CCIRS) have been used in the refinancing of loans denominated in foreign currency for economic reasons. The CCIRS exchange longer dated fixed-interest positions denominated in euros for variable-yield positions denominated in foreign currency. This serves to hedge the hedged item involved against interest rate risk as part of the fair value hedge portfolio and against exchange rate-related changes in fair value as part of micro fair value hedges.

The cash flow hedge reserve existing at the changeover date and the offsetting clean fair values of the existing cash flow hedge derivatives are amortised over the remaining term in net interest. This means that the amortisation of the cash flow hedge reserve will have no overall impact on profit or loss in the future until they are fully amortised. The changes in value of the same hedged items and hedging derivatives, together with all new contracts arising after the changeover date, are treated in accordance with the new fair value hedge portfolio model.

The cash flow hedge that is no longer used was employed to hedge the risk arising from volatile cash flows resulting from a recognised asset, recognised liability or planned transaction to be taken to the income statement. We had employed derivatives in cash flow hedge accounting to hedge future streams of interest payments. In this context, payments arising from variable-interest assets and liabilities were swapped for fixed payments primarily using interest rate swaps. Hedging instruments were measured at fair value. The valuation result was divided into an effective and an ineffective portion. The effective portion of the hedging instruments was recognised in a separate item within shareholders' equity (hedge reserve) without affecting reported profit or loss. The ineffective portion of the hedging derivatives was recognised directly in profit and loss. The hedged item was recognised at amortised cost.

At the same time, HVB has also employed a fair value hedge for a portfolio of interest rate risks since 2007 for a limited portfolio of liabilities outside of asset/liability interest rate management.

8 Financial assets held for trading

This item includes securities held for trading purposes and positive market values of traded derivatives. All other derivatives not classified as hedging derivatives (which are shown separately in the balance sheet) are similarly considered held for trading. Provided they are held for trading purposes, promissory notes, registered bonds and treasury bills are carried as other financial assets held for trading.

Financial assets held for trading purposes are carried at fair value. Gains and losses arising from the valuation and realisation of financial assets held for trading are taken to the income statement as gains less losses arising from trading securities.

9 Financial assets at fair value through profit or loss

HVB Group mainly applies the fair value option for financial assets with economic hedges for which hedge accounting is not applied. The designation removes or significantly reduces differences resulting from an accounting mismatch. The portfolio mostly comprises interest-bearing securities not held for trading that are hedged against interest rate risks by means of interest rate swaps. In the case of promissory note receivables similarly included here, there is no material fair value change in terms of the credit risk on account of the top rating of the issuers. Changes in fair value of the hedged items and the associated derivatives are shown separately in net trading income; current interest income/expenses are recognised in net interest. Given a fundamental intention to hold to maturity, the new investments were made primarily with a view to being able to sell the holdings again quickly if necessary (liquidity reserve). Alongside an accounting mismatch as the main grounds for designation, the designation for a specific, smaller portfolio is based on fair value-based risk management.

10 Available-for-sale financial assets

We recognise interest-bearing securities, equities and other equity-related securities, investment certificates and participating interests as available-for-sale financial instruments under available-for-sale financial assets in the balance sheet.

Interest-bearing securities are accrued in accordance with the effective interest method. Should the estimated cash inflows and outflows underlying the calculation of the effective interest change, the effects are recognised in the income statement as net interest compliant with IAS 39 AG 8.

Provided they are not significant, both shares in non-consolidated subsidiaries and joint ventures and associates accounted for using the equity method are subsumed in available-for-sale financial assets. Listed companies are always carried at fair value. Where the fair value cannot be determined reliably for non-listed companies, they are valued at cost.

11 Shares in associated companies and joint ventures accounted for using the equity method

Investments in joint ventures and associated companies are accounted for using the equity method.

12 Held-to-maturity investments

HVB Group has classified interest-bearing assets as held to maturity and recognised them under held-to-maturity investments. Held-to-maturity investments are measured at amortised cost; the resulting interest income is included in net interest.

13 Loans and receivables

Loans and receivables are recognised in the balance sheet under loans and receivables with banks, and loans and receivables with customers. They are carried at amortised cost, provided they are not hedged items of a recognised fair value hedge. The amount shown in the balance sheet has been adjusted for allowances for losses on loans and receivables.

14 Impairment of financial assets

Impairment losses are recognised for financial assets that are measured at amortised cost and classified as available for sale.

An impairment loss is determined in two steps. First, an assessment is made to see if there is any objective evidence that the financial asset is impaired. The second step involves assessing whether the financial instrument is actually impaired.

Accounting and Valuation (Continued)

Objective evidence of impairment refers to events that normally lead to an actual impairment. In the case of debt instruments, these are events that could result in the borrower not being able to settle his obligations in full or at the agreed date. In the case of equity instruments, significant or prolonged lower market values compared with the initial costs represent objective evidence of impairment. An equity instrument is considered impaired as soon as an impairment loss has been recognised.

Objective evidence is provided only by events that have already occurred, not anticipated events in the future.

How an impairment is determined for each relevant category is described below.

In the case of loans and receivables, objective evidence of an impairment exists when a default has occurred in accordance with the definition of a default given in Basel II and/or the German Solvency Regulation (Solvabilitätsverordnung – SolvV). This is the case when either the borrower is at least 90 days in arrears or HVB believes that the debtor is unable to meet the payment obligations in full without steps to realise collateral being undertaken. In this context, an event of default notably includes the period of 90 days in arrears, an application for or opening of insolvency proceedings, the expectation of liquidity problems as a result of the credit-monitoring process or the need for restructuring or collateral realisation steps such as terminating loans, putting loans on a non-accrual basis or enforcing realisation of collateral by HVB.

The assessment of the borrower’s credit rating using internal rating processes is applicable. This is reviewed periodically and when negative events occur. When the borrower is 90 days in arrears is considered objective evidence of an impairment, similarly leading promptly to a review of the borrower’s individual rating on account of the occurrence of a negative event with regard to the borrower. Based on internal procedures, the classification of the borrower is updated to “in default” or “not in default”. As a result, the borrower’s credit rating is always assessed with regard to his ability to meet outstanding liabilities.

The credit rating of the borrower and his ability to meet outstanding payment obligations is normally assessed irrespective of whether the borrower is already in arrears with payments or not. Being in arrears is merely an indicator of the need to verify the borrower’s credit rating on an ad hoc basis.

Lending agreements can be modified to ease the burden on borrowers in poor financial situations and improve the probability of the loans being serviced (“forbearance”). It should be noted, however, that not every modification of a lending agreement is due to difficulties of the borrower and represents forbearance. Different strategies may be used to ease the burden on the borrower. Possible measures include deferrals and temporary moratoriums, longer periods allowed for repayment, reduced interest rates and rescheduling, and even debt forgiveness.

A possible deferral agreement aimed at avoiding arrears does not automatically lead to the Bank recognising impairments. Where repayments are deferred or terms adjusted (with longer periods allowed for repayment deferred or covenant clauses waived) for rating-related reasons, this is considered a separate impairment trigger for testing whether an impairment needs to be recognised. The simple deferral of payment obligations has little influence on the borrower’s financial position and his ability to meet outstanding liabilities in full. Should a borrower not be in a position to meet all outstanding liabilities, a deferral of the liabilities does not alter the overall situation. A deferral neither reduces the amount of the payment obligations nor does it influence the amount of payments received by the borrower.

Where the Bank waives payments by the borrower (such as waived fees, reduction of contractual interest rates, etc.) for rating-related reasons, such a waiver represents objective evidence of the borrower defaulting. The write-off of such payments accruing to the Bank caused by an issued waiver is recognised in the income statement as an impairment, provided an allowance had not already been set up for this in the past or recognition was waived on account of the borrower defaulting (such as putting a loan on an internal non-accrual basis).

If allowances have not already been set up for lending agreements modified for rating-related reasons, the loans involved are exposed to increased default risk as they have already become conspicuous. There is a risk that contractual servicing will fail despite the modification of the terms. A thorough process is employed to monitor such loans in order to avoid losses or identify a possible default promptly.

The specific definition of forbearance as published by the European Banking Authority (EBA) in a letter dated 21 October 2013 for FINREP reporting as of 2014 is currently being implemented.

An impairment is the difference between the carrying amount and the present value of the anticipated future cash flows. The future cash flows are determined taking into account past events (objective evidence). The anticipated future cash flows may comprise the repayments and/or interest payments still expected and the income from the realisation of collateral. A specific loan-loss provision is recognised for the impairment determined in this way.

If a receivable is considered uncollectible, the amount concerned is written down, which leads to the receivable being written off.

The same method is applied for held-to-maturity investments.

In the case of loan receivables, the impairment determined in this way is posted to an impairment account, which reduces the carrying amount of the receivable on the assets side. In the case of securities, an impairment directly reduces the carrying amount of the security.

In the case of financial guarantees and irrevocable credit commitments, a possible impairment is determined in the same way; the impairment loss is recognised as a provision.

Specific loan-loss allowances are also determined on a collective basis for individual cases where the amounts involved are not significant. The classification as impaired is also based primarily on the individual rating of the borrower in these cases. These allowances are recognised and disclosed within specific loan-loss allowances at HVB Group. Specific loan-loss allowances or provisions to the amount of the anticipated loss have been made individually to cover all identifiable default risks arising from lending operations (loans, receivables, financial guarantees and credit commitments), with the amount of the expense being estimated. Both changes in the anticipated future cash flows and the time effect arising from a shortening of the discounting period are taken into account in the subsequent measurement. Specific loan-loss allowances are reversed as soon as the reason for forming the allowance no longer exists, or used if the receivable is classified as uncollectible and written off. Where a specific loan-loss allowance is reversed because the reason for its formation no longer exists, the borrower concerned is classified as healthy again, meaning that the classification as "in default" is reversed. The amount is written off if the receivable in question is due, any available collateral has been realised and further attempts to collect the receivable have failed. Acute country-specific transfer risks are included in this process.

In the case of receivables (and guarantees and credit commitments) for which no specific allowances have been formed, portfolio allowances are set up to cover losses (= impairments) that have been incurred but not yet recognised by the Bank at the reporting date. We apply the loss confirmation period method for this. The loss confirmation period represents the period between a default event occurring or a borrower defaulting, and the point at which the Bank identifies the default. The loss confirmation period is determined separately for various credit portfolios on the basis of statistical surveys. The loss that has occurred but has not yet been recognised is estimated by means of the expected loss.

In the case of assets classified as available for sale, a distinction is made between debt and equity instruments.

A debt instrument is impaired when an event occurs that results in the borrower not being able to settle his contractual obligations in full or at the agreed date. Essentially, an impairment exists in the same cases as for credit receivables from the same borrower (issuer).

Accounting and Valuation (Continued)

The amount of the impairment is defined as the difference between the amortised cost and the current fair value, whereby the difference first recognised in the AfS reserve in the balance sheet is taken to the income statement when an impairment occurs.

Should the reason for the impairment no longer apply, the difference between the higher market value and the carrying amount at the previous reporting date is written back in the income statement up to the amount of amortised cost. If the current market value at the reporting date exceeds the amortised cost, the difference is recognised in the AfS reserve under shareholders' equity.

In the case of equity instruments carried at fair value, an impairment exists if the current fair value is significantly below the initial cost or if the fair value has remained below the initial cost for a prolonged period of time. When impairment is first identified, the difference between the current fair value and initial cost is recognised as profit or loss in the income statement. Upon subsequent measurement, a further impairment loss is only taken to the income statement if the current fair value is below the initial cost less any impairment losses already recognised (amortised cost). If the fair value rises in the future, the difference between a higher fair value and the amortised cost is recognised in the AfS reserve under shareholders' equity.

Equity instruments valued at cost are considered impaired if the present value is significantly or permanently less than the acquisition cost (or, if an impairment has already been recognised in the past, it is less than the acquisition cost less the recognised impairment). If there is objective evidence of an impairment, the present value of the equity instruments must be determined. The estimated future cash flows discounted by the current market return on a comparable asset are used as the basis for determining this value. The amount of the impairment is calculated as the difference between the present carrying amount and the value of the equity instrument determined as described above. The impairment is taken to the income statement. An impairment of an equity instrument is not permitted to be reversed if the reasons for the impairment no longer apply.

15 Property, plant and equipment

Property, plant and equipment is valued at acquisition or production cost less depreciation – insofar as the assets are depreciable – using the straight-line method based on the assets' useful lives. Fixtures in rented buildings are depreciated over the term of the rental contract, taking into account any extension options, if this is shorter than the normal useful life of the asset concerned.

PROPERTY, PLANT AND EQUIPMENT	USEFUL ECONOMIC LIFE
Buildings	25–60 years
Fixtures in buildings not owned	10–25 years
Plant and office equipment	3–25 years
Other property, plant and equipment	
Wind farm	25 years
Other property, plant and equipment	10–20 years

Impairments are taken in accordance with IAS 36 on property, plant and equipment whose value is impaired. An asset is considered impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is normally determined on the basis of the value in use. Should the reasons for the impairment no longer apply, a subsequent write-up is taken to the income statement; the amount of this subsequent write-up must not increase the value of the property, plant and equipment to a level in excess of the amortised acquisition or production cost.

Depreciation, impairments and write-ups on items of property, plant and equipment are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised, provided additional future economic benefits will flow to the Bank. Expenditure on repairs or maintenance of property, plant and equipment is recognised as expense in the year in which it is incurred.

Government grants for items of property, plant and equipment (IAS 20.24) are deducted from the acquisition or production cost of the underlying assets on the assets side of the balance sheet.

16 Lease operations

Under IAS 17, a lease is an agreement under which the lessor transfers the right to use an asset to the lessee for an agreed period against payment.

Lease agreements are divided into finance leases and operating leases. A lease is classified as an operating lease if the lessor retains substantially all the risks and rewards incident to ownership of the asset. By contrast, a finance lease transfers substantially all the risks and rewards incident to ownership of the asset to the lessee. Title may or may not eventually be transferred.

HVB Group nevertheless treats agreements concluded without the legal form of a lease as leases provided compliance with the agreement depends on the use of a given asset and the agreement transfers a right to use the asset.

HVB Group leases both movable assets and real estate.

HVB Group as lessor

Operating leases

The assets leased to the lessee under an operating lease are considered held by the lessor, who should continue to account for them. The leased assets are carried under property, plant and equipment, investment properties or intangible assets in the consolidated balance sheet and valued in accordance with the relevant methods. The lease proceeds are recognised on a straight-line basis over the lease term and disclosed under other operating income.

Finance leases

Where assets are transferred under a finance lease, the lessor is required to derecognise the leased asset in its balance sheet and recognise a receivable from the lessee. The receivable is carried at the amount of the net investment in the lease when the lease agreement was concluded. The lease payments received are divided into a finance charge recognised in the income statement and a redemption payment. The interest income is recognised over the period of the lease in such a way that it essentially reflects a constant periodic return on the net investment in the lease; the redemption payment represents a repayment of the principal that reduces the amount of the receivable outstanding.

HVB Group as lessee

Operating leases

The lease payments made by the lessee under operating leases are recognised as expense on a straight-line basis over the lease term and carried under other operating expenses or operating costs to the extent that they represent lease expenses. The lease term commences as soon as the lessee controls the physical use of the leased asset. The lessee does not capitalise the leased assets involved.

Finance leases

In the case of finance leases, the lessee recognises the leased assets under property, plant and equipment, investment properties or intangible assets in the balance sheet as well as a liability on the liabilities side. The asset and the corresponding liability are each initially recognised at the fair value of the leased asset at the inception of the lease or, if lower, the present value of the minimum lease payments. The internal rate of return underlying the lease is used to calculate the present value of the minimum lease payments. The lease payments under finance leases are divided into a finance charge and redemption payment. The redemption payment reduces the outstanding liability while the finance charge is treated as interest expense.

Conditional lease payments made under operating and finance leases are normally recognised as income by the lessor and expense by the lessee in the period in which they accrue. None of HVB Group's current lease agreements contain any conditional lease payments.

Please refer to Note 73 for more information.

Accounting and Valuation (Continued)

17 Investment properties
Compliant with IAS 40.30 in conjunction with IAS 40.56, land and buildings held by us as investments with a view to generating rental income and/or capital gains are carried at amortised cost and written down on a straight-line basis over a useful economic life of 25 to 60 years.

Where investment properties additionally suffer an impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Current expenses and rental income from investment properties are disclosed in net other expenses/income. Scheduled depreciation on such investments carried at amortised cost is included in operating costs, whereas impairments and write-ups are recognised in net income from investments.

In some cases, it may prove difficult to classify a property as an investment property rather than property, plant equipment. Classification is especially difficult if part of the property is held by the Group as an investment while another part is used for the Bank's own purposes as an administration building, and the parts of the property cannot be sold separately or leased out under a finance lease, making it impossible to account for the two parts separately. In such cases, HVB Group classifies a mixed usage property in full as an investment property if more than 90 percent of the property is leased to an external third party and the part of the property used by the Bank is insignificant. The whole property is classified as property, plant and equipment if the part of the property leased externally totals 90 percent or less.

18 Intangible assets
The main items included in intangible assets are goodwill arising from the acquisition of fully consolidated subsidiaries and software. An intangible asset shall only be recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Goodwill has an indefinite useful life. Consequently, it is only tested for impairment compliant with IAS 36 and not amortised (impairment only approach). The value of goodwill is tested annually and where there is an indication of impairment. Impairments are taken where necessary. It is not permitted to write up in subsequent periods any impairment losses recognised on goodwill.

Software has a limited useful life and is valued at amortised cost. Amortisation is taken over an expected useful life of three to five years. Other intangible assets are also recognised at amortised acquisition or production cost less cumulative amortisation, as they have a limited useful life. Amortisation is taken on a straight-line basis over an expected useful life of up to ten years.

Where intangible assets additionally suffer impairment, we recognise an impairment loss compliant with IAS 36. Should the reason for the impairment no longer apply, write-ups are taken to the income statement in an amount no more than the amortised acquisition or production cost.

Impairment losses on goodwill are shown in a separate item in the income statement.

Amortisation, impairments and write-ups on software and other intangible assets are recognised in the income statement under amortisation, depreciation and impairment losses on intangible and tangible assets within operating costs.

19 Non-current assets or disposal groups held for sale
Under IFRS 5, non-current assets or disposal groups held for sale are carried upon reclassification at the lower of the carrying amount or fair value less costs to sell at the reporting date. Upon subsequent measurement following reclassification, the non-current assets or disposal groups held for sale are, if necessary, written down to a lower fair value less costs to sell if this has fallen at subsequent reporting dates. Should the fair value increase, the total may be written up to an amount that is no more than the cumulative impairment loss.

At the same time, the Bank acquired non-current assets for the first time during the reporting period with the sole intention of selling them on within one year and classified them accordingly. Such assets are carried at their fair value less costs to sell.

20 Liabilities
Deposits from banks and customers, and debt securities in issue that are not hedged items of an effective micro fair value hedge are reported at amortised cost. Upon initial recognition, they are disclosed at their fair value including any transaction costs.

21 Financial liabilities held for trading
This item includes the negative market values of traded derivatives and all other derivatives that are not classified as hedging derivatives (which are recognised separately). Also included here are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities held for trading purposes.

Financial liabilities held for trading are carried at fair value. Gains and losses arising from the valuation and realisation of financial liabilities held for trading are taken to the income statement as net trading income. We act as market maker for the structured products we issue.

22 Hedge adjustment of hedged items in the fair value hedge portfolio
Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 66). The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately.

23 Other liabilities
Compliant with IAS 37, accruals and other items are shown under other liabilities. These reflect future expenditure of uncertain timing or amount, but the uncertainty is much less than for provisions. Accruals are liabilities for goods and services received that have been neither paid for nor invoiced by the supplier, nor formally agreed. This also includes current liabilities to employees, such as flexi-time credits and outstanding vacation. Accruals are carried at the amount likely to be used.

24 Provisions
Present legal or constructive obligations as a result of past events involving a probable outflow of resources, and whose amount can be reliably estimated, are recognised as provisions.

When assessing provisions for uncertain liabilities and anticipated losses on onerous transactions, we use the best estimate compliant with IAS 37.36 et seq. Long-term provisions are discounted.

In accordance with IAS 19, provisions for pensions and similar obligations arising from defined benefit plans are recorded on the basis of external actuarial reports by applying the projected unit credit method, with each pension plan being valued separately. This accrued benefit method pro-rated on service takes into account dynamic considerations when determining the expected pension benefits upon retirement and distributes these over the beneficiaries' entire period of employment. This means that the measurement of the defined benefit obligation is based on an actuarially calculated present value of the future benefit entitlement for services already rendered (vested benefit entitlements), taking into account the expected compensation increases including career trends and forecast pension progression. The actuarial assumptions to be defined when measuring the benefit obligation vary in line with the economic and other underlying conditions in the country in which the plans exist.

The underlying valuation assumptions may differ from the actual developments as a result of changing market, economic and social conditions. The actuarial gains or losses resulting from the change to the valuation parameters may have a significant impact on the amount of the obligations for pensions and similar post-employment benefits.

Accounting and Valuation (Continued)

The discount rate used to discount the defined benefit obligations (actuarial interest rate) is determined by reference to yields recorded on the market at the reporting dated for high quality, fixed-rate corporate bonds and with maturities and currencies that match the obligations to be measured. A basket of AA-rated corporate bonds denominated in euros serves as the data basis for determining the discount rate for the obligations. These individual bond data are translated into a yield curve which forms the basis for determining the discount rate by using a numerical compensation technique.

Funded pension obligations differ from unfunded pension obligations in that plan assets are allocated to cover the entitlements of the beneficiaries. The beneficiaries include active employees, former employees with vested benefit entitlements, and pensioners and their surviving dependants. Both HVB and a number of subsidiaries have set up plan assets in external, restricted-access pension organisations to fund their pension obligations.

If the beneficiaries' benefit entitlements or the Group's benefit obligations are not funded by assets, HVB Group recognises a pension provision in the amount of the present value of the defined benefit obligation (DBO) in its consolidated balance sheet.

In the case of funded pension obligations, by contrast, the present value of the defined benefit obligation is set against the fair value of the plan assets to determine the net defined benefit liability or net defined benefit asset from the defined benefit plans. The net amount is recognised in the consolidated balance sheet as a pension provision in the event of an excess of liabilities over assets or under other assets in the event of an excess of assets over liabilities, adjusted for any effects of the asset ceiling. In the event of excess allocations to the plan, the amount of the net defined benefit asset recognised in the balance sheet is limited to the present value of the economic benefits associated with the surplus plan assets.

HVB Group is applying the amendments to IAS 19 „Employee Benefits" (revised 2011, IAS 19R) published by the IASB on 16 June 2011 and adopted into European law by the EU on 5 June 2012 for the first time in the 2013 financial year. IAS 19R is applied retrospectively in accordance with IAS 8. The revised version of the standard contains a number of modifications to the method of accounting and valuation for defined benefit obligations; the significant changes are discussed below. The transition to the new regulations has not had a significant impact on the consolidated financial statements of HVB Group.

IAS 19R now requires actuarial gains and losses to be recognised immediately and in full in other comprehensive income (OCI) in the case of defined benefit obligations, thus eliminating the previous options, notably including the corridor method and the immediate and complete recognition in profit or loss. Consequently, the pension provision or other asset recognised in the consolidated balance sheet corresponds to the actual deficit or surplus for a given commitment. Since HVB Group has already recognised the actuarial gains and losses from defined benefit plans directly in shareholders' equity in the past – outside profit or loss for the period – the transition to the new regulations has not had any impact on the consolidated financial statements.

Under the newly introduced net interest approach, the net interest to be recognised in profit or loss for the period is calculated by multiplying the net defined benefit liability (asset) from defined benefit plans by the discount rate underlying the measurement of the defined benefit obligation. This serves to net the two previously known components in pension expense – interest cost and expected return on plan assets – as a net interest component. Since any plan assets are deduced from the net defined benefit liability (asset), this calculation method implicitly assumes the return on plan assets in the amount of the discount rate. Under IAS 19R, it is no longer possible to determine the expected return for each entity individually in accordance with the composition of the plan assets (asset allocation) as before.

In the event that pension obligations are funded by plan assets, the new definition of the (net) interest component may have an impact on the amount of the net profit for the year. Since the difference between the normalised return in the amount of the discount rate and the actual return on the plan assets is recognised in other comprehensive income under remeasurements of defined benefit plans, income from existing plan assets previously recognised in profit of loss is shifted to other comprehensive income. This effect on the profit or loss for the period is all the more marked, the greater the difference between the discount rate and the expected return on plan assets for each individual entity used to be. Since the expected return on plan assets in the amount of the discount rate for the defined benefit obligations had already been assumed by HVB Group prior to the introduction of the new regulation, the change has no impact on the consolidated statement of total comprehensive income.

If the present value of a defined benefit obligation changes as a result of a plan amendment or plan curtailment, the Group recognises the ensuing effects as past service cost in the profit or loss for the period. The amount is normally recognised at the date when the plan amendment or plan curtailment occurs. So long as an entitlement was not yet vested, up until now past service cost had to be recognised in profit or loss over the expected remaining service until the vesting point was reached and in later periods accordingly. With the application of IAS 19R, any past service cost must now be recognised in full in profit or loss for the period, irrespective of any vesting regulations. The gains and losses when a plan is settled are now also recognised directly in profit or loss when the settlement occurs. The amended regulations do not have a significant impact on HVB Group.

Furthermore, the presentation of the pension expense of defined benefit obligations in the statement of total comprehensive income has changed. Under IAS 19R, the net pension expense consists of a service cost component, a net interest component and a remeasurement component.

The service cost component consists of the current and past service cost including the gains and losses on plan settlements. The net interest component comprises the interest expense on the defined benefit obligation, the interest income on plan assets and, in the event of excess allocations to the plan, the interest on any effects arising from the adjustment of the asset surplus to reflect the asset ceiling. The service cost and net interest components are taken to the consolidated income statement in profit or loss for the period. HVB Group also recognises the net interest component under pension and other employee benefit costs in payroll costs alongside the service cost component.

The remeasurement component encompasses the actuarial gains and losses arising from the valuation of the defined benefit obligation, the difference between the typical return on plan assets assumed at the beginning of the period and the actual return realised on plan assets and, in the event of excess allocations to the plan, any adjustment of the asset surplus to reflect the asset ceiling, excluding the amounts already recognised in net interest. This component is recognised immediately in shareholders' equity without affecting profit or loss. The remeasurements recognised in other comprehensive income in the statement of total comprehensive income may not be reclassified in later periods in profit or loss (no recycling).

The revised version of IAS 19 expands the disclosure requirements for defined benefit plans. In addition, the revised standard contains a new, principles-based disclosure concept requiring companies to make judgements regarding the necessary level of detail or any emphases in the disclosures pertaining to defined benefit plans. The reporting is intended to meet the information needs of the users of the financial statements and give them a wide-ranging understanding of the risk structure and risk management of the pension plans (pension governance).

In contrast to defined benefit plans, no provisions for pensions and similar obligations are recognised for defined contribution plans. The amounts paid are in the period of the payment taken to the income statement under payroll costs.

The provisions for pensions and similar obligations are described in detail in Note 69.

In accordance with IAS 19, the provisions for partial retirement and similar benefits recognised under other provisions are measured on the basis of external actuarial reports.

In line with the amendments relating to termination benefits under IAS 19R, the top-up amounts promised under partial-retirement agreements are now to be accounted for as other long-term employee benefits. As a result of the amended classification, the expenses are accrued over their vesting period and no longer recognised in full at the date from which the Group can no longer withdraw the offer. HVB Group applies the first-in first-out (FiFo) method for the straight-line accrual of top-up benefits. The benefits are discounted to determine their present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Accounting and Valuation (Continued)

The transition to the new accounting and valuation principles gives rise to an amount recognised for partial-retirement obligations under other provisions in the balance sheet that is around €1.4 million lower at the changeover date of 31 December 2012/1 January 2013. To adjust the amount stated in the balance sheet, the difference was set against retained earnings without affecting profit or loss. The update of the partial-retirement obligation led to an allocation that was around €0.2 million higher in the reporting period, which was taken to the income statement under payroll costs. This means that the retrospective application results in a provision for partial-retirement obligations that is around €1.2 million lower at the reporting date of 31 December 2013.

The revised version of IAS 19 does not give rise to any changes in the amount of the provisions for the outstanding settlement amounts in connection with partial-retirement obligations.

The other long-term employee benefits also include the deferred employee compensation under the Group's bonus programmes, if not expected to be settled wholly before twelve months after the end of the reporting period. The Group has a net liability in the amount of the future benefits to which the employees are entitled in exchange for the work performed in the current period and earlier periods. HVB Group recognises a bonus provision in the amount of the present value of these benefits in its consolidated balance sheet, with allocations made to the promised bonus amounts over the respective vesting period on a pro rata basis. Remeasurements of the net liability are recognised directly in profit or loss for the period.

The employee compensation schemes are described in detail in Note 37.

25 Foreign currency translation

The consolidated financial statements are prepared in euros, which is the reporting currency of the corporate group. Amounts in foreign currency are translated in accordance with the principles set forth in IAS 21. This standard calls for monetary items not denominated in the respective functional currency (generally the local currency in each case) and cash transactions not completed at the valuation date to be translated into euros at the reporting date using current market rates. In the case of monetary assets available for sale, the effect arising from foreign currency translation is recognised as net currency income in net trading income. In other words, the monetary assets available for sale are treated in the same way as if they were recognised at amortised cost in the foreign currency. Non-monetary items carried at fair value are similarly translated into euros using current market prices at the valuation date. Non-monetary items carried at cost are translated using the historic rate applicable at the time of acquisition.

Income and expense items arising from foreign currency translation at the individual Group companies are stated under net trading income in the income statement.

Where they are not stated in euros, the assets and liabilities reported by our subsidiaries are translated using current market rates at the reporting date in the consolidated financial statements. Average rates are used to translate the income and expenses of these subsidiaries.

Exchange rate differences resulting from the translation of financial statements of international business units are recognised in shareholders' equity without affecting profit or loss and are only taken to the income statement if the operation is sold in part or in full.

26 Income tax for the period

Income tax for the period is accounted for in accordance with the principles set forth in IAS 12. Current taxes are determined taking into account local laws in the respective tax jurisdictions concerned. Apart from a few exceptions allowed for in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (balance sheet approach). Deferred tax assets arising from unused losses carried forward for tax-reporting purposes are shown where permitted by IAS 12.

Since the concept is based on the approach of future tax assets and liabilities under the liability method, the assets and liabilities are computed using the relevant local tax rates that are expected to apply when the differences are reversed. Deferred tax assets and liabilities are offset provided the offsetting requirements defined in IAS 12 are met.

Segment Reporting

27 Notes to segment reporting by business segment
In segment reporting, the market-related activities of HVB Group are divided into the following business segments: Commercial Banking, Corporate & Investment Banking and Asset Gathering.

Also shown is the Other/consolidation business segment that covers the Global Banking Services and Group Corporate Centre business units and the effects of consolidation.

Changes in segment allocation
As already announced in the 2012 Annual Report, the business model was adjusted at the outset of 2013 to cater for the changed market environment which entailed a restructuring of global and regional responsibilities and thus the segments of HVB Group. This also involved the formation of the new Commercial Banking business segment, which encompasses oversight for all activities involving retail customers and entrepreneurs in Germany.

This means that HVB Group is divided into the following segments as of the reporting date:
– Commercial Banking (CB)
– Corporate & Investment Banking (CIB)
– Asset Gathering
– Other/consolidation

At the same time, we have made a minor adjustment in net interest as of the start of the year. The cost of foreign currency swaps concluded as part of asset/liability management that was previously included in the net interest of the Corporate & Investment Banking business segment is now included in the net interest of the Other/consolidation business segment.

On account of the customers transferred between the CB and CIB business segments, there was a shift in the income statement items of net interest and net write-downs of loans and provisions for guarantees and commitments. For the same reason, net write-downs of loans and provisions for guarantees and commitments were shifted between the CB and Other/consolidation business segment.

There was also a shift in other administrative expenses on account of changes in the distribution of costs in the CB and CIB business segments.

Furthermore, there was a change in disclosure between the income statement items of net interest and net fees and commissions as described in the Note Consistency (compliant with IAS 8.41). The goodwill was re-allocated using the relative contributions to profits of the business segments on the basis of planned results. At the same time, the goodwill was redistributed between the CIB and CB business segments.

Last year's figures and those of previous quarters have been adjusted accordingly to reflect the new corporate structure, the reorganisation described above, the changes in disclosure and a few other minor changes.

Method of segment reporting
Segment reporting is based on the internal organisational and management structure together with internal financial reporting. In accordance with IFRS 8 "Operating Segments", segment reporting thus follows the Management Approach, which requires segment information to be presented externally in the same way as it is regularly used by the Management Board, as the responsible management body, when allocating resources (such as risk-weighted assets compliant with Basel II) to the business segments and assessing profitability (profit before tax). Since the income statement of HVB Group broken down by segment is reported internally to the Management Board of HVB down to profit before tax, we have also taken the profit before tax as the basis for external reporting. In this context, the segment data are determined in accordance with International Financial Reporting Standards (IFRS).

Segment Reporting (Continued)

In segment reporting, the business segments operate as autonomous companies with their own equity resources and responsibility for profits and losses. The business segments are delimited by responsibility for serving customers. For a description of the customer groups assigned to the individual business segments and the main components of the segments, please refer to the section entitled "Components of the segments of HVB Group" below.

The income statement items of net fees and commissions, net trading profit and net other expenses/income shown in the segments are based almost exclusively on transactions involving external customers. Net interest is assigned to the business segments in accordance with the market interest calculation method on the basis of the external interest income and interest expenses. For this reason, a separate presentation broken down by external/internal revenues (operating income) has not been included.

The equity capital allocation used to calculate the return on investment on companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) is based on a uniform core capital allocation for each business segment. Pursuant to Basel II, this involves allocating 9.0% of core capital from risk-weighted assets to the business segments. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest. The percentage used for the return on the equity capital allocated to the companies HVB and UniCredit Luxembourg S.A. equals the base rate plus a premium in the amount of the 6-year average of the spread curve for the lending business of HVB both secured by land charges and unsecured. This rate is set for one year in advance as part of each budgeting process. The percentage changed to 3.17% in 2013 after 3.70% in the 2012 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

The income of €5 million (2012: €9 million) from investments in associated companies relates to the following companies accounted for using the equity method which are assigned to the Corporate & Investment Banking business segment: Adler Funding LLC, Bulkmax Holding Ltd., Comtrade Group B.V., Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Nautilus Tankers Limited and SwanCap Partners GmbH. The amount involved is disclosed under dividends and other income from equity investments in the income statement. The carrying amount of the companies accounted for using the equity method is €71 million (2012: €65 million).

Operating costs, which contain payroll costs, other administrative expenses as well as amortisation, depreciation and impairment losses on tangible and other intangible assets (without goodwill), are allocated to the appropriate business segment according to causation. The Global Banking Services and the Group Corporate Centre business units of the Other/consolidation business segment are treated as external service providers, charging the business segments for their services at a price which covers their costs. The method of calculating the costs of general banking services involves employing a weighted allocation key (costs, income, FTEs, base amount) in the budgeting process for each business segment to determine the assigned costs that cannot be allocated directly. The vast majority of the depreciation and impairment losses taken on property, plant and equipment are posted by the Other/consolidation business segment via the real estate companies of HVB Group included in the Global Banking Services business unit.

Components of the segments of HVB Group

Commercial Banking business segment

HVB has adjusted its business model to reflect the rapidly changing economic and regulatory environment and push further growth through a regional organisational structure and a stronger entrepreneurial focus. In January 2013, HVB realigned its structure and created the Commercial Banking (CB) business segment which contains the Unternehmer Bank and Private Clients Bank business units.

The Unternehmer Bank business unit provides services to business, corporate and real estate customers as well as Private Wealth Management/Family Office clients. The Mittelstand comprising mostly owner-managed companies has always formed the backbone of the German economy. With its new structure HVB is continuing to consolidate its position as a bank for entrepreneurs. Today, HVB is already the second largest lender in Germany. Our aim is to establish a true entrepreneurs' bank that combines the advantages afforded by regional proximity with those of an international bank and serves companies ranging from freelancers and small family-owned companies to large corporate customers. Entrepreneurs should benefit even more strongly from regional advantages and an all-round service.

