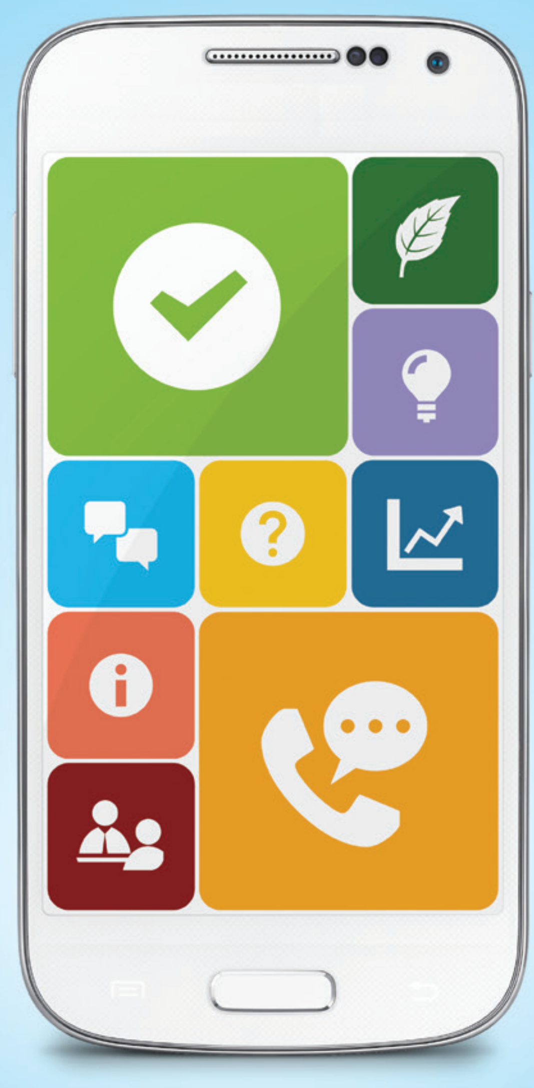

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Half-yearly Financial Report at 30 June 2014

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Financial Highlights

Key performance indicators

	1/1–30/6/2014	1/1–30/6/2013
Net operating profit	€399m	€1,121m
Cost-income ratio (based on operating income)	79.3%	59.4%
Profit before tax	€513m	€1,222m
Consolidated profit	€334m	€818m
Return on equity before tax[1]	5.1%	11.8%
Return on equity after tax[1]	3.3%	8.1%
Earnings per share	€0.41	€1.01

Balance sheet figures

	30/6/2014	31/12/2013
Total assets	€298.6bn	€290.0bn
Shareholders' equity	€20.5bn	€21.0bn
Leverage ratio[2]	6.7%	7.1%

Key capital ratios

	30/6/2014 Basel III	31/3/2014 Basel III	31/12/2013 Basel II
Core capital without hybrid capital (core Tier 1 capital)	—	—	€18.4bn
Common Equity Tier 1 capital	€18.9bn	€19.0bn	—
Core capital (Tier 1 capital)	€18.9bn	€19.0bn	€18.5bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€88.7bn	€90.8bn	€85.5bn
Core capital ratio without hybrid capital (core Tier 1 ratio)[3]	—	—	21.5%
Common Equity Tier 1 capital ratio[3]	21.3%	21.0%	—
Core capital ratio (Tier 1 ratio)[3]	21.3%	21.0%	21.6%

	30/6/2014	31/12/2013
Employees (in FTEs)	18,574	19,092
Branch offices	927	933

1 return on equity calculated on the basis of average shareholders' equity according to IFRS and projected profit before tax at 30 June 2014 for the year as a whole
2 ratio of shareholders' equity (according to IFRS) 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	STAND-ALONE RATING	CHANGED/ CONFIRMED	PFANDBRIEFS		CHANGED/ CONFIRMED
						PUBLIC	MORTGAGE	
Moody's	Baa1	P-2	negative	D+	29/5/2014	Aa1	Aa1	26/6/2014/ 8/6/2012
Standard & Poor's	A–	A-2	negative	bbb+	29/4/2014	AAA	—	4/4/2014
Fitch Ratings	A+	F1+	negative	a–	26/3/2014	AAA	AAA	10/4/2014/ 10/4/2014