The Private Clients Bank business unit focuses on serving retail and private banking customers. Strong retail customer operations are an essential component of HVB as a universal bank. The medium- to long-term changes and trends in customer behaviour are increasingly relevant for these customer groups, so that joint efforts to develop innovative sales channels and services can generate added value for both. Moreover, closer networking and co-operation in the development of products and services helps to exploit synergy effects where these are appropriate. At the same time, the structure allows the type of highly individual service needed to meet the special demands of top-level private banking customers. The "HypoVereinsbank Private Banking" market presence will remain unchanged.

Private Clients Bank business unit
The year 2013 was dominated by the continuing high level of uncertainty on markets caused by the persistent sovereign debt crisis and the sustained lack of appeal of fixed-interest cash investments. The advisory approach on an all-round and needs-oriented basis, differentiated by customer segments, was further enhanced and expanded by building up innovative sales channels. This approach takes account of the diverse, individual needs of these customer segments which, among other things, once again resulted in a very pleasing level of customer satisfaction. Business with retail customers is an integral component of the business model of HVB as a universal bank in Germany.

At present, over two million private customers are served in the **Private Clients** customer group. Furthermore, the development of finance partners in areas in which the Bank has little presence was pursued further.

To address the rapidly increasing trend in the use of alternative sales and information channels (internet, mobile, tablet) by our customers, HVB responded in its retail customer operations at an early stage by introducing a video consultation on the internet for selected products or at branches for professional construction financing activities at the end of 2012 as the first bank to do so in Germany and consistently expanded this in 2013. Video consultations should be possible nationwide in all the branches in Germany by the beginning of 2014. The option of video consultation in pension operations has been at pilot stage since August 2013.

Furthermore, the first location of our new online branch was opened in Munich at the beginning of 2013, which combines personal service and various contact channels with longer opening hours in a separate business model. In the 2013 financial year, HVB received the Best Multi-Channel Bank Award for its comprehensive multi-channel activities.

The initiative launched in spring this year to win new customers with our “HVB Konto Online” account product through our online channel met the high expectations and has created a basis for expanding customer loyalty and exploiting the cross-selling potential in the future. In our branch channel, we focus in the area of accounts on the “HVB Konto Klassik” priced account model, which was successfully introduced last year. Consumer credit operations, which are handled by UniCredit Family Finance S.p.A., again developed very well; the very ambitious credit volume of 2012 was again achieved in 2013. In deposit-taking operations, additional new customers and a volume of deposits of over €800 million were won with the aid of a promotional product despite the historically low interest rate levels.

The challenges in **wealth management** were in achieving greater product penetration of the customer portfolio based on our principles of providing high-quality, all-round, demand-oriented advice. In addition to HVB VermögensDepot privat, our advice also concentrated on selling material assets. In the process, customers are offered a wide range of closed-end participations in different asset classes (for instance real estate in Germany and abroad, renewable energies, aircraft leasing and private equity) and for a broader risk diversification, also portfolio and secondary market funds. HVB managed to increase the equity volume procured in 2013 again by around 14% compared with the previous year and disconnect from the strongly negative, general sales market trend. A market comparison shows that this enabled HVB to perform much more successfully compared with both banking sales and general sales of material assets and thus clearly maintain its market share of 15% in banking sales.

The concept of “inheritance advice” introduced in the 2012 financial year is well established and underlines our all-round, demand-based advisory approach. The assignment of inheritance experts has shown a clear added value in the customer relationship from the outset. In 2013, a new advisory concept was developed for customers aged 50 and over and was presented to 4,000 customers at 140 local events in the second half of 2013. A comprehensive, all-round advisory approach which is intended to strengthen customer relations and increase customer satisfaction is also of key importance in this connection.

We manage our **real estate financing activities** as a supporting pillar for our operations with retail and business customers across all target groups. Besides obtaining loans from us directly, our customers were able to use the full product range of the market from our 40 partner banks. By establishing expert centres for real estate financing in all of the regions, competent advice is provided by experts at all our branches (in some cases through video consultations). Again in 2013, we managed to significantly increase the volume of new business in the residential construction business compared with the previous year and in the process were again clearly above the market trend. Innovative sales campaigns and our clear positioning as a provider of all-round property services offering high-quality advice are reflected by the results generated. All told, our overall result in mass market operations is also evidenced by the awards we again succeeded in winning, such as “Beste Filialbank 2013” and “Beste Baufinanzierung bei Filialbanken”.

Segment Reporting (Continued)

The **Private Banking** customer group serves some 44,200 HVB customers with assets under management of €20.0 billion. Our 315 employees offer individual, personal advice at 46 locations throughout Germany. This customer group offers all-round, bespoke advice to customers and customer groups with liquid assets of more than €0.5 million.

Our strategic objectives are to satisfy high net worth individuals with a comprehensive range of advisory services, attractive products and outstanding customer relationships, and to increase our market share in the highly competitive private banking environment. We aspire to quality leadership in the German market.

In line with this strategy, the year 2013 was marked by a further improvement in our advisory quality and the incorporation of the aim of achieving the highest level of customer satisfaction. The award received from Elite Report in November 2013 with the top grade “summa cum laude” is impressive confirmation of the success of the strategy that has been adopted. At the same time, the high targets set in the Private Banking customer group relating to the increase in customer satisfaction were able to be achieved in 2013.

Furthermore, the Depot Global flat fee model introduced in 2012 also developed very well in 2013, exceeding expectations by far, so that the focus is to be placed on a further expansion of this promising customer solution in the future. Mandated business was unable to show similarly strong rates of increase by comparison.

Unternehmer Bank business unit

The Unternehmer Bank business unit distinguishes itself from the banking approach adopted for the Mittelstand by other competitors in that it provides services to the whole spectrum of German companies and companies operating in Germany as well as private individuals legally associated with the company in question. With the exception of the enterprises and subsidiaries served in Multinational Clients, which are incorporated into the Corporate & Investment Banking business segment on account of their regular demand for capital market products and complex advisory services, customer services for the entire German Mittelstand and commercial real estate operations are bundled in the Unternehmer Bank business unit.

As appropriate for services provided from a single source, the Unternehmer Bank business unit is positioned as a strategic partner which combines the advantages afforded by regional proximity with those of an international bank. Besides its regional advisory approach in Germany, the Unternehmer Bank can also provide the trusted support particularly to the export-oriented Mittelstand in Germany for its international business activities due to the access it provides to the UniCredit group’s network in western, central and eastern Europe. Our business relations are based on our proven financing and sector expertise, outstanding equity position and high standard of customer care and service speed.

Different customer requirements are taken account of through different relationship models. The range of entrepreneurial services extends from simple commercial banking products through to the provision of capital market solutions. In the process, the close connection between customer advisers and product specialists, particularly in the Unternehmer Bank business unit and in the CIB business segment, ensure successful customer relationship management.

In the Key Account relationship model, corporate customers with complex advisory needs find the right contact for developing individual customer solutions, especially also for large transaction volumes and international issues.

In the Mid & Small Cap relationship model for corporate and business customers, the product portfolio covers tailored financing offers, for example through the use of subsidies or leasing offers as well as solutions for the management of financial risks, in addition to the traditional bank services of collection and payment services as well as lending operations. Furthermore, the services provided for special target groups, such as insolvency administrators, the health-care professions or the public sector, are continuously refined.

Besides the traditional customer care provided at branches, the Business Easy service model is continuing to set new standards in the world of banking by coupling the advantages afforded by an online bank with the personal advice provided by a key relationship bank. The innovative and efficient advisory model enables business customers to use both ultramodern communication channels (WebDialog, Postbox, Webinar) and longer service hours.

The integration of Wealth Management into the Unternehmer Bank business unit has enabled bespoke customer advice for high net worth individuals legally associated with the company in question. The range of services includes exclusive access to Equity Solutions, Debt Capital Markets, Structured Finance and individual portfolio management with services also being provided to professional clients, for example family offices, pension funds or foundations.

The distinguishing features of the Real Estate relationship model are the individual customer solutions for commercial real estate customers, institutional investors, building societies, property developers and building contractors. In this context, customers benefit particularly from specific financing expertise, for example in the product areas of real estate structured finance or loan syndication.

The Unternehmer Bank business unit again performed successfully in the challenging market environment in 2013, managing to further expand its strong market position overall, which is also reflected in customer ratings. For instance, the Unternehmer Bank won the "Beste Mittelstandsbank" award among private and public-sector banks in Germany in a business survey conducted by Focus Money. In addition, the Unternehmer Bank achieved the best-in-class position in the TRI*M customer satisfaction index in the regular surveys conducted by the TNS Infratest market research institute. The awards are the result of the wide-ranging success in the Unternehmer Bank business unit.

We thus managed to ensure a high level of financing expertise for our corporate customers through the close connection between customer advisers and product specialists. Our success is reflected in market-leading positions on the league tables for Germany in 2013, for instance 1st place for syndicated loans or 3rd place for euro corporate bonds.

In collection and payment services, the dominant issue was the SEPA migration originally planned for 1 February 2014. In this context, our customers benefited from our high percentage of switchovers to the SEPA scheme. Around two thirds of all instructions given for customer transfers were for a SEPA credit transfer already in December 2013. By providing support to the German Mittelstand for the switchover to SEPA, it was also possible to ensure that in case of doubt, payments can be processed even after the final switchover. In Trade Finance, the increase in transactions conducted in the second half of 2013 confirmed the successful implementation of the strategic focus.

Again in 2013, Corporate Treasury Sales recorded growth as a result of customers' lively demand for products to hedge their currency and interest positions as well as for investment products. A key focus were interest-rate hedges for variable-rate financing transactions but also the variable-rate issues of our customers, which were swapped as needed and if appropriate, also into other currencies. The increase in our customers' liquidity was also reflected on the investment side; accordingly, there was a sharp rise in the demand for longer term investment products while traditional term deposits were of less interest on account of the persistently low interest rate levels. Operations with commodity hedges showed fairly subdued performance.

With its tailored financing solutions in the area of funding advice as well as start-up and succession financing, the Special Financing product line posted unabated growth again in 2013. The further increase in shares, for example in the KfW-Mittelstandsbank or the LfA-Förderbank and the related growth in new business also contributed to an expansion of our market shares this year.

Leasing activities continued to represent another focal point of investment financing within the Unternehmer Bank business unit in 2013. Our UniCredit Leasing GmbH subsidiary facilitated a wide range of funding arrangements throughout Germany. Industry expertise is still an important success factor. It enhances our risk management and increases our understanding of customer requirements.

With its innovative Business Easy advisory model, the Unternehmer Bank had a unique selling proposition in the German banking market again in 2013. In addition, the higher customer demand for interactive online seminars was satisfied by 110 HVB@Webinaren being held for some 6,500 customers and non-customers in 2013. In the process, participants not only benefitted from the financial knowledge that was imparted on current financing themes such as foreign trade, public funding schemes or SEPA but also from segment-specific issues, for example for founders of new enterprises or the health-care professions.

Segment Reporting (Continued)

In 2013, a further focus was placed on gradually increasing the sector-specific advisory quality and expertise of our customer advisors and developing financing and payment solutions specifically geared to target groups.

Furthermore, the strategic focus on the private needs of our corporate customers showed pleasing business development in 2013. The newly integrated Wealth Management recorded high growth rates for the individual analysis and structuring of large-scale investment requirements. In addition, private investments were successfully covered in business and corporate banking operations through the targeted assignment of specialists for investment management with their comprehensive product expertise in the investment areas of securities, material assets, deposits as well as insurance and pension products.

Despite the keen competition in commercial real estate financing, Real Estate posted an increase in new business in 2013. Particularly pleasing is not only the higher number of transactions and the average transaction size but also the gain in market share in growth areas such as Frankfurt or Hamburg. Furthermore, our specialists in real estate financing generated high growth in new business due to their extensive solution skills in the area of our corporate customers' non-commercial real estate.

Corporate & Investment Banking business segment
In terms of advisory expertise, product and process quality, the Corporate & Investment Banking (CIB) business segment intends to be the first port of call for large corporate customers. At the same time, CIB is oriented to building stable, strategic business partnerships in the long term and to positioning itself as a core bank for customers in commercial and investment banking. Its customer focus entails professional, active relationship management that is competent, quick, transparent and works on the basis of an advice-centred approach with in-depth understanding of the customer's business model and sector. CIB supports our corporate customers – also those served in the Unternehmer Bank business unit of the Commercial Banking business segment – in their positioning, growth and internationalisation by acting as an intermediary to the capital market.

The business success of the CIB business segment is based on the close cooperation and coordination between the sales, service and product units as well as on its collaboration with other countries and segments of UniCredit, particularly with back-offices. The three global product factories – Financing & Advisory, Global Transaction Banking and Markets – are integral parts of the segment's integrated value chain. They support customers in strategic, transaction-based activities, solutions and products. In the light of the change in markets and increase in market risks, we are seeking to closely support customers. We also cover all the corporate banking needs of our customers, including in areas like growth, internationalisation and restructuring. This requires up-to-date knowledge of specific branches and markets which also meets the growing demands on a finance provider.

The CIB business segment has four business lines: Multinational Corporates (MNC), CIB Americas, CIB Asia Pacific, and Financial Institutions Group (FIG). MNC concentrates on European customers and on European subsidiaries of American or Asian corporate customers; most customers are investment grade rated or in a fringe area to this, they operate in an international context and/or on the capital market. CIB Americas and CIB Asia focus on American or Asian customers whose business is related to the home countries of UniCredit (inbound) or if customers headquartered outside America or Asia operate there (outbound). FIG is a globally operating sales unit that ensures the comprehensive care of UniCredit's institutional customers.

The following customer groups are served by the **Financing & Advisory** (F&A) product factory on a global basis: Financial Sponsors, Global Project & Commodity Trade Finance, Global Capital Markets, Structured Finance (Corporate, Real Estate and Export) and Global Shipping. Portfolio & Pricing Management (PPM) is responsible groupwide for managing all leveraged, project, aircraft and commodity finance transactions. All other F&A asset classes are managed at the level of HVB by PPM in cooperation with representatives of the sales channels.

Global Transaction Banking (GTB) offers a broad array of products in the areas of cash management and e-banking, trade finance, supply chain management and global securities services.

The **Markets** business is essentially a customer-oriented product factory that supports the corporate banking operations of UniCredit. It covers the following product lines: Rates, Integrated Credit Trading, FX, CEE, Commodities, Equity Derivatives and Treasury. The products are sold through three main sales channels: Institutional Distribution, Corporate Treasury Sales and Private Investor Product & Institutional Equity Derivatives, each of which are an integral part of the product lines. In addition, Markets encompasses the units Research, Structuring and Solutions Group, and Quantitative Product Group.

The profits and losses of several subsidiaries and holdings also flow into the business segment's result. Above all, this includes UniCredit Luxembourg S.A., which operates across business segments within HVB Group and is involved in the handling, management and securitisation of the national and international credit of the group and in interest management as the group's funding unit in the money market.

Asset Gathering business segment

The Asset Gathering business segment shows the activities of our subsidiary DAB Bank. The operations of DAB Bank are divided into the two areas of Germany and Austria. While DAB Bank operates in Germany itself, it does so on the Austrian market through its fully owned subsidiary direktanlage.at. The latter is the market leader on the Austrian online brokerage market.

DAB Bank provides financial services to retail and corporate customers. Founded as Germany's first direct broker, its traditional focus is on the securities-related business. DAB Bank facilitates access to securities for its customers and provides comprehensive, modern services for securities account management. As a result of the continuous expansion and enhancement of its product and service offerings, today DAB Bank has a comprehensive range of services in the areas of banking, cash investments and trading. Since the end of 2012, DAB Bank has adopted an offensive market strategy in the area of retail customers, partly with the aim of becoming the first port of call for its customers. In the area of business customers, it is striving to expand its market leadership in the support of independent asset managers on a sustainable basis.

In retail banking operations, DAB Bank presents itself to customers and those interested as an efficient key relationship bank. The range in the area of banking was thoroughly revamped with the current account offering receiving several awards from independent bodies. The constantly refined range of highly competitive products and services includes the following core products: free current account, cards, savings products, payment and credit products, custody accounts, extensive online brokerage services, an independent range of investment solutions along with a high-quality product and service package for the discerning trader. By far the most important sales channel is the internet. Concentrating on this sales channel enables DAB Bank to offer its products and services on particularly attractive conditions.

The most significant customer group among business customers are financial intermediaries for whom DAB Bank handles customer transactions. Besides this customer group, DAB Bank also provides services to institutional customers. DAB Bank assumes the safe custody and management of securities and conducts securities transactions for its business customers. In addition, DAB Bank provides comprehensive services in IT and reporting and provides marketing and sales support to these customers. Particular importance is attached to the personalised care of business customers, although sales are nevertheless conducted mainly through telecommunication media.

Other/consolidation business segment

The Other/consolidation business segment encompasses the business units Global Banking Services (GBS) and Group Corporate Centre and consolidation effects.

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** business unit includes profit contributions that do not fall within the jurisdiction of the individual business segments. Among other items, this includes the profits and losses of consolidated subsidiaries and non-consolidated holdings, provided they are not assigned to the business segments, together with the net income from securities holdings for which the Management Board is responsible. Also incorporated in this business unit are the amounts arising from decisions taken by management with regard to asset/liability management. This includes contributions to earnings from securities and money trading activities involving UniCredit S.p.A. and its subsidiaries. The Group Corporate Centre also includes the Real Estate Restructuring (RER) customer portfolio.

Segment Reporting (Continued)

28 Income statement, broken down by segment

Income statement, broken down by segment for the period from 1 January to 31 December 2013 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,600	1,194	39	79	2,912
Dividends and other income					
from equity investments	8	101	—	8	117
Net fees and commissions	847	231	86	2	1,166
Net trading income	18	964	1	135	1,118
Net other expenses/income	(7)	73	(1)	262	327
OPERATING INCOME	**2,466**	**2,563**	**125**	**486**	**5,640**
Payroll costs	(752)	(436)	(39)	(583)	(1,810)
Other administrative expenses	(1,234)	(860)	(58)	585	(1,567)
Amortisation, depreciation and					
impairment losses on intangible					
and tangible assets	(11)	(31)	(12)	(156)	(210)
Operating costs	**(1,997)**	**(1,327)**	**(109)**	**(154)**	**(3,587)**
OPERATING PROFIT	**469**	**1,236**	**16**	**332**	**2,053**
Net write-downs of loans and					
provisions for guarantees and					
commitments	(74)	(240)	—	100	(214)
NET OPERATING PROFIT	**395**	**996**	**16**	**432**	**1,839**
Provisions for risks and charges	(34)	(134)	(2)	(52)	(222)
Restructuring costs	(325)	—	—	(37)	(362)
Net income from investments	1	116	5	81	203
PROFIT BEFORE TAX	**37**	**978**	**19**	**424**	**1,458**

Income statement, broken down by segment for the period from 1 January to 31 December 2012 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,647	1,746	50	21	3,464
Dividends and other income					
from equity investments	17	126	—	4	147
Net fees and commissions	885	142	74	7	1,108
Net trading income	(9)	1,067	1	131	1,190
Net other expenses/income	(11)	2	(1)	151	141
OPERATING INCOME	**2,529**	**3,083**	**124**	**314**	**6,050**
Payroll costs	(759)	(473)	(41)	(566)	(1,839)
Other administrative expenses	(1,220)	(770)	(57)	548	(1,499)
Amortisation, depreciation and					
impairment losses on intangible					
and tangible assets	(10)	(12)	(14)	(142)	(178)
Operating costs	**(1,989)**	**(1,255)**	**(112)**	**(160)**	**(3,516)**
OPERATING PROFIT	**540**	**1,828**	**12**	**154**	**2,534**
Net write-downs of loans and					
provisions for guarantees and					
commitments	32	(1,005)	—	246	(727)
NET OPERATING PROFIT	**572**	**823**	**12**	**400**	**1,807**
Provisions for risks and charges	32	157	1	5	195
Restructuring costs	(86)	(9)	—	(7)	(102)
Net income from investments	(4)	88	15	59	158
PROFIT BEFORE TAX	**514**	**1,059**	**28**	**457**	**2,058**

Income statement of the Commercial Banking business segment (€ millions)

INCOME/EXPENSES	2013	2012	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest	1,600	1,647	408	409	384	399
Dividends and other income from equity investments	8	17	3	1	4	—
Net fees and commissions	847	885	213	198	209	227
Net trading income	18	(9)	21	(16)	1	11
Net other expenses/income	(7)	(11)	(8)	—	—	1
OPERATING INCOME	**2,466**	**2,529**	**637**	**592**	**598**	**638**
Payroll costs	(752)	(759)	(176)	(198)	(185)	(193)
Other administrative expenses	(1,234)	(1,220)	(314)	(308)	(310)	(302)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(11)	(10)	(3)	(3)	(2)	(3)
Operating costs	**(1,997)**	**(1,989)**	**(493)**	**(509)**	**(497)**	**(498)**
OPERATING PROFIT	**469**	**540**	**144**	**83**	**101**	**140**
Net write-downs of loans and provisions for guarantees and commitments	(74)	32	(10)	(35)	4	(32)
NET OPERATING PROFIT	**395**	**572**	**134**	**48**	**105**	**108**
Provisions for risks and charges	(34)	32	(48)	(7)	19	1
Restructuring costs	(325)	(86)	(323)	—	(2)	—
Net income from investments	1	(4)	—	—	1	—
PROFIT/(LOSS) BEFORE TAX	**37**	**514**	**(237)**	**41**	**123**	**109**
Cost-income ratio in %	81.0	78.6	77.4	86.0	83.1	78.1

Development of the Commercial Banking business segment

The Commercial Banking business segment generated a profit before tax of €37 million in the 2013 financial year, which was lower than the very good figure of €514 million recorded for 2012. It is important to note in this regard that this development was impacted particularly by the restructuring costs of €325 million incurred in 2013 (2012: €86 million). Without the restructuring costs, the Commercial Banking business segment would have generated a profit before tax of €362 million (2012: €600 million).

In the 2013 financial year, operating income declined by €63 million to €2,466 million. Net interest fell by €47 million to €1,600 million, notably as a result of declines in volumes of property loans extended to private customers in lending operations coupled with decreases on account of restrained demand for credit from business customers. By contrast, deposit-taking operations posted a positive trend on account of effects from margins and volumes. At €847 million, net fees and commissions was unable to match last year’s outstanding total of €885 million. Despite the persistent uncertainty on financial markets and the change in our customers’ demand patterns, it was nevertheless possible to expand our mandated business.

At €1,997 million, operating costs remained almost constant compared with the equivalent period last year (up 0.4%). A rise in other administrative expenses resulting from higher indirect costs was offset by the 0.9% increase in payroll costs to €752 million. The cost-income ratio rose by 2.4 percentage points to 81.0% on account of lower operating income after totalling 78.6% in the equivalent period last year.

At €74 million, net write-downs of loans and provisions for guarantees and commitments remained at a low level, while the equivalent period last year benefited from a reversal of €32 million. Provisions for risks and charges in the non-lending business totalled €34 million following positive net reversals of €66 million. The restructuring provisions totalling €325 million (2012: €86 million) are essentially related to the modernisation of the retail banking operations.

Segment Reporting (Continued)

Income statement of the Corporate & Investment Banking business segment (€ millions)

INCOME/EXPENSES	2013	2012	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest	1,194	1,746	291	299	276	327
Dividends and other income from equity investments	101	126	17	34	34	17
Net fees and commissions	231	142	50	49	71	62
Net trading income	964	1,067	189	192	332	250
Net other expenses/income	73	2	28	32	2	12
OPERATING INCOME	**2,563**	**3,083**	**575**	**606**	**715**	**668**
Payroll costs	(436)	(473)	(111)	(111)	(94)	(120)
Other administrative expenses	(860)	(770)	(218)	(213)	(230)	(199)
Amortisation, depreciation and impairment						
losses on intangible and tangible assets	(31)	(12)	(25)	(2)	(2)	(2)
Operating costs	**(1,327)**	**(1,255)**	**(354)**	**(326)**	**(326)**	**(321)**
OPERATING PROFIT	**1,236**	**1,828**	**221**	**280**	**389**	**347**
Net write-downs of loans and provisions						
for guarantees and commitments	(240)	(1,005)	(46)	(23)	(114)	(56)
NET OPERATING PROFIT	**996**	**823**	**175**	**257**	**275**	**291**
Provisions for risks and charges	(134)	157	(120)	(4)	(1)	(10)
Restructuring costs	—	(9)	—	—	—	—
Net income from investments	116	88	69	12	22	12
PROFIT BEFORE TAX	**978**	**1,059**	**124**	**265**	**296**	**293**
Cost-income ratio in %	51.8	40.7	61.6	53.8	45.6	48.1

Development of the Corporate & Investment Banking business segment

The Corporate & Investment Banking business segment generated operating income of €2,563 million in the 2013 financial year, which was €520 million below the amount recorded last year (2012: €3,083 million). It should be taken into account in this regard that the year-ago total benefited from non-recurring income of €395 million arising from the reversal of credit value adjustments. After deducting operating costs of €1,327 million, the operating profit amounted to €1,236 million, which is €592 million down on the previous year (2012: €1,828 million).

The decline in operating income is due primarily to a sharp decrease of €552 million in net interest to €1,194 million (2012: €1,746 million). This development can be attributed to a decline of €230 million in trading-induced interest together with lower income from lending operations, notably due to contracting credit volumes. At the same time, net trading income also declined by €103 million to €964 million (2012: €1,067 million), although this can be attributed to the non-recurrence of the one-time income of €395 million arising from the reversal of credit value adjustments recorded in the previous year. After adjustment for this non-recurring effect in the year-ago total, there was a significant improvement of €292 million in net trading income. The main driver of net trading income is customer transactions involving fixed-income securities, interest rate derivatives and structured equity products.

Dividend income essentially comprising payments by private equity funds fell year-on-year by €25 million to €101 million (2012: €126 million). By contrast, net fees and commissions performed extremely well, rising €89 million to €231 million (2012: €142 million). This development is due particularly to advisory services, credit-related business and investment banking. The high €71 million rise in net other expenses/income to €73 million (2012: €2 million) is mainly attributable to the recognition of income from the billing of structuring and advisory services relating to project finance, lower charges for the bank levy in Germany and an increase in income in connection with the offshore wind farm.

In total, operating costs were up by €72 million to €1,327 million compared with last year (2012: €1,255 million). This development is due to the overall rise of €109 million in both other administrative expenses and amortisation, depreciation and impairment losses on intangible assets and tangible assets, while payroll costs fell by €37 million resulting from lower expenses from profit-related bonus payments. The business segment’s cost-income ratio rose by 11.1 percentage points to 51.8% (2012: 40.7%), chiefly on account of the decline in operating income.

At €240 million, net write-downs of loans and provisions for guarantees and commitments in the reporting period were a significant €765 million below the year-ago total of €1,005 million and hence at a very low level. In the reporting year, provisions for risks and charges amounted to €134 million after a net reversal of €157 million was recognised in the previous year. In 2013, the provisions for risks and charges resulted primarily from legal risks. Net income from investments amounted to €116 million in the reporting year (2012: €88 million), as in the previous year being generated mainly in connection with private equity investments. In the 2013 financial year, the CIB business segment generated a profit before tax of €978 million (2012: €1,059 million); once the one-time income from the previous year mentioned above is deducted, the profit before tax improved by €314 million.

Income statement of the Asset Gathering business segment **(€ millions)**

INCOME/EXPENSES	2013	2012	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest	39	50	11	10	8	8
Dividends and other income from equity investments	—	—	—	—	—	—
Net fees and commissions	86	74	23	20	22	21
Net trading income	1	1	—	1	—	—
Net other expenses/income	(1)	(1)	—	—	—	—
OPERATING INCOME	**125**	**124**	**34**	**31**	**30**	**29**
Payroll costs	(39)	(41)	(10)	(10)	(10)	(10)
Other administrative expenses	(58)	(57)	(16)	(13)	(15)	(13)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(12)	(14)	(3)	(3)	(3)	(3)
Operating costs	**(109)**	**(112)**	**(29)**	**(26)**	**(28)**	**(26)**
OPERATING PROFIT	**16**	**12**	**5**	**5**	**2**	**3**
Net write-downs of loans and provisions for guarantees and commitments	—	—	—	—	—	—
NET OPERATING PROFIT	**16**	**12**	**5**	**5**	**2**	**3**
Provisions for risks and charges	(2)	1	(1)	(1)	—	—
Restructuring costs	—	—	—	—	—	—
Net income from investments	5	15	—	1	3	2
PROFIT BEFORE TAX	**19**	**28**	**4**	**5**	**5**	**5**
Cost-income ratio in %	87.2	90.3	85.3	83.9	93.3	89.7

Development of the Asset Gathering business segment

The operating income of the Asset Gathering business segment totalled €125 million in the 2013 financial year compared with the €124 million in 2012, which means that it is up €1 million on the year-ago figure. This slight increase was generated despite a €11 million fall in net interest to €39 million, which was adversely affected by the historically low interest rate levels that sharply reduced the margins generated in the deposit-taking operations. By contrast, net fees and commissions rose by a sharp 16% over the equivalent period last year, to €86 million. This increase results particularly from the increase in ordering activities by our customers and a rise in the amounts held in securities accounts.

At €109 million, operating costs were reduced by €3 million year-on-year thanks to the continued application of our consistent cost management. The €2 million decline in payroll costs was offset by a rise of €1 million in operating costs partly as a result of higher marketing expenses.

Together with the net income from investments of €5 million (2012: €15 million), the Asset Gathering business segment generated a profit before tax of €19 million in the 2013 financial year (2012: €28 million).

Segment Reporting (Continued)

Income statement of the Other/consolidation business segment (€ millions)

INCOME/EXPENSES	2013	2012	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest	79	21	5	(18)	55	39
Dividends and other income from equity investments	8	4	6	—	1	—
Net fees and commissions	2	7	(4)	(2)	5	2
Net trading income	135	131	4	17	1	114
Net other expenses/income	262	151	124	60	40	36
OPERATING INCOME	**486**	**314**	**135**	**57**	**102**	**191**
Payroll costs	(583)	(566)	(144)	(145)	(145)	(149)
Other administrative expenses	585	548	131	150	153	151
Amortisation, depreciation and impairment						
losses on intangible and tangible assets	(156)	(142)	(42)	(35)	(38)	(40)
Operating costs	**(154)**	**(160)**	**(55)**	**(30)**	**(30)**	**(38)**
OPERATING PROFIT	**332**	**154**	**80**	**27**	**72**	**153**
Net write-downs of loans and provisions						
for guarantees and commitments	100	246	(18)	4	113	(1)
NET OPERATING PROFIT	**432**	**400**	**62**	**31**	**185**	**152**
Provisions for risks and charges	(52)	5	(55)	4	—	—
Restructuring costs	(37)	(7)	(37)	—	—	—
Net income from investments	81	59	25	1	—	54
PROFIT/(LOSS) BEFORE TAX	**424**	**457**	**(5)**	**36**	**185**	**206**
Cost-income ratio in %	31.7	51.0	40.7	52.6	29.4	19.9

Development of the Other/consolidation business segment
The operating income of this segment amounted to €486 million in the 2013 financial year compared with the €314 million in 2012. As was the case in 2012, the net trading income of €135 million in the 2013 financial year (2012: €131 million) mainly includes gains generated in connection with the buy-back of hybrid capital instruments. There was a sharp year-on-year increase of €58 million in net interest to €79 million (2012: €21 million). Net other expenses/income rose by €111 million to €262 million, partly due to the recognition of income from services provided in earlier years. With a slight decline of €6 million in operating costs to €154 million (2012: €160 million), the operating profit was up by €178 million to €332 million in 2013 (2012: €154 million).

A net reversal of €100 million was recorded in net write-downs of loans and provisions for guarantees and commitments at 31 December 2013 which, like a year earlier (2012: €246 million), arose mainly from the successful reduction of expiring portfolios. As in the previous year, the net income from investments of €81 million (2012: €59 million) resulted notably from gains on the sale of land and buildings. After restructuring costs of €37 million (2012: €7 million) and provisions of €52 million (2012: net reversal of €5 million), the profit before tax amounts to €424 million for the 2013 financial year, which is €33 million lower than the amount reported last year (2012: €457 million).

29 Balance sheet figures, broken down by segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING	OTHER/ CONSOLIDATION	HVB GROUP[1]
Loans and receivables with banks					
2013	790	33,054	1,406	62	**35,312**
2012	628	35,177	525	(10)	**36,320**
Loans and receivables with customers					
2013	75,890	34,743	279	(1,323)	**109,589**
2012	78,912	42,603	291	406	**122,212**
Goodwill					
2013	130	288	—	—	**418**
2012	130	288	—	—	**418**
Deposits from banks					
2013	10,687	37,305	18	(171)	**47,839**
2012	9,741	37,811	56	(2,392)	**45,216**
Deposits from customers					
2013	70,685	24,839	4,980	7,346	**107,850**
2012	69,365	26,490	3,979	10,434	**110,268**
Debt securities in issue					
2013	3,931	2,482	—	25,391	**31,804**
2012	4,843	4,470	—	26,550	**35,863**
Risk-weighted assets compliant with Basel II					
(including equivalents for market risk					
and operational risk)					
2013	29,172	48,553	1,015	6,773	**85,513**
2012	33,409	68,534	1,108	6,795	**109,846**

1 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Notes 58 and 67

30 Employees, broken down by business segment[1]

	2013	2012
Commercial Banking	8,934	9,527
Corporate & Investment Banking[2]	2,809	2,225
Asset Gathering	552	558
Other/consolidation[3]	6,797	6,937
Total	**19,092**	**19,247**

1 in full-time equivalents
2 the 2013 total includes 680 FTEs from the initial inclusion of the BARD Group in the group of companies included in consolidation by HVB Group
3 the Other/consolidation business segment covers the Global Banking Services and Group Corporate Centre business units

Segment Reporting (Continued)

31 Segment reporting by region

The allocation of amounts to regions is based on the head office of the Group companies or offices involved.

Income statement, broken down by region (€ millions)

	GERMANY	ITALY	LUXEM-BOURG	UK	REST OF EUROPE	AMERICAS	ASIA	CONSOLIDATION	HVB GROUP
OPERATING INCOME									
2013	5,161	313	206	367	67	105	21	(600)	5,640
2012	5,345	834	277	408	71	130	37	(1,052)	6,050
OPERATING PROFIT/(LOSS)									
2013	1,179	237	174	285	42	57	119	(254)	1,839
2012	1,669	736	238	277	32	98	(3)	(513)	2,534

Total assets, broken down by region (€ millions)

	2013	2012
Germany	260,341	285,119
Italy	49,317	74,397
Luxembourg	20,821	24,598
UK	15,502	17,308
Rest of Europe	2,636	2,836
Americas	6,303	6,199
Asia	3,333	3,171
Consolidation	(68,235)	(66,343)
Total	**290,018**	**347,285**

Property, plant and equipment, broken down by region (€ millions)

	2013	2012
Germany	2,859	2,930
Italy	—	—
Luxembourg	32	33
UK	16	20
Rest of Europe	3	3
Americas	1	24
Asia	2	3
Consolidation	—	—
Total	**2,913**	**3,013**

Investment properties, broken down by region (€ millions)

	2013	2012
Germany	1,431	1,532
Italy	—	—
Luxembourg	—	—
UK	25	25
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**1,456**	**1,557**

Intangible assets, broken down by region

	2013	2012
Germany[1]	514	535
Italy	—	—
Luxembourg	1	1
UK	1	2
Rest of Europe	2	2
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**518**	**540**

1 includes goodwill

Employees, broken down by region[1]

	2013	2012
Germany[2]	17,330	17,391
Italy	293	326
Luxembourg	183	181
UK	533	542
Rest of Europe	367	405
Africa	2	2
Americas	196	201
Asia	188	199
Total	**19,092**	**19,247**

1 in full-time equivalents
2 the 2013 total includes 680 FTEs from the initial inclusion of the BARD Group in the group of companies included in consolidation by HVB Group

Notes to the Income Statement

32 Net interest

(€ millions)

	2013	2012
Interest income from	**5,734**	**7,189**
lending and money market transactions[1]	3,901	5,125
other interest income	1,833	2,064
Interest expense from	**(2,822)**	**(3,725)**
deposits	(658)	(1,098)
debt securities in issue and other interest expenses	(2,164)	(2,627)
Total	**2,912**	**3,464**

1 The reclassification of income from fee and commission income to interest income described in Note 2 took place in 2013. The year-ago figures have been adjusted accordingly

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €4,105 million (2012: €5,407 million) and €2,148 million (2012: €3,038 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

Net interest attributable to related parties

The following table shows the net interest attributable to related parties:

(€ millions)

	2013	2012
Non-consolidated affiliated companies	150	228
of which: UniCredit S.p.A.	71	143
Joint ventures	—	—
Associated companies	4	(2)
Other participating interests	—	—
Total	**154**	**226**

Besides the amounts attributable to UniCredit S.p.A., the net interest of €150 million (2012: €228 million) from non-consolidated affiliated companies includes interest income of €79 million (2012: €85 million) attributable to sister companies.

33 Dividends and other income from equity investments

(€ millions)

	2013	2012
Dividends and other similar income	112	138
Companies accounted for using the equity method	5	9
Total	**117**	**147**

34 Net fees and commissions

(€ millions)

	2013	2012
Management, brokerage and consultancy services	573	555
Collection and payment services	227	216
Lending operations[1]	342	327
Other service operations	24	10
Total	**1,166**	**1,108**

1 The reclassification of income from fee and commission income to interest income described in Note 2 took place in 2013. The year-ago figures have been adjusted accordingly

This item comprises the balance of fee and commission income of €1,608 million (2012: €1,596 million) and fee and commission expense of €442 million (2012: €488 million). Fee and commission income of €137 million (2012: €146 million) and fee and commission expense of €3 million (2012: €2 million) relate to financial instruments not measured at fair value through profit or loss.

Fees and commission charged for individual services are recognised as soon as the service has been performed. In contrast, deferred income is recognised for fees and commissions relating to a specific period (such as fees for financial guarantees).

Net fees and commissions from related parties

The following table shows the net fees and commissions attributable to related parties:

(€ millions)

	2013	2012
Non-consolidated affiliated companies	65	81
of which: UniCredit S.p.A.	(18)	9
Joint ventures	—	—
Associated companies	65	4
Other participating interests	—	—
Total	**130**	**85**

Besides the amounts attributable to UniCredit S.p.A., the net fees and commissions of €65 million (2012: €81 million) from non-consolidated affiliated companies include €83 million (2012: €72 million) from sister companies.

35 Net trading income

(€ millions)

	2013	2012
Net gains on financial assets held for trading[1]	828	1,248
Effects arising from hedge accounting	8	(112)
Changes in fair value of hedged items	969	(662)
Changes in fair value of hedging derivatives	(961)	550
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	148	(5)
Other net trading income	134	59
Total	**1,118**	**1,190**

1 including dividends from financial assets held for trading
2 also including the valuation results of derivatives concluded to hedge financial assets through fair value at profit or loss (effect in 2013: plus €470 million; 2012: minus €125 million)

Notes to the Income Statement (Continued)

The net gains on financial assets in the reporting period include rating-related value adjustments of €41 million on our holdings of derivatives (2012: €374 million).

Other net trading income in 2012 and 2013 almost exclusively reflected positive effects from the partial buy-back of hybrid capital.

The effects arising from hedge accounting include the hedge results of the fair value hedge portfolio and the individual micro fair value hedges as a net aggregate total.

The hedge results from hedged items include a negative effect of €11 million (2012: positive effect of €128 million) arising from exchange rate changes that is offset by a corresponding negative in the hedge result from hedging derivatives.

The net gains on holdings at fair value through profit or loss (held-for-trading portfolios and fair value option) generally only contain the changes in fair value disclosed in the income statement. The interest income from held-for-trading portfolios is normally disclosed under net interest income. To ensure that the full contribution to profits from these activities is disclosed, the interest cash flows are only carried in net trading income for the interest rate swap trading book, which exclusively contains interest rate derivatives.

36 Net other expenses/income

(€ millions)

	2013	2012
Other income	582	384
Other expenses	(255)	(243)
Total	**327**	**141**

Other income includes rental income of €181 million (2012: €162 million) from investment properties and mixed usage buildings and income of €72 million in connection with the Bard Offshore 1 offshore wind farm. Current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €49 million (2012: €50 million) are netted with the other income. Other expenses include expenses of €86 million (2012: €108 million) for the German bank levy in the 2013 financial year.

At the same time, there were gains of €43 million (2012: €59 million) on the sale of unimpaired receivables.

Net other expenses/income attributable to related parties

The following table shows the net other expenses/income attributable to related parties:

(€ milions)

	2013	2012
Non-consolidated affiliated companies	212	74
of which: UniCredit S.p.A.	109	15
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**212**	**74**

Besides the amounts attributable to UniCredit S.p.A., the net other expenses/income of €212 million (2012: €74 million) attributable to non-consolidated affiliated companies include €103 million (2012: €59 million) attributable to sister companies.

37 Operating costs

(€ millions)

	2013	2012
Payroll costs	**(1,810)**	**(1,839)**
Wages and salaries	(1,501)	(1,508)
Social security costs	(211)	(217)
Pension and other employee benefit costs	(98)	(114)
Other administrative expenses	**(1,567)**	**(1,499)**
Amortisation, depreciation and impairment losses	**(210)**	**(178)**
on property, plant and equipment	(160)	(115)
on software and other intangible assets, excluding goodwill	(50)	(63)
Total	**(3,587)**	**(3,516)**

Wages and salaries includes payments of €14 million (2012: €9 million) made upon the termination of the employment contract. The expense for similar payments under restructuring measures are recognised under restructuring costs in the income statement and explained in Note 40.

Operating costs of related parties
The following table shows the operating costs of related parties included in the total operating costs shown in the income statement:

(€ millions)

	2013	2012
Non-consolidated affiliated companies	(597)	(581)
of which: UniCredit S.p.A.	(2)	1
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(597)**	**(581)**

Besides the amounts attributable to UniCredit S.p.A., the operating costs of €597 million (2012: €581 million) attributable to non-consolidated affiliated companies include €595 million (2012: €582 million) attributable to sister companies.

Group Executive Incentive System
The Group Executive Incentive System has governed variable compensation payable to selected staff since the 2010 financial year. This system is built around the principle that the variable compensation is granted partially in shares and is scheduled for disbursement over a number of years.

Employees whose duties have a significant impact on the Bank's overall risk and employees with a promised bonus in excess of €100,000 are beneficiaries of the Group Executive Incentive System. Under the Group Executive Incentive System, the bonus promised for the respective reporting period is split into a cash component and a stock component (share-based payment in the sense of IFRS 2). The cash component is disbursed in tranches over a period of up to four years. Accordingly, this group of employees received 20% to 40% of the bonus for 2013 in cash with the commitment at the beginning of 2014, and a further 20% will be disbursed after year-end 2014, and a further 10% for some of the beneficiaries after year-end 2016. At the beginning of 2014, the beneficiaries receive a commitment for the remaining 40% to 50% of the total bonus to allocate shares in UniCredit S.p.A. as part of the bonus for 2013, to be transferred to the beneficiaries after year-end 2015 and 2016, and partially also 2017. The deferred payment after year-end 2013/14 or partially 2016 and the transfer of shares after year-end 2015 and 2016 or partially 2017 to the beneficiaries is based on the level of target achievement in the individual agreed targets in 2013. This is subject to the provision that they continue to work for UniCredit up to the date of payment or transfer and that, as part of malus arrangement, it is ensured that a loss has not been recorded at the UniCredit corporate level or at the level of the individual beneficiary, or a significant reduction in the results achieved.

Notes to the Income Statement (Continued)

The stock component granted as part of the bonus for 2013 is subject to the provision that the Annual General Meeting of UniCredit S.p.A. formally approves the relevant volume of shares in April 2014. The fair value of the granted shares is calculated using the average stockmarket price of UniCredit S.p.A. shares in the month prior to the Annual General Meeting that adopts a resolution regarding the granting, adjusted for a discount for expected dividends during the vesting period.

10 million UniCredit S.p.A. shares (before possible adjustment due to adjustments in the equity of UniCredit S.p.A.) were granted in the reporting period as a component of the bonus granted for 2012, with a fair value of €32 million. The following shows the fair values per share at the time of granting:

	2013
Fair value of the shares to be transferred in 2015 (€ per share)	3.331
Fair value of the shares to be transferred in 2016 (€ per share)	3.152
Fair value of the shares to be transferred in 2017 (€ per share)	2.885

Analysis of outstanding shares in the Group Executive Incentive System

	2013		2012	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**8,274,895**	**June 2014**	**2,022,500**	**July 2013**
Additions				
Newly granted shares	10,040,749	August 2015	6,701,094	September 2014
From corporate transfers	—	—	—	—
Releases				
Forfeited shares	69,555	December 2015	448,699	December 2014
Transferred shares	—	—	—	—
Expired shares	—	—	—	—
Total at end of period	**18,246,089**	**February 2015**	**8,274,895**	**June 2014**

The promised bonuses are recognised in the income statement on a pro rata basis over the respective vesting period.

Bonuses for the 2013 financial year falling due for disbursement in 2014 are recognised in full as expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.15 in conjunction with IAS 19.68. Thus, deferred cash payments under the bonus promised for 2013 are recognised as expense in the respective period (from the 2013 financial year to the end of the financial year in which the waiting period for the respective tranche ends) on a pro rata basis.

UniCredit S.p.A. delivers shares to the employees for commitments made by HVB Group once the conditions for granting shares have been met. The expense for the shares transferred corresponds to the fair value of the shares at the grant date.

In the 2013 financial year, prorated expenses of €27 million accrued for the stock component arising from the bonuses promised for 2011, 2012 and 2013 in the form of share-based payments compliant with IFRS 2. The provision set up totalled €61 million.

In addition to this, UniCredit has further share-based schemes that are accounted for in accordance with IFRS 2: the long-term incentive programme, the "2012 Share Plan for Group Talents and Mission Critical Players" and the employee share ownership plan ("Let's Share"). These are described below.

Long-term incentive programme

A long-term incentive programme including share-based remuneration transactions featuring compensation in UniCredit shares, has been set up for executives and junior managers of all UniCredit companies selected using defined criteria. Within this umbrella programme, individual schemes were set up in recent years, the key elements of which included the granting of stock options starting in 2011 in the form of performance stock options and performance shares.

UniCredit S.p.A. undertakes the commitment to employees of HVB; in return, HVB reimburses to UniCredit S.p.A. the expenses for stock options and performance shares actually transferred to the beneficiaries after the vesting period has expired and the conditions attached to the commitment have been checked. The fair value of the instrument at the time granting is recognised as the expense for the stock options and performance shares transferred.

The following statements relate to all eligible HVB Group employees covered by the long-term incentive programme. The information provided in Note 86 in this regard merely relates to the stock options and performance shares granted to members of the Management Board.

The stock options granted under the long-term incentive programme grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. In the case of stock options issued during or after 2011, beneficiaries are only entitled to exercise their options in a range between 0% and 150% (depending on the level of target achievement) of the underlying total originally granted if the respective targets have been met after around three to four years. The options may only be exercised during a fixed period which starts after the vesting period expires. If the beneficiary has already left UniCredit by that date, the stock options are normally forfeited, meaning that they can no longer be exercised. The options are acquired on a pro rata basis or in full in certain exceptional circumstances, such as disability, retirement or an employer leaving UniCredit.

The fair values of the stock options at the grant date are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:

– The probability of the option expiring due to the beneficiary leaving the company prematurely after the lock-up period has expired.
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of the UniCredit share exceeds the exercise price by the exercise barrier multiplier (usually a factor of 1.5).
– Dividend yield of the UniCredit share.
– Average historical daily volatility over a period equivalent to the vesting period.

The stock options granted in 2012 become exercisable in 2016, provided the relevant targets are achieved in each case. Furthermore, the stock options were granted subject to the condition that the beneficiaries continued to work for UniCredit. All other stock options granted in earlier years are already exercisable.

No new stock options were granted in the 2013 financial year.

Notes to the Income Statement (Continued)

Analysis of outstanding stock options

	2013			2012		
	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY
Outstanding at start of period	**28,094,229**	**3.27**	**December 2019**	**29,054,141**	**3.24**	**October 2019**
Additions						
Newly granted options	—	—	—	1,177,130	4.01	December 2022
From corporate transfers	118,984	3.26	August 2019	—	—	—
Releases						
Forfeited stock options	935,553	3.70	August 2019	2,137,042	3.32	October 2019
Exercised stock options	—	—	—	—	—	—
Expired stock options	13,321,733	1.81	December 2020	—	—	—
Total at end of period	**13,955,927**	**4.64**	**December 2018**	**28,094,229**	**3.27**	**December 2019**
Exercisable options at end of period	12,827,678	4.69	August 2018	13,256,442	4.71	August 2018

1 The average strike price is only of limited information value on account of the non-inclusion of completed capital increases and stock consolidations (final measure in 2012: stock consolidation at a ratio of 10:1 and subsequent capital increase at a ratio of 1:2 at a price of €1.943) in line with the conditions for granting the stock options.

The decline in outstanding stock options in the reporting period results primarily from the non-achievement of the targets set in the programme for 2011.

The fair value of the options granted is recorded as an expense over the vesting period on the basis of the expected number of options transferred at the end of the vesting period.

A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of around three years, the relevant targets have been met and the recipient is still working for UniCredit; otherwise, the performance shares are normally forfeited. As an alternative to the transfer of shares, the UniCredit S.p.A. Board may also decide to disburse in cash the market value of the shares at the time of transfer. The shares may be transferred on a pro rata basis or in full in certain exceptional cases, such as disability, retirement or an employer leaving UniCredit. Similarly in the case of performance shares issued during or after 2011, the actual number of shares transferred is in a range between 0% and 150% of the underlying total originally granted (depending on the level of target achievement).

The fair value for the performance shares is determined on the basis of the share price on the grant date, taking into account a discount for expected dividend payments up until the transfer date when the criteria are met.

No new performance shares were granted in 2013.

Analysis of outstanding performance shares

	2013		2012	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**1,080,803**	**December 2013**	**10,772,508**	**May 2013**
Additions				
Decrease due to stock consolidation				
or capital increase	—	—	(9,124,688)	May 2013
Newly granted options	—	—	—	—
From corporate transfers	3,990	December 2013	—	—
Releases				
Forfeited performance shares	31,126	December 2013	72,131	October 2013
Transferred performance shares	—	—	—	—
Expired performance shares	1,053,667	December 2013	494,886	December 2011
Total at end of period	**—**	**—**	**1,080,803**	**December 2013**

The decline in outstanding performance shares in the reporting period results primarily from the non-achievement of the targets set in the programme for 2011.

The fair value at the grant date is recorded as an expense for performance shares pro rata temporis over the vesting period.

The income from forfeited instruments and the prorated expenses for the granted instruments totalled a net amount of €8 million (2012: net expense of €3 million) at HVB Group for both programmes (stock options and performance shares) in 2013, which is recognised under payroll costs.

The provision set up to cover non-expired stock options at HVB Group totalled €1 million at year-end 2013 (2012: €9 million).

2012 Share Plan for Group Talents and Mission Critical Players

The parent company, UniCredit S.p.A., set up a Share Plan for Group Talents and Mission Critical Players in 2012 for selected employees with high potential and outstanding performance who generate sustainable growth for the corporate group. The beneficiaries are entitled to receive a previously defined number of UniCredit S.p.A. shares. The shares are granted in three equal tranches over a period of three years in 2013, 2014 and 2015, provided annually defined performance targets are met and the employees are in regular, indefinite employment at the respective grant date. Otherwise, the shares are normally forfeited. The shares may be transferred in full in certain exceptional cases, such as disability, retirement or employer leaving UniCredit. As an alternative to transferring the shares, the Board of UniCredit S.p.A. may also decide to disburse in cash the market value of the shares at the transfer date.

Under the terms of this plan, UniCredit S.p.A. undertakes the commitments directly with the HVB employees concerned. Similarly, HVB reimburses the expenses to UniCredit S.p.A. on the basis of the fair value at the grant date. The fair value for the shares is determined on the basis of the share price on the grant date, adjusted for a discount for expected dividend payments during the vesting period.

Information regarding the 2012 Share Plan for Group Talents and Mission Critical Players

	2012
Total (shares)	1,176,064
Market price of UniCredit share on grant date (€)	4.0100
Conditional grant date	27/3/2012
Exercise date should criteria be met (start of exercise period)	1/3 in each case by the end of July 2013, 2014 and 2015
Fair value per share on grant date (€)	4.0100

Analysis of outstanding shares

	2013	2012
	TOTAL (SHARES)	TOTAL (SHARES)
Outstanding at start of period	1,147,209	—
Additions		
Newly granted shares	—	1,184,064
Releases		
Forfeited shares	20,766	36,855
Transferred shares	375,447	—
Expired shares	—	—
Total at end of period	**750,996**	**1,147,209**

Notes to the Income Statement (Continued)

The fair value at the grant date is recorded as an expense for such shares in the period that is decisive for fulfilling the respective criteria.

The prorated expenses arising from the granted shares and the income from forfeited shares totalled a net expense of €1 million at HVB Group in 2013 (2012: €3 million), which is recognised in payroll costs.

The provision set up for this share plan totalled €4 million at year-end 2013 (2012: €3 million).

Employee share ownership plan
An employee share ownership plan ("Let's Share") has been set up enabling UniCredit employees to purchase UniCredit shares at discounted prices.

Between January 2013 and December 2013, employees participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). However, the plan offers the following advantage compared with buying the shares directly on the market:

Participating employees first receive the right to obtain free shares with a value of one-third of the amount they have invested under the plan. At the end of a one-year vesting period in January 2014 (or July 2014 in the event of participation from July 2013), the participants receive regular UniCredit shares in exchange for their rights, over which they have an immediate right of disposal. The rights to the free shares generally expire when employees sell the investment shares or their employment with a UniCredit company is terminated before the vesting period ends.

Thus, employees can enjoy an advantage of around 33% of the investment made as a result of the granting of free shares. Added to this is a tax break that exists in Germany for such employee share ownership plans.

UniCredit S.p.A. also undertakes the commitments to the employees under the employee share ownership plan. The Bank reimburses the expenses actually accruing to UniCredit S.p.A. when the free shares are transferred. The expense corresponds to the fair value of the free shares at the grant date. The fair value of the outstanding free shares is determined on the basis of the share price at the date when the employees bought the investment shares, taking into account a discount for expected dividend payments over the vesting period.

It is intended to operate the plan on an annual basis. Similar programmes had already been set up in previous years. The employee share ownership plan is insignificant for the consolidated financial statements of HVB Group overall.

38 Net write-downs of loans and provisions for guarantees and commitments

(€ millions)

	2013	2012
Additions	**(1,709)**	**(1,699)**
Allowances for losses on loans and receivables	(1,501)	(1,467)
Allowances for losses on guarantees and indemnities	(208)	(232)
Releases	**1,424**	**911**
Allowances for losses on loans and receivables	898	837
Allowances for losses on guarantees and indemnities	526	74
Recoveries from write-offs of loans and receivables	**71**	**64**
Gains/(losses) on the disposal of impaired loans and receivables	**—**	**(3)**
Total	**(214)**	**(727)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €43 million in the year under review (2012: €59 million). The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €489 million (2012: net expense of €510 million).

Net write-downs of loans and provisions for guarantees and commitments, to related parties

The following table shows the net write-downs of loans and provisions for guarantees and commitments attributable to related parties: (€ millions)

	2013	2012
Non-consolidated affiliated companies	—	—
of which: UniCredit S.p.A.	—	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	(7)
Total	**—**	**(7)**

39 Provisions for risks and charges

In the reporting period, there was a net expense of €222 million from transfers to and reversals of provisions for risks and charges resulting notably from additions to provisions for legal risks alongside provisions for derivative transactions. The legal risks are described in greater detail in the section of the Risk Report entitled "Operational risk" in Management's Discussion and Analysis.

In 2012, by contrast, income of €195 million was recognised from the reversal of provisions for risks and charges. The biggest individual item in the reversals of provisions for charges and risks totalled €240 million. This related to the erection of the offshore wind farm, for which loan-loss allowances of the equivalent amount were recognised in net write-downs of loans and provisions for guarantees and commitments.

40 Restructuring costs

Restructuring costs totalling €362 million accrued during the reporting period. To a very large extent, these expenses relate to the creation of restructuring provisions associated with the modernisation of HVB Group's retail banking business (see the section of the Financial Review entitled "Modernisation of the retail banking business" in Management's Discussion and Analysis). These restructuring provisions have been set up mainly to cover severance payments as well as the costs involved in the closure of offices.

The restructuring costs of €102 million recognised in 2012 resulted from measures relating to the modifications of the business model and the associated changes to the organisational structure carried out in 2013. These restructuring provisions have been set up mainly to cover severance payments as well as the costs involved in the closure of offices.

41 Net income from investments

(€ millions)

	2013	2012
Available-for-sale financial assets	119	72
Shares in affiliated companies	23	22
Companies accounted for using the equity method	—	—
Held-to-maturity investments	—	5
Land and buildings	54	49
Investment properties[1]	7	10
Total	**203**	**158**

1 gains on disposal, impairments and write-ups

Notes to the Income Statement (Continued)

Net income from investments breaks down as follows:

(€ millions)

	2013	2012
Gains on the disposal of	**247**	**220**
available-for-sale financial assets	169	134
shares in affiliated companies	23	22
companies accounted for using the equity method	—	—
held-to-maturity investments	—	5
land and buildings	54	49
investment properties	1	10
Write-downs, value adjustments and write-ups on	**(44)**	**(62)**
available-for-sale financial assets	(50)	(62)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
investment properties	6	—
Total	**203**	**158**

The gains on disposal in the reporting period include €169 million from AfS financial assets stemming essentially from the sale of private equity funds; this total also includes the gains on the disposal of part of the private equity portfolio to the opportunities fund SCS-SIF (SwanCap). Furthermore, gains of €54 million were recognised on the disposal of land and buildings relating to the sale of real estate at the Hamburg facility. The write-downs and value adjustments of €50 million on AfS financial assets were taken primarily on private equity funds.

In 2012, the gains of €134 million on the disposal of AfS financial assets stemmed mostly from the sale of private equity funds while the gains of €49 million on the disposal of land and property were attributable to the sale of real estate in a central location in Munich. The write-downs and value adjustments were mainly taken on private equity funds.

42 Income tax for the period

(€ millions)

	2013	2012
Current taxes	(353)	(625)
Deferred taxes	(31)	(146)
Total	**(384)**	**(771)**

The current tax expense for 2013 includes tax expenses of €14 million for previous years (2012: €103 million).

The deferred tax expense in the reporting period comprises tax income of €81 million from value adjustments of deferred tax assets on tax losses carried forward and net expenses of €112 million arising from the origination and utilisation of tax losses and the origination, reversal and value adjustments of deferred taxes arising from temporary differences. In 2012, the net deferred tax expense included tax income of €103 million from value adjustments on deferred tax assets arising from tax losses carried forward and tax expenses of €249 million arising from the origination and utilisation of tax losses and the origination, reversal and value adjustments of deferred taxes arising from temporary differences.

The differences between computed and recognised income tax are shown in the following reconciliation: **(€ millions)**

	2013	2012
Profit before tax	1,458	2,058
Applicable tax rate	31.4%	31.4%
Computed income taxes	(458)	(647)
Tax effects		
arising from previous years and changes in tax rates	(3)	(103)
arising from foreign income	+ 37	+ 23
arising from non-taxable income	+ 69	+ 75
arising from different tax laws	(19)	(80)
arising from non-deductible expenses	(91)	(130)
arising from value adjustments and the non-recognition of deferred taxes	+ 81	+ 91
arising from other differences	—	—
Recognised income taxes	**(384)**	**(771)**

As in 2012, an applicable tax rate of 31.4% has been assumed in the tax reconciliation. This comprises the current rate of corporate income tax in Germany of 15.0%, the solidarity surcharge of 5.5% and an average trade tax rate of 15.6%. This reflects the fact that the consolidated profit is dominated by profits generated in Germany, meaning that it is subject to German corporate income tax and trade tax.

The effects arising from tax on foreign income are a result of different tax rates applicable in other countries.

The item tax effects from different tax law comprises the municipal trade tax modifications applicable to domestic companies and other local peculiarities.

Notes to the Income Statement (Continued)

The deferred tax assets and liabilities are broken down as follows:

(€ millions)

	2013	2012
Deferred tax assets		
Financial assets/liabilities held for trading	255	415
Investments	42	142
Property, plant and equipment/intangible assets	101	102
Provisions	484	503
Other assets/other liabilities/hedging derivatives	538	882
Loans and receivables with banks and customers, including provisions for losses on loans and receivables	182	233
Losses carried forward/tax credits	360	464
Other	12	2
Total deferred tax assets	**1,974**	**2,743**
Effect of offsetting	(751)	(1,015)
Recognised deferred tax assets	**1,223**	**1,728**
Deferred tax liabilities		
Loans and receivables with banks and customers, including provisions for losses on loans and receivables	27	45
Financial assets/liabilities held for trading	110	171
Investments	54	214
Property, plant and equipment/intangible assets	57	60
Other assets/other liabilities/hedging derivatives	562	802
Deposits from banks/customers	3	54
Non-current assets or disposal groups held for sale	1	6
Other	143	351
Total deferred tax liabilities	**957**	**1,703**
Effect of offsetting	(751)	(1,015)
Recognised deferred tax liabilities	**206**	**688**

Deferred taxes are normally measured using the local tax rates of the respective tax jurisdiction. German corporations use the uniform corporate income tax rate that is not dependent on any dividend distribution of 15.8%, including the solidarity surcharge, and the municipal trade tax rate dependent on the applicable municipal trade tax multiplier. As last year, this resulted in an overall valuation rate for deferred taxes of 31.4% for HVB in Germany. The applicable local tax rates are applied analogously for other domestic and foreign units. Changes in tax rates have been taken into account, provided they had already been enacted or substantially enacted by the end of the reporting period.

Deferred tax assets of €1 million (2012: €16 million) were credited to the AfS reserve of HVB Group and deferred tax liabilities of €11 million (2012: €11 million) were offset against the hedge reserve. The deferred taxes are mainly included in the items "Investments" and "Other assets/other liabilities/ hedging derivatives" mentioned above. Deferred tax assets of €295 million (2012: €272 million) were recognised outside profit or loss in connection with the accounting for pension commitments in accordance with IAS 19. They are included under "Provisions" in the above table. In each case, the deferred tax items offset directly against reserves or other comprehensive income are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €4,143 million (2012: €4,217 million), most of which do not expire, and deductible temporary differences of €1,741 million (2012: €1,652 million).

The deferred tax assets recognised on tax losses carried forward and tax credits were calculated using plans of the individual divisions, which are based on segment-specific and general macroeconomic assumptions. The amounts were measured taking into account appropriate valuation discounts. The planning horizon remained unchanged at five years. Measurement was carried out taking into account possible restrictions of local regulations regarding time and the so-called minimum taxation rule for domestic tax losses carried forward. Estimation uncertainties are inherent in the assumptions used in any multi-year plan. Where changes are made to the multi-year plan, this may have an impact on the valuation of the volume of deferred tax assets already capitalised or to be capitalised.

43 Impairment on goodwill

No impairment on goodwill accrued during either the reporting period or 2012.

44 Earnings per share

	2013	2012
Consolidated profit attributable to shareholder (€ millions)	1,033	1,246
Average number of shares	802,383,672	802,383,672
Earnings per share (€)	1.29	1.55

Notes to the Balance Sheet

45 Cash and cash balances

(€ millions)

	2013	2012
Cash on hand	527	576
Deposits central banks	10,099	15,079
Total	**10,626**	**15,655**

46 Financial assets held for trading

(€ millions)

	2013	2012
Balance-sheet assets	**28,025**	**25,035**
Fixed-income securities	11,504	13,917
Equity instruments	6,928	3,843
Other financial assets held for trading	9,593	7,275
Positive fair value from derivative financial instruments	**63,276**	**105,982**
Total	**91,301**	**131,017**

The financial assets held for trading include €194 million (2012: €207 million) in subordinated assets. Financial assets held for trading did not include any Greek sovereign bonds in the reporting period or 2012.

Financial assets held for trading of related parties

The following table shows the breakdown of financial assets held for trading involving related parties:

(€ millions)

	2013	2012
Non-consolidated affiliated companies	14,399	20,044
of which: UniCredit S.p.A.	10,005	14,018
Joint ventures	—	—
Associated companies	254	205
Other participating interests	20	—
Total	**14,673**	**20,249**

Besides the amounts attributable to UniCredit S.p.A., the financial assets held for trading of €14,399 million (2012: €20,044 million) attributable to non-consolidated affiliated companies include financial assets of €4,394 million (2012: €6,026 million) attributable to sister companies (mostly derivative transactions involving UniCredit Bank Austria AG) and €0 million (2012: €0 million) attributable to subsidiaries.

47 Financial assets at fair value through profit or loss

(€ millions)

	2013	2012
Fixed-income securities	28,478	22,915
Equity instruments	—	—
Investment certificates	2	2
Promissory notes	1,232	1,365
Other financial assets at fair value through profit or loss	—	—
Total	**29,712**	**24,282**

82% (2012: 83%) of the promissory notes was issued by the federal states and regional authorities in the Federal Republic of Germany. The portfolio also includes a promissory note issued by the Republic of Austria.

On account of the prime ratings of the promissory notes, the fair value fluctuations contain only minor effects from changes in credit ratings.

The financial assets at fair value through profit or loss (fair value option) include €282 million (2012: €301 million) in subordinated assets. Financial assets at fair value through profit or loss did not include any Greek sovereign bonds in the reporting period or 2012.

48 Available-for-sale financial assets

(€ millions)

	2013	2012
Fixed-income securities	3,533	4,013
Equity instruments	264	418
Other available-for-sale financial assets	201	188
Impaired assets	578	863
Total	**4,576**	**5,482**

Available-for-sale financial assets at 31 December 2013 included €685 million (2012: €1,082 million) valued at cost. Within this total, equity instruments with a carrying amount of €171 million (2012: €65 million) were sold during the reporting period, yielding a gain of €92 million (2012: €90 million).

Available-for-sale financial assets at 31 December 2013 contained a total of €578 million (2012: €863 million) in impaired assets. Impairments of €53 million (2012: €68 million) were taken to the income statement during the reporting period.

None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets included €189 million (2012: €220 million) in subordinated assets at 31 December 2013.

Available-for-sale financial instruments did not include any Greek sovereign bonds in the reporting period or 2012.

49 Shares in associated companies accounted for using the equity method and joint ventures accounted for using the equity method

(€ millions)

	2013	2012
Associated companies accounted for using the equity method	71	65
of which: goodwill	37	36
Joint ventures accounted for using the equity method	—	—
Total	**71**	**65**

Notes to the Balance Sheet (Continued)

Change in portfolio of shares in associated companies accounted for using the equity method (€ millions)

2012	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**49**
Additions	**16**
Purchases[1]	10
Write-ups	—
Changes from currency translation	1
Other additions[2]	5
Disposals	**—**
Sales	—
Impairments	—
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[2]	—
Carrying amounts at 31 December	**65**

2013	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January	**65**
Additions	**16**
Purchases[1]	14
Write-ups	—
Changes from currency translation	—
Other additions[2]	2
Disposals	**(10)**
Sales	—
Impairments	—
Changes from currency translation	(10)
Non-current assets or disposal groups held for sale	—
Other disposals[2]	—
Carrying amounts at 31 December	**71**

1 also including capital increase
2 also including changes in the group of companies included in consolidation

The following tables show the main items in the balance sheets and income statements of the companies accounted for using the equity method: (€ millions)

	2013	2012
Property, plant and equipment	216	240
Intangible assets	21	22
Other assets	176	179
Total assets	**413**	**441**

(€ millions)

	2013	2012
Deposits from banks	188	209
Other liabilities	107	118
Equity	118	114
Total liabilities	**413**	**441**

(€ millions)

	2013	2012
Net interest	(8)	(13)
Net other expenses/income	102	165
Operating costs	(63)	(99)
Profit before tax	**31**	**53**
Income tax	(6)	(8)
Consolidated profit	**25**	**45**

There were no changes in volume arising from other comprehensive income and other equity items at companies accounted for using the equity method. There was no prorated loss during the reporting period or 2012 from companies accounted for using the equity method. Furthermore, there were no prorated cumulative losses in the reporting period or 2012 from companies accounted for using the equity method.

There are no material commitments arising from contingent liabilities of associated companies.

50 Held-to-maturity investments

(€ millions)

	2013	2012
Fixed-income securities	217	261
Impaired assets	—	—
Total	**217**	**261**

Held-to-maturity investments at 31 December 2013 include €11 million (2012: €11 million) in subordinated assets.

As in 2012, the held-to-maturity investments at 31 December 2013 included no impaired assets.

As in 2012, the held-to-maturity investments did not include any Greek government bonds in the reporting period.

Development of held-to-maturity investments

(€ millions)

	2013	2012
Balance at 1 January	**261**	**2,463**
Additions		
Purchases	—	—
Write-ups	—	—
Other additions	—	—
Disposals		
Sales	—	—
Redemptions at maturity	(39)	(2,190)
Write-downs	—	—
Other disposals	(5)	(12)
Balance at 31 December	**217**	**261**

Notes to the Balance Sheet (Continued)

51 Loans and receivables with banks

(€ millions)

	2013	2012
Current accounts	1,856	1,901
Cash collateral and pledged credit balances	9,013	12,836
Reverse repos	9,855	6,975
Reclassified securities	1,724	2,171
Other loans to banks	12,864	12,437
Total	**35,312**	**36,320**

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative market values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

The other loans to banks consist mostly of term deposits and bonds.

The loans and receivables with banks included €41 million (2012: €641 million) in subordinated assets at 31 December 2013.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with banks involving related parties:

(€ millions)

	2013	2012
Non-consolidated affiliated companies	7,188	7,365
of which: UniCredit S.p.A.	4,927	4,630
Joint ventures	—	—
Associated companies	105	248
Other participating interests	4	2
Total	**7,297**	**7,615**

Besides the loans and receivables with UniCredit S.p.A., the loans and receivables of €7,188 million (2012: €7,365 million) with non-consolidated affiliated banks include loans and receivables of €2,261 million (2012: €2,735 million) with sister companies (mainly UniCredit Bank Austria AG).

The figures stated for loans and receivables with banks are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

(€ millions)

	2013	2012
Properly serviced loans and receivables		
Carrying amount before allowances	34,539	36,170
Portfolio allowances	5	9
Carrying amount	**34,534**	**36,161**
Properly serviced loans and receivables past due		
Carrying amount before allowances	629	36
Portfolio allowances	—	—
Carrying amount	**629**	**36**
Non-performing loans and receivables		
Carrying amount before allowances	261	233
Specific allowances	112	110
Carrying amount	**149**	**123**

The non-performing loans and receivables are essentially loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €1 million (2012: €1 million) that are no longer assigned to rating classes 8–, 9 or 10 due to improved credit standings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2013	2012
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1–30 days	629	36
31–60 days	—	—
61–90 days	—	—

(€ millions)

	2013	2012
Value of collateral, broken down by period past due		
1–30 days	364	11
31–60 days	—	—
61–90 days	—	—

Notes to the Balance Sheet (Continued)

(€ millions)

	2013	2012
Loans and receivables, broken down by rating class		
Not rated	544	337
Rating class 1–4	33,042	34,480
Rating class 5–8	1,578	1,381
Rating class 9–10	148	122
Collateral, broken down by rating class		
Not rated	4	1
Rating class 1–4	7,880	11,760
Rating class 5–8	553	853
Rating class 9–10	119	94

52 Loans and receivables with customers

(€ millions)

	2013	2012
Current accounts	8,100	8,618
Cash collateral and pledged cash balances	2,114	2,136
Reverse repos	622	443
Mortgage loans	41,222	42,957
Finance leases	2,039	1,883
Reclassified securities	2,670	3,552
Non-performing loans and receivables	3,585	4,468
Other loans and receivables	49,237	58,155
Total	**109,589**	**122,212**

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative market values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Other loans and receivables largely comprise miscellaneous other loans, installment loans, term deposits and refinanced special credit facilities.

Loans and receivables with customers include an amount of €1,406 million (2012: €1,916 million) funded under the fully consolidated Arabella conduit programme. This essentially involves buying short-term accounts payable and medium-term receivables under lease agreements from customers and funding them by issuing commercial paper on the capital market. The securitised loans and receivables essentially reflect loans and receivables of European borrowers, with a majority of the loans and receivables relating to German borrowers.

The loans and receivables with customers at 31 December 2013 include €853 million (2012: €1,298 million) in subordinated assets.

Loans and receivables with customers did not include any Greek government bonds in either the reporting period or 2012.