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 the 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 is the management body of HVB and consisted of eight members up until 30 June 2014. The contract of Management Board member Jürgen Danzmayr expired as planned with effect from 30 June 2014 and Mr Danzmayr stepped down as a member of the Management Board of HVB. The Management Board of HVB has thus consisted of seven members since 1 July 2014. Mr Peter Buschbeck has assumed the tasks of Mr Danzmayr. The Management Board 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 shareholders 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. Furthermore, Ms Marina Natale resigned from the Supervisory Board at the end of the Shareholders' Meeting on 2 June 2014. Mr Mirko Davide Georg Bianchi was appointed to the Supervisory Board in her place for the remaining term of office.

A list showing the names of all the members of the Management Board and the Supervisory Board of HVB is given in this Interim Report under Note 39, "Members of the Supervisory Board and Management Board".

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

There were no significant company acquisitions or sales in the first half of 2014.

Changes to the group of companies included in consolidation by HVB Group are listed in Note 2 "Companies included in consolidation".

Economic report

Underlying economic conditions

The global economy is continuing to recover, albeit at a restrained, unsteady pace and with regional differences. The stimulus is coming mainly from the developed economies. In contrast, the economic dynamism in the biggest emerging markets has stabilised at best (India and China) or is weakening (Brazil and Russia). Although the risks for the global economy have generally declined further, they continue to be on the downside overall. Headwinds are still coming from geopolitical uncertainties (primarily Ukraine/Russia), the ongoing risks to growth in China and unexpectedly low inflation in the industrialised nations.

The economic recovery in the eurozone continued unabated in the spring, albeit at a moderate pace. Quarter-on-quarter growth is predicted to be around 0.3% in the second quarter of 2014, somewhat behind the original expectations. This can be attributed primarily to Germany, where a correction was evident in the second quarter of 2014 following unexpectedly strong growth at the start of the year (up 0.8% over the previous quarter). This is confirmed by the latest setbacks in both the sentiment indicators and the hard data for things like industrial production and new orders. We now only expect to see an expansion of just a quarter of one percent in the second quarter of 2014. In our view, the much weaker second quarter of 2014 is merely a technical reaction to the weather-related surge in the first quarter, when the construction industry expanded at an unusually strong (non-annualised) rate of 4%. Furthermore, seasonal effects are likely to have dampened growth in the spring. A downward trend is not something that we can identify. Despite the latest corrections, the sentiment indicators are still well above their long-term averages. And apart from short-term fluctuations, the hard economic data are also clearly pointing upwards.

The economic trends on the periphery of the eurozone are also clearly pointing upwards. The catching-up process in the southern eurozone countries continued through the spring. This is true primarily for industry, where the sentiment indicators became uncoupled from the latest downward corrections in the core countries. The impetus for the periphery is still coming mainly from other parts of Europe. But eurozone demand is also picking up momentum. Unlike the periphery, France is having difficulty keeping pace. The latest economic indicators – be it the sentiment or the activity indexes – have been thoroughly disappointing, becoming increasingly uncoupled from Germany. Poor employment trends are dampening consumption. Downward pressure is also resulting from the ongoing requirement to consolidate, while the business-friendly measures have not yet had a measurable impact. The eastern European countries that are heavily integrated in the value chains of western European firms are benefiting from the rebound in Germany and the eurozone overall. The same does not hold true for the two biggest economies Russia and Turkey. Russia is certainly suffering from cyclical and structural headwinds, but the main concern is the financial repercussions of the Crimean crisis. And Turkey, which was heavily dependent on foreign capital, has been forced to implement difficult adjustment measures in the light of the reversal of international capital flows back to the industrialised nations triggered by the Federal Reserve's tapering action. The economic output from both countries is likely to have shrunk again in the second quarter as a result.

The driving force for the global economy in the last quarter was the UK and the United States and not continental Europe. We expect the UK to have expanded by 0.8% quarter-on-quarter, making for just under 3.5% when extrapolated across the year as a whole. The good news is that the recovery is built on an ever broader base. A first interest rate rise before the end of this year is all the more probable. Such a move is not yet on the horizon in the United States, although the US economy is expanding at pretty much the same pace as its British counterpart. Following the dip in growth at the start of the year, visibly improving producer and consumer confidence coupled with rising car sales, better data from the residential property market and especially the strong labour market reports indicate a forceful rebound in economic activity in the second quarter of 2014. We expect to see an increase of 3% at an annualised rate.