Loans and receivables with related parties

The following table shows the breakdown of loans and receivables with customers involving related parties:

(€ millions)

	2013	2012
Non-consolidated affiliated companies	98	114
Joint ventures	—	—
Associated companies	70	58
Other participating interests	554	517
Total	**722**	**689**

The loans and receivables of €98 million (2012: €114 million) with non-consolidated affiliated companies include loans and receivables of €74 million (2012: €114 million) with sister companies and €24 million (2012: €0 million) with subsidiaries.

The figures stated for loans and receivables with customers are shown net of the associated allowances for losses on loans and receivables. These allowances break down as follows:

(€ millions)

	2013	2012
Properly serviced loans and receivables		
Carrying amount before allowances	105,236	116,995
Portfolio allowances	420	419
Carrying amount	**104,816**	**116,576**
Properly serviced loans and receivables past due		
Carrying amount before allowances	1,193	1,175
Portfolio allowances	5	7
Carrying amount	**1,188**	**1,168**
Non-performing loans and receivables		
Carrying amount before allowances	6,416	8,371
Specific allowances	2,831	3,903
Carrying amount	**3,585**	**4,468**

The non-performing loans and receivables are essentially the loans and receivables in rating classes 8–, 9 and 10. These include receivables totalling €199 million (2012: €340 million) that are no longer assigned to rating classes 8–, 9 and 10 due to improved credit standings, but which have been in these classes for a total period of 24 months since first being classified as non-performing.

Notes to the Balance Sheet (Continued)

(€ millions)

	2013	2012
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1–30 days	1,140	1,114
31–60 days	21	37
61–90 days	27	17

(€ millions)

	2013	2012
Value of collateral, broken down by period past due		
1–30 days	439	454
31–60 days	12	16
61–90 days	15	6

(€ millions)

	2013	2012
Loans and receivables, broken down by rating class		
Not rated	7,855	7,553
Rating class 1–4	60,290	66,411
Rating class 5–8	38,013	44,120
Rating class 9–10	3,431	4,128
Collateral, broken down by rating class		
Not rated	1,755	2,246
Rating class 1–4	30,202	29,391
Rating class 5–8	23,117	23,977
Rating class 9–10	1,811	1,679

Amounts receivable from customers under lease agreements (receivables under finance leases)
The amounts receivable from customers under finance lease agreements are described in more detail in Note 73.

53 Allowances for losses on loans and receivables with customers and banks

Analysis of loans and receivables

(€ millions)

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2012	**4,342**	**401**	**4,743**
Changes affecting income			
Gross additions[1]	1,429	41	1,470
Releases	(831)	(6)	(837)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	(15)	—	(15)
Use of existing loan-loss allowances	(832)	—	(832)
Effects of currency translation and other changes not affecting income	(80)	(1)	(81)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2012	**4,013**	**435**	**4,448**

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2013	**4,013**	**435**	**4,448**
Changes affecting income			
Gross additions[1]	1,481	20	1,501
Releases	(874)	(24)	(898)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	(910)	—	(910)
Use of existing loan-loss allowances	(569)	—	(569)
Effects of currency translation and other changes not affecting income	(198)	(1)	(199)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2013	**2,943**	**430**	**3,373**

1 the additions include the losses on the disposal of impaired loans and receivables

Total specific allowances declined by €910 million on account of the initial consolidation of the BARD Group, as the loans on which allowances had been taken were eliminated upon consolidation as intra-Group loans. In economic terms, the loan receivables after deduction of the loan-loss allowances represent the purchase price that HVB has paid for the BARD Group (please refer to Note 5 for details).

Notes to the Balance Sheet (Continued)

54 Hedging derivatives

(€ millions)

	2013	2012
Micro fair value hedge	—	1
Fair value hedge portfolio[1]	1,053	3,261
Total	**1,053**	**3,262**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

55 Property, plant and equipment

(€ millions)

	2013	2012
Land and buildings	912	914
Plant and office equipment	382	393
Other property, plant and equipment	1,619	1,706
Total[1]	**2,913**	**3,013**

1 including leased assets of €586 million (2012: €638 million). More information about leases is contained in Note 73

Other property, plant and equipment essentially comprises the BARD Offshore 1 wind farm, which belongs to the Ocean Breeze Energy GmbH & Co. KG subsidiary. The manufacturer handed over this wind farm to Ocean Breeze Energy GmbH & Co. KG at year-end 2013 when it was commissioned; up until then, the wind farm had been carried as assets under construction. As part of the handover by the manufacturer, it was agreed that Ocean Breeze Energy GmbH & Co. KG would itself remedy any outstanding defect upon handover. In addition, the manufacturer's warranty was waived. In return, the manufacturer has reduced the purchase price by €95 million, meaning that the initial cost has declined by the same amount accordingly. At the same time, the present value of the dismantling obligations for the wind farm has been capitalised and a provision for dismantling obligations set up in the same amount, meaning that the presentation of the dismantling obligations does not affect reported profit or loss overall.

An impairment loss of €23 million was recognised on the wind farm at 31 December 2013.

This item also includes the grants of €42 million (2012: €42 million) provided by the European Union that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the initial cost of the other property, plant and equipment on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Development of property, plant and equipment (€ millions)

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2012	**2,034**	**1,051**	**3,085**	**1,721**	**4,806**
Write-downs and write-ups from previous years	(1,189)	(702)	(1,891)	(9)	(1,900)
Carrying amounts at 1 January 2012	**845**	**349**	**1,194**	**1,712**	**2,906**
Additions					
Acquisition/production costs	18	96	114	—	114
Write-ups	33	—	33	—	33
Changes from currency translation	—	—	—	—	—
Other additions[2]	80	37	117	—	117
Disposals					
Sales	(1)	(17)	(18)	—	(18)
Amortisation and write-downs	(45)	(66)	(111)	(5)	(116)
Impairments	(16)	(4)	(20)	—	(20)
Changes from currency translation	—	—	—	(1)	(1)
Non-current assets					
or disposal groups held for sale	—	(1)	(1)	—	(1)
Other disposals[2]	—	(1)	(1)	—	(1)
Carrying amounts at 31 December 2012	**914**	**393**	**1,307**	**1,706**	**3,013**
Write-downs and write-ups					
from previous years plus reporting period	1,267	773	2,040	14	2,054
Acquisition costs at 31 December 2012	**2,181**	**1,166**	**3,347**	**1,720**	**5,067**

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2013	**2,181**	**1,166**	**3,347**	**1,720**	**5,067**
Write-downs and write-ups from previous years	(1,267)	(773)	(2,040)	(14)	(2,054)
Carrying amounts at 1 January 2013	**914**	**393**	**1,307**	**1,706**	**3,013**
Additions					
Acquisition/production costs	40	77	117	36	153
Write-ups	1	—	1	—	1
Changes from currency translation	—	—	—	—	—
Other additions[2]	26	38	64	24	88
Disposals					
Sales	(1)	(32)	(33)	(21)	(54)
Amortisation and write-downs	(48)	(77)	(125)	(5)	(130)
Impairments	(10)	(11)	(21)	(23)	(44)
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	(6)	—	(6)	—	(6)
Other disposals[2]	(4)	(6)	(10)	(98)	(108)
Carrying amounts at 31 December 2013	**912**	**382**	**1,294**	**1,619**	**2,913**
Write-downs and write-ups					
from previous years plus reporting period	1,248	802	2,050	36	2,086
Acquisition costs at 31 December 2013	**2,160**	**1,184**	**3,344**	**1,655**	**4,999**

1 including leased assets. More information about leases is contained in Note 73
2 including changes in the group of companies included in consolidation. The change in other property, plant and equipment in 2013 also includes the purchase price reduction achieved upon handover of the wind farm

Notes to the Balance Sheet (Continued)

56 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €1,639 million (2012: €1,782 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. The fair values determined in this way are classified as Level 3 (please refer to Note 76 for the definition of the level hierarchy) due to the fact that each property is essentially unique and the fair value is determined using appraisals that reflect the special features of the real estate being valued. In the case of developed land, current market rents, operating costs and property yields are applied in the gross-rental method. Where necessary, property-specific considerations are also taken into account when determining the value. These property-specific factors include vacancy rates, deviations between current contractual rents and current market rents, the condition of the buildings' technical systems and so on. In the case of undeveloped land, figures for sales of nearby land that have been completed are normally taken as the basis; where these are not available, the standard land value is employed as a benchmark, with adjustments made for the individual location, size and layout of the land, among other factors.

The net carrying amount of the leased assets arising from finance leases included in investment properties amounted to €82 million (2012: €127 million) for land and buildings at the reporting date.

Investment properties (€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2012	**2,498**
Write-downs and write-ups from previous years	(820)
Carrying amounts at 1 January 2012	**1,678**
Additions	
Acquisition/production costs	3
Write-ups	16
Changes from currency translation	1
Other additions[1]	—
Disposals	
Sales	(70)
Amortisation and write-downs	(37)
Impairments	(16)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(12)
Other disposals[1]	(6)
Carrying amounts at 31 December 2012	**1,557**
Write-downs and write-ups from previous years plus reporting period	822
Acquisition costs at 31 December 2012	**2,379**

1 also including changes in the group of companies included in consolidation

Investment properties (€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2013	**2,379**
Write-downs and write-ups from previous years	(822)
Carrying amounts at 1 January 2013	**1,557**
Additions	
Acquisition/production costs	18
Write-ups	19
Changes from currency translation	—
Other additions[1]	4
Disposals	
Sales	(3)
Amortisation and write-downs	(35)
Impairments	(13)
Changes from currency translation	(1)
Non-current assets or disposal groups held for sale	(65)
Other disposals[1]	(25)
Carrying amounts at 31 December 2013	**1,456**
Write-downs and write-ups from previous years plus reporting period	855
Acquisition costs at 31 December 2013	**2,311**

1 also including changes in the group of companies included in consolidation. Please refer to Note 2 regarding 2013

57 Intangible assets

(€ millions)

	2013	2012
Goodwill	**418**	**418**
Other intangible assets	**100**	**122**
Internally generated intangible assets	50	72
Other intangible assets	50	50
Total	**518**	**540**

Notes to the Balance Sheet (Continued)

Development of intangible assets (€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2012	**1,078**	**458**	**438**
Write-downs and write-ups from previous years	(660)	(360)	(389)
Carrying amounts at 1 January 2012	**418**	**98**	**49**
Additions			
Acquisition/production costs	—	16	22
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	—	—
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(42)	(21)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	—
Carrying amounts at 31 December 2012	**418**	**72**	**50**
Write-downs and write-ups from previous years plus reporting period	660	402	375
Acquisition costs at 31 December 2012	**1,078**	**474**	**425**

1 also including changes in the group of companies included in consolidation

Development of intangible assets (€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2013	**1,078**	**474**	**425**
Write-downs and write-ups from previous years	(660)	(402)	(375)
Carrying amounts at 1 January 2013	**418**	**72**	**50**
Additions			
Acquisition/production costs	—	12	16
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	—	—
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(34)	(16)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	—
Carrying amounts at 31 December 2013	**418**	**50**	**50**
Write-downs and write-ups from previous years plus reporting period	660	436	374
Acquisition costs at 31 December 2013	**1,078**	**486**	**424**

1 also including changes in the group of companies included in consolidation

HVB no longer generates any software internally. Software is provided to HVB by the UniCredit-wide service provider UBIS.

58 Non-current assets or disposal groups held for sale

(€ millions)

ASSETS	2013	2012
Property, plant and equipment	39	48
Investment properties	65	12
Intangible assets	50	—
Tax assets	—	2
Other assets	—	8
Total	**154**	**70**

The investment properties designated as held for sale essentially relate to the disposal of non-strategic real estate. The sale of a property in Hamburg carried as held for sale in 2012 was successfully completed during the reporting period.

In addition, the rise is also caused by the initial consolidation of the BARD Group, in which both property, plant and equipment and intangible assets, the sale of which is expected under the planned restructuring scheme, are disclosed here. Following initial consolidation at 31 December 2013, the carrying amount corresponds to the fair value, as these assets were recognised at their value on account of the initial measurement rules defined in IFRS 3. The fair value of the property, plant and equipment – essentially a property – and intangible assets – essentially a project licence for an offshore wind farm – was determined on the basis of external appraisals which the Bank modified to reflect the present situation at year-end in line with recent developments. In the light of the fact that these are unique assets that are not traded on an active market, or for which it is not possible to derive the main input parameters for determining the fair value from prices on an active market, the determined fair value is classified as Level 3 (please refer to Note 76 for the definition of the level hierarchy).

The sale of a property in Stuttgart carried under investment properties held for sale in 2012 was not completed within 12 months. The property is again carried under investment properties at 31 December 2013.

59 Other assets

Other assets include prepaid expenses of €85 million (2012: €77 million).

60 Own securitisation

The Bank has securitised its own loan receivables for the purpose of obtaining cheap funding on the capital market, generating securities for use as collateral in repurchase agreements and reducing risk-weighted assets.

This involves structuring the cash flows of the underlying loan portfolio, meaning that at least two hierarchical positions (tranches) are formed when dividing up the risks and cash flows. In the case of synthetic securitisation, the transfer of risk and the ensuing reduction in regulatory capital requirements is mainly achieved using hedges in the form of guarantees and credit derivatives. In the case of traditional securitisation (true sale), this is achieved by selling receivables to a special purpose entity which in turn issues securities.

In the case of the true sale transactions Geldilux TS 2010, Geldilux TS 2011 and Geldilux TS 2013, the senior tranches were placed on the capital market while the junior tranches were retained by HVB. HVB retained all of the tranches issued by the special purpose entity under the true sale transaction Rosenkavalier 2008. The securities generated in this way can, if required, be used as collateral for repurchase agreements with the European Central Bank (ECB). The underlying receivables continue to be recognised by HVB and the special purpose entities set up for this purpose are fully consolidated in accordance with SIC 12. The volume of lending in all true sale transactions amounted to €6.5 billion at 31 December 2013 (2012: €8.2 billion). The risk-weighted assets have not been reduced.

Only the synthetic transactions EuroConnect Issuer SME 2007-1 and EuroConnect Issuer SME 2008-1 with an outstanding volume of lending of €1.1 billion (2012: €3.0 billion) continue to exist of the securitisation transactions originally set up to reduce risk-weighted assets. These two transactions were no longer recognised in 2013 so as to reduce risk-weighted assets; the reduction in 2012 totalled €0.1 billion.

The true sale transaction Geldilux PP 2011 was terminated prematurely in the 2013 financial year and the synthetic transactions SFA-1-2008 and SFA-2-2008 similarly terminated. The transaction Building Comfort 2008 expired in 2013. This means that the volume of lending in the securitisation transactions put in place to reduce risk-weighted assets declined by a total of €1.9 billion year-on-year and the reduction in risk-weighted assets by €0.1 billion.

Notes to the Balance Sheet (Continued)

61 Deposits from banks

(€ millions)

	2013	2012
Deposits from central banks	**6,398**	**6,271**
Deposits from banks	**41,441**	**38,945**
Current accounts	2,181	2,289
Cash collateral and pledged credit balances	10,243	10,670
Repos	13,286	8,378
Term deposits	6,840	7,883
Other liabilities	8,891	9,725
Total	**47,839**	**45,216**

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative market values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Amounts owed to related parties

The following table shows the breakdown of deposits from banks involving related parties:

(€ millions)

	2013	2012
Non-consolidated affiliated companies	6,763	6,690
of which: UniCredit S.p.A.	2,561	2,771
Joint ventures	—	—
Associated companies	29	12
Other participating interests	21	59
Total	**6,813**	**6,761**

Besides the deposits from UniCredit S.p.A., the deposits of €6,763 million (2012: €6,690 million) from non-consolidated affiliated companies include deposits of €4,202 million (2012: €3,919 million) from sister companies; the largest single item relates to UniCredit Bank Austria AG.

62 Deposits from customers

(€ millions)

	2013	2012
Current accounts	54,140	58,210
Cash collateral and pledged credit balances	1,092	1,558
Savings deposits	14,837	14,779
Repos	10,336	8,550
Term deposits	19,932	17,820
Other liabilities	7,513	9,351
Total	**107,850**	**110,268**

As part of credit risk management notably with regard to the counterparty risk arising from derivatives, master netting arrangements are frequently concluded that, in the event of default by the counterparty, permit all derivatives with this counterparty to be netted and positive and negative market values of the individual derivatives to be set off to create a net receivable. Such net receivables are normally secured by cash collateral to further reduce the credit risk. This involves the debtor of the net receivable transferring money to the creditor and pledging these cash balances. The amount of the cash collateral is adjusted at regular intervals to reflect the current amount of a potential net receivable, although a receivable arising from cash collateral provided can become a liability arising from cash collateral received and vice versa depending on the balance of the potential net receivable.

Amounts owed to related parties

The following table shows the breakdown of deposits from customers involving related parties: (€ millions)

	2013	2012
Non-consolidated affiliated companies	248	391
Joint ventures	—	—
Associated companies	1	6
Other participating interests	227	205
Total	**476**	**602**

The deposits of €248 million (2012: €391 million) from non-consolidated affiliated companies include deposits of €8 million (2012: €107 million) from subsidiaries and €240 million (2012: €284 million) from sister companies.

63 Debt securities in issue

(€ millions)

	2013	2012
Bonds	30,644	34,467
Other securities	1,160	1,396
Total	**31,804**	**35,863**

Debt securities in issue, payable to related parties

The following table shows the breakdown of debt securities in issue involving related parties: (€ millions)

	2013	2012
Non-consolidated affiliated companies	597	598
of which: UniCredit S.p.A.	351	351
Joint ventures	—	—
Associated companies	155	252
Other participating interests	—	—
Total	**752**	**850**

Besides the debt securities attributable to UniCredit S.p.A., the debt securities in issue of €597 million (2012: €598 million) attributable to non-consolidated affiliated companies include debt securities of €246 million (2012: €248 million) attributable to sister companies.

64 Financial liabilities held for trading

(€ millions)

	2013	2012
Negative fair values arising from derivative financial instruments	60,644	105,513
Other financial liabilities held for trading	12,891	15,988
Total	**73,535**	**121,501**

The negative fair values arising from derivative financial instruments are carried as financial liabilities held for trading purposes. Also included under other financial liabilities held for trading purposes are warrants, certificates and bonds issued by our trading department as well as delivery obligations arising from short sales of securities not held for trading purposes.

The cumulative valuation effects of the financial liabilities held for trading in the portfolio at 31 December 2013, which result from including the own credit spread, total €120 million (2012: €125 million). Valuation expenses of €5 million (2012: €177 million) arising from own credit spread changes accrued for these holdings in the year under review.

Notes to the Balance Sheet (Continued)

65 Hedging derivatives

(€ millions)

	2013	2012
Micro fair value hedge	1	1
Fair value hedge portfolio[1]	372	1,385
Total	**373**	**1,386**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

66 Hedge adjustment of hedged items in the fair value hedge portfolio

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €1,646 million (2012: €2,858 million). The fair value of the netted fair value hedge portfolio derivatives represents an economic comparable amount. The hedge adjustments are recognised separately in the balance sheet (for hedged lending and deposit-taking activities) for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €67 million (2012: €193 million).

67 Liabilities of disposal groups held for sale

(€ millions)

LIABILITIES	2013	2012
Deposits from banks	4	—
Tax liabilities	—	1
Other liabilities	—	3
Provisions	—	16
Total	**4**	**20**

The liabilities disclosed here relate to the planned disposal of three participating interests held by one of our subsidiaries.

68 Other liabilities

This item totalling €3,083 million (2012: €3,375 million) essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

69 Provisions

(€ millions)

	2013	2012
Provisions for pensions and similar obligations	146	133
Allowances for losses on guarantees and commitments and irrevocable credit commitments	204	527
Restructuring provisions	400	184
Actuarial provisions	—	27
Other provisions	1,219	1,077
Total	**1,969**	**1,948**

Provisions for pensions and similar obligations

HVB Group grants its employees post-employment benefits that are structured as defined benefit plans or defined contribution plans.

In the case of defined benefit plans, the Bank undertakes to pay a defined future pension. The financial resources required to do so in the future can be accrued within the company (internal financing) or by payment of specific amounts to external pension funds (external financing).

In the case of defined contribution plans, the Bank undertakes to pay defined contributions to external pension funds which will later make the pension payments. Apart from paying the periodic contributions, the company has de facto no further obligations.

Defined benefit plans

Characteristics of the plans

The provisions for pensions and similar obligations include the direct commitments to HVB Group employees under company pension plans. These defined benefit plans are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. Fund-linked plans with a guaranteed minimum rate of interest of 2.75% have been granted in Germany since 2003.

The obligations financed by Pensionskasse der HypoVereinsbank VVaG (HVB Pensionskasse) are included in the disclosures regarding pension obligations (the total includes the obligations of HVB Unterstützungskasse e. V. reinsured by HVB Pensionskasse). The standard HVB Group valuation parameters are used when calculating these obligations. Any plan surplus is subject to the rules governing the asset ceiling, as the assets belong to the members of HVB Pensionskasse.

HVB Group set up plan assets in the form of contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension obligations to legally independent trustees, including HVB Trust e. V., which manage the assets in line with the applicable trustee contracts.

There are no legal or regulatory minimum funding requirements in Germany.

HVB reorganised its company plans for pensioners (direct commitments) in 2009. HVB Trust Pensionsfonds AG (pension fund) was set up in this process. Both the pension obligations to pensioners who in October 2009 had already received pension benefits from the Bank and the assets required to cover these obligations were transferred to the pension fund. The pensioners' pension claims are not affected by the restructuring; HVB continues to guarantee the pension. The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

HVB Group is exposed to various risks in connection with its defined benefit plans. Potential pension risks exist with regard to both the benefit obligations (liabilities side) and the plan assets allocated to cover the beneficiaries' claims (assets side). The defined benefit commitments are exposed to actuarial risks such as interest rate risk, longevity risk, salary- and pension-adjustment risk and inflation risk. In the case of fund-linked pension obligations, there is the risk that it will prove impossible in the long run to generate the guaranteed interest rate of 2.75% from the funds allocated to the pension commitments, given persistently low interest rates. With regard to the capital investment, the assets are primarily exposed to market risk such as price risks in securities holdings or changes in the value of real estate investments.

The major pension risk is thus expressed as a deterioration in the funded status as a result of unfavourable developments of defined benefit obligations and/or plan assets, since the sponsoring companies are required to act to service the beneficiaries' claims in the event of any plan deficits. No unusual, company-specific or plan-specific risks or material risk concentrations that could affect the Group's pension plans are currently identifiable.

Reconciliations

The amounts arising from defined benefit plans for post-employment benefits recognised in the consolidated balance sheet can be derived as follows:

(€ millions)

	2013	2012
Present value of funded pension obligations	3,752	3,640
Fair value of plan assets	(3,652)	(3,558)
Funded status	**100**	**82**
Present value of unfunded pension obligations	33	33
Net liability (net asset) of defined benefit plans	**133**	**115**
Asset ceiling	—	—
Capitalised excess cover of plan assets	13	18
Recognised pension provisions	**146**	**133**

Notes to the Balance Sheet (Continued)

The following tables show the development of the present value of the total (funded and unfunded) pension obligations, the fair value of the plan assets and the net defined benefit liability (asset) from defined benefit plans resulting from the offsetting of these totals. The tables also show the changes in the effects of the asset ceiling during the reporting period and the reconciliations from the opening to the closing balance of the plan asset surplus capitalised as an asset and the recognised provisions for pensions and similar obligations:

(€ millions)

	PRESENT VALUE OF PENSION OBLIGATIONS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2012	**2,917**	**(3,109)**	**(192)**	**85**	**154**	**47**
Service cost component						
Current service cost	47	—	47	—	—	47
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	149	(160)	(11)	—	—	(11)
Service cost component and net interest component of defined benefit plans recognised in profit or loss for the period	**196**	**(160)**	**36**	**—**	**—**	**36**
Remeasurement component						
Gains/(losses) on plan assets excluding amounts included in net interest on the net defined benefit liability (asset)	—	(38)	(38)	—	—	(38)
Actuarial gains/(losses) – demographic assumptions	—	—	—	—	—	—
Actuarial gains/(losses) – financial assumptions	708	—	708	—	—	708
Actuarial gains/(losses) – experience adjustments	(1)	—	(1)	—	—	(1)
Changes due to asset ceiling excluding amounts included in net interest on the net defined benefit liability (asset)	—	—	—	(85)	—	(85)
Remeasurement component of defined benefit plans recognised in OCI	**707**	**(38)**	**669**	**(85)**	**—**	**584**
Other changes						
Excess cover of plan assets	—	—	—	—	(136)	(136)
Exchange differences	1	(2)	(1)	—	—	(1)
Contributions to the plan:						
Employer	—	(383)	(383)	—	—	(383)
Plan participants	3	—	3	—	—	3
Pension payments	(137)	134	(3)	—	—	(3)
Business combinations, disposals and other	(14)	—	(14)	—	—	(14)
Balance at 31 December 2012	**3,673**	**(3,558)**	**115**	**—**	**18**	**133**

(€ millions)

	PRESENT VALUE OF PENSION OBLIGATIONS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2013	**3,673**	**(3,558)**	**115**	**—**	**18**	**133**
Service cost component						
Current service cost	56	—	56	—	—	56
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	135	(132)	3	—	—	3
Service cost component and net interest component of defined benefit plans recognised in profit or loss for the period	**191**	**(132)**	**59**	**—**	**—**	**59**
Remeasurement component						
Gains/(losses) on plan assets excluding amounts included in net interest on the net defined benefit liability (asset)	—	22	22	—	—	22
Actuarial gains/(losses) – demographic assumptions	—	—	—	—	—	—
Actuarial gains/(losses) – financial assumptions	39	—	39	—	—	39
Actuarial gains/(losses) – experience adjustments	14	—	14	—	—	14
Changes due to asset ceiling excluding amounts included in net interest on the net defined benefit liability (asset)	—	—	—	—	—	—
Remeasurement component of defined benefit plans recognised in OCI	**53**	**22**	**75**	**—**	**—**	**75**
Other changes						
Excess cover of plan assets	—	—	—	—	(5)	(5)
Exchange differences	(2)	2	—	—	—	—
Contributions to the plan:						
Employer	—	(120)	(120)	—	—	(120)
Plan participants	5	—	5	—	—	5
Pension payments	(135)	134	(1)	—	—	(1)
Business combinations, disposals and other	—	—	—	—	—	—
Balance at 31 December 2013	**3,785**	**(3,652)**	**133**	**—**	**13**	**146**

At the end of the reporting period, the present value of the defined benefit obligations of €3,785 million was attributable to 29% of active employees, 19% of former employees with vested benefit entitlements and 52% of pensioners and surviving dependants.

Notes to the Balance Sheet (Continued)

Actuarial assumptions

Listed below are the significant actuarial assumptions used to determine the present value of the defined benefit obligation.

The summarised disclosure for several plans takes the form of weighted average factors: (in %)

	2013	2012
Actuarial interest rate	3.75	3.75
Rate of pension increase	1.80	1.70
Rate of compensation increase/career trend	2.50	2.00

The mortality rate underlying the actuarial calculation of the present value of the defined benefit obligation is based on the modified Heubeck 2005 G tables (generation tables) that allow for the probability of mortality to fall to 90% for women and 75% for men.

HVB Group similarly reduces the probability of disability based on these guidance tables to 80% for women and men equally. Since any changes in the actuarial assumptions regarding disability fundamentally only have a minor impact on the present value of the defined benefit obligation, HVB Group does not calculate any sensitivities for this valuation parameter.

In addition, the present value of the defined benefit obligation is influenced by assumptions regarding future inflation rates. Inflation effects are normally taken into account in the assumptions listed above.

Sensitivity analyses

The sensitivity analyses discussed below are intended to show how the present value of the defined benefit obligation would change given a change to an actuarial assumption in isolation with the other assumptions remaining unchanged compared with the original calculation. Possible correlation effects between the individual assumptions are not taken into account accordingly. The sensitivity analyses are based on the changes to the actuarial assumptions expected by HVB Group at the reporting date for the subsequent reporting period.

An increase or decrease in the significant actuarial assumptions in the amount of the percentage points shown in the table would have had the following impact on the present value of the defined benefit obligation at 31 December 2013:

	CHANGES OF THE ACTUARIAL ASSUMPTIONS	IMPACT ON THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION (DBO)		
		PRESENT VALUE OF DBO	ABSOLUTE CHANGES	RELATIVE CHANGES
		€ millions	€ millions	in %
	Basic value of the calculation of sensitivity	3,785		
Actuarial interest rate	Increase of 25 basis points	3,644	(141)	(3.7)
	Decrease of 25 basis points	3,938	153	4.0
Rate of pension increase	Increase of 25 basis points	3,889	104	2.7
	Decrease of 25 basis points	3,684	(101)	(2.7)
Rate of compensation increase/career trend	Increase of 25 basis points	3,793	8	0.2
	Decrease of 25 basis points	3,776	(9)	(0.2)

The observable decline in mortality rates is associated with an increase in life expectancy depending on the individual age of each beneficiary. In order to determine the sensitivity of the mortality or longevity, the lifetime for all beneficiaries was increased by one year. The present value of the defined benefit obligation at 31 December 2013 would rise by €101 million (2.7%) to €3,886 million as a result of this change. HVB Group considers an increase in mortality or a decrease in life expectancy to be unlikely and has therefore not calculated a sensitivity for this case.

When determining the sensitivities of the defined benefit obligation for the significant actuarial assumptions, the same method has been applied (projected unit credit method) as has been used to calculate the pension provisions recognised in the consolidated balance sheet. Increases and decreases in the various valuation assumptions do not entail the same absolute amount in their impact when the defined benefit obligation is calculated, due mainly to the compound interest effect when determining the present value of the future benefit. If more than one of the assumptions are changed simultaneously, the combined effect does not necessarily correspond to the sum total of the individual effects. Furthermore, the sensitivities only reflect a change in the present value of the defined benefit obligation for the actual extent of the change in the assumptions (such as 0.25%). If the assumptions change to a different extent, this does not necessarily have a straight-line impact on the present value of the defined benefit obligation. Since the sensitivity analyses are based on the average duration of the expected pension obligation, and consequently the expected disbursement dates are not taken into account, they only result in indicative information or trends.

Asset liability management
The plan assets are managed by a trustee with a view to ensuring that the present and future pension obligations are settled by applying an adequate investment strategy, thus minimising the risk of the trustors or sponsoring companies having to provide additional capital.

Under the CTA, the capital investment decisions are taken by an institutionalised body, the Investment Committee, which defines the investment strategy and policies for the plan assets. The concept calls for the assets to be invested in line with the structure of the pension obligations in particular and an appropriate return to be generated taking into account the associated risks. In order to optimise the risk/return ratio, the Investment Committee sets strategic allocation ranges and investment limits for the asset classes in the plan assets, which can be exploited flexibly within the agreed risk budget. The bodies and processes required by law have been set up as appropriate for HVB Pensionskasse and the pension fund.

In order to allow for an integral view on plan assets and defined benefit obligations (asset liability management), the pension risks are monitored regularly with the aid of a specially developed risk model and included in the Bank's risk calculation. Since HVB Group employs various methods involving legally independent entities to implement the company pension plans, risk management concepts including stress tests and analysis of risk-taking capacity are also applied in specific instances.

Alongside the actuarial risks mentioned above, the risks associated with the defined benefit obligations relate primarily to financial risks in connection with the plan assets. The capital investment risk in the funding of the pension obligations encompasses notably potential liquidity, credit, concentration, market and real estate risks.

Liquidity risk can result from non-existent or limited marketability of the capital investments, which may cause losses to be realised when the assets are sold to settle payment obligations. HVB is not currently exposed to this risk as the expected incoming payments are sufficient to meet the payment obligations. In addition, an appropriate proportion of the capital investments is invested in assets classified as liquid (cash and cash equivalents/term deposits). Liquidity projections are prepared at regular intervals with a view to continue avoiding this risk.

Credit risk stems from anything from a deterioration in the solvency of individual debtors through to insolvency. This risk is mitigated by deliberately spreading the capital investments and complying with specific investment policies regarding the creditworthiness of issuers. The relevant ratings are monitored constantly.

Concentration risk arises from excessive investment in an individual asset class, individual industry, individual security or individual property. This risk is countered by means of broad diversification in line with investment policies, ongoing review of the capital investment policy and specific parameters for the asset managers. Among other things, targeted investment in mixed investment funds is used to reduce concentration risk by diversifying the composition of the fund assets.

Market risk has its roots in the risk of declining market values caused by negative changes in market prices, equity prices and changes in interest rates. Here, too, compliance with the parameters specified for the composition and diversity of the capital investments is ensured and risk-limiting investment policies are defined for the asset managers.

Notes to the Balance Sheet (Continued)

Real estate risk exists with both directly held real estate and special-purpose real estate funds. It results from factors like possible unpaid rents, loss of property value, high maintenance costs and declining location attractiveness. To minimise these risks, the proportion that may be invested in real estate is constrained by a limit and the greatest possible diversification is targeted. In addition, no short-term rent contracts are concluded for directly owned real estate.

Disaggregation of plan assets

The following table shows a disaggregation of the plan assets used to fund the defined benefit obligations by asset class: (€ millions)

	2013	2012
Participating interests	33	31
Debt securities	90	90
Properties	113	113
Mixed investment funds	3,095	2,885
Property funds	83	43
Cash and cash equivalents/term deposits	140	390
Other assets	98	6
Total	**3,652**	**3,558**

Quoted market prices in an active market were observed for all fixed-income securities held directly and almost all the types of asset held in the mixed investment fund. As a general rule, the fixed-income securities have an investment grade rating.

In terms of amount, the investment in mixed investment funds represents the lion's share of the asset allocation for the plan assets. The deliberate investment in various asset classes and the general restriction to traditional investment instruments serve to ensure a risk-mitigating minimum diversification and also reflect a conservative underlying strategy. The high proportion of bonds with a long-term benchmark (such as government and corporate bonds, and Pfandbriefs) held in the fund implies low volatility with the intention of balancing the development in the value of the long-term pension commitments that follows general interest rates.

The following table shows a detailed breakdown of the mixed investment fund: (in %)

	2013	2012
Equities	17.2	12.5
German equities	4.8	3.5
European equities	11.4	8.0
Other equities	1.0	1.0
Government bonds	24.7	28.5
Pfandbriefs	8.4	9.0
Corporate bonds	33.3	33.3
German corporate bonds	13.6	15.8
European corporate bonds	16.9	15.7
Other corporate bonds	2.8	1.8
Fund certificates	10.3	4.6
Cash and cash equivalents/term deposits	6.1	12.1
Total	**100.0**	**100.0**

The plan assets comprised own financial instruments of the Group, property occupied by
and other assets used by HVB Group companies at the reporting date:

(€ millions)

	2013	2012
Participating interests	—	—
Debt securities	15	11
Properties	7	7
Mixed investment funds	498	488
Property funds	—	—
Cash and cash equivalents/term deposits	140	40
Other assets	—	—
Total	**660**	**546**

Future cash flows
There are financing agreements at HVB Group that contain measures to fund defined benefit plans. The minimum funding requirements included in the agreements may have an impact on future contribution payments. In the case of HVB Trust Pensionsfonds AG, HVB Group is liable for calls for additional capital should the assets fall below the minimum cover provision. For HVB Pensionskasse, the Bank is required to make an additional contribution if the permanent financing of the obligations is no longer ensured. No such requirement for calls for additional capital exists for the CTA.

HVB Group intends to make contributions of €10 million (2013: €30 million) to defined benefit plans in the 2014 financial year.

The weighted average duration of HVB Group's defined benefit obligations at the reporting date amounted to 15.7 years.

Multi-employer plans
HVB Group is a member of Versorgungskasse des Bankgewerbes e.V. (BVV), which also includes other financial institutions in Germany in its membership. BVV provides company pension benefits for eligible employees of the sponsoring companies. The BVV tariffs allow for fixed pension payments with profit participation. On account of the employer's statutory subsidiary liability applicable in Germany (Section 1 (1) 3 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG)), HVB Group classifies the BVV plan as a multi-employer defined benefit plan.

Since the available information is not sufficient to allow this plan to be accounted for as a defined benefit plan by allocating to the individual member companies the assets and the pension obligations relating to active and former employees, HVB Group accounts for the plan as if it were a defined contribution plan.

In the event of a plan deficit, the Group may be exposed to investment risk and actuarial risk. HVB Group does not currently expect that the statutory subsidiary liability will be used.

HVB Group expects to book employee contributions of €18 million for this pension plan in the 2014 financial year (2013: €18 million).

Notes to the Balance Sheet (Continued)

Defined contribution plans

HVB Group companies pay fixed amounts for each period to independent pension organisations for the defined contribution pension commitments. The contributions for the defined contribution plans and Pensions-Sicherungs-Verein VVaG (PSVaG) recognised as current expense under payroll costs totalled €38 million during the reporting period (2012: €77 million).

Allowances for losses on financial guarantees and irrevocable credit commitments, restructuring provisions, actuarial provisions and other provisions

(€ millions)

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES AND COMMITMENTS AND IRREVOCABLE CREDIT COMMITMENTS	RESTRUCTURING PROVISIONS	ACTUARIAL PROVISIONS	OTHER PROVISIONS
Balance at 1 January 2013	**527**	**184**	**27**	**1,077**
Changes in consolidated group	(63)	—	—	30
Changes arising from foreign currency translation	(2)	—	—	(6)
Transfers to provisions	263	380[1]	—	691
Reversals	(526)	(34)[1]	—	(350)
Reclassifications	5	(103)	—	32
Amounts used	—	(27)	—	(255)
Non-current assets or disposal groups held for sale	—	—	—	—
Other changes	—	—	(27)	—
Balance at 31 December 2013	**204**	**400**	**—**	**1,219**

1 the transfers and reversal are included in the income statement under restructuring costs together with other restructuring costs accruing during the reporting period

Allowances for losses on financial guarantees and irrevocable credit commitments

The biggest individual item in the reversal of allowances for losses on financial guarantees and irrevocable credit commitments in the reporting period totalling €526 million relates to credit lines extended to the BARD Group. Open credit commitments still available at year-end 2012 were utilised during the course of 2013, meaning that the related provisions for credit lines had to be reversed and specific loan-loss allowances increased at the same time. Due to the specific circumstances of the case, it is hard to determine when the allowance for losses on financial guarantees and irrevocable credit commitments will be utilised, and hence when an outflow of funds will take place. The comments in this regard in Note 81 are fundamentally applicable analogously, although it is assumed that the allowances will be utilised in these cases.

Restructuring provisions
The additions of €380 million to restructuring provisions in 2013 relate for the most part to the modernisation of the retail banking business. This represents the amounts required to cover severance payments and the cost of closing branches, most of which are expected to be utilised in 2014 and 2015. The reclassifications and amounts used contain restructuring programmes from earlier years, including the provisions set up in the previous year to cover the changes to HVB Group's organisational structure and the provisions set up in 2011 for the strategic reorientation of Corporate & Investment Banking.

Actuarial provisions
The actuarial provisions relate to commitments arising from reinsurance policies written by our Grand Central Re Ltd. subsidiary. These provisions were paid off in 2013.

Other provisions
Other provisions include provisions for legal risks, litigation fees, damage payments, anticipated losses including rental guarantees, pre-emptive rights and long-term liabilities to employees such as service anniversary awards, early retirement or partial retirement.

The amount of the respective provisions reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

Other provisions also include the parts of the bonus that are disbursed on a deferred basis with the waiting period exceeding one year. The disbursement of these bonuses is additionally dependent upon the achievement of pre-defined targets. The bonus commitments for the 2010, 2011, 2012 and 2013 financial years to be disbursed as of 2014 are included here accordingly. The bonus provisions included here have been taken to the income statement in both the reporting period and the previous financial years. It is considered highly probable that the bonus will be disbursed. For details of the bonus plan, please refer to Note 37.

With the exception of the provisions for rental guarantees and pre-emptive rights, the other provisions are normally expected to be utilised during the following financial year.

Notes to the Balance Sheet (Continued)

70 Shareholders' equity
The shareholders' equity of HVB Group at 31 December 2013 consisted of the following:

Subscribed capital
At 31 December 2013, the subscribed capital of HVB totalled €2,407 million (2012: €2,407 million) and consisted of 802,383,672 no par shares of common bearer stock (2012: 802,383,672 no par shares).

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share. The shares are fully paid in.

Additional paid-in capital
The additional paid-in capital results from premiums generated on the issuance of shares; the total at 31 December 2013 amounted to €9,791 million (2012: €9,791 million).

Other reserves
The other reserves of €7,920 million (2012: €7,759 million) essentially comprise retained earnings. The year-on-year increase of €161 million in other provisions can essentially be attributed to a transfer of €277 million from consolidated profit partially offset by adjustments of €52 million in pensions and similar obligations and other changes of €57 million.

Change in valuation of financial instruments
The reserves arising from changes in the valuation of financial instruments recognised in equity totalled €88 million (2012: €56 million) at 31 December 2013. This rise of €32 million compared with year-end 2012 can be attributed almost exclusively to the €33 million increase in the AfS reserve to €63 million, resulting primarily from positive fair value fluctuations of fixed-income securities classified as available for sale. The hedge reserve similarly included in the reserves arising from changes in the value of financial instruments recognised in equity decreased by €1 million compared with year-end 2012 to €25 million.

71 Subordinated capital
The following table shows the breakdown of subordinated capital included in deposits from banks and customers and debt securities in issue: (€ millions)

	2013	2012
Subordinated liabilities	1,650	2,103
Hybrid capital instruments	47	358
Total	**1,697**	**2,461**

Pursuant to Section 10 (4 and 5a) in connection with Section 64m (1) KWG and in accordance with the Capital Accord introduced by the Basel Committee on Banking Supervision, subordinated capital (subordinated liabilities and hybrid capital instruments) was carried as core capital and supplementary capital.

The following table shows the breakdown of subordinated capital by balance sheet item: (€ millions)

	2013	2012
Deposits from customers	114	160
Deposits from banks	142	537
Debt securities in issue	1,441	1,764
Total	**1,697**	**2,461**

We have incurred interest expenses of €96 million (2012: €148 million) in connection with this subordinated capital. Subordinated capital includes proportionate interest of €58 million (2012: €60 million).

Subordinated liabilities
The borrower cannot be obliged to make early repayments in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated liabilities can only be repaid after the claims of all primary creditors have been settled.

There were subordinated liabilities of €388 million payable to related parties in 2013 (2012: €785 million).

Participating certificates outstanding
In accordance with the terms and conditions of the participating certificates, all bearer participating certificates issued by UniCredit Bank AG expired on 31 December 2011. The nominal amounts to be repaid fell due for payment on 2 July 2012, attracting interest over the period between the expiry date and the repayment date. No further interest payments were disbursed for the 2013 financial year.

Hybrid capital instruments
At 31 December 2013, HVB Group had hybrid core capital of €47 million (2012: €358 million, eligible amount compliant with the German Banking Act) to bolster its capital base.

Hybrid capital instruments may include, in part, issues placed by specially created subsidiaries in the form of capital contributions from silent partners.

These instruments differ from supplementary capital in that they are subject to more stringent conditions in terms of maturity. The terms of issue for capital contributions from silent partners envisage a minimum term of 30 years. In addition, hybrid capital instruments are not repaid until after supplementary capital has been repaid (subordinated liabilities) in the event of bankruptcy.

In contrast to traditional components of core capital such as shares, the claim to a share of profit takes the form of a fixed interest payment in the case of hybrid capital. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

Both the German Federal Banking Supervisory Authority and the Basel Committee on Banking Supervision have expressly confirmed the recognition of hybrid capital for banking supervisory purposes. The eligibility of hybrid core capital under Section 64m KWG is continued by the version of the German Banking Act applicable from 31 December 2010.

Notes to the Cash Flow Statement

72 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the year under review. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown correspond to the "Cash and cash balances" item in the balance sheet, comprising both cash on hand and deposits with central banks repayable on demand.

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interests in net income.

Gains of €72 million (2012: €0 million) were realised on the sale of shares in fully consolidated companies, of which €72 million in cash in the 2013 financial year.

The following table shows the assets and liabilities of the fully consolidated companies sold: (€ millions)

	2013		2012	
	ACQUIRED	SOLD	ACQUIRED	SOLD
Assets				
Cash and cash balances	—	—	—	6
Financial assets held for trading	—	—	—	—
Financial assets at fair value through profit or loss	—	—	—	—
Available-for-sale financial assets	—	69	—	1
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	—	—	—	—
Held-to-maturity investments	—	—	—	—
Loans and receivables with banks	—	—	—	—
Loans and receivables with customers	—	711	—	42
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Property, plant and equipment	—	—	—	—
Investment properties	—	—	—	—
Intangible assets	—	—	—	—
of which: goodwill	—	—	—	—
Tax assets	—	32	—	—
Non-current assets or disposal groups held for sale	—	32	—	—
Other assets	—	3	—	16
Liabilities				
Deposits from banks	—	—	—	37
Deposits from customers	—	—	—	75
Debt securities in issue	—	—	—	—
Financial liabilities held for trading	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Tax liabilities	—	—	—	—
Liabilities of disposal groups held for sale	—	23	—	—
Other liabilities	—	15	—	5
Provisions	—	—	—	—

There were no acquisitions of subsidiaries or associated companies in the 2012 and 2013 financial years.

Other Information

73 Information regarding lease operations

HVB Group as lessor

Operating leases

HVB Group acts as a lessor under operating leases. The relevant lease agreements notably encompass real estate (land and buildings) and movable assets such as plant and office equipment, aircraft, motor vehicles and industrial machinery in the reporting period. The lease agreements for real estate are based on customary market terms and contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have generally not been agreed. The lease agreements for movable assets have generally been concluded with lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the breakdown of the minimum lease payments to be received on non-cancellable operating leases: (€ millions)

	2013	2012
Remaining maturity:		
up to 12 months	124	58
from 1 year to 5 years	301	285
from 5 years and over	171	224
Total	**596**	**567**

Finance leases

HVB Group leases mobile assets as a lessor under finance leases. This notably includes plant and office equipment, aircraft, motor vehicles and industrial machinery. As a general rule, the lease agreements stipulate lease periods of between four and ten years and possibly a pre-emptive right in favour of the lessor; they do not contain any extension or price adjustment clauses.

The following table shows the reconciliation from the future minimum lease payments to the gross and net investment in the lease and to the present value of the future minimum lease payments at the reporting date. The amounts receivable from lease operations (finance leases) consist of the following: (€ millions)

	2013	2012
Future minimum lease payments:	2,259	2,143
+ Unguaranteed residual value	—	—
= Gross investment	**2,259**	**2,143**
– Unrealised finance income	(164)	(198)
= Net investment	**2,095**	**1,945**
– Present value of unguaranteed residual value	—	—
= Present value of future minimum lease payments	**2,095**	**1,945**

The future minimum lease payments reflect the total lease payments to be made by the lessee under the lease agreement plus the guaranteed residual value.

The unguaranteed residual value is that portion of the residual value of the leased asset which is not guaranteed to be realised by the lessor.

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment). It corresponds to the return implicit in the lease between the reporting date and the end of the lease.

The present value of the minimum lease payments is calculated as the net investment in the lease less the present value of the unguaranteed residual value.

Other Information (Continued)

The following table shows the remaining maturity of the gross investment in the leases and the present value of the minimum lease payments: (€ millions)

	GROSS INVESTMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2013	2012	2013	2012
Remaining maturity:				
up to 12 months	775	723	725	658
from 1 year to 5 years	1,401	1,321	1,294	1,200
from 5 years and over	83	99	76	87
Total	**2,259**	**2,143**	**2,095**	**1,945**

The cumulative write-downs on uncollectible outstanding minimum lease payments in amounts receivable from customers under finance leases amounted to €3 million at the end of the reporting period (2012: €3 million).

The amounts receivable under finance leases included in loans and receivables with customers are shown net of allowances for losses on loans and receivables in each case (see Note 52). These break down as follows: (€ millions)

	2013	2012
Properly serviced loans and receivables		
Carrying amount before allowances	2,041	1,877
Portfolio allowances	9	7
Carrying amount	**2,032**	**1,870**
Properly serviced loans and receivables past due		
Carrying amount before allowances	7	13
Portfolio allowances	—	—
Carrying amount	**7**	**13**
Non-performing loans and receivables		
Carrying amount before allowances	72	72
Specific allowances	16	10
Carrying amount	**56**	**62**

The non-performing loans and receivables from finance leases are essentially allocated to rating classes 8–, 9 and 10.

(€ millions)

	2013	2012
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1–30 days	7	13
31–60 days	—	—
61–90 days	—	—

(€ millions)

	2013	2012
Value of collateral, broken down by period past due		
1–30 days	4	3
31–60 days	—	—
61–90 days	—	—

(€ millions)

	2013	2012
Loans and receivables, broken down by rating class		
Not rated	261	192
Rating class 1–4	1,256	511
Rating class 5–8	511	1,180
Rating class 9–10	67	62
Collateral, broken down by rating class		
Not rated	16	2
Rating class 1–4	179	156
Rating class 5–8	42	49
Rating class 9–10	18	31

The presentation of the collateral broken down by rating class does not include the leased assets of €655 million (2012: €506 million) leased to external third parties under finance leases belonging legally to UniCredit Leasing GmbH or its subsidiaries.

HVB Group as lessee

Operating leases

HVB Group acts as lessee under operating leases. The current obligations in the reporting period relate primarily to rental and lease agreements for real estate (land and buildings) and movable assets, mainly comprising plant, office equipment and motor vehicles. The lease agreements for real estate generally contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have been agreed in some cases. The lease agreements for movable assets have been concluded at customary market terms for lease periods of between three and nine years.

In the reporting period, the commitments arising from operating leases under lease and sublease agreements resulted in minimum lease payments of €139 million (2012: €151 million) being recognised as expense in the income statement.

The following table shows the cumulative minimum lease payments arising from non-cancellable operating leases to be expected in future financial years:

(€ millions)

	2013	2012
Remaining maturity:		
up to 12 months	114	128
from 1 year to 5 years	150	169
from 5 years and over	73	62
Total	**337**	**359**

The agreements regarding the outsourcing of ICT processes to the UniCredit-wide service provider UBIS include the charged transfer of rights to use assets in the form of operating leases. The full service contracts concluded annually in this regard consist for the most part of rent payments for the provision of hardware and software that are included in the minimum lease payments of €47 million for the reporting period and €41 million for the following financial year mentioned above.

HVB Group has concluded sublease agreements for real estate at customary market terms, some of which include rent adjustment clauses and extension options. Payments of €7 million (2012: €7 million) received from subleases were recognised as income in the income statement during the reporting period.

The aggregate future minimum lease payments arising from non-cancellable subleases expected to be received in the subsequent financial years amount to €12 million (2012: €16 million).

Other Information (Continued)

Finance leases

The finance leases entered into by HVB Group as lessee relate to real estate (land and buildings). The lease agreements generally contain an option to purchase and price adjustment clauses.

The following table shows the reconciliation from the aggregate future minimum lease payments at the reporting date to their present value. This gives rise to the amounts payable to customers from lease operations (finance leases):

(€ millions)

	2013	2012
Future minimum lease payments	404	448
– Finance charge (interest included in minimum lease payments)	(64)	(93)
= Present value of future minimum lease payments	**340**	**355**

The difference between the future minimum lease payments and their present value represents unamortised interest expense.

The following table shows the remaining maturity of the future minimum lease payments and their present value at the reporting date:

(€ millions)

	FUTURE MINIMUM LEASE PAYMENTS		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2013	2012	2013	2012
Remaining maturity:				
up to 12 months	142	32	140	23
from 1 year to 5 years	61	191	56	178
from 5 years and over	201	225	144	154
Total	**404**	**448**	**340**	**355**

The aggregate future minimum lease payments arising from non-cancellable subleases that are expected to be received in the subsequent financial years amount to €18 million (2012: €27 million).

74 Application of reclassification rules defined in IAS 39.50 et seq.

No further reclassifications have been carried out since 2010. The intention to trade no longer exists for the assets reclassified in 2008 and 2009 since the markets in these financial instruments had become illiquid as a result of the extraordinary circumstances created by the financial crisis (2008/09) through to the time of reclassification. Given the high quality of the assets concerned, HVB intends to retain the assets for a longer period. HVB has not reclassified any assets from the available-for-sale portfolio.

The following table shows the development of the reclassified holdings:

(€ billions)

RECLASSIFIED ASSET-BACKED SECURITIES AND OTHER DEBT SECURITIES	CARRYING AMOUNT OF ALL RECLASSIFIED ASSETS[1]	FAIR VALUE OF ALL RECLASSIFIED ASSETS	NOMINAL AMOUNT OF ALL RECLASSIFIED ASSETS
Reclassified in 2008			
Balance at 31/12/2008	13.7	11.8	14.6
Balance at 31/12/2009	9.0	8.0	9.7
Balance at 31/12/2010	6.5	5.9	7.0
Balance at 31/12/2011	4.7	4.0	5.0
Balance at 31/12/2012	3.4	3.0	3.6
Balance at 31/12/2013	2.5	2.3	2.6
Reclassified in 2009			
Balance at 31/12/2009	7.3	7.4	7.4
Balance at 31/12/2010	4.6	4.5	4.6
Balance at 31/12/2011	3.2	3.2	3.3
Balance at 31/12/2012	2.4	2.5	2.5
Balance at 31/12/2013	2.0	2.1	2.1
Balance of reclassified assets at 31/12/2013	**4.5**	**4.4**	**4.7**

1 before accrued interest

The fair value of the financial instruments reclassified as loans and receivables with banks and customers amounts to a total of €4.4 billion at 31 December 2013. If these reclassifications had not been carried out in 2008 and 2009, mark-to-market valuation (including realised disposals) would have given rise to a net gain of €286 million in net trading income in the 2013 financial year. A net gain of €498 million would have arisen in net trading income in 2012, €96 million in 2011, €416 million in 2010 and €1,159 million in 2009, while a net loss of €1,792 million would have accrued in net trading income from the reclassified holdings in 2008. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification.

In 2013, we reversed write-downs of €10 million that had previously been taken on reclassified assets. Write-downs of €31 million were taken on the reclassified assets in 2012 (2011: €3 million, 2010: €8 million, 2009: €80 million, 2008: €63 million). The fair value at the date when the reclassification takes effect represents the new acquisition cost, which in some cases is considerably less than the nominal value. Accordingly, this difference (discount) is to be amortised over the remaining term of the reclassified financial assets. This together with the reclassified securities that had matured or been partially repaid gives rise to an effect of €38 million (2012: €66 million, 2011: €100 million, 2010: €160 million, 2009: €208 million, 2008: €127 million), which is recognised in net interest. The effective interest rates for the reclassified securities are in a range from 0.59% to 13.89%.

A gain of €0 million (2012: €21 million, 2011: €14 million, 2010: €19 million, 2009: €83 million) on reclassified securities that had been sold was recognised in the income statement in 2013.

In 2013, the reclassifications carried out in 2008 and 2009 resulted in a profit before tax that was €238 million too low. Between the date when the reclassifications took effect and the reporting date, the cumulative net impact on the income statement from the reclassifications already carried out totalled minus €2 million before tax (2013: minus €238 million, 2012: minus €442 million, 2011: plus €15 million, 2010: minus €245 million, 2009: minus €948 million, 2008: plus €1,856 million).

75 Notes to selected structured products

Additional information regarding selected structured products is given below in order to provide greater transparency. Holdings of asset-backed securities (ABS) transactions issued by third parties are shown below alongside tranches retained by HVB Group.

ABS portfolio

In a securitisation transaction, above all the originator transfers credit receivables and/or credit risks to third parties. The securitisation itself is usually performed via special purpose vehicles (SPVs). In order to refinance the acquisition of receivables, these SPVs issue securities on the capital market that are secured by the receivables acquired. This serves to transfer the associated credit risks to investors in the form of asset-backed securities. The securities issued by SPVs are generally divided into tranches which differ above all in terms of seniority in the servicing of claims to repayment and interest payments. These tranches are generally assessed by rating agencies.

Depending on the underlying assets in a securitisation transaction, the following types of security among others are distinguished in ABS transactions:
– residential mortgage-backed securities (RMBS) relating to mortgage loans in the private sector (residential mortgage loans)
– commercial mortgage-backed securities (CMBS) relating to mortgage loans in the commercial sector (commercial mortgage loans)
– collateralised loan obligations (CLO) relating to commercial bank loans
– collateralised bond obligations (CBO) relating to securities portfolios

Besides this, consumer loans, credit card receivables and receivables under finance leases are also securitised.

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by rating class (€ millions)

CARRYING AMOUNTS		31/12/2013 SENIOR	31/12/2013 MEZZANINE	31/12/2013 JUNIOR	31/12/2013 TOTAL	31/12/2012 TOTAL
Positions retained from own securitisations		**—**	**106**	**—**	**106**	**97**
Positions in third-party ABS transactions		**3,449**	**1,196**	**—**	**4,645**	**4,742**
Residential mortgage-backed securities (RMBS)		1,867	472	—	2,339	2,192
thereof:						
US subprime		1	—	—	1	1
US Alt-A		1	—	—	1	2
Commercial mortgage-backed securities (CMBS)		621	171	—	792	1,108
Collateralised debt obligations (CDO)		61	—	—	61	88
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		431	417	—	848	877
Consumer loans		349	95	—	444	302
Credit cards		—	—	—	—	—
Receivables under finance leases		107	41	—	148	151
Others		13	—	—	13	24
Total	**31/12/2013**	**3,449**	**1,302**	**—**	**4,751**	
	31/12/2012	**3,364**	**1,453**	**22**	**4,839**	
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2013**	**—**	**24**	**—**	**24**	
	31/12/2012	**—**	**25**	**—**	**25**	

1 the amounts shown in the table represent the carrying amount (fair value)

The positions are classified as senior, mezzanine and junior on the basis of external ratings, or internal ratings where no external rating exists. Only those tranches with the best rating are carried as senior tranches. Only tranches with low ratings (worse than BB- in external ratings) and unrated tranches (known as first loss pieces) are carried as junior tranches; all other tranches are grouped together as mezzanine tranches.

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by region (€ millions)

CARRYING AMOUNTS		31/12/2013 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**106**	**—**	**—**	**—**	**106**
Positions in third-party ABS transactions		**4,087**	**424**	**7**	**127**	**4,645**
Residential mortgage-backed securities (RMBS)		2,242	3	7	87	2,339
thereof:						
US subprime		—	1	—	—	1
US Alt-A		—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		719	73	—	—	792
Collateralised debt obligations (CDO)		7	37	—	17	61
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		591	234	—	23	848
Consumer loans		375	69	—	—	444
Credit cards		—	—	—	—	—
Receivables under finance leases		140	8	—	—	148
Others		13	—	—	—	13
Total	**31/12/2013**	**4,193**	**424**	**7**	**127**	**4,751**
	31/12/2012	**4,062**	**577**	**19**	**181**	**4,839**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2013**	**—**	**24**	**—**	**—**	**24**
	31/12/2012	**—**	**25**	**—**	**—**	**25**

1 the amounts shown in the table represent the carrying amount (fair value)

Other Information (Continued)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by remaining maturity (€ millions)

CARRYING AMOUNTS		31/12/2013 LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**48**	**58**	**—**	**106**
Positions in third-party ABS transactions		**329**	**3,230**	**1,086**	**4,645**
Residential mortgage-backed securities (RMBS)		42	1,418	879	2,339
thereof:					
US subprime		—	1	—	1
US Alt-A		—	1	—	1
Commercial mortgage-backed securities (CMBS)		105	591	96	792
Collateralised debt obligations (CDO)		—	7	54	61
thereof:					
US subprime		—	—	—	—
US Alt-A		—	—	—	—
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		44	771	33	848
Consumer loans		98	322	24	444
Credit cards		—	—	—	—
Receivables under finance leases		36	112	—	148
Others		4	9	—	13
Total	**31/12/2013**	**377**	**3,288**	**1,086**	**4,751**
	31/12/2012	**543**	**3,073**	**1,223**	**4,839**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2013**	**—**	**24**	**—**	**24**
	31/12/2012	**25**	**—**	**—**	**25**

1 the amounts shown in the table represent the carrying amount (fair value)

Positions retained from own securitisation transactions and in third-party ABS transactions, broken down by class as per IAS 39 (€ millions)

CARRYING AMOUNTS		31/12/2013 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**106**	**106**
Positions in third-party ABS transactions		**268**	**41**	**3,866**	**74**	**396**	**4,645**
Residential mortgage-backed securities (RMBS)		87	14	2,180	1	57	2,339
thereof:							
US subprime		—	—	—	1	—	1
US Alt-A		—	—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		78	8	696	—	10	792
Collateralised debt obligations (CDO)		—	6	38	17	—	61
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	—	—	—	—
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		47	9	434	50	308	848
Consumer loans		33	—	405	6	—	444
Credit cards		—	—	—	—	—	—
Receivables under finance leases		23	—	104	—	21	148
Others		—	4	9	—	—	13
Total	**31/12/2013**	**268**	**41**	**3,866**	**74**	**502**	**4,751**
	31/12/2012	**401**	**44**	**3,948**	**79**	**367**	**4,839**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2013**	**24**	**—**	**—**	**—**	**—**	**24**
	31/12/2012	**25**	**—**	**—**	**—**	**—**	**25**

1 the amounts shown in the table represent the carrying amount (fair value)

Other Information (Continued)

76 Fair value hierarchy

We show financial instruments measured at fair value and recognised at fair value in the balance sheet separately in a fair value hierarchy in the following table. This fair value hierarchy is divided into the following levels:

Level 1 contains financial instruments measured using prices of identical assets or liabilities listed on an active market. These prices are incorporated unchanged. We have assigned mostly listed equity instruments, bonds and exchange-traded derivatives to this category.

Assets and liabilities whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data are shown in Level 2. No price can be observed on an active market for the assets and liabilities concerned themselves. As a result of this, we notably show the fair values of interest rate and credit derivatives in this level together with the fair values of ABS bonds, provided a liquid market exists for the asset class in question.

Financial assets and liabilities of €1,271 million (2012: €3 million) have been transferred between Level 1 and Level 2. Much of this total relates to fixed-income securities for which the market price can no longer be observed on an active market. At the same time, financial assets and liabilities of €5,531 million (2012: €0 million) were migrated between Level 2 and Level 1. The migration to Level 1 relate notably to fixed-income securities, attributable to the harmonisation with UniCredit's standard independent price verification (IPV) process. Among other things, this makes it possible to provide more comprehensive market data and employ more accurate methods to determine market activity and ensure access to specific markets.

The following table shows transfer between Level 1 and Level 2 for financial instruments whose fair value is determined on a recurring basis:

(€ millions)

		TO LEVEL 1	TO LEVEL 2
Financial assets held for trading			
	Transfer from Level 1	—	404
	Transfer from Level 2	1,563	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	459
	Transfer from Level 2	3,766	—
Available-for-sale financial assets			
	Transfer from Level 1	—	399
	Transfer from Level 2	—	—
Financial liabilities held for trading			
	Transfer from Level 1	—	9
	Transfer from Level 2	202	—

Within the scope of IFRS disclosures, 1 January is considered the transfer date for instruments transferred between the levels in the first half of the reporting period (1 January to 30 June). 1 July is considered the transfer date for transfers in the second half of the reporting period (1 July to 31 December).

Level 3 relates to assets or liabilities for which the fair value cannot be calculated exclusively on the basis of observable market data (non-observable input data). The amounts involved are stated in Level 2 if the impact of the non-observable input date on the determination of fair value is insignificant. Thus, the respective fair values also incorporate valuation parameters based on model assumptions. This includes derivatives and structured products that contain at least one "exotic" component, such as foreign currency or interest rate derivatives on illiquid currencies, derivatives without standard market terms, structured products with an illiquid underlying as reference and ABS bonds of an asset class for which no liquid market exists.

If the value of a financial instrument is based on non-observable input parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the reporting date. Appropriate values are determined for these non-observable parameters and applied for valuation purposes, when the annual financial statements are prepared, reflecting the prevailing market conditions. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

Transfers to and from Level 3 relate mainly to fixed-income securities. For the most part, these result from the changeover to the standard corporate IPV process. The standard corporate IPV process takes account of the prices on several markets and also employs a more accurate method.

The following measurement methods are applied for each product type, broken down by the individual classes of financial instrument. The valuations for financial instruments in fair value Level 3 depend upon the following significant parameters that cannot be observed on the market:

PRODUCT TYPE	MEASUREMENT METHOD	SIGNIFICANT NON-OBSERVABLE PARAMETERS	RANGE
Fixed-income securities and other debt instruments	Market approach	Price	95%–100%
			0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	0BPS–34%
		Residual value	0%–50%
		Default rate	0%–8%
Equity derivatives	Option price model DCF method	Equity volatility	25%–120%
		Correlation between equities	(100)%–100%
		Dividend yields	0%–20%
Interest rate derivatives	DCF method option price model	Swap interest rate	30BPS–1,000BPS
		Inflation swap interest rate	120BPS–230BPS
		Inflation volatility	1%–10%
		Interest rate volatility	5%–100%
		Correlation between interest rates	20%–100%
Credit derivatives	Option price model	Credit spread curves	10BPS–150%
		Credit correlation	20%–80%
		Residual value	5%–95%
		Credit volatility	35%–50%
Currency derivatives	DCF method correlation price model	Yield curves	30BPS–1,000BPS
		FX correlation	1%–30%
Commodity derivatives	DCF method option price model	Correlation between commodities	(100)%–100%
		Swap interest rate	70%–130%
		Commodity price volatility	35%–120%
Hybrid derivatives	Option price model	Parameter correlation	(100)%–100%
		Parameter volatility	25%–120%

On the assets side, derivatives with a market value of €186 million (2012: €309 million) and €286 million (2012: €1,279 million) were transferred to Level 3 and from Level 3 respectively at year-end 2013. On the liabilities side, the market value of the derivatives transferred to Level 3 totalled €45 million (2012: €360 million) and of those transferred from Level 3 €282 million (2012: €1,302 million). The reason for reducing the volume in Level 3 is the improved ability to observe the market parameters on account of shorter remaining maturities. The volume in Level 3 declined by an aggregate of €256 million (2012: €1,860 million) on the assets side and €326 million (2012: €2,509 million) on the liabilities side year-on-year.

The impact of changing possible appropriate alternative parameter values on the fair value (after adjustments) is shown in the sensitivity analysis presented below. For portfolios at fair value through profit or loss, the positive change in fair values at 31 December 2013 resulting from the use of possible appropriate alternatives would be €183 million (2012: €115 million), and the negative change would be minus €104 million (2012: minus €66 million).

Other Information (Continued)

The following table shows the significant sensitivity effects, broken down by the individual classes of financial instrument:

(€ millions)

	2013		2012	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Financial assets held for trading	50	(36)	40	(31)
Financial assets at fair value through profit or loss	5	(3)	15	(15)
Available-for-sale financial assets	13	(13)	11	—
Financial liabilities held for trading	115	(52)	49	(20)
Total	**183**	**(104)**	**115**	**(66)**

The following non-observable parameters were varied (stress test) for the sensitivity analysis for equity derivatives included in Level 3: spot prices for hedge funds, implicit volatility, dividends, implicit correlations and the assumptions regarding the interpolation between individual parameters observable on the market, such as volatilities.

The following parameters were varied for interest rate products in Level 3 as part of the sensitivity analysis: interest rates and interest rate correlations.

More conservative and more aggressive values for correlations between the fair value of the credit derivative (CDS) and the respective underlying and implicit correlations were applied for credit derivatives than was the case as part of the fair value calculation. Furthermore, rating-dependent shifts were assumed for illiquid CDS.

In terms of debt instruments, the credit spread curves were varied as part of the sensitivity analyses in line with rating.

Foreign currency derivatives were varied in terms of interest rates and the implicit volatility.

With equities, the spot price was varied using a relative value.

The following table shows the assignment of the financial assets and financial liabilities shown in the balance sheet to the respective levels of the fair value hierarchy:

(€ millions)

	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1)		FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2)		FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET[1] (LEVEL 3)	
	2013	2012	2013	2012	2013	2012
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	18,540	14,790	71,438	114,128	1,323	2,099
thereof: derivatives	1,989	1,931	60,314	103,210	973	842
Financial assets at fair value through profit or loss	15,247	9,910	13,889	11,535	576	2,837
Available-for-sale financial assets[1]	2,799	3,093	862	813	230	494
Hedging derivatives	—	—	1,053	3,262	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	4,510	5,730	67,609	114,121	1,416	1,650
thereof: derivatives	1,659	1,921	58,271	102,409	714	1,183
Hedging derivatives	—	—	373	1,386	—	—

1 available-for-sale financial assets include financial instruments of €673 million (2012: €1,082 million) valued at historical cost that are not included in these totals at 31 December 2013

The following tables show the development of the financial assets and financial liabilities that are assigned to Level 3 as part of the fair value hierarchy:

(€ millions)

	2013			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2013	**2,099**	**2,837**	**494**	**—**
Additions				
Acquisitions	2,069	87	100	—
Realised gains[1]	53	2	9	—
Transfer from other levels	520	659	93	—
Other additions[2]	195	5	21	—
Reductions				
Sale/repayment	(2,184)	(78)	(111)	—
Realised losses[1]	(95)	(44)	(9)	—
Transfer to other levels	(1,212)	(2,879)	(293)	—
Other reductions	(122)	(13)	(75)	—
Balance at 31/12/2013	**1,323**	**576**	**230**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2013	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2013	**1,650**	**—**
Additions		
Acquisitions	565	—
Realised gains[1]	185	—
Transfer from other levels	775	—
Other additions[2]	72	—
Reductions		
Sale/repayment	(512)	—
Realised losses[1]	(47)	—
Transfer to other levels	(1,146)	—
Other reductions	(126)	—
Balance at 31/12/2013	**1,416**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

Other Information (Continued)

(€ millions)

	2012			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2012	**5,455**	**1,164**	**671**	**—**
Additions				
Acquisitions	1,053	65	123	—
Realised gains[1]	59	3	35	—
Transfer from other levels	711	2,626	18	—
Other additions[2]	162	—	44	—
Reductions				
Sale/repayment	(2,418)	(533)	(149)	—
Realised losses[1]	(27)	(5)	(14)	—
Transfer to other levels	(2,597)	(483)	(194)	—
Other reductions	(299)	—	(40)	—
Balance at 31/12/2012	**2,099**	**2,837**	**494**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2012	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2012	**4,159**	**—**
Additions		
Acquisitions	246	—
Realised gains[1]	97	—
Transfer from other levels	600	—
Other additions[2]	122	—
Reductions		
Sale/repayment	(1,661)	—
Realised losses[1]	(36)	—
Transfer to other levels	(1,653)	—
Other reductions	(224)	—
Balance at 31/12/2012	**1,650**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

77 Fair values of financial instruments compliant with IFRS 7

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is assumed in this context that the transaction takes places on the principal market for the instrument or the most advantageous market to which the Bank has access.

The fair values are calculated using the market information available at the reporting date as well as individual company valuation methods.

(€ billions)

ASSETS	2013 CARRYING AMOUNT	2013 FAIR VALUE	2012 CARRYING AMOUNT	2012 FAIR VALUE
Cash and cash balances	10.6	10.6	15.7	15.7
Financial assets held for trading	91.3	91.3	131.0	131.0
Financial assets at fair value through profit or loss	29.7	29.7	24.3	24.3
Available-for-sale financial assets				
thereof: measured				
at cost	0.7	0.7	1.1	1.1
at fair value	3.9	3.9	4.4	4.4
Held-to-maturity investments	0.2	0.2	0.3	0.3
Loans and receivables with banks	35.3	35.9	36.3	36.9
Loans and receivables with customers	109.6	114.2	122.2	128.7
thereof: finance leases	2.0	2.0	1.9	1.9
Hedging derivatives	1.1	1.1	3.3	3.3
Total	**282.4**	**287.6**	**338.6**	**345.7**

(€ billions)

ASSETS	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 2013	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 2013	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 2013
Financial assets not carried at fair value			
in the balance sheet			
Cash and cash balances	—	10.6	—
Held-to-maturity investments	0.2	—	—
Loans and receivables with banks	0.6	18.7	16.6
Loans and receivables with customers	0.6	14.3	99.3
thereof: finance leases	—	—	2.0

(€ billions)

LIABILITIES	2013 CARRYING AMOUNT	2013 FAIR VALUE	2012 CARRYING AMOUNT	2012 FAIR VALUE
Deposits from banks	47.8	48.6	45.2	46.1
Deposits from customers	107.9	108.1	110.3	110.8
Debt securities in issue	31.8	34.1	35.9	39.4
Financial liabilities held for trading	73.5	73.5	121.5	121.5
Hedging derivatives	0.4	0.4	1.4	1.4
Total	**261.4**	**264.7**	**314.3**	**319.2**

Other Information (Continued)

(€ billions)

LIABILITIES	FAIR VALUE OBSERVED ON AN ACTIVE MARKET (LEVEL 1) 2013	FAIR VALUE BASED ON VALUATION PARAMETERS OBSERVED ON THE MARKET (LEVEL 2) 2013	FAIR VALUE BASED ON VALUATION PARAMETERS NOT OBSERVED ON THE MARKET (LEVEL 3) 2013
Financial liabilities not carried at fair value			
in the balance sheet			
Deposits from banks	—	12.5	36.1
Deposits from customers	—	55.4	52.7
Debt securities in issue	9.8	9.0	15.3

The allocation to the respective levels in the fair value hierarchy is disclosed the first time for the instruments measured at amortised costs as well, as required by IFRS 13.97. IFRS 13.C3 does not require year-ago figures to be shown.