Financial Review (Continued)

Developments on the money and capital markets

The yield on ten-year German government bonds fell sharply in the first half of 2014 compared with year-end 2013, from 1.93% to 1.25%. Thus, yields as of the end of June 2014 had fallen to the lowest quarter-end figure since the euro was launched. The spreads on the credit markets for non-financials with good credit ratings narrowed by 5 basis points to an average of 73 basis points during the second quarter of 2014, whereas they had remained unchanged in the first quarter of 2014. Following on from a narrowing of around 5 basis points in the first quarter of 2014, the spreads on financial securities again narrowed by almost 10 basis points to 57 basis points. The 3-month Euribor fell from 0.29% to 0.21% in the first half of 2014.

The European Central Bank (ECB) cut its benchmark interest rate by 0.1% in the second quarter of 2014 to a new low of 0.15%. The interest rate on the deposit facility was even reduced by 0.1% to –0.1%, taking it into new territory. Banks now have to pay a fee on central bank balances that exceed the minimum deposit. Furthermore, the ECB will introduce what it calls Targeted Long Term Refinancing Operations (LTRO) in the third and fourth quarters of 2014 enabling banks to fund some of their lending to enterprises and private individuals (but not property loans) at cheap, long-term conditions with the central bank.

The US Federal Reserve continued to taper its bond-purchasing programme in the second quarter of 2014 unchanged. The programme was cut back from $55 billion a month to $35 billion in two stages; it had already been reduced by $30 billion in the first quarter.

The euro weakened only slightly against the US dollar and Swiss franc in the first half of 2014, while declining more markedly against the British pound and the Japanese yen, by around 4% in each case. After the German stockmarket tended to mark time in the first quarter, the benchmark DAX30 index rose a slight 2.9% in the second quarter of 2014. The European market as a whole, measured by the EURO STOXX 50 index, similarly increased by a slight 2.1% in the second quarter after already improving by 1.7% in the first quarter.

Sector-specific developments

The Council of the European Union, the European Commission and the European Parliament (known as the trialogue) adopted the Single Resolution Mechanism (SRM) for the future resolution of insolvent major banks on 20 March 2014. After this, on 9 July 2014, the German government initiated a package of measures aimed at translating this into domestic law. The German cabinet approved two draft bills meeting the European requirements.

The first is a law implementing the European Bank Recovery and Resolution Directive (BRRD Implementation Act – BRRD-Umsetzungsgesetz). This empowers the resolution authority to bail in the owners and certain creditors of an institution especially in the event of a bank resolution. The new regulations supplement the existing law that already governs intervention and resolution instruments including the German Bank Restructuring Act (Kreditinstitute-Reorganisationsgesetz). The national resolution authority in Germany is the Financial Market Stabilisation Agency (FMSA). Furthermore, the parliament has approved the draft law regarding the transfer of contributions. The draft regulates the transfer of national bank levies to the Single Resolution Fund and mutualisation of these contributions. The purpose of the fund is to finance resolution measures in the future.

Furthermore, two additional draft bills create the conditions for the direct bank recapitalization out of the unlimited European Stability Mechanism (ESM). The amendment to the ESM financing law and the financial aid instruments is intended to enable Germany to approve the introduction of a new ESM instrument permitting the direct recapitalization of banks. There is a precondition, however, that the member states affected are not able to afford this measure out of their own government coffers.