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate. Such instruments are transferred at regular intervals at the amount repayable (such as the repayment of a deposit repayable on demand at the nominal amount), meaning that listed prices for identical and similar instruments are available on inactive markets. These instruments are allocated to Level 2 accordingly.

For other receivables future anticipated cash flows are discounted to their present value using current interest rates taking into account the respective spreads. The spread used here for receivables is determined on the basis of Basel II-compliant expected loss values and the cost of capital. These are internal processes used to determine expected loss figures that cannot be observed on the market. Since the credit spreads are essential for the determination of the other receivables, these instruments are allocated to Level 3.

Quoted market prices are used for exchange-traded securities and derivatives as well as for listed debt instruments. These instruments are allocated to Level 1. The fair value of the remaining securities is calculated as the net present value of anticipated future cash flows. The methods used to determine the fair value levels described in Note 76 are employed for this purpose.

The anticipated future cash flows of the other liabilities are discounted to the present value using current interest rates taking into account internally determined funding premiums. The funding premiums correspond to the parameters that the Bank uses when setting the prices for its own issues. These funding premiums represent internally determined parameters that are essential for the determination of the fair value; the other liabilities are allocated to Level 3 accordingly.

The fair values of single-currency and cross-currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, we apply the market rates applicable for the remaining maturity of the financial instruments.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Options are valued using price quotations or generally accepted models used to calculate the price of options. The common Black & Scholes (equity, currency and index instruments) or lognormal models (interest instruments) are used to value simple European options. In the case of more complex instruments, the interest is simulated using term-structure models with the current interest rate structure as well as caps and swaption volatilities as parameters relevant for valuation. The disbursement structure of the equities or indexes for the complex instruments is valued using either Black & Scholes or a stochastic volatility model with equity prices, volatilities, correlations and dividend expectations as parameters. The methods used to determine the fair value levels described in Note 76 are employed for this purpose.

Investments in joint ventures and associated companies are valued using the equity method, provided they are not of minor significance. Investments in non-consolidated companies and listed companies not accounted for using the equity method are normally carried at their fair value.

Where the fair value of non-listed equity instruments cannot be reliably determined, such assets are recognised at amortised cost.

The difference in HVB Group between the fair values and carrying amounts totals €5.2 billion (2012: €7.1 billion) for assets and €3.3 billion (2012: €4.9 billion) for liabilities. The balance of these amounts is €1.9 billion (2012: €2.2 billion). When comparing carrying amounts and fair values for the hedged items, it should be noted that part of the undisclosed reserves/charges has already been included in the hedge adjustment amount.

78 Disclosures regarding the offsetting of financial assets and liabilities

The information required by IFRS 7 (Disclosures – Offsetting Financial Assets and Financial Liabilities) regarding the offsetting of financial instruments is disclosed for the first time in the 2013 financial year. The following two tables separately show the recognised financial assets and financial liabilities that have already been netted in the balance sheet in accordance with IAS 32.42 together with the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement but that do not satisfy the criteria for offsetting in the balance sheet.

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2013
Derivatives[1]	79,859	(15,530)	64,329	(44,890)	(2,381)	(7,316)	9,742
Reverse repos[2]	11,401	(924)	10,477	—	(9,970)	—	507
Loans and receivables[3]	22,292	(1,209)	21,083	—	—	—	21,083
Total at 31/12/2013	**113,552**	**(17,663)**	**95,889**	**(44,890)**	**(12,351)**	**(7,316)**	**31,332**

1 derivatives are covered in the notes covering financial assets held for trading and hedging derivatives
2 reverse repos are covered in the notes covering loans and receivables with banks and loans and receivables with customers
3 only relates to current accounts and cash collateral or pledged credit balances, as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2013
Derivatives[1]	76,547	(15,530)	61,017	(44,890)	(361)	(9,430)	6,336
Repos[2]	24,546	(924)	23,622	—	(22,679)	—	943
Liabilities[3]	68,865	(1,209)	67,656	—	—	—	67,656
Total at 31/12/2013	**169,958**	**(17,663)**	**152,295**	**(44,890)**	**(23,040)**	**(9,430)**	**74,935**

1 derivatives are covered in the notes regarding financial liabilities held for trading and hedging derivatives
2 repos are covered in the notes covering deposits from banks and deposits from customers
3 only relates to current accounts and cash collateral or pledged credit balances, as covered in the notes covering deposits from banks and deposits from customers

Other Information (Continued)

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	AMOUNTS NOT RECOGNISED			NET AMOUNT 31/12/2012
				EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	
Derivatives[1]	129,517	(20,273)	109,244	(83,932)	(2,449)	(9,963)	12,900
Reverse repos[2]	10,284	(2,866)	7,418	—	(6,920)	—	498
Loans and receivables[3]	26,854	(1,363)	25,491	—	—	—	25,491
Total at 31/12/2012	**166,655**	**(24,502)**	**142,153**	**(83,932)**	**(9,369)**	**(9,963)**	**38,889**

1 derivatives are covered in the notes covering financial assets held for trading and hedging derivatives
2 reverse repos are covered in the notes covering loans and receivables with banks and loans and receivables with customers
3 only relates to current accounts and cash collateral or pledged credit balances, as covered in the notes covering loans and receivables with banks and loans and receivables with customers

Financial liabilities that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

	FINANCIAL LIABILITIES (GROSS)	FINANCIAL ASSETS NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED LIABILITIES (NET)	AMOUNTS NOT RECOGNISED			NET AMOUNT 31/12/2012
				EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	
Derivatives[1]	127,172	(20,273)	106,899	(83,932)	(628)	(15,685)	6,654
Repos[2]	19,794	(2,866)	16,928	—	(16,060)	—	868
Liabilities[3]	74,090	(1,363)	72,727	—	—	—	72,727
Total at 31/12/2012	**221,056**	**(24,502)**	**196,554**	**(83,932)**	**(16,688)**	**(15,685)**	**80,249**

1 derivatives are covered in the notes regarding financial liabilities held for trading and hedging derivatives
2 repos are covered in the notes covering deposits from banks and deposits from customers
3 only relates to current accounts and cash collateral or pledged credit balances, as covered in the notes covering deposits from banks and deposits from customers

Compliant with IAS 32.42, financial assets and liabilities with the same counterparty are to be offset and recognised in the balance sheet at the net amount if such offsetting of the amounts recognised at the present date is legally enforceable and the intention is to settle on a net basis during the normal course of business or to realise the asset and settle the liability simultaneously. The tables show a reconciliation from the gross amounts prior to netting and the set-off amounts to the net amounts after offsetting for these set-offs in the balance sheet. At HVB Group, the set-offs in the balance sheet relate to transactions with central counterparties (CCPs), being OTC derivatives (set-off of the balancing positive and negative market values at currency level) and the receivables and liabilities arising from reverse repos and repos concluded with the same central counterparty. At the same time, listed future-styled derivatives and nettable receivables and liabilities repayable on demand with the same counterparty in the banking business are also offset in the balance sheet.

The column "Effects of master netting arrangements" shows the financial instruments that are subject to legally enforceable master netting arrangement or similar agreement, but which are not netted in the balance sheet as they do not satisfy the IAS 32.42 offsetting requirements as described above. At HVB Group, this includes OTC derivatives and repo transactions with individual counterparties with which legally enforceable master netting arrangements have been concluded allowing netting in the event of default.

In addition, the tables contain the financial instruments received or pledged as collateral in this context and cash collateral. Please refer to Notes 84 and 85 for more information on securities received or pledged as collateral for securities lending transactions without cash collateral not recognised in the balance sheet.

79 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39 (c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €37,383 million (2012: €35,646 million). This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket (€ millions)

	2013						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTHS TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	449	7,756	2,709	3,291	5,540	3,459	8,618
Derivatives on financial assets held for trading	63,276	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	137	762	4,188	23,984	1,614	4
Available-for-sale financial assets	—	131	73	295	2,488	624	990
Held-to-maturity investments	—	—	—	87	108	28	—
Loans and receivables with banks	11,899	9,508	1,112	5,222	7,349	688	5,920
Loans and receivables with customers	10,890	7,461	5,285	9,905	40,129	54,218	182
thereof: finance leases	45	76	126	531	1,406	83	—
Hedging derivatives	—	226	419	1,710	1,961	898	—

(€ millions)

	2012						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTHS TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	1,976	3,883	1,335	5,630	6,620	3,709	5,145
Derivatives on financial assets held for trading	105,982	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	201	912	1,964	20,090	1,966	—
Available-for-sale financial assets	—	152	295	653	2,049	3,433	1,191
Held-to-maturity investments	—	26	3	12	176	50	—
Loans and receivables with banks	15,980	5,566	1,988	4,395	7,643	1,078	13,401
Loans and receivables with customers	13,535	7,974	5,632	12,309	45,925	58,388	1,032
thereof: finance leases	37	65	121	500	1,321	99	—
Hedging derivatives	—	130	259	1,187	2,001	997	—

Other Information (Continued)

Breakdown of non-derivative and derivative financial liabilities by maturity bucket

(€ millions)

	2013						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTHS TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	12,956	7,319	7,449	9,009	7,523	4,323	12
Deposits from customers	56,228	16,195	17,826	9,802	4,194	2,140	—
Debt securities in issue	23	1,344	2,008	4,613	16,925	14,036	—
Financial liabilities held for trading	430	9,958	2,188	1,697	1,846	1,301	2,966
Derivatives on financial liabilities held for trading	60,644	—	—	—	—	—	—
Hedging derivatives	—	88	162	660	1,031	496	—
Credit commitments and financial guarantees	57,194	—	—	—	—	—	—

(€ millions)

	2012						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTHS TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	13,725	3,601	9,321	7,374	10,090	5,368	12
Deposits from customers	60,937	11,770	18,245	9,729	4,579	3,554	—
Debt securities in issue	24	2,352	2,629	2,906	22,190	13,636	—
Financial liabilities held for trading	134	3,402	998	2,558	3,462	1,048	3,601
Derivatives on financial liabilities held for trading	105,513	—	—	—	—	—	—
Hedging derivatives	—	44	88	428	816	338	—
Credit commitments and financial guarantees	55,555	—	—	—	—	—	—

80 Key capital ratios (based on German Commercial Code)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. The yield expectations have been calculated using the allocated capital principle that UniCredit introduced across its entire organisation. Under the principle of dual control, both regulatory capital in the sense of used core capital and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, which is derived from the expectations of the capital market and which has to be earned by our business units. Please refer to the Risk Report for more information about overall bank management.

The supervisory ratios are discussed below.

The capital ratio for banking supervisory purposes defined in the German Solvency Regulation (SolvV) represents the ratio of the eligible equity compliant with Section 10 KWG to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted asset equivalent of these risk positions). Under Section 10 of the German Banking Act in conjunction with Section 2 SolvV, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 4.0%.

The eligible equity which is used to calculate the capital ratio in accordance with the German Solvency Regulation consists of the core capital, the supplementary capital and Tier 3 capital. The Tier 3 capital comprises current subordinated liabilities which are only used to back market risk positions. HVB Group uses internal models in particular to measure market risk positions.

The following table shows equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2013:

Equity funds[1] (€ millions)

	2013	2012
Tier 1		
Shares of common stock	2,407	2,407
Additional paid-in capital, retained earnings, minority interest, own shares	15,712	16,434
Hybrid capital instruments (silent partnership certificates) without prorated interest	47	358
Other	443	434
50% deductible items	(153)	(132)
Total core capital for solvency purposes	**18,456**	**19,501**
Tier 2		
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	235	142
Cumulative shares of preferred stock	—	—
Participating certificates outstanding	—	—
Subordinated liabilities	1,182	1,431
Value adjustment excess for A-IRB positions	311	261
Other	18	18
50% deductible items	(153)	(132)
Total supplementary capital for solvency purposes	**1,593**	**1,720**
Total equity capital	**20,049**	**21,221**
Tier 3 capital	—	—
Total equity funds	**20,049**	**21,221**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

Pursuant to Sections 10 and 10a KWG, the equity funds of HVB Group amounted to €20,049 million at 31 December 2013 (2012: €21,221 million). Supplementary capital includes no unrealised reserves pursuant to Section 10 (2b) 1 No. 6 and 7 KWG.

Our equity funds compliant with the KWG rules are calculated on the basis of the individual financial statements of the consolidated companies, taking into account the special provisions of German banking supervisory regulations.

Other Information (Continued)

The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS: (€ millions)

	CORE CAPITAL	SUPPLEMENTARY CAPITAL	TIER 3 CAPITAL	TOTAL EQUITY FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	21,009	—	—	21,009
Reconciliation to the equity funds compliant with the German Banking Act				
AfS reserve	(63)	—	—	(63)
Hedge reserve	(25)	—	—	(25)
Cumulative shares of preferred stock	—	—	—	—
Deduction of intangible assets	(84)	—	—	(84)
Ineligible profit components under banking supervisory regulations	(1,519)	—	—	(1,519)
Consolidated profit for 2013	(756)	—	—	(756)
Hybrid capital recognised under banking supervisory regulations	47	—	—	47
Eligible portion of certificates outstanding	—	—	—	—
Eligible portion of subordinated liabilities	—	1,182	—	1,182
Reclassifications to Tier 3 capital due to banking supervisory regulations	—	—	—	—
Eligible Tier 3 capital unused	—	—	—	—
Unrealised reserves in land and buildings and in securities	—	—	—	—
Value adjustment excess for A-IRB positions	—	311	—	311
Deductible items due to non-consolidated investments	(23)	(23)	—	(46)
Deductible items compliant with Sect.10 (6a) KWG	(130)	(130)	—	(260)
Other effects	—	253	—	253
Equity funds compliant with the German Banking Act	**18,456**	**1,593**	**—**	**20,049**

(€ billions)

	2013 BASEL II	2012 BASEL II
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	44.3	59.1
off-balance sheet counterparty risk positions	9.2	10.3
other counterparty risk positions[1]	0.3	0.5
derivative counterparty risk positions	9.0	13.2
Total credit risk-weighted assets	**62.8**	**83.1**
Risk-weighted asset equivalent for market risk positions	**9.2**	**12.9**
Risk-weighted asset equivalent for operational risk	**13.5**	**13.8**
Total risk-weighted assets	**85.5**	**109.8**

1 primarily including repos and securities lending transactions

At 31 December 2013, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows: (in %)

	2013 BASEL II	2012 BASEL II
Core capital ratio (Tier 1 ratio)		
[core capital (Tier 1 capital)/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	21.6	17.8
Core capital ratio without hybrid core capital (core Tier 1 ratio)		
[core capital without hybrid core capital (core Tier 1 capital)/		
(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	21.5	17.4
Capital ratio		
[equity funds/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	23.4	19.3

81 Contingent liabilities and other commitments

(€ millions)

	2013	2012
Contingent liabilities[1]	**19,607**	**19,909**
Guarantees and indemnities	19,607	19,909
Other commitments	**37,573**	**35,984**
Irrevocable credit commitments	37,383	35,646
Other commitments[2]	190	338
Total	**57,180**	**55,893**

1 contingent liabilities are offset by contingent assets to the same amount
2 not included in other commitments are the future payment commitments arising from non-cancellable operating leases. These are covered in Note 73.

Financial guarantees and irrevocable credit commitments are shown at their nominal amount (maximum outflow) less provisions set up for this purpose. Neither contingent liabilities nor irrevocable credit commitments contain any significant items. The guarantees and indemnities listed here essentially reflect guarantees and indemnities that the Bank has granted on behalf of customers. Consequently, the Bank has a right of recourse against the customer (contracting party) should the guarantee or indemnity in question be used. An appropriate provision is set up where such a customer's creditworthiness is doubtful. This takes account of the loss suffered by the Bank, as the recourse claim against the contracting party is not considered fully realisable on account of the party's doubtful creditworthiness.

It is hard to anticipate the date at which the contingent liabilities and other commitments mentioned here will result in an outflow of funds. Credit commitments frequently serve as liquidity reserve for the beneficiary in particular, meaning that the amounts are not necessarily utilised at all and hence an outflow of funds is not certain. In terms of financial guarantees, it is important to note that these are conditional payment commitments, meaning that the condition must be met before utilisation becomes possible (such as default on the guaranteed credit in the case of a credit guarantee or non-compliant delivery in the case of a delivery guarantee). Here, too, it is hard to assess whether and when will be the case, as financial guarantees in particular are only ever utilised in exceptional circumstances entailing an outflow of funds.

Securities lending transactions are not recognised, as economic ownership remains with the lender. The Bank only becomes the legal owner of the borrowed securities which are returned to the lender when the lending transaction falls due. Obligations of €19,761 million (2012: €20,678 million) to return securities arising from securities lending transactions are thus offset by borrowed securities of the same amount, which are not carried as assets on the assets side of the balance sheet.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed-end) KG real estate funds offered by our H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Identifiable risks arising from such guarantees have been incorporated by setting up provisions.

Commitments for uncalled payments on shares not fully paid up amounted to €128 million at year-end 2013 (2012: €277 million), and similar obligations for shares in cooperatives totalled €1 thousand (2012: €1 thousand). We were not liable for any defaults on such calls under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG). Under Section 26 GmbHG, we were liable for calls for additional capital of €58 million (2012: €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.

At the reporting date, we had unlimited personal liability arising from shares in 75 partnerships (2012: 73).

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest.

With a Statement of Responsibility dated 21 December 1993, HVB issued an undertaking to the State of Baden-Wuerttemberg (Ministry of Finance) to assume a liquidity provision obligation in the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

In the same way as HVB and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Other Information (Continued)

Contingent liabilities payable to related parties (€ millions)

	2013	2012
Non-consolidated affiliated companies	2,094	2,047
of which: UniCredit S.p.A.	778	591
Joint ventures	—	—
Associated companies	—	—
Other participating interests	96	73
Total	**2,190**	**2,120**

Besides the contingent liabilities attributable to UniCredit S.p.A., the contingent liabilities of €2,094 million (2012: €2,047 million) attributable to non-consolidated affiliated companies include contingent liabilities of €1,316 million (2012: €1,456 million). As in 2012, there were no contingent liabilities attributable to subsidiaries.

82 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

If our shareholding in a particular company declines, our commitment arising from the above Statement of Responsibility is also reduced to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

HVB no longer provides a Statement of Responsibility for companies which left HVB Group during an earlier financial year, but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

83 Trust business

Trust assets (€ millions)

	2013	2012
Loans and receivables with banks	544	568
Loans and receivables with customers	166	202
Equity securities and other variable-yield securities	174	185
Debt securities and other fixed-income securities	—	—
Participating interests	—	—
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	2,372	2,092
Remaining trust assets	1	1
Total	**3,257**	**3,048**

Trust liabilities (€ millions)

	2013	2012
Deposits from banks	709	742
Deposits from customers	2,546	2,305
Debt certificates including bonds	—	—
Other liabilities	2	1
Total	**3,257**	**3,048**

84 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €42.8 billion (2012: €36.4 billion) or transferred them to a collateral pool with the European Central Bank or GC Pooling. It is not always necessary for liabilities to exist in the latter instance. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of assets that we provide as collateral for own liabilities: (€ millions)

	2013	2012
Financial assets held for trading	17,874	13,988
Financial assets at fair value through profit or loss	14,404	10,932
Available-for-sale financial assets	3,614	4,022
Held-to-maturity investments	—	—
Loans and receivables with banks	164	315
Loans and receivables with customers	12,180	11,141
Property, plant and equipment	—	—
Non-recognised received securities pledged on:		
Pledged securities from non-capitalised securities lending transactions	17,611	19,191
Received collateral pledged	7,750	6,308
Total	**73,597**	**65,897**

The collateral pledged from loans and receivables with customers relates to special credit facilities provided by KfW and similar institutions. Furthermore, this concerns non-written-off securitised loans and receivables with customers underlying the Rosenkavalier 2008 true sale transaction (see also Note 60, "Own securitisation"), serving indirectly as collateral for repurchase agreements with the ECB in this context.

The assets pledged by HVB Group as security relate to the following liabilities: (€ millions)

	2013	2012
Deposits from banks	29,763	27,938
Deposits from customers	16,279	15,234
Debt securities in issue	662	—
Financial liabilities held for trading	13,412	7,165
Contingent liabilities	—	—
Obligations to return non-expensed, borrowed securities	13,481	15,560
Total	**73,597**	**65,897**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, figures are disclosed showing the extent to which the security provided may be pledged or sold on by the borrower.

Other Information (Continued)

(€ millions)

	2013	2012
Aggregate carrying amount of assets pledged as security	73,597	65,897
of which:		
may be pledged/sold on	38,873	35,177

85 Collateral received that HVB Group may pledge or sell on
As part of repurchase agreements and collateral agreements for OTC derivatives, HVB Group has received security that it may pledge or sell on at any time without the security provider having to be in arrears. The fair value of this security is €21.9 billion (2012: €15.0 billion).

HVB Group has actually pledged or sold on €7.8 billion (2012: €6.3 billion) of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

The transactions that make it possible to use this collateral were conducted under the customary market terms for repurchase agreements and securities lending transactions.

86 Information on relationships with related parties
Besides the relationships with consolidated, affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies. The quantitative information in this regard can be found in the notes to the balance sheet and the income statement.

HVB has been assigned the role of centre of competence for the markets and investment banking activities of the entire UniCredit corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB.

Furthermore, HVB places excess liquidity efficiently with other UniCredit group companies. The section of the Risk Report entitled “Banks, insurance companies” under “Risk types in detail” in this Annual Report contains further information regarding the exposure to UniCredit and its subsidiaries.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services by means of a service level agreement. HVB incurred expenses of €539.4 million (2012: €549.6 million) for these services during 2013. This was offset by income of €15.7 million (2012: €11.4 million) from services rendered and internal charges. Moreover, software products worth €8.7 million (2012: €11.6 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €66.8 million (2012: €70.5 million) for these services during 2013.

Transactions involving related parties are always conducted on an arm’s length basis.

Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to the members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Management Board and Supervisory Board (€ thousands)

	FIXED COMPENSATION		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVES[2]		PENSION COMMITMENTS		TOTAL	
	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 workers' 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.

For more information about stock options and performance shares, please refer to Note 37 where the UniCredit long-term incentive plan underlying these instruments is described.

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to the Bank.

A sum of €2,991 (2012: €125) was transferred to provisions for pensions in the 2013 financial year to cover the commitments (for death benefits) made to the members of the Management Board.

Other Information (Continued)

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €128,057 thousand (2012: €128,479 thousand).

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1,858 thousand in 2013 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2012: €1,716 thousand).

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 (€)	3.5200	4.0100

Compensation of members of the Supervisory Board

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2013:

(in €)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[1]	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Federico Ghizzoni, Chairman	60,000.00	—	30,000.00	90,000.00	61,515.00[2]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[2]
Beate Dura-Kempf	30,000.00	—	15,000.00	45,000.00	45,000.00
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Werner Habich	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[2]
Klaus-Peter Prinz	30,000.00	—	15,000.00	45,000.00	45,000.00
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45,000.00
Total	**420,000.00**	**137,500.00**	**210,000.00**	**767,500.00**	**693,122.50**[2]

1 subject to a resolution adopted by the Shareholders' Meeting regarding the appropriation of profit available for distribution
2 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

The following table shows the breakdown of compensation paid to members of the Supervisory Board for 2012: (in €)

	FIXED COMPENSATION	COMPENSATION FOR COMMITTEE WORK	VARIABLE COMPENSATION[1]	SUBTOTAL (EXCL. VALUE-ADDED TAX)	TOTAL (EXCL. VALUE-ADDED TAX) where appropriate after deduction of 30% supervisory board tax and 5.5% solidarity surcharge
Federico Ghizzoni, Chairman	60,000.00	—	30,000.00	90,000.00	61,515.00[2]
Peter König, Deputy Chairman	45,000.00	27,500.00	22,500.00	95,000.00	95,000.00
Dr Wolfgang Sprissler, Deputy Chairman	45,000.00	—	22,500.00	67,500.00	67,500.00
Aldo Bulgarelli	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[2]
Beate Dura-Kempf	30,000.00	—	15,000.00	45,000.00	45,000.00
Klaus Grünewald	30,000.00	—	15,000.00	45,000.00	45,000.00
Werner Habich	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Lothar Meyer	30,000.00	55,000.00	15,000.00	100,000.00	100,000.00
Marina Natale	30,000.00	27,500.00	15,000.00	72,500.00	49,553.75[2]
Klaus-Peter Prinz	30,000.00	—	15,000.00	45,000.00	45,000.00
Jens-Uwe Wächter	30,000.00	—	15,000.00	45,000.00	45,000.00
Dr Susanne Weiss	30,000.00	—	15,000.00	45,000.00	45,000.00
Total	**420,000.00**	**137,500.00**	**210,000.00**	**767,500.00**	**693,122.50[2]**

1 based on the resolution adopted by the Shareholders' Meeting regarding the appropriation of profit available for distribution
2 after deduction of 30% supervisory board tax and 5.5% solidarity surcharge

The compensation paid to members of the Supervisory Board is regulated in Article 15 of the Bank's Articles of Association. The currently applicable arrangements under these articles are based on a resolution adopted by the Shareholders' Meeting on 22 September 2010. The compensation is divided into a fixed and a variable, dividend-dependent component. Under the terms of the arrangements, the members of the Supervisory Board receive fixed compensation of €30,000 payable upon conclusion of the financial year and dividend-dependent compensation of €400 for every €0.01 dividend paid above the amount of €0.12 per no par share, but no more than €15,000. The chairman of the Supervisory Board receives twice the compensation stated, the deputy chairmen one and a half times the compensation stated. Furthermore, the members of the Audit Committee each receive fixed annual compensation of €27,500 payable upon conclusion of the financial year. The chairman of the Audit Committee receives twice this amount. The members of the Remuneration & Nomination Committee receive no separate compensation for committee work. Furthermore, every member of the Supervisory Board and every member of the Audit Committee receives a reimbursement for expenses of €250 for attending a meeting of the Supervisory Board or the Audit Committee. In addition, the members of the Supervisory Board are reimbursed their incidental expenses and value-added tax payable on their Supervisory Board activities. If they are members of the Executive Management Committee of UniCredit S.p.A., those members of the Supervisory Board transfer to UniCredit S.p.A. the compensation they receive for supervisory board work, as the performance of supervisory board functions at subsidiaries is considered a typical management duty. Members of the Supervisory Board who belonged to the Supervisory Board for only a part of the financial year receive pro rata compensation. The chairman of the Supervisory Board has an office complete with staff at his disposal. In 2013, expense allowances totalling €39,590.41 (2012: €38,255.87) were paid to members of the Supervisory Board. No remuneration was paid in the 2013 financial year for services provided personally.

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee and their respective immediate family members are considered related parties.

Other Information (Continued)

(€ thousands)

	2013			2012		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	937	7	6,011	1,180	6	4,623
Members of the Supervisory Board of UniCredit Bank AG	4,682	15	8,425	2,754	23	3,664
Members of the Executive Management Committee[1]	—	—	—	—	—	—

1 excluding members of the Management Board and Supervisory Board of UniCredit Bank AG

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% 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.

87 Fees paid to the independent auditors

The following table shows the breakdown of fees of €12 million recorded as expense in the year under review, as paid to the independent auditors Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2013[1]
Fee for	
Auditing of the financial statements	7
Other auditing services	2
Tax consulting services	—
Other services	3

1 excluding value-added tax

88 Employees

Average number of people employed by us

	2013	2012
Employees (excluding apprentices)	19,842	20,153
Full-time	14,514	14,903
Part-time	5,328	5,250
Apprentices	921	997

The staff's length of service was as follows:

(in %)

	WOMEN	MEN	2013	2012
	(EXCLUDING APPRENTICES)		TOTAL	TOTAL
Staff's length of service				
31 years or more	10.6	10.7	10.6	11.1
from 21 years to less than 31 years	27.1	19.1	23.3	22.4
from 11 years to less than 21 years	31.9	25.0	28.6	31.4
less than 11 years	30.4	45.2	37.5	35.1

89 Offices

Offices, broken down by region

		ADDITIONS	REDUCTIONS			
	1/1/2013	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	CHANGE IN CONSOLIDATED GROUP	31/12/2013
Germany						
Baden-Wuerttemberg	35	—	—	—	—	35
Bavaria	528	4	8	17	(3)	504
Berlin	14	—	—	—	—	14
Brandenburg	9	—	—	—	—	9
Bremen	4	1	—	1	—	4
Hamburg	31	1	—	3	1	30
Hesse	19	1	2	1	1	18
Lower Saxony	33	1	—	—	15	49
Mecklenburg-Western Pomerania	9	—	—	1	—	8
North Rhine-Westphalia	27	1	—	—	1	29
Rhineland-Palatinate	27	—	1	1	—	25
Saarland	11	—	2	—	—	9
Saxony	17	1	1	—	—	17
Saxony-Anhalt	11	2	—	—	—	13
Schleswig-Holstein	71	1	1	—	—	71
Thuringia	13	—	—	—	—	13
Subtotal	**859**	**13**	**15**	**24**	**15**	**848**
Other regions						
Africa	1	—	—	—	—	1
Americas	23	—	1	—	(3)	19
Asia	12	—	1	—	—	11
Europe	46	1	1	—	8	54
Subtotal	**82**	**1**	**3**	**—**	**5**	**85**
Total	**941**	**14**	**18**	**24**	**20**	**933**

90 List of holdings pursuant to Section 313 HGB

The separate list of holdings drawn up in compliance with Section 313 (2), HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings of less than 20% and fully consolidated special purposes entities without shareholding of HVB compliant with IAS 27 in connection with SIC 12.

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	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

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
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]

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %		CURRENCY	EQUITY CAPITAL	NET PROFIT
		TOTAL	OF WHICH HELD INDIRECTLY		in thousands of currency units	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]

		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
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			

Other Information (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	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			

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
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			

		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
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				

Other Information (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

Other Information (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.

Other Information (Continued)

91 Members of the Supervisory Board

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

92 Members of the 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**

Munich, 24 February 2014

UniCredit Bank AG
The Management Board

Dr Bohn	Buschbeck	Danzmayr	Diederichs
Hofbauer	Laber	Varese	Dr Weimer

Declaration by the Management Board

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

Munich, 24 February 2014

UniCredit Bank AG
The Management Board

Dr Bohn	Buschbeck	Danzmayr	Diederichs
Hofbauer	Laber	Varese	Dr Weimer

Independent Auditors' Report

We have audited the consolidated financial statements prepared by UniCredit Bank AG, Munich, – comprising the income statement, statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements – and the group management report for the business year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB ("German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of UniCredit Bank AG, Munich, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 3 March 2014

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Leuschner
German Public Auditor

Kopatschek
German Public Auditor

Innovate

Processes and time savings that serve people’s goals.

Thanks to us, farmers can now get funds more rapidly. The Ministry of Agriculture has developed a faster method to make state incentive payments, based on a proposal from our bank.
The method is related to an existing program that allows Customers who meet certain requirements to obtain a **fast-track loan**. When the loan is approved, they can access their funds on the same day. This **innovative solution** is **meeting the needs of 87 percent** of farmers.

Legal Support for the Area Corporate Banking
UniCredit Bank Banja Luka - BOSNIA AND HERZEGOVINA

Corporate Governance

List of Executives and Outside Directorships

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan Chairman 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	
Dr Lothar Meyer Former Chairman of the Management 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]

1 as of 31 December 2013
2 Group directorship

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Klaus-Peter Prinz Employee, UniCredit Luxembourg S.A., Trier		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		HypoVereinsbank Betriebskrankenkasse (HVB BKK), Munich (Chairman), 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, Vienna

Supervisory Board Committees[2]

Remuneration & Nomination Committee[3]
Federico Ghizzoni
Peter König
Dr Wolfgang Sprissler

Audit Committee
Dr Lothar Meyer, Chairman
Aldo Bulgarelli
Peter König
Marina Natale

Nomination Committee[4]
Federico Ghizzoni, Chairman
Peter König
Dr Wolfgang Sprissler

Remuneration Control Committee[4]
Federico Ghizzoni, Chairman
Peter König
Dr Wolfgang Sprissler

Risk Committee[4]
Dr Wolfgang Sprissler, Chairman
Peter König
Dr Lothar Meyer

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Bernd Schreiber
President of the Bavarian Department of State-owned Palaces, Gardens and Lakes, Markt Schwaben

Deputies

Dr Josef Bayer
Leitender Ministerialrat in the Bavarian State Ministry of Finance, Landsberg

Dr Alexander Didczuhn
Leitender Ministerialrat in the Bavarian State Ministry of Finance, Munich

1 as of 31 December 2013
2 see also the Report of the Supervisory Board
3 until 31 December 2013
4 since 1 January 2014

List of Executives and Outside Directorships (Continued)

Management Board

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Dr Andreas Bohn born 1963 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

Women's Council

Patrons:
Dr Theodor Weimer, spokesman of the Bank's Management, Country Chairman Germany and member of the Executive Management Committee of UniCredit S.p.A.
Dr Susanne Weiss, attorney, member of the Bank's Supervisory Board until 31 December 2013 and founding president of the HVB Women's Council

President:
Dr Marita Kraemer, member of the Management Board of Zürich Beteiligungs-Aktiengesellschaft (Deutschland) and member of the Management Board of Zurich Service GmbH, member of the Bank's Supervisory Board since 1 January 2014

In December 2009, HVB became the first bank in Germany to form its own Women's Council, with which it has a new tone in the German banking world ever since. Besides dealing with feedback and comments and regularly discussing economic and social issues relating to women, the Council looks at ways of improving the position of women in the financial sector, among other things. The Council aims to reflect the constantly rising importance of women in financial and purchasing decisions. It helps the Bank to make better provision for the specific needs of female customers and employees. The Council accompanies the Bank, launches initiatives and devises new measures. The Bank benefits from the valuable advisory skills of experienced entrepreneurs and is also helping to reinforce the role of women in German industry. The Council is specifically empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so outstanding entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in workgroups when drawing up the initiatives. For current information about HVB's Women's Council, visit www.hvb-frauenbeirat.de.

Professor Dr Dadja Altenburg-Kohl
Member of the Management Board of Kohl Medical AG,
managing director of kohlpharma GmbH, Prague, Czech Republic

Sigrid Bauschert
Member of the Management Board of Management Circle AG, Eschborn/Ts.

Dr Christine Bortenlänger
Member of the Management Board of Deutsches Aktieninstitut e. V.,
Frankfurt am Main

Stephanie Czerny
Managing director of DLD Media GmbH, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Group Treasury of SGL Carbon SE, Wiesbaden

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
CRO/CFO of Management Link GmbH, Munich

Ines Kolmsee
Chief Executive Officer of SKW Stahl-Metallurgie Holding AG, Unterneukirchen

Dr Marita Kraemer
Member of the Management Board of Zürich Beteiligungs-Aktiengesellschaft (Deutschland) and member of the Management Board of Zurich Service GmbH, Frankfurt am Main

Anja Krusel
Senior Director Finance and Administration of Microsoft GmbH, Unterschleißheim

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Frfr. von Münchhausen
Independent corporate consultant, business mediator
Consulting, training, coaching & mediation, Munich

Andrea Neuroth
Managing director of KION Financial Services GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, Pilati + Partner Rechtsanwälte Notar, Frankfurt am Main

Professor Susanne Porsche
Managing director of summerset GmbH, Munich

Monika Rödl-Kastl
Auditor, tax advisor of Rödl & Partner GbR, Nuremberg

Sabine Schaedle
Head of Project Finance of BMW AG, Munich

Annette Schnell
Owner of Dr. Schnell Chemie GmbH, Munich

Alexandra Schöneck
Owner of Alexandra Schöneck Schatzmeisterei, Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board and Chairwoman of the Management Board of the Schörghuber Group, Munich

Maria-Theresia von Seidlein
Foudner and managing director of S&L Medien Gruppe GmbH, Munich

Claudia Strittmatter
Senior Manager Corporate Finance of Wacker Chemie AG, Munich

Ildikó M. Várady
Head of Finance of Krauss-Maffei Wegmann GmbH & Co. KG, Munich

Dr Susanne Weiss
Attorney and partner in law office Weiss, Walter, Fischer-Zernin,
Munich

Gabriele Zedlmayer
Vice President & Chief Progress Officer Corporate Affairs of Hewlett Packard Company, Zurich

Report of the Supervisory Board

In the year under review the Supervisory Board discharged the responsibilities incumbent on it by law, the Company's Articles of Association and its internal regulations, and within that framework advised the Management Board on the running of the company and monitored its management activities. Again in 2013, the Management Board kept us informed regularly, promptly and comprehensively about the business situation and other fundamental issues concerning corporate management and planning, about the financial development of UniCredit Bank AG (hereinafter referred to as "HVB" or "the Bank"), the earnings situation as well as risk, liquidity and capital management, about significant transactions and legal disputes as well as events of considerable importance to the Bank. This happened primarily during the meetings of the Supervisory Board and its committees, but also in writing at other times. In addition, important topics and pending decisions were discussed at regular meetings between the Spokesman of the Management Board and the Chairman of the Supervisory Board. We were directly consulted on decisions of fundamental importance for the Bank, engaged in comprehensive consultations on the matters at hand and – to the extent necessary – granted our approval after a review. As required, resolutions were also passed outside meetings in written form.

Meetings of the Supervisory Board

The Supervisory Board held five meetings in the 2013 financial year. The Supervisory Board again focused on the performance and financial development of the Bank in a persistently challenging environment in the year under review and also intensively examined the new regulatory requirements for the banking sector and the resulting changes in relevant laws.

At the first meeting of the year held on **15 February 2013**, we discussed the business and risk strategies of the Bank as a whole, particularly with regard to the adaptation of the Bank's business model in an economic and regulatory environment that continues to undergo rapid change, and also examined the budget for 2013. At an additional strategy meeting offered by the Management Board on 12 April 2013, we had the opportunity to consider specific business and risk strategies issues in greater detail.

At the Supervisory Board meeting held on **12 March 2013** devoted to the annual financial statements, we discussed the annual and consolidated financial statements for 2012 with the auditor, which we subsequently approved at the recommendation of the Audit Committee and on the basis of our own intensive review. We also approved the proposed dividend payment. At this meeting, the Chief Risk Officer (CRO) also presented a comprehensive risk report to us, enabling us to gain an overview of the development of credit risk, market risk, operational risk and reputational risk. Moreover, the CRO reported on the recovery and resolution plan for HVB Group. As a systemically important financial institution (SIFI), HVB is required to submit this plan to the German Federal Banking Supervisory Authority (BaFin). In addition, we examined the compliance with the law, tasks and functions of the Cooperation Committee Germany (CCG), which was established under the new organisational structure. This special committee, established at the level of UniCredit S.p.A., serves as a forum for the exchange of ideas between members of the Executive Management Committee of UniCredit S.p.A and the Management Board of the Bank. The Supervisory Board is informed on the issues discussed in the CCG twice a year.

At the meeting held on **15 April 2013** we again addressed the adjusted business and risk strategies of the Bank as a whole, taking into account the changes in the Bank's new organisational structure through the implementation of the GOLD Project. We also discussed the amended 2013 budget resulting from the reorganisation. Moreover, the Supervisory Board considered issues concerning the compensation of Management Board members, and passed related resolutions, taking into account the recommendations of the Remuneration & Nomination Committee.

At the meeting held on **31 July 2013**, the Management Board explained the performance of the Bank and the results for the first half of 2013 (Half-yearly Financial Report) on the basis of detailed documents. In view of the ongoing investigations by the tax authorities on cum/ex trades of the Bank, a resolution was passed at this meeting to form an ad-hoc Supervisory Board committee to take on strategic leadership with regard to the investigations and prepare a recommendation for the Supervisory Board on how to deal with the results.

At the meeting held on **5 November 2013**, the Management Board explained the performance and the results for the first nine months of 2013 (Interim Financial Report at 30 September 2013) on the basis of detailed documents. The CRO also outlined topics in the Integrated Risk Report of HVB Group, particularly the development of risk-taking capacity and loan-loss provisions. At this meeting, the ad-hoc committee formed in July to address the cum/ex trades reported on its work for the first time. Moreover, the Supervisory Board reviewed the efficiency of its work. It also addressed the corporate governance issues in connection with the German legislation to implement CRD IV and the EU Capital Requirements Regulation (CRR I), which came into effect on 1 January 2014, requiring amendments to be made to the internal regulations of the Supervisory Board and the formation of new committees. The issue was again examined in a special session on the topic "CRD IV Implementation Law – CRR Corporate Governance" at which the members of the Supervisory Board again had the opportunity to address and clarify further questions. On 16 December 2013, without holding a meeting, the Supervisory Board approved the amended version of its internal regulations and the formation of new committees. On the same day the remuneration regulations for the Supervisory Board contained in the Bank's Articles of Association were amended at an Extraordinary Shareholders' Meeting, the agenda of which was approved in advance without holding a meeting.

On several occasions in 2013 the Supervisory Board examined the effects of the changes to the Bank's organisational structure, which were finalised on 14 January 2013 (under the **GOLD Project**). The restructuring resulted in the establishment of the segments Corporate & Investment Banking, Commercial Banking – with the business units Unternehmer Bank and Private Clients Bank – Asset Gathering and Other (including Global Business Services, among other units), with the objective of aligning the Bank's structure more closely with the needs and expectations of customers in the region and creating leaner decision-making processes better aligned with regional structures.

In 2013, the Management Board also presented regular reports on the North Sea **wind farm project** financed by the Bank (Bard Offshore 1). It was completed on schedule in 2013 and began generating energy. The Management Board reported several times on the planned development of an alternative investment platform and the related sale of a part of the Bank's private equity portfolio to outside investors (**SWAN Project**). The Supervisory Board approved the SWAN Project on 18 October 2013. In December 2013, HVB sold portions of the private equity portfolio, for which the Corporate & Investment Banking business segment was responsible, to the newly formed SwanCap Opportunities Fund SCS-SIF in Luxembourg. Owing to changes in the regulatory environment, the Bank would be heavily restricted in the medium to long term in its ability to continue with its principal investment activities as organised in the past. In particular against the backdrop of the detrimental effects on the level of economic capital to be maintained (ICAAP) for private equity portfolios, the Management Board decided to reduce the portfolio. In addition, we again considered the further development of our **upstream exposure** last year. Upstream exposure is HVB Group's exposure to UniCredit S.p.A. and its affiliated companies. This is mainly a consequence of the fact that the markets and investment banking activities for the UniCredit corporate group are bundled at HVB and HVB acts as an intermediary between the companies belonging to the group and the market players in the derivatives business. Moreover, HVB contributes to the liquidity position of the UniCredit Group by investing its liquidity surpluses with UniCredit S.p.A. or UniCredit Group companies, for example in bonds. The Supervisory Board was kept constantly up-to-date on the latest status of this exposure at meetings and by written reports. As expected, the upstream exposure remained stable in the year under review. At our meetings in the past year we also regularly discussed the Management Board's **Findings Programme**, which was launched in 2011. The key findings arising from audits of the annual financial statements and from audits by the supervisory authorities are collated in this project, and the timetables for remedying them are subject to close scrutiny and progress monitoring.

Report of the Supervisory Board (Continued)

The Supervisory Board also considered the following topics outside meetings: On 30 April 2013 the Supervisory Board approved the proposed resolutions for the Annual General Meeting of Shareholders on 7 May 2013 and on 16 December 2013 passed the declaration of compliance for 2013. Moreover, on 16 December 2013 it approved the agenda for the Extraordinary Shareholders' Meeting of 17 December 2013.

We obtained information and deliberated on important **legal disputes** on a regular basis last year. As in 2012, these included the proceedings in connection with tax credits. A customer entered into transactions based on the expectation of receiving credits on capital gains tax in relation to German stock dividends which were traded around dividend dates (cum/ex trades). After the tax authorities demanded repayment of the credits on capital gains tax plus interest by the customer as primary debtor and served a liability notice against HVB, which the Bank contested, the customer and the Bank have filed suit against one another seeking indemnification from payment obligations. In this context, the authorities responsible initiated a preliminary investigation against the customer and other suspects (including former and current employees of the Bank). In response to the customer's litigation, the Management Board had already commissioned an internal investigation of the events with the support of an external consultant and informed the responsible authorities that HVB may have entered into certain proprietary trades close to dividend dates and claimed capital gains tax credits in connection with them and filed related applications for reimbursement. The Supervisory Board welcomes and supports the assistance which the Management Board has pledged to provide to the authorities. In October 2011, pursuant to Section 111 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) we commissioned external consultants (a highly respected law practice and a firm of auditors experienced in forensic investigations) to conduct an audit of such matters to achieve complete transparency on the dividend transactions entered into. At almost every Supervisory Board meeting in 2013, the legal advisors thus reported to us on the completed and planned review activities.

In addition, we were informed over the course of the year on the status of the various investigations being conducted by US authorities in connection with past transactions pertaining to certain Iranian individuals and/or legal entities and on the investigations on general compliance with the OFAC regulations on the part of HVB.

The Management Board complied with its obligation under the **German Regulations governing Supervisory Requirements for Institutions' Remuneration Systems** (Instituts-Vergütungsverordnung) to present a report to the Supervisory Board at least once a year on the structure of the Bank's remuneration systems. The report incorporated the report by the Remuneration Committee to the Supervisory Board on the appropriateness of the systems. In addition, we also discussed the Management Board's annual personnel report within the Supervisory Board.

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. No members of the Supervisory Board attended fewer than half of the meetings held in 2013. There were no reportable conflicts of interests. Prior to every Supervisory Board meeting, the Supervisory Board members representing both the employees and the shareholder had the opportunity to address the topics of the meeting in question in preliminary discussions with the Management Board.

Supervisory Board committees

To support its work, the Bank's Supervisory Board set up two standing committees in 2013 (the Remuneration & Nomination Committee and the Audit Committee). In a resolution adopted without holding a meeting on 16 December 2013, to meet the requirements of the CRD IV Implementation Act and its own new internal regulations, the Supervisory Board voted to form a Nomination Committee, a Remuneration Control Committee and a Risk Committee. As a result, the Supervisory Board has had four standing committees since 1 January 2014. A description is given of tasks performed by committees in the Corporate Governance report; their composition is shown in the Supervisory Board list in this Annual Report.

Remuneration & Nomination Committee
The Remuneration & Nomination Committee met three times last year. In particular, it discussed personnel matters of the Management Board and remuneration levels for members of the Management Board, whereby the arrangements were considered in detail, and the adoption of the respective resolutions was prepared for the plenary session of the Supervisory Board. Another topic was the granting of loans to employees and Board members of the Bank. Effective as of 1 January 2014 the tasks of the Remuneration and Nomination Committee were transferred to the Nomination Committee and the Remuneration Control Committee.

Audit Committee
The Audit Committee had five meetings last year. Representatives of the independent auditor took part in all of the meetings. The topic of meetings was the audit of the annual and consolidated financial statements and the report on relations with affiliated companies as well as the discussion of the Half-yearly Financial Report and the Interim Reports at 31 March and 30 September 2013.

The committee considered the proposal on the election of the independent auditor for the 2013 financial year, assessed the qualification and independence of the auditor based on the Statement of Independence pursuant to Section 7.2.1 of the German Corporate Governance Code, gave the audit assignment and agreed the audit fee and the main points of the audit with the auditor. In addition, it gave its consent to additional services being placed with the auditor.

In compliance with the Minimum Requirements for Risk Management (MaRisk), risk reports were submitted to the committee each quarter in the 2013 financial year on the basis of which the CRO explained in particular the development of the risk-taking capacity and of the credit risk, market risk, operational risk, reputational risk and liquidity risk. The committee similarly solicited reports on a quarterly basis on the liquidity situation, the development of the upstream exposure, the status of the offshore wind farm project financed by the Bank and the project to remedy audit findings.

Other topics discussed at length were the risk management system (RMS) and the internal control system (ICS). The efficiency of the individual systems was discussed with the Management Board and measures aimed at refining the systems stipulated; reports on this were presented at several committee meetings. The committee satisfied itself of the efficiency of the internal audit system (IAS).

The committee was also informed on a regular basis about the work and findings of the Internal Audit department and about issues concerning compliance, reputational risk, special audits and findings of the supervisory authorities responsible in each case. The Compliance Officer reported to the committee on the annual compliance report on the securities business and on money laundering prevention and also submitted reports on compliance-related issues on a regular basis and discussed them with it at length. In addition, the committee considered the independent auditor's report on the annual audit of the securities account business and repeatedly examined the comprehensive reports by the Management Board on the Bank's outsourcing arrangements. The committee was informed about the work of the Bank's IT Security, Data Protection and Legal departments. It received regular reports on the progress made on implementing relevant audit findings and issues, and was also provided with the annual plan of the Internal Audit department.

Since 1 January 2014 the Supervisory Board has had a standing Risk Committee pursuant to Section 25d (8) of the German Banking Act (KWG). The Risk Committee advises the Supervisory Board in particular on the Bank's current and future overall risk appetite and risk strategy and supports it in monitoring the implementation of that strategy. The Risk Committee discusses the risk reports each quarter, and key information from the risk point of view is passed on to it immediately. Until 1 January 2014, these tasks were performed by the Audit Committee of the Supervisory Board.

The chairmen of the committees reported in detail at plenary meetings of the Supervisory Board on the topics of the committees' discussions, the results, and the resolutions passed by their respective committees.

Report of the Supervisory Board (Continued)

Corporate governance

In the course of the Bank's delisting in 2008, the Management Board and Supervisory Board decided that HVB would voluntarily comply with the provisions of the German Corporate Governance Code to the extent that these provisions can be applied to an unlisted company with just one shareholder. The Supervisory Board and the Management Board have thus made a voluntary declaration of compliance. The wording of the declaration of compliance of 16 December 2013 and a summarised presentation of the Bank's corporate governance is printed in the Corporate Governance and Compensation Report in the section "Corporate Governance" which follows the present Report of the Supervisory Board of this Annual Report, and is published on our website.

Training and education

The members of the Supervisory Board took on the necessary training and educational measures required for their tasks on their own initiative. In the process, they were appropriately supported by HVB. The Bank offered internal training on the Act on the Strengthening of German Financial Supervision (Gesetz zur Stärkung der deutschen Finanzaufsicht), the new regulations on European banking supervision, the defining conditions and requirements of the recovery and resolution plan of HVB Group, the German Bank Separation Act (Trennbankengesetz), the new accounting principles under IFRS 9 and IFRS 13, as well as in-depth training on the new requirements for supervisory boards of credit institutions under the CRD IV directive and its implementation in national law and the directly applicable EU Regulation CRR I. Moreover, the Supervisory Board members received information from the Bank on corporate governance issues, the core topics of the fourth amended version of MaRisk and its implementation in the Group as well as letters and guidance notes from BaFin, in particular on the regulations on the monitoring of Supervisory Board members pursuant to the Act on the Supervision of Insurance Undertakings (Versicherungsaufsichtsgesetz – VAG) and KWG.

Dr Kraemer, who joined the Supervisory Board on 1 January 2014, has been provided with individual information materials.

Annual financial statements 2013

The annual financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and Management Report of UniCredit Bank AG for the 2013 financial year as well as the consolidated financial statements and Management's Discussion and Analysis prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft (referred to below as "Deloitte"). The independent auditor issued an unqualified opinion in both cases.

The financial statements listed above were forwarded to us, together with the Management Board's proposal for the appropriation of profits and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The head auditor with the independent auditor reported on the findings of the audit, in particular on the internal control system and the risk management system compliant with Section 171 (1) AktG relating to the financial reporting process and provided detailed answers to our questions at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also stated that there were no circumstances giving rise to concerns about his partiality and reported on the work he had performed in addition to the audit of the financial statements. The Chairman of the Audit Committee reported to us in the full Supervisory Board on the results of the review by the committee. Upon recommendation by the Audit Committee, we concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. We determined that, on the basis of our own examination of the annual financial statements, the consolidated financial statements, the Management Report and Management's Discussion and Analysis as well as the proposal for the appropriation of profits, no objections were to be raised. We have therefore approved the annual financial statements prepared by the Management Board today. Consequently, the annual financial statements are adopted. We have also approved the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB to affiliated companies for the 2013 financial year in accordance with Section 312 AktG. The report contains the following concluding statement by the Management Board:

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted, or any disadvantages arising were compensated."

Deloitte audited this report and issued the following opinion:

"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report,
3. no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relationships with related parties and the related audit report by Deloitte were also forwarded to us. In the course of the preliminary audit, the Audit Committee and then the full Supervisory Board considered these documents in depth. We checked the information for plausibility and consistency, and carefully examined individual legal transactions between HVB and UniCredit S.p.A. and its affiliated companies together with other cost-generating measures initiated by UniCredit S.p.A. Deloitte took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee.

We concurred with the results of the audit by Deloitte. Based on the final outcome of our own examination of the report on relations of HVB to affiliated companies in the 2013 financial year prepared by the Management Board compliant with Section 312 AktG, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Personnel

Dr Andreas Bohn was appointed to the Management Board with effect from 1 January 2013, and is responsible for Corporate & Investment Banking. Against the backdrop of the CRD IV implementation act and the related legal restrictions on mandates, Dr Susanne Weiss left the Supervisory Board of the Bank with effect from 31 December 2013. She was replaced with effect from 1 January 2014 by Dr Marita Kraemer, a member of the Management Board of Zürich Beteiligungs-Aktiengesellschaft (Germany) and a member of the management team of Zurich Service GmbH, who was elected to the Supervisory Board by an Extraordinary Shareholders' Meeting to serve the remainder of the mandate of Dr Weiss. The Supervisory Board would like to thank Dr Weiss for her committed and valuable service on this board.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work and their services in the past year. They all contributed to the Bank's good performance in the still difficult market environment in the 2013 financial year.

Munich, 7 March 2014
The Supervisory Board

Federico Ghizzoni
Chairman

Corporate Governance and Compensation Report

Good corporate governance entails the responsible management and control of enterprises. Efficient cooperation between the management and control functions of the company and transparent corporate communications are vital aspects of good corporate governance. It is of great importance for achieving corporate objectives and a sustained increase in company value, thus helping to increase the confidence of stakeholders in the company.

In accordance with sub-paragraph 3.10 of the German Corporate Governance Code (hereinafter referred to as "the Code"), the Management Board and Supervisory Board report on corporate governance at **UniCredit Bank AG** (hereinafter referred to as "HVB" or "the Bank") in the following Corporate Governance Report.

Management Board and Supervisory Board

Management Board

The Management Board is directly responsible for managing the company and works closely with the other bodies of the company and employee representatives in the interests of the enterprise. It is obligated to act in the company's interests and to increase its sustainable value. Within the framework of its leadership function, it is responsible for corporate planning and strategic orientation, and for ensuring adequate risk management and risk control.

The Management Board furthermore is responsible for preparing the annual financial statements of HVB and the consolidated financial statements of the HVB Group, and for preparing the interim reports and the half-yearly financial report. The Management Board is also responsible for ensuring compliance with the legal provisions and internal guidelines and encouraging HVB Group companies to ensure compliance as well. The Bank's Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning, including any deviation from plans, strategic development, the course of business and the state of the Bank, including the risk situation as well as compliance issues.

The members of the Management Board are jointly responsible for managing the Bank and for its proper business organisation. They work together cooperatively and inform each other about important business events and developments in their respective areas of responsibility. The respective segment responsibilities on the Bank's Management Board are specified in a schedule of responsibility, which forms part of the Management Board's internal regulations. The Management Board's internal regulations also specify the matters reserved for the Management Board, the details of the work within the Management Board and the requirements for adopting resolutions and the required majorities.

The Management Board generally adopts resolutions during meetings that are supposed to be held at least twice a month. As a general rule, Management Board meetings are held every week. Any member may request that a meeting be convened, citing the matter for discussion. In addition to this, resolutions may also be adopted outside of meetings.

Composition of the Management Board

The Bank's Management Board has eight members. Since 14 January 2013, the segment responsibilities on the Management Board have taken into account HVB's new organisational structure, with the business segments Corporate & Investment Banking, Commercial Banking, with the two business units Unternehmer Bank (UBK) and Private Clients Bank (PBK), Asset Gathering and Other (including Global Banking Services, among other activities).

The Management Board consists of the Board spokesman, Dr Weimer, the Chief Financial Officer (CFO), Mr Hofbauer, the Chief Risk Officer (CRO), Mr Varese, and the Head of Human Resources Management (HRM), Mr Laber, who is also responsible for Global Banking Services (GBS) and labour relations and social affairs, together with the heads of the business segments Corporate & Investment Banking and Commercial Banking, namely Dr Bohn (Corporate & Investment Banking), Mr Diederichs (Unternehmer Bank), Mr Buschbeck and Mr Danzmayr (Private Clients Bank, with the latter primarily responsible for Private Banking).

Prior to 14 January 2013, the Bank's organizational structure was based on customer groups (business divisions).

In his function as Country Chairman Germany, the Board Spokesman, Dr Weimer, is also a member of the Executive Management Committee of UniCredit S.p.A. The members of the Executive Management Committee have an advisory function at the level of the holding company, where Dr Weimer represents the interests of HVB.

An overview of the positions of the Management Board members on other supervisory boards or comparable boards required by law, is published in the section of the present Annual Report entitled Corporate Governance and in the notes to the annual financial statements in the Annual Report of HVB.

The compensation paid to members of the Management Board is shown in detail in the Compensation Report below.

When appointing people to management positions in the Bank, the Management Board takes account of diversity and seeks in particular to ensure that women are adequately represented.

Supervisory Board

The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. It is directly involved in decisions that are of fundamental importance for the Bank. The Management Board informs the Supervisory Board at regular intervals about the planned business policy (on the basis of the business and risk strategies) as well as fundamental issues regarding the planning and profitability of the company, the course of business and transactions that could have material effects on profitability or liquidity. Moreover, it reports to the Supervisory Board on the risk position, risk management and all compliance-related issues. On the basis of the reports submitted by the Management Board, the Supervisory Board also discusses developments in the areas of responisbility of the individual Management Board members as well as the performance of the company and its material subsidiaries. The Supervisory Board spends sufficient time discussing the strategies, risks and remuneration systems of the Management Board and staff. It appoints and dismisses the members of the Management Board and is responsible for the structure of the Bank's remuneration systems for the Management Board, including the resolution setting the total remuneration of the individual Management Board members and the review of the appropriateness of the Management Board remuneration systems. In addition, the Supervisory Board monitors the appropriate structure of the remuneration systems for the staff. The Supervisory Board also passes a resolution on the proposal to the Shareholders' Meeting on the election of the independent auditor. It gives the audit assignment to the independent auditor, including the specification of the main points of the audit and the fee. The Supervisory Board approves the annual financial statements and adopts the consolidated financial statements.

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.

The chairman of the Supervisory Board coordinates the work of the Supervisory Board. He maintains contact with the Management Board, notably with the Board spokesman, and discusses the issues pertaining to the Bank's strategy, planning and performance with him along with any deviations from plans, the risk situation, risk management and the company's compliance. The Management Board spokesman informs him immediately about events that are important for assessing the Bank's position and development and for managing the company. In accordance with Article 13 (2) of the Bank's Articles of Association, the chairman has two votes on Supervisory Board resolutions when a second vote on the same matter results in a tied vote unless the law precludes such an arrangement.

The compensation paid to members of the Supervisory Board is shown in detail in the notes to the consolidated financial statements.

Composition of the Supervisory Board

The Supervisory Board is constituted primarily on the basis of the relevant legal provisions, the German Corporate Governance Code, the by-laws of the Supervisory Board and in line with objectives defined in the meaning of sub-paragraph 5.4.1 of the German Corporate Governance Code regarding its composition.

In accordance with Section 24 (1) of the German Act on the Co-determination of Employees in Connection with a Cross-border Merger (Gesetz über die Mitbestimmung der Arbeitnehmer bei einer grenzüberschreitenden Verschmelzung – MgVG) in conjunction with Sections 95, 96 Stock Corporation Act (Aktiengesetz – AktG) and Article 9 of the Articles of Association, the Supervisory Board consists of 12 members, comprising an equal number of shareholder and employee representatives.

Corporate Governance and Compensation Report (Continued)

According to Section 25d (1) of the amended German Banking Act (KWG), the members of the Supervisory Board must be fit and proper persons, must possess the knowledge and skills required to perform the control function and to assess and monitor the commercial activities of the company in question and dedicate sufficient time to their tasks. The supervisory body in its entirety must possess the knowledge, skills and experience required to perform the control function and to assess and monitor the management of the bank or banking group (Section 25d (2) KWG (as amended)).

The Supervisory Board's by-laws essentially contain the following regulations regarding its composition: An adequate number of independent members should sit on the Supervisory Board. In addition, no more than two former members of the Management Board may sit on the Supervisory Board. It must also be ensured that no members of the Supervisory Board serve on governing bodies or perform advisory functions for key competitors of the Bank. The members of the Supervisory Board should also make sure that they have enough time available to perform their functions properly and that they hold only the admissible number of mandates. Members of the Supervisory Board should not normally be more than 70 years old when appointed. Moreover, the Supervisory Board fosters the inclusion of the underrepresented gender on the Supervisory Board and takes diversity into account in nominations for the election of Supervisory Board members. It sets concrete targets for its composition, which it takes into account in the nominations it submits to the Shareholders' meeting, and develops a strategy for achieving the targets.

Objectives of the Supervisory Board regarding its composition
The Supervisory Board adopted the following objectives regarding its composition in line with sub-paragraph 5.4.1 of the German Corporate Governance Code:

– The Supervisory Board of HVB should be composed in such a way that the Management Board can be effectively monitored and advised by the Supervisory Board.
  Its members as a group should possess the knowledge, ability and expert experience required to properly complete the Supervisory Board's task, such that all the capabilities required for the Bank's Supervisory Board are represented on the Supervisory Board. The necessary general knowledge and experience should be supplemented in this way with regard to the Bank's specific situation and orientation. The general knowledge that every member is expected to possess specifically includes theoretical knowledge and practical experience in the following areas: legal principles and compliance, corporate accounting and risk control.
  The candidates proposed for election should, by virtue of their integrity and personality, be in a position to perform the tasks of a member of the Supervisory Board in a commercial bank with international operations.
  The members of the Supervisory Board shall on their own take on the necessary training and further education measures required for their tasks, with appropriate support from the Bank.
– Furthermore, diversity should be reflected in the composition of the Supervisory Board. In other words, the Supervisory Board should include an appropriate proportion of women and members with international professional experience or an international cultural background. Moreover, every effort should be made to ensure that at least **one third** of the members of the Supervisory Board are women no later than 2015.
– The Supervisory Board shall include what it considers an adequate number of independent members. Within the meaning of sub-paragraph 5.4.2 of the Code, a Supervisory Board member is not to be considered independent in particular if he/she has personal or business relations with the company, its executive bodies, a controlling shareholder or an enterprise associated with the latter which may cause a substantial and not merely temporary conflict of interests. The Supervisory Board strives to ensure that at least **one quarter** of its seats are filled by members among the shareholder representatives defined as independent in the meaning of sub-paragraph 5.4.2 of the Code.

When examining potential candidates for election or appointment to positions on the Supervisory Board that become vacant, the Supervisory Board will continue to ensure that suitably qualified women are included in the selection process. With Ms Natale and Dr Weiss (until 31 December 2013) and Dr Kraemer (since 1 January 2014) as shareholder representatives and Ms Dura-Kempf as an employee representative, one-quarter of the Supervisory Board members are female. As mentioned above, the Supervisory Board wishes, if possible, to ensure that at least one-third of the Supervisory Board members are female by 2015. It should be noted in this context, however, that the Supervisory Board can only influence its composition through the candidates of the shareholder representatives it proposes for election to the Shareholders' Meeting.

The Supervisory Board has what it considers an adequate number of independent members. With Mr Bulgarelli, Dr Meyer, Dr Weiss (until 31 December 2013) and Dr Kraemer (since 1 January 2014), and Dr Sprissler, more than one quarter of the members of the Supervisory Board are shareholder representatives who are independent in the meaning of the Corporate Governance Code.

A list of members of the Supervisory Board, complete with information on their professions and an overview of their positions on other supervisory boards or comparable boards required by law, is published in the section of the present Annual Report entitled Corporate Governance and in the notes to the annual financial statements in the Annual Report of HVB.

Supervisory Board committees
To support its work, the Bank's Supervisory Board set up two standing committees in 2013. With effect from 1 January 2014, the Supervisory Board has established several committees in accordance with Section 25d (7) KWG (as amended), so that the number of permanent committees has increased to four. To ensure cooperation and the professional exchange among the committees, at least one member of each committee must belong to another committee in accordance with Section 25d (7) (4) KWG (as amended).

The composition and tasks of the committees are as follows:

Remuneration & Nomination Committee
The Remuneration & Nomination Committee, which existed until 31 December 2013, was comprised of the chairman of the Supervisory Board and the two deputy chairmen. It was primarily concerned with succession planning for the Management Board, preparing the resolutions of the Supervisory Board regarding the structure of Management Board remuneration and the process of setting the total remuneration of the individual members of the Management Board.

Since 1 January 2014, the tasks of the Remuneration & Nomination Committee are performed by the Nomination Committee and the Remuneration Control Committee of the Supervisory Board.

Nomination Committee
The Nomination Committee, which was formed on 1 January 2014, consists of three members: the chairman of the Supervisory Board and his two deputy chairmen. It supports the Supervisory Board in particular with the tasks specified in Section 25d (11) KWG (as amended), in particular the vetting of applicants for the Management Board, the preparation of nominations for elections of Supervisory Board members and the assessment of the Management Board and the Supervisory Board.

Remuneration Control Committee
The Remuneration Control Committee, which was formed on 1 January 2014, consists of three members: the chairman of the Supervisory Board and his two deputy chairmen. It must have at least one member with adequate knowledge and professional experience in the area of risk management and risk controlling in the meaning of Section 25d (12) KWG (as amended) and must include at least one employee representative among its members. The Remuneration Control Committee has the tasks listed in Section 25d (12) KWG, namely supporting the Supervisory Board in appropriately structuring the remuneration systems for the Management Board, in particular by preparing the Supervisory Board resolutions setting the total remuneration of the individual Management Board members and providing support in reviewing the appropriateness of the Management Board remuneration systems. The committee also supports the Supervisory Board in monitoring the appropriate structure of the remuneration systems of the staff, in particular in the compliance function and all employees with a material influence on the overall risk profile of the institution. In addition, the Remuneration Control Committee has the tasks specified in the German Regulations governing Supervisory Requirements for Institutions' Remuneration Systems (Institutsvergütungsverordnung) of 16 December 2013. The chairman of the Remuneration Control Committee has the right, upon consultation with the Management Board, to request information directly from the head of the Internal Audit department and from the heads of the organisational unit responsible for structuring the remuneration systems.

Risk Committee
The Risk Committee, which was formed on 1 January 2014, has three members. It is responsible in particular for the tasks specified in Section 25d (8) KWG (as amended). These include in particular advising the Supervisory Board on the company's current and future overall risk appetite and risk strategy, supporting the Supervisory Board in monitoring and implementing this strategy, and assessing

Corporate Governance and Compensation Report (Continued)

whether the incentives created by the remuneration system take into account the Bank's risk, capital and liquidity structure. Moreover, the Risk Committee performs all tasks assigned to it according to the law. In accordance with the Minimum Requirements for Risk Management (MaRisk) for banks laid down by the German Financial Supervisory Authority (BaFin), risk reports are presented to the Risk Committee by the Management Board each quarter. In addition to this, the Management Board passes on important risk-related information to the Audit Committee immediately. Until 1 January 2014, these tasks were performed by the Audit Committee of the Supervisory Board. The chairman of the Risk Committee has the right, upon consultation with the Management Board, to request information directly from the head of the Internal Audit department, the Chief Risk Officer and the heads of certain key operating units.

Audit Committee

The Audit Committee has four members. As required under Section 25d (9) KWG (as amended), the Chairman of the Audit Committee has particular expertise in the areas of accounting and the auditing of financial statements and, in accordance with Section 5.3.2 of the German Corporate Governance Code, has particular knowledge and experience in the application of accounting principles and internal control procedures. Furthermore, he is independent and not a former member of the Bank's Management Board whose appointment ended less than two years ago. Neither is the Chairman the same person as the Chairman of the Supervisory Board, meaning that the recommendation made in Section 5.2 of the German Corporate Governance Code has also been met.

The major functions of the Audit Committee include preparing the Supervisory Board's decision on the approval of the annual financial statements and the adoption of the consolidated financial statements, conducting a preliminary audit on the report on relationships with affiliated companies and elucidating the half-yearly financial report and interim reports. The Audit Committee supports the Supervisory Board in particular in monitoring the financial reporting process, the effectiveness of the risk management system, in particular the internal control system (including compliance) and the Internal Audit department, as well as the audit of the annual financial statements.

To prepare the Supervisory Board's proposal to the Shareholders' Meeting for the election of the independent auditor, the Audit Committee submits a recommendation to the Supervisory Board regarding the election of the independent auditor. In this context, the Audit Committee also checks the independence and qualification of and the work performed by the independent auditor. The Audit Committee also prepares the Supervisory Board's commission of the auditor for the annual financial statements and the consolidated financial statements, including the specification of the main areas subject to scrutiny and the fee, and monitors the prompt elimination of the auditor's findings.

The Management Board informs the Audit Committee of special audits, serious and significant findings and other measures by German and foreign banking supervisory authorities. The committee is informed at least once a year about any serious deficiencies identified by the Internal Audit department, significant findings that have not yet been remedied and the measures that have been initiated to achieve this. The Management Board informs the Audit Committee about any particularly serious deficiencies immediately. At its meetings, the Audit Committee also discusses any compliance-related issues that may have arisen.

The chairman of the Audit Committee has the right, upon consultation with the Management Board, to request information directly from the head of the Internal Audit department, the Chief Risk Officer and the Compliance Officer.

The chairmen of the committees report in detail on the committees' activities at plenary meetings of the Supervisory Board. Information on the committees' work over the last financial year is provided in the Report of the Supervisory Board in the present Annual Report.

Ad-hoc committees

The Supervisory Board has also repeatedly formed ad-hoc committees to undertake intensive examinations of special topics to prepare for Supervisory Board meetings. In 2013 the Supervisory Board set up an ad-hoc committee on the issue of cum/ex trades that will continue its work to prepare for the Supervisory Board meetings in 2014 as well.

Integrity Charter, Code of Conduct, Compliance and data protection

The Integrity Charter is a common set of values connecting all UniCredit group companies which is supported by the introduction of an ombudsman system. It contains guidelines on the conduct of Management Board members and employees at the workplace and lays down standards of behaviour for the employees of all UniCredit group companies.

In addition to this, a code of conduct is in force for HVB. It summarises existing regulations and principles of ethical conduct to create a binding standard of conduct for the Management Board and all Bank employees.

Compliance is part of the culture of UniCredit Bank AG. The Bank has an independent compliance structure that reports directly to the Board Spokesman. In addition to its advisory role, it monitors compliance with the relevant legal and supervisory provisions. Its organisational structure follows the structure of the sales units. The Compliance department is tasked with supporting the Management Board and the subsidiaries in the management of risk in case of non-compliance with statutory regulations and standards in connection with classical compliance issues. It advises management and staff with regard to existing, proposed and pending laws, rules and regulations as well as standards within the competence of Compliance with regard to existing and new business, transactions, products (new product process) and branch offices.

The HVB Compliance function has always covered not only the conventional matters pertaining to the Securities Trading Act (WpHG) (such as organisational obligations for securities trading, customer information obligations, regulations on order execution, investment advice and sales practices), including money laundering and fraud prevention, but also issues from the areas of consumer credit, antitrust law, banking secrecy and corruption prevention.

Compliance runs various training courses regarding these topics, most of which are compulsory. A risk analysis forms the basis of the annual Compliance Plan which encompasses the individual measures such as organising training courses and drawing up the monitoring plan. A further key task is to ensure that monitoring is carried out on a daily basis (as in the case of activities like employee transactions and the Bank's trading activities) or on the basis of random checks (for such matters as investment logs and marketing materials). Onsite reviews were also conducted in the year under review, most of them at German branches. Compliance is also the point of contact for the German Federal Banking Supervisory Authority (BaFin) and the supervisory authorities in the countries where HVB operates as well as for stock market trading oversight units.