General comments on the business situation of HVB Group by the Management Board

In a persistently challenging economic and financial environment, HVB Group generated a profit before tax of €513 million in the first half of 2014. This fell short of the very good profit before tax of €1,222 million recorded in the equivalent period last year. The decline of €709 million compared to the same period last year can be mainly attributed to lower operating income, which fell by €612 million or 20.6%. In the first half of 2014, the persistently extremely low interest rates also adversely affected net interest, which was

down by €131 million to €1,365 million. At the same time, there was a €409 million decrease in net trading income to €300 million, although it should be noted in this context that last year's figure contained gains on the buy-back of hybrid capital instruments which did not recur in the reporting period. With earnings of €568 million, net fees and commissions were €51 million lower than the year-ago total, while net other expenses/income fell by €14 million to €77 million. Operating costs rose by €106 million, or 6.0%, to €1,870 million compared with the same period last year. This rise is almost exclusively due to the initial consolidation of the BARD Group and the write-downs on our offshore wind farm which are included in full for the first time this year. Without these two effects, the increase in operating costs would have been negligible at €2 million or 0.1%. At €90 million, net write-downs of loans and provisions for guarantees and commitments are at a very low level and are thus only €4 million higher than the figure recorded last year (first half of 2013: €86 million).

All the business segments contributed to the profit before tax of HVB Group. The Commercial Banking business segment recorded a pleasing profit before tax of €228 million, thus slightly surpassing the figure reported for the same period last year by €1 million (first half of 2013: €227 million). This profit was generated through the increase of €17 million in operating income to €1,252 million (first half of 2013: €1,235 million) and the €13 million decrease in operating costs to €986 million (first half of 2013: €999 million) while net write-downs of loans and provisions for guarantees and commitments were up by €16 million and the net reversal in provisions decreased by €18 million. In this context, it is pleasing that net interest was able to be increased by €21 million despite the difficult situation caused by low interest rates.

The Corporate & Investment Banking (CIB) business segment generated operating income of €956 million (first half of 2013: €1,382 million). This decrease of €426 million is primarily due to a fall of €282 million in net trading income partly due to the credit value adjustments made in the first half of 2014. Furthermore, net interest was down by €75 million, mainly as a result of lower trading-induced interest and contracting credit volumes. Operating costs increased by a total of €115 million, primarily on account of the initial consolidation of the BARD Group and the depreciation on our offshore wind farm to be included in full for the first time. By contrast, net write-downs of loans and provisions for guarantees and commitments improved by €108 million to €62 million. The profit before tax fell by an appreciable €361 million to €232 million.

The Asset Gathering business segment recorded a profit before tax of €13 million after €10 million in the first half of 2013. The slight increase results notably from an increase of €9 million in operating income while operating costs rose by €3 million.

HVB Group has had an excellent capital base for years. The new Common Equity Tier 1 capital ratio determined in accordance with Basel III (CET1 capital ratio: ratio of Common Equity Tier 1 capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) fell to 21.3% at 30 June 2014 compared with 21.5% (core Tier 1 ratio) at year-end 2013. It is thus still at an excellent level by both national and international standards. The equity capital amounted to €19.7 billion at 30 June 2014 (31 December 2013: €20.0 billion); the equity funds ratio was 22.2% at the end of June 2014 (31 December 2013: 23.4%). The shareholders' equity shown in the balance sheet fell by €0.5 billion to €20.5 billion compared with the end of last year due to the dividend payout totalling €756 million decided at the Shareholders' Meeting in the second quarter of 2014, which was only partially offset by the €330 million consolidated profit generated in the first half of 2014 (attributable to the shareholder of UniCredit Bank AG). With total assets up by 3.0% to €298.6 billion over year-end 2013, 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 6.7% at 30 June 2014 after 7.1% at year-end 2013. HVB Group enjoyed a very comfortable liquidity base and a solid financing structure at all times in the reporting period. 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.

Financial Review (Continued)

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 given in the section entitled "Liquidity risk" in the Risk Report of our 2013 Annual Report.

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 to reflect the rapidly changing economic and regulatory environment and push further growth through its regional organisational structure and its 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 Half-yearly Financial Report refer to the structure of our segmented income statement (see Note 4, "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.