The changes to MaRisk which took effect on 1 January 2013 have resulted in a new compliance concept under the law. At the end of 2013 the Management Board decided that the resulting tasks, along with the tasks of the existing Compliance function, should be combined under one roof. Consequently, the scope of responsibilities of the Compliance unit has been broadened considerably and in 2014 covers the full spectrum of laws, rules and regulations affecting the Bank worldwide.

The previous compliance task, regulated in great detail under the Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organisation and Transparency pursuant to Sections 31 et seq. of the Securities Trading Act for Investment Services Enterprises (MaComp), focuses primarily on prevention and monitoring. In contrast to that approach, the expanded Compliance function focuses initially on a materiality analysis of the current regulatory landscape as a basis for identifying the risks in the Bank and related monitoring gaps, and on that basis proposes measures to the Management Board. Another key task is to track and analyse changes in laws as well as emerging developments in that area. On that basis, necessary changes in banking processes are initiated in the operational units concerned.

The creation of an effective system of data protection is an essential element of good corporate governance with a view to ensuring compliance with the provisions of privacy law, internal guidelines and corporate values. Data protection is a very high priority at HVB and is seen by the Management Board as a key management task. The Data Protection unit is allocated to the GBS department under the Management Board. This is in compliance with the regulatory requirement for a direct reporting line from the Data Protection Officer to the Management Board.

Corporate Governance and Compensation Report (Continued)

Requirements under the Remuneration Regulation for Institutions (Institutsvergütungsverordnung)
In accordance with Section 6 of the Remuneration Regulation for Institutions (InstitutsVergV) of 6 October 2010, the Management Board of HVB established a Remuneration Committee in the 2013 financial year to monitor the appropriateness of the remuneration systems. Pursuant to the amended version of the regulation of 16 December 2013 that came into effect on 1 January 2014, staff remuneration systems must be subject to continual monitoring by a Remuneration Officer appointed by the Management Board (after consultation with the Supervisory Board). For the 2014 financial year, the Management Board will implement the relevant requirements accordingly.

Shareholders, Shareholders' Meeting
Since the squeeze-out was filed in the Commercial Register on 15 September 2008, the rights in the shareholders' meeting are exercised by the sole shareholder, UniCredit S.p.A.

Shareholdings
Since UniCredit S.p.A. is the sole shareholder of HVB, none of the members of the Management Board and/or Supervisory Board personally holds any shares in HVB.

Conflicts of interest
The Report of the Supervisory Board contains information from the Supervisory Board on conflicts of interest that arose in the year under review and the way they were dealt with.

Communication, transparency
HVB greatly values regular and prompt communication with its customers, its shareholder, its employees and the general public. Press releases and reports provide information on the state of the Bank. Information that could have a substantial impact on exchange and market prices of financial instruments is published in ad-hoc communications and also made available on the Bank's website. In addition, the Board spokesman and CFO of HVB report on issues important to the Bank and current business results at the annual press conference on the financial statements and in quarterly media conference calls, the dates of which are published in a financial calendar. This financial calendar and other information published by HVB, such as the Bank's Articles of Association and corporate governance topics, can similarly be found online together with the latest consolidated financial statements and interim reports. The publications are released in both German and English.

Voluntary declaration of compliance
The Management Board and Supervisory Board issued the following voluntary declaration of compliance on 16 December 2013:

Voluntary declaration of compliance with the German Corporate Governance Code for 2013
UniCredit Bank AG is not required to submit a declaration of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act. Nevertheless, the Management Board and Supervisory Board of UniCredit Bank AG have decided to adhere to the German Corporate Governance Code on a voluntary basis, inasmuch as the provisions of the Code can be applied to a non-listed company with only one shareholder. For this reason, a voluntary declaration of compliance with the German Corporate Governance Code is being submitted as follows:

The Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission German Corporate Governance Code" made by the Federal Ministry of Justice in the official part of the electronic Federal Gazette have been complied with, apart from the following recommendations, which are listed below, including the reasons why these recommendations were not complied with. The basis for this declaration is the German Corporate Governance Code as amended on 15 May 2012, which is applicable for the time period from 23 November 2012 (date of the last declaration of compliance) to 9 June 2013. For the Corporate Governance practice of the company since 10 June 2013 (date of publication of the German Corporate Governance Code as amended on 13 May 2013) the declaration refers to the recommendations of the German Corporate Governance Code as amended on 13 May 2013.

UniCredit Bank AG did not comply with the following recommendations:
1. In accordance with Section 3.10 sentence 1 of the Code, the Management Board and Supervisory Board shall report each year on Corporate Governance (Corporate Governance Report) and publish this report in connection with the statement on Corporate Governance.

   The Management Board and the Supervisory Board report each year on Corporate Governance in the annual report (Corporate Governance Report). As according to the law UniCredit Bank AG is not obliged to make a statement on Corporate Governance and also does not make such statement, the Corporate Governance Report cannot be published in connection with a statement on Corporate Governance.

2. In accordance with Section 4.2.2 para 2 sentence 3 of the Code as amended on 13 May 2013 the Supervisory Board shall, when determining an appropriate total compensation amount for an individual Management Board member, consider the relationship between the compensation of the Management Board and that of senior management and the staff overall, particularly in terms of its development over time. The Supervisory Board shall determine how senior managers and the relevant staff are to be differentiated.

   In accordance with the relevant provisions of the German stock corporation law and with respect to all current contracts of the Management Board members concluded prior to the date of this declaration, the Supervisory Board made sure that the amount of compensation to be paid to each member of the Management board, is proportional to his personal tasks and performance. Based on common methods of evaluation criteria the amount of compensation is aligned with the scope of business, the economic and financial situation as well as compensation amounts paid by peer companies. In addition to that the personal tasks and responsibilities of each individual member of the Management Board were taken into account. When determining the compensation of the Management Board members the Supervisory Board checked also its vertical appropriateness. By way of precaution, a deviation from the recommendation of the Code is hereby declared, insofar as the Supervisory Board did not differentiate between the peer groups mentioned in the Code and did not consider the development of the remuneration structure over time when checking the vertical appropriateness. Considerations to include any such criteria in future contracts of the Management Board members are still ongoing.

3. In accordance with Section 4.2.3 para 2 sentence 6 of the Code as amended on 13 May 2013 the amount of compensation shall be capped, both overall and for individual compensation components.

   All current contracts of the Management Board members were concluded prior to the date of this declaration. Whereas the amount of compensation in these contracts is capped with respect to both the variable and fixed compensation components, the contracts do not contain an aggregated compensation cap for the total compensations amount and compensation payments received for ancillary services. Considerations to include any such compensation caps in future contracts of the Management Board members are still ongoing.

4. In accordance with Section 4.2.3 para 3 of the Code as amended on 13 May 2013 for pension schemes, the Supervisory Board shall establish the level of provision aimed for in each case – also considering the length of time for which the individual has been a Management Board member – and take into account the resulting annual and long-term expense for the company.

   Pension schemes for the Management Board members are based on a defined contribution pension formula and are not aimed at reaching a specific level of provision. Therefore the Supervisory Board determines the pension schemes not with the aim to reach a certain level of provision. Considerations to follow the recommendations of the Code when concluding future contracts of Management Board members are still ongoing.

5. In accordance with Section 4.2.3 para 4 sentence 1 and 3 of the Code, payments to a Management Board member in the event of premature termination of their activity shall neither exceed the equivalent of two years' compensation including fringe benefits (severance cap) nor the compensation due for the residual term of the employment agreement. The severance payment cap shall be calculated on the basis of the total compensation for the past full financial year and if appropriate also the expected total compensation for the current financial year.

   This recommendation is not being complied with in the case of one employment agreement with a Management Board member due to that member's long years of service to the Bank; the severance payment arrangements have also been retained in extensions to the employment agreement with this Management Board member. All other employment agreements with Management Board members no longer provide for severance payments.

6. In accordance with Section 5.3.3 of the Code, the Supervisory Board is to establish a nomination committee, which shall consist exclusively of shareholder representatives and is to propose names of suitable candidates to the Supervisory Board for the latter's election nominations.

   In view of the company structure with one sole shareholder and the size of the Supervisory Board with only six shareholder representatives, the Supervisory Board considers the forming of a nomination committee as recommended in Code unnecessary. However, based on the CRD IV Implementation Act as of 28 August 2013 and the respective new stipulations in Section 25d para 11 German Banking Act, the Supervisory Board will establish a nomination committee as of 1 January 2014 to which the tasks defined in Section 25d para 11 German Baking Act will be assigned.

Corporate Governance and Compensation Report (Continued)

7. If the members of the Supervisory Board are promised performance-related compensation, in accordance with Section 5.4.6 para 2 sentence 2 of the Code, it shall be oriented towards sustainable growth of the enterprise.

   Besides a non performance-related compensation, the Supervisory Board members receive a performance-related compensation amounting to €400.00 for each €0.01 by which the dividend for individual shares exceeds €0.12, but not exceeding an amount of €15,000. Therefore the performance-related compensation is not oriented toward sustainable growth of the enterprise within the meaning of the Code, but is limited in its amount. In the context of the transformation of the European CRD IV-directive's regulations to German law it is intended to adjust the remuneration structure of the Supervisory Board accordingly. As from 1 January 2014 the Supervisory Board shall receive a fixed compensation only.

8. In addition, UniCredit Bank AG did not comply with the following recommendations:

- Section 2.3.2 of the Code as amended on 15 May 2012 (the transmission of annual general meeting documents in electronic form),
- Section 4.2.3 para 6 (explanation of compensation system at the annual general meeting),
- Section 5.4.3 sentence 1 (elections to the Supervisory Board on an individual basis),
- Section 6.3 (directors' dealings) and
- Section 6.4 (publishing of the date of the annual general meeting in the financial calendar).

  The purpose and intent of these recommendations only relate to listed public limited companies with free float and not to a non-listed company with only one shareholder.

Furthermore, the Management Board and Supervisory Board of UniCredit Bank AG hereby declare that the recommendations of the "Government Commission German Corporate Governance Code", as amended on 13 May 2013 and announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, continue to be observed, with the exception of the above-mentioned deviations, whereas the considerations regarding the implementation of recommendations set out in the above mentioned Sections 4.2.2 para 2 sentence 3, 4.2.3, para 2 sentence 6 and 4.2.3 para 3 are still ongoing.

Munich, 16 December 2013

The Supervisory Board
Federico Ghizzoni

The Management Board
Dr Theodor Weimer
Peter Hofbauer

UniCredit Bank AG has applied the numerous suggestions included in the German Corporate Governance Code ("should" provisions) with the exception of suggestions the purpose and intent of which only relate to listed public limited companies with free float and not to a non-listed company with only one shareholder, specifically

- Section 2.3.3 sentence 2 2nd manuscript (presence of a proxy representative at the annual general meeting)
- Section 2.3.4 (transmission of the annual general meeting using modern communication media)

Compensation Report

The following compensation report describes the system of compensation for members of the Management Board of UniCredit Bank AG ("HVB" or "the Bank").

1. Structure of the compensation paid to members of the Management Board for 2013

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.

The structure of compensation paid to members of the Management Board is reviewed regularly by the Supervisory Board and adjusted if necessary. When doing so, the Supervisory Board makes use of the expertise of external, independent remuneration and legal advisors.

In 2013, the Supervisory Board made appropriate adjustments to the basic terms for the compensation of the members of the Management Board of HVB as well as the target agreements (performance matrices).

1.1 Fixed salary

The fixed salary is disbursed in 12 monthly instalments.

1.2 Variable compensation (performance-related components)

The variable compensation reflects the changed economic environment and the requirements of the regulators and strengthens the importance of sustainable company success. Competitive, success-oriented variable compensation coupled with a partial shift of disbursement to the medium- to long-term future are intended to help tie executives to the Bank and promote the sustainable corporate earnings.

The variable compensation includes a bonus opportunity. Disbursement of the bonus takes place over a total period of five years.

– Year 1: 20% of the bonus disbursed in cash
– Year 2: 20% of the bonus disbursed in cash
– Year 3: 20% of the bonus disbursed in UniCredit S.p.A. stock
– Year 4: 20% of the bonus disbursed in UniCredit S.p.A. stock and 10% in cash
– Year 5: 10 % of the bonus disbursed in UniCredit S.p.A. stock

The bonus disbursement can range between 0% and 150% of the bonus opportunity value, and is based on the achievement of the individual performance screen for 2013.

The amount of the bonus depends, first, upon certain targets agreed individually with the members of the Management Board being met. These targets are recorded in matrices and encompass operational targets with a weighting of 30% or 50% and sustainable targets with a weighting of 70% or 50%. Parameters like customer satisfaction, reputation index, People Survey results and so on are included for the sustainability targets. Moreover, other individual targets can be assigned.

The amount of the bonus is also coupled to the core capital ratio and the adjusted return on equity of UniCredit. The conditions for the sustainable corporate earnings are set in the form of target ratios for profitability and sustainability ("Group Gate"). This Group Gate is applicable for all tranches of the bonus for all Management Board members. The Group Gate totals 100% if the set ratios are met in full or exceeded. Depending on the shortfall in the set profitability ratio/sustainability target measured, the amount totals 90%, 75% or 0%.

The bonus is not disbursed if the profit after tax is less than zero and/or UniCredit is unable to meet its liquidity requirements on a given number of days ("zero factor"). This zero factor is applied to tranches for the years 2, 3, 4 and 5 of the incentive for all Management Board members.

Corporate Governance and Compensation Report (Continued)

Similarly, no Management Board member is entitled to the disbursement of any bonus whatsoever if any compliance and/or value rules have been violated.

1.3 Long-term incentive (LTI)
A long-term incentive plan with a performance period of 2011 to 2013 was set up in 2011. For 2013 there is no separate LTI plan.

1.4 Additional comments
In 2013, five members of the Management Board had a service agreement with UniCredit S.p.A. as well as a Management Board contract with HVB. These Management Board members are entitled to compensation under this service agreement in accordance with the proportion of their duties performed on behalf of UniCredit S.p.A., with the entitlement to payments under the Management Board contract with HVB reduced accordingly. These entitlements are offset between HVB and UniCredit S.p.A. on a pro rata basis. In other words, each member of the Management Board is only entitled to one set of compensation in the amount set by the Supervisory Board of HVB for the financial year in question. In the year under review, no members of the Management Board performed work for UniCredit S.p.A. in this sense.

In 2013, two members of the Management Board had a suspended service agreement with UniCredit Bank Austria AG as well as a Management Board contract with HVB.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit Group companies is surrendered to the Bank.

1.5 Compensation paid to members of the Management Board for 2013
The compensation paid to members of the Management Board for the 2013 financial year is shown in detail in the notes to the consolidated financial statements.

1.6 Pension commitments
Besides direct remuneration, Management Board members have received pension commitments.

Seven members of the Management Board took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2013, which is also granted to the Bank's executives. The Bank will provide/has provided 35% of the fixed salary as 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.

The Bank credits the contributions to the deferred compensation plans to the Management Board member's capital account and invests them in a fund. The Bank guarantees an annual return of 2.75%. In addition, the following profit sharing provision applies to all beneficiaries of the pension commitment: If the market value of the fund less 10% (fluctuation reserve) exceeds the amount of the commitments, the difference is credited to the Management Board member's pension account. When the beneficiary becomes entitled to receive benefits, the capital credit balance is converted into a pension for life. In the process, the actuarial calculations applicable at the time, in particular life expectancy, are taken as a basis. An annual adjustment of 1% is granted for the pension; this fulfils the Bank's obligation to adjust pension commitments. Alternatively, the capital can be disbursed if the eligible Management Board member has applied for this two years before the insured event occurs.

A sum of €2,991 (2012: €125) was transferred to provisions for pensions in the 2013 financial year to cover the commitments (for death benefits) made to the members of the Management Board.

One member of the Management Board receives allocations to a UniCredit group pension fund. Contributions were made to a pension plan (Pensionskasse) for one further member of the Management Board, which were deducted on a pro rata basis from the fund-linked commitment (AgfA).

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to T€128,057 (2012: T€128,479).

Compliant with Section 285 of the German Commercial Code (Handelsgesetzbuch – HGB), the provisions for pensions payable to former members of the Management Board and their surviving dependants amount to T€ 36,057 (2012: T€ 34,648) at HVB at 31 December 2013. The compensation paid to the retired members of the Management Board and their surviving dependants amounted to T€1,858 in 2013 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2012: T€1,716).

1.7 Fringe benefits

The members of the Management Board can also use their company car for private purposes, among other things. The Bank paid the premiums for an accident insurance policy valid 24-hours a day and a sum insured of €1,200,000 in the event of death and €1,400,000 in the event of complete disability. Furthermore, members of the Management Board receive the same preferential terms for bank services as the Bank’s employees.

1.8 Commitments to pay a transitional allowance

The new contracts concluded with members of the Management Board as of 2009 do not contain a commitment to pay a transitional allowance in the event of non-extension of the contract or a severance allowance in the event of early termination of Management Board activities. For only one member of the Management Board such a severance allowance exists due to an already existing contractual entitlement to a transitional payment in the event of non-extension of the service agreement or the early termination of the appointment, when the Management Board employment contract was extended.

Neither do any of the contracts contain any commitments to make payments in respect of early termination of Management Board activities as a result of a change of control (change of control clause).

The compensation paid to members of the Supervisory Board is shown in detail in the notes to the consolidated financial statements.

Munich, 7 March 2014

The Management Board The Supervisory Board

Collaborate

More efficiency, better results.

A long-standing Client of UniCredit, had been owned since 2008 by a US private equity fund. The Company consistently recorded good results and after four years, the equity fund began to consider the best options for maximizing its investment. The transaction was quite complex, involving many teams in UniCredit who worked in unison, like an orchestra, to achieve the same objective, that of satisfying all the Clients involved.

Our intervention enabled all of the potential buyers to be well supported and the deal was concluded in a very short time, allowing the Company to **continue its growth** path under a new shareholder, also a key Client of UniCredit. The US equity fund managed to achieve **a very successful investment**. One deal, more satisfied Clients.

Working together for the same objective produces excellent results.

CIB Financial Sponsor Solutions - ITALY

Additional Information

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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Interim reports (English/German)
for the first, second and third quarters
Sustainability Report
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Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest	716	700	723	773
Dividends and other income from equity investments	26	35	39	17
Net fees and commissions	282	265	307	312
Net trading income	215	194	334	375
Net other expenses/income	144	92	42	49
OPERATING INCOME	**1,383**	**1,286**	**1,445**	**1,526**
Operating costs	(932)	(891)	(881)	(883)
OPERATING PROFIT	**451**	**395**	**564**	**643**
Net write-downs of loans and provisions				
for guarantees and commitments	(74)	(54)	3	(89)
NET OPERATING PROFIT	**377**	**341**	**567**	**554**
Provisions for risks and charges	(223)	(8)	18	(9)
Restructuring costs	(360)	—	(2)	—
Net income from investments	95	14	26	68
PROFIT/(LOSS) BEFORE TAX	**(111)**	**347**	**609**	**613**
Income tax for the period	109	(89)	(194)	(210)
PROFIT/(LOSS) AFTER TAX	**(2)**	**258**	**415**	**403**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT/(LOSS)	**(2)**	**258**	**415**	**403**
attributable to the shareholder of UniCredit Bank AG	(12)	237	402	406
attributable to minorities	10	21	13	(3)
Earnings per share (€)	**(0.02)**	**0.30**	**0.50**	**0.51**

Summary of Annual Financial Data

HVB Group

(€ millions)

OPERATING PERFORMANCE	2013	2012	2011	2010	2009
Net interest	2,912	3,464	4,073	4,100	4,476
Dividends and other income from equity investments	117	147	150	148	52
Net fees and commissions	1,166	1,108	1,308	1,312	1,187
Net trading income	1,118	1,190	190	759	1,074
Net other expenses/income	327	141	91	239	141
OPERATING INCOME	**5,640**	**6,050**	**5,812**	**6,558**	**6,930**
Payroll costs	(1,810)	(1,839)	(1,819)	(1,756)	(1,822)
Other administrative expenses	(1,567)	(1,499)	(1,593)	(1,459)	(1,418)
Amortisation, depreciation and impairment					
losses on intangible and tangible assets	(210)	(178)	(199)	(218)	(222)
Operating costs	**(3,587)**	**(3,516)**	**(3,611)**	**(3,433)**	**(3,462)**
OPERATING PROFIT	**2,053**	**2,534**	**2,201**	**3,125**	**3,468**
Net write-downs of loans and provisions for guarantees and commitments	(214)	(727)	(266)	(632)	(1,601)
NET OPERATING PROFIT	**1,839**	**1,807**	**1,935**	**2,493**	**1,867**
Provisions for risks and charges	(222)	195	(251)	(442)	(151)
Restructuring costs	(362)	(102)	(108)	(37)	(170)
Net income from investments	203	158	39	(132)	(280)
PROFIT BEFORE TAX	**1,458**	**2,058**	**1,615**	**1,882**	**1,266**
Income tax for the period	(384)	(771)	(640)	(154)	(382)
PROFIT AFTER TAX	**1,074**	**1,287**	**975**	**1,728**	**884**
Impairment on goodwill	—	—	(4)	—	—
CONSOLIDATED PROFIT	**1,074**	**1,287**	**971**	**1,728**	**884**
attributable to the shareholder of UniCredit Bank AG	1,033	1,246	931	1,703	819
attributable to minorities	41	41	40	25	65
Cost-income ratio in % (based on total revenues)	63.6	58.1	62.1	52.3	50.0
Earnings per share (€)	1.29	1.55	1.16	2.12	1.02

HVB Group

	2013	2012	2011	2010	2009
Balance sheet figures (€ billions)					
Total assets	290.0	347.3	372.3	371.9	363.4
Shareholders' equity	21.0	23.3	23.3	23.7	23.6
Key capital ratios	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**
Core capital (€ billions)	18.5	19.5	20.6	20.6	20.4
Risk-weighted assets (€ billions) (including					
equivalents for market risk and operational risk)	85.5	109.8	127.4	124.5	115.1
Core capital ratio (%)					
(calculated based on risk-weighted assets including					
equivalents for market risk and operational risk)	21.6	17.8	16.2	16.6	17.8
Employees[1]	19,092	19,247	19,442	19,146	18,874
Branch offices	933	941	934	927	852

1 in full-time equivalents

Simplify

The bank within easy reach.

Today's Customers have less time to go to the branch, even though their needs are the same as ever. They need high-tech ways to access their bank services at any time, in any place.

The answer to their needs? **Subito Banca**, which includes an app designed with input from our Customers. It facilitates a wide range of online banking processes and offers an opportunity to **buy new Samsung smartphones and tablets at discounted prices**.

Transactional Products and Partnerships
UniCredit - ITALY

Annex

UniCredit Profile

Highlights

UniCredit operates in 17 Countries with more than 147,000 employees and over 8,800 branches.

UniCredit benefits from a strong European identity, extensive international presence and broad customer base.

Its strategic position in Western and Eastern Europe gives the Group one of the region's highest market shares.

1. Data as at 31 December 2013. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of subsidiaries consolidated proportionately, such as Koç Financial Services Group employees.

2. Data as at 31 December 2013. Figures include all branches of subsidiaries consolidated proportionately, such as Koç Financial Services Group branches.

* Data as at 31 December 2013.

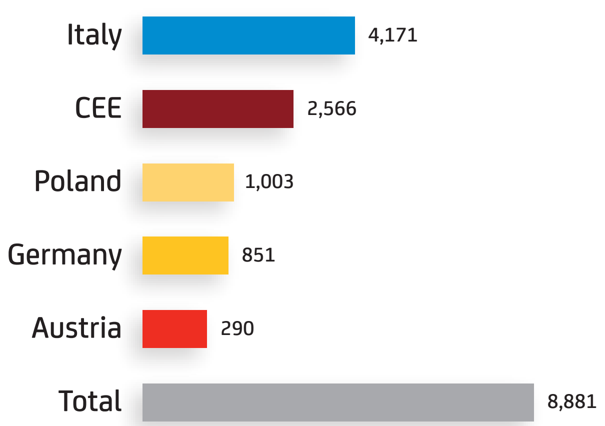
EMPLOYEES[1]

over 147,000

BRANCHES[2]

over 8,800

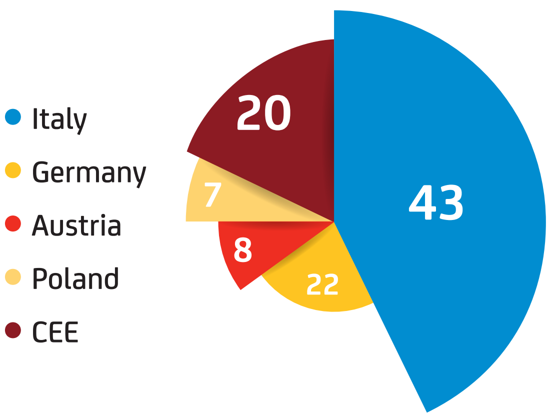
Branches by Country[2]



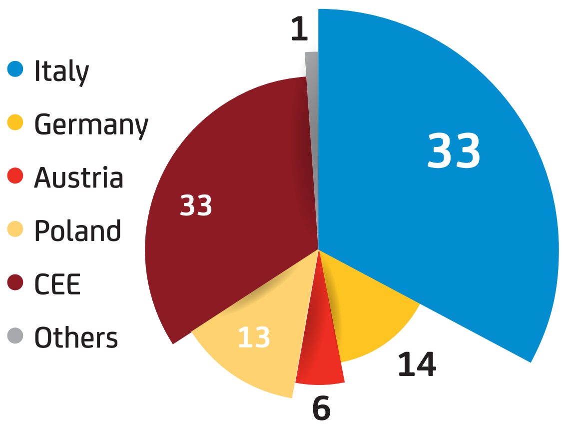
Where we operate*

AUSTRIA	ITALY
AZERBAIJAN	POLAND
BOSNIA AND HERZEGOVINA	ROMANIA
	RUSSIA
BULGARIA	SERBIA
CROATIA	SLOVAKIA
CZECH REPUBLIC	SLOVENIA
GERMANY	TURKEY
HUNGARY	UKRAINE

Revenues by Region* (%)



Employees by Country[1] (%)



Focus

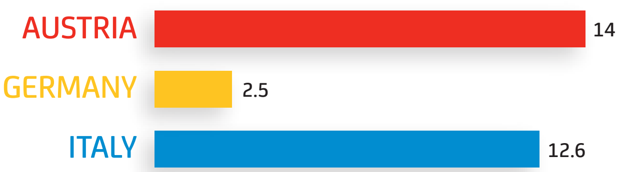
AUSTRIA, ITALY AND GERMANY

UniCredit occupies a strategic position in Italy, Germany and Austria. With about 4,171 branches in Italy, 851 in Germany and 290 in Austria, UniCredit comprises one of the largest banking networks in the heart of Europe. Accounting for more than one-third of the GDP of the European Union, these three countries benefit from their close ties to the growing economies of Central and Eastern Europe.

Following the introduction of the ECB's Outright Monetary Transactions (OMT) program in the summer of 2012, markets' normalization process is enduring, with a gradual restoration of investors' risk appetite. At the beginning of 2014, the growth recovery across the OECD area is gaining good momentum, while global trade is picking up quite nicely. We expect eurozone growth accelerate to an annual average of about 1.5% in 2014, from -0.4% in 2013. Germany is projected to be the engine of growth in 2014, on the wake of brighter export prospects, the unloading of pent-up demand in investment in machinery and equipment, and some strengthening of private consumption; the tight intra-European trade links will secure that the positive effect will be felt in the eurozone periphery as well as Central Eastern Europe. In Italy, the recovery is underway, although the pace of GDP growth is likely to remain subdued at 0.7% in 2014. The main growth drivers will be a steady recovery in exports and a moderate pick-up in capital expenditures, amid still tight credit conditions, while private consumption is likely to be the weak spot. Finally, while the recovery of export markets is kick-starting the domestic economy, domestic demand, mainly investment, will ultimately constitute the main pillar of economic growth in Austria in 2014.

In the medium-to-longer term, the OMT has helped to create a more favorable environment for politicians to implement structural reforms, while repairing the transmission mechanism of monetary policy remains the ECB's most daunting challenge. Pushing ahead with the structural reforms remains essential to achieving a sufficient degree of macroeconomic and fiscal convergence across the eurozone, while efforts continue to shape a credible pan-European architecture. This process is vital to making the eurozone stronger and more competitive moving forward. In Italy, the sustainability of the recovery will largely depend on the effective implementation of reforms to restore long-term competitiveness and reduce public debt. Taking into account the reforms that have already been implemented in Italy, we expect real economic growth to continue at an average annual rate of roughly 1% in Italy and 1.8%-1.9% in Austria and Germany from 2015 to 2018.

Market share[1] (%)



1. Market share in terms of total Customer Loans as at 31 December 2013.
Source: UniCredit, National Central Banks.

CENTRAL AND EASTERN EUROPE

UniCredit is a market leader in Central and Eastern Europe, it has a broad network of roughly 3,600 branches.*

Its regional footprint is diverse, and include a direct presence in 14 countries. It is ranked in the top five in 10 of these counties*. In fact the CEE now accounts for 28 percent of the Group 's revenues.**
Across the newer EU states, economic performance is expected to continue improve. A recovery was already visible over much of 2013. In part this improvement captures a stronger external environment, supporting industry and exports as EMU continues to use much of the region as a competitive production base.
Over 2014 this recovery should extend more visibly into domestic demand. Following a multi year period of fiscal consolidation, the drag to growth on this front should be much more muted going forward while some countries will enjoy a positive impulse. Public debt ratios remain considerably below the average for advanced economies. In many cases labour markets have stabilized.

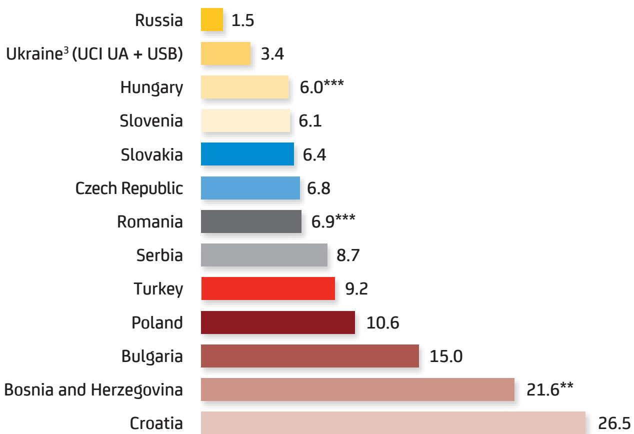
Monetary policy is also exceptionally accommodative across the region while rate hikes are likely to materialize only gradually. Progress on banking union should also bring positive spillovers to the newer EU states while in many countries we see credit proving more supportive of domestic demand. In many of the newer EU states we expect GDP growth of above 2% this year.

Within Turkey and Russia the near term challenges are greater. Following a multi year period of strong growth, momentum will slow this year in Turkey. Political uncertainty plays a role. A slowdown in foreign capital inflows, prompted in part by Fed tapering, is also having an impact. In contrast, stronger industry and export performance brings benefits, as is the case in the newer EU states.

Russia continues to adjust to stable rather than consistently increasing energy prices. This adjustment is aided by increased currency flexibility, a large stock of foreign reserves and improvements in the inflation-targeting regime. Within this environment, real GDP growth over the coming 1-2 years will be more muted than in the past but remain positive.

From a medium- to long - term perspective, we believe that the majority of Central and Eastern Europe economies will continue to see an increase in living standards as growth is supported by competitive labor costs, flexible labor markets and a gradual recovery in foreign direct investment.

Market share[2] (%)



* as at 30 September 2013.
** as at 30 June 2013.
*** as at 31 December 2012.
2. Market Share in terms of Total Assets as 30 September 2013.
Market share in Azerbaijan not available.
3. Pro-forma (Ukrsotsbank + UniCredit Bank Ukraine).
Source: UniCredit Research, UniCredit CEE Strategic Analysis.

15 years of UniCredit

1999

Group UniCredito Italiano establishment
Merger of Credito Italiano, Rolo Banca 1473, Cariverona, Cassa di Risparmio di Torino, Cassamarca, Cassa di Risparmio di Trento e Rovereto, Cassa di Risparmio di Trieste.

Beginning of international growth.
The expansion process in Central and Eastern Europe starts with the acquisition of the Polish Bank Pekao.

2000

Geographical growth and diversification
Development in emerging markets. Acquisition of Bulbank (Bulgaria) and Pol'nobanca - then Unibanka - (Slovakia).

Acquisition of the US fund manager Pioneer Investment of Boston and establishment of Pioneeer Global Asset Management.

2005

Merger with the German HVB Group and establishment of a single large European bank
UniCredit merged with the German HVB Group, which was created in 1998 from two Bavarian banks (Bayerische Vereinsbank and Bayerische Hypotheken-und Wechsel-Bank), so establishing a single, large European bank.

Acquisition of Yapi Kredi by Koç (Turkey).

2007

Merger with Capitalia. Strengthening the presence of the Group in Italy and abroad
UniCredit strengthen its position in the Italian market thanks to the integration with the Capitalia group – established in 2002 from the merger of Banca di Roma Group, the Bibop-Carire Group, Banco di Sicilia, MCC and Fineco.

The Group also strengthen its presence in CEE with the acquisition of Ukrsotsbank in Ukraine.

2010

A new service model: "Together for our customers"
Together with customer is the organic business evolution program designed to better focus on customers' needs and enhance proximity to territories through a set of interventional measures to combine the specialization of our businesses with the simplification of the Group structure.

2012

The new UniCredit
A rock solid commercial bank leader in Europe which combines operational efficiency and customer satisfaction by investing both in the traditional and digital communication.

2014

UniCredit Tower, the new Headquarter
UniCredit Tower represents a model of:
- sustainability, with more than a 40% reduction in CO_2 emissions;
- modernity, as it's ranked among the world's 10 most beautiful skyscrapers (source: Emporis Building Data Company);
- efficiency, resulted in a reduction in occupied office space, saving almost 25 million euros annually, with better efficiency.

Our Approach

The current economic situation poses a new challenge for the banking sector. It must remake itself into a driver of the real economy - and must be able to meet the needs of society, maintaining sustainable operations.

How are we tackling this challenge at UniCredit? By applying a long-term, multi-stakeholder approach to every area of our activity:
- commercial banking - by improving our business model and competencies in order to work more closely with customers and meet their needs more effectively;
- corporate citizenship - by using our expertise to nurture the economic participation of all people and conserve natural resources;
- philanthropic initiatives - by supporting programs that go beyond a bank's traditional scope and respond to basic social needs, especially in times of crisis.

Indeed, to succeed in the current climate, a bank must address economic, social and environmental issues both in its strategic outlook and in its day-to-day work.

Such an approach depends on a cultural shift - one that is now the basis for our service model - and it also relies on proper risk management. With this in mind, we are improving cooperation between our business units and the departments in charge of risk management. This enables us to develop solutions that are in line with the objectives and needs of our Group and our customers.

The management of risk is the cornerstone of our business, and a deep knowledge of our customers is essential if we are to understand and control risk as effectively as possible.

In order to build even closer relationships with our customers and respond more quickly to their needs, we have simplified many procedures and delegated more decision-making powers to our national operations.

At the same time, we continue to increase efficiency in our operations. Throughout our Group we are adopting technological innovations that are opening up new ways to interact with customers. We are determined to leverage the opportunities presented by multi-channel communications to form stronger and more productive relationships with our clients.

Embracing innovation is one of UniCredit's key objectives. It is why we seek to develop a fully integrated multi-channel banking system that combines traditional and digital communications. The physical branch remains at the heart of this model, particularly in times that call for personal relationships and direct interaction. However, the branch banking experience will be increasingly complemented by the new channels in which we are investing.

It is an approach that stems from paying close attention to our stakeholders' genuine expectations. After all, dialogue with them is our guiding principle for generating lasting value and for successfully supporting the development of the countries in which we operate.

Our extensive physical presence and strong local representation formed the fundamental character of UniCredit. Fifteen years ago, we laid the groundwork for our geographic expansion and operational diversification. It was a sound decision – and it has made our Group a leading financial institution, respected throughout Europe.

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.

Published by:
UniCredit Bank AG
Head Office
D-80311 Munich
www.hvb.de
Registrar of companies: Munich HRB 421 48
Sorter pages: UniCredit
Creative concept: Orange 021
Design, graphic development and composition:
MERCURIO GP – Milan
Typesetting: Serviceplan Solutions 1 GmbH & Co. KG, Munich
Printed by: Mediahaus Biering GmbH
Printed in Germany

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