	1/1–30/6/2014	1/1–30/6/2013	CHANGE	
Income/Expenses	**€ millions**	**€ millions**	**€ millions**	**in %**
Net interest	1,365	1,496	(131)	(8.8)
Dividends and other income from equity investments	49	56	(7)	(12.5)
Net fees and commissions	568	619	(51)	(8.2)
Net trading income	300	709	(409)	(57.7)
Net other expenses/income	77	91	(14)	(15.4)
OPERATING INCOME	**2,359**	**2,971**	**(612)**	**(20.6)**
Payroll costs	(904)	(906)	+ 2	(0.2)
Other administrative expenses	(819)	(765)	(54)	+ 7.1
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(147)	(93)	(54)	+ 58.1
Operating costs	**(1,870)**	**(1,764)**	**(106)**	**+ 6.0**
OPERATING PROFIT	**489**	**1,207**	**(718)**	**(59.5)**
Net write-downs of loans and provisions				
for guarantees and commitments	(90)	(86)	(4)	+ 4.7
NET OPERATING PROFIT	**399**	**1,121**	**(722)**	**(64.4)**
Provisions for risks and charges	39	9	+ 30	> (100.0)
Restructuring costs	—	(2)	+ 2	(100.0)
Net income from investments	75	94	(19)	(20.2)
PROFIT BEFORE TAX	**513**	**1,222**	**(709)**	**(58.0)**
Income tax for the period	(179)	(404)	+ 225	(55.7)
CONSOLIDATED PROFIT	**334**	**818**	**(484)**	**(59.2)**

Net interest
Net interest generated in the first half of 2014 fell by €131 million, or 8.8%, to €1,365 million compared with the same period last year in an environment weighed down by persistently very low interest rates. In this context, the result in the CIB business segment was down by €75 million to €527 million and by €85 million to €10 million in the Other/consolidation business segment. By contrast, the Commercial Banking business segment managed to boost net interest by €21 million to €803 million while the result was also up by €8 million to €25 million in the Asset Gathering business segment compared with the first half of 2013.

The decline in net interest results mainly from two key developments. First, trading-induced interest fell by €56 million. Second, net interest decreased primarily in lending operations on account of contracting volumes, 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 €7 million compared with the same period last year to total €49 million in the first half of 2014. This is partly attributable to the much smaller portfolio of private equity investments as a result of the focus placed on our core business and in anticipation of changes in regulatory requirements.

Net fees and commissions
In the first half of 2014, net fees and commissions fell by €51 million to €568 million compared with the same period last year. Apart from a reduction of €16 million to €274 million in management, brokerage and advisory services, this can be primarily attributed to lower income from lending operations, which was down by €34 million to €164 million. Income from collection and payment services remained at the same level as the equivalent period last year, rising slightly by €1 million to €114 million, as did income from other service operations, which decreased slightly by €2 million to €16 million.

Net trading income
HVB Group recorded net trading income of €300 million in the first half of 2014, which was €409 million, or 57.7%, lower than the same period last year (first half of 2013: €709 million). This sharp decline is especially attributable to the CIB and the Other/consolidation business segments with declines of €282 million to €300 million and €108 million to €7 million respectively. In the Other/consolidation business segment, the decline relates to the non-recurrence of gains in connection with the buy-back of hybrid capital instruments last year. There were no buy-backs of hybrid capital instruments in the first half of 2014.

The CIB business segment generated net trading income of €300 million in the reporting period compared with €582 million in the equivalent period last year. This sharp decline is partly due to lower income in the business with Pfandbriefs and loan securitisations. Hence, positive effects from the first half of 2013, for instance from government bonds and asset backed securities, were only noted on a much smaller scale in the reporting period. Better business with equity derivatives was only able to partially offset this development. In addition, net trading income of HVB Group was weighed down by credit value adjustments totalling €115 million (€94 million of which related to the CIB business segment) in the first half of 2014. In the same period last year, no credit value adjustments were carried out. In addition, valuation effects on the financial liabilities held for trading resulting from the inclusion of own credit spread, adversely affected the result.

Net other expenses/income
Net other expenses/income decreased by €14 million compared with equivalent period last year to €77 million in the reporting period. This decline is primarily attributable to expenses and the non-recurrence of income in connection with services in earlier years while lower expenses for the bank levy in Germany had a positive effect.

Financial Review (Continued)

Operating costs

Compared with the same period last year, operating costs increased in the reporting period by 6.0%, or €106 million, to €1,870 million (first half of 2013: €1,764 million). This total includes write-downs on our offshore wind farm to be fully included this year as well as the effects arising from the initial consolidation of the BARD Group; adjusted for these two effects, the increase in total operating costs would have been a mere €2 million or 0.1%.

Payroll costs even fell a slight €2 million to €904 million despite the initial consolidation of the BARD Group, due notably to a lower head-count compared with last year. By contrast, other administrative expenses were up by €54 million, or 7.1%, to €819 million. This increase is attributable to higher expenses in the area of IT and for the implementation of greater regulatory requirements together with higher marketing expenses and the initial consolidation of the BARD Group. Amortisation, depreciation and impairment losses on intangible and tangible assets also increased by €54 million to €147 million as a result of depreciation taken on items of property plant and equipment in our offshore wind farm which was not included last year and the initial consolidation of the BARD Group.

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

The operating profit of HVB Group fell by a sharp €718 million, or 59.5%, to €489 million in the reporting period, mainly on account of the declines in net interest, net fees and commissions and net trading income. With a rise of €106 million in operating costs, this produced a cost-income ratio (ratio of operating expenses to operating income) of 79.3% (first half of 2013: 59.4%).

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

At €90 million, net write-downs of loans and provisions for guarantees and commitments in the reporting period were at a very low level and thus only slightly higher than the already very low figure of €86 million posted for the equivalent period last year. In gross terms, the expenses of €519 million for additions in the current reporting period (first half of 2013: €763 million) are largely offset by releases and recoveries from write-offs of loans and receivables amounting to €429 million (first half of 2013: €677 million).

At €399 million, net operating profit was substantially lower than the figure of €1,121 million posted in the same period last year. This sharp decline of €722 million is primarily due to the decrease in operating income.

Provisions for risks and charges

In the first half of 2014, net income from net reversals/net expense for provisions for risks and charges amounted to €39 million, and mainly relates to derivative transactions.

In the equivalent period last year, there was a net reversal of €9 million for provisions for risks and charges, which arose mainly in connection with legal risks.

Net income from investments

Net income from investments came to €75 million in the first half of 2014, resulting mostly from gains on disposal of €88 million, which were partially offset by expenses for write-downs and valuation adjustments of €13 million. In this context, the gains on disposal relate primarily to the sale of investments in private equity funds.

In the equivalent period last year, net income from investments totalled €94 million and was largely generated from gains on disposal of €128 million, which were offset by expenses for write-downs and value adjustments of €34 million. Of the gains, €73 million related to available-for-sale financial assets mainly originating from the sale of private equity funds and to the gains of €54 million on the disposal of properties.

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

HVB Group generated a profit before tax of €513 million in the first half of 2014. Compared with the same period last year (€1,222 million), there was a sharp decline of €709 million, due mostly to lower operating income. In this context, it must be taken into account that, in addition to the persistent pressure from the very low interest rates, the decline in net trading income was adversely affected particularly also by the non-recurrence of gains on the buy-back of hybrid capital instruments.

Income tax in the reporting period totalled €179 million – due above all to the lower profit – and was €225 million down on the income tax reported for the equivalent period last year (€404 million). After deducting income tax, HVB Group generated a consolidated profit of €334 million in the first half of 2014 (first half of 2013: €818 million).

Return on equity

The return on equity after tax amounted to 3.3% in the first half of 2014 (first half of 2013: 8.1%). 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 equivalent period last year can be attributed particularly to the sharp decrease in consolidated profit attributable to the shareholder of UniCredit Bank AG.

Segment results by business segment

The business segments contributed the following amounts to the profit before tax of €513 million of HVB Group in the first half of 2014 (first half of 2013: €1,222 million)

Commercial Banking	€228 million (first half of 2013: €227 million)
Corporate & Investment Banking	€232 million (first half of 2013: €593 million)
Asset Gathering	€13 million (first half of 2013: €10 million)
Other/consolidation	€40 million (first half of 2013: €392 million)

The income statements for each business segment and comments on the economic performance of the individual business segments are provided in Note 4, "Income statement, broken down by segment", in this Half-yearly Financial Report. The tasks and objectives of each business segment are described in detail in Note 27, "Notes to segment reporting by business segment", in our 2013 Annual Report.

Financial situation

Total assets

The total assets of HVB Group increased by €8.6 billion, or 3.0%, to €298.6 billion at 30 June 2014 compared with year-end 2013.

On the assets side, the increase is almost exclusively due to the rise of €11.1 billion in loans and receivables with banks to €46.4 billion. The reason for this sharp expansion is the reverse repos which were up by €11.3 billion. By contrast, loans and receivables with customers fell by €2.6 billion to €107.0 billion, which is chiefly attributable to the decline of €1.9 billion in reclassified securities, compared with year-end 2013. In addition, there were decreases of €0.7 billion in other loans and receivables with customers and of €0.4 billion in mortgage loans, while there was a rise of €0.4 billion in credit balances on current accounts. Financial assets held for trading rose by a total amount of €4.3 billion to €95.6 billion, due mostly to the €3.3 billion increase in the positive fair values of derivative financial instruments. At the same time, the holdings financial instruments were up by €1.0 billion in total, whereby a reduction in holdings of fixed-income securities (down €1.6 billion) is more than offset by an increase in reverse repos (up €2.3 billion) and other financial instruments (up €0.6 billion). There was a €5.6 billion decline to €5.1 billion in cash and cash balances compared with year-end 2013, which can be mainly attributed to lower deposits with central banks, mainly due to restructuring in the secured interbank market. Financial assets at fair value through profit or loss rose by €1.2 billion year-on-year to €31.0 billion and other assets by €0.3 billion to €1.1 billion.

Financial Review (Continued)

On the liabilities side, deposits from banks rose by €6.9 billion to €54.7 billion over year-end 2013. Within this total, there were decreases of €1.5 billion in deposits from central banks and of €1.4 billion in term deposits, while there was a substantial increase of €8.3 billion particularly in the volume of repurchase agreements. In addition, the credit balances on current accounts were up by €1.1 billion. Within the rise in deposits from customers by a total amount of €0.8 billion to €108.7 billion compared with 31 December 2013, higher deposits on current accounts (up €3.1 billion) and savings deposits (up €0.2 billion) are largely offset by a decline in term deposits (down €1.3 billion) and other liabilities (down €1.2 billion). Financial liabilities held for trading increased by €3.6 billion to €77.2 billion compared with year-end 2013 due to higher other financial liabilities held for trading and negative fair values of derivative financial instruments by €1.8 billion respectively. Within this amount, the rise in other liabilities held for trading is caused primarily by higher volumes of repurchase agreements (up €1.4 billion). Compared with year-end 2013, there was a net decline of €2.6 billion to €29.2 billion in debt securities on account of issues due.

The shareholders' equity shown in the balance sheet fell by €0.5 billion to €20.5 billion over year-end 2013 as a result of the dividend payout totalling €756 million resolved by the Shareholders' Meeting which was only partially compensated by the consolidated profit of €330 million (attributable to the shareholder of UniCredit Bank AG) generated in the first half of 2014.

The contingent liabilities and other commitments not included in the balance sheet increased by €1.5 billion to €58.7 billion at 30 June 2014 compared with the 2013 year-end total. This figure includes contingent liabilities in the form of financial guarantees of €21.2 billion (year-end 2013: €19.6 billion); these contingent liabilities are offset by contingent assets of the same amount. Other commitments of €37.5 billion (year-end 2013: €37.6 billion) primarily consist of irrevocable credit commitments which fell by €0.1 billion year-on-year to €37.3 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 in accordance with Basel III requirements (based on IFRS carrying amounts) and the Internal Model Method (IMM) for counterparty risk amounted to €88.7 billion at 30 June 2014. At year-end 2013, the risk-weighted assets amounted to €85.5 billion under Basel II (based on the German Commercial Code) and based on the market-to-market method for counterparty risks; the total increase at 30 June 2014 thus amounted to €3.2 billion. This figure includes the initial application effect from the conversions from Basel II to Basel III and from the German Commercial Code to IFRS as well as the different method used to calculate counterparty risk for derivative transactions, leading to a €7.6 billion increase in risk-weighted assets.

The risk-weighted assets for credit risk (including counterparty default risk) determined by applying partial use rose by €1.7 billion to €64.5 billion. HVB's credit risk rose by €3.9 billion, which was caused especially by the new regulatory requirements. By contrast, the counterparty risk decreased by €3.0 billion, largely on account of the introduction of the Internal Model Method for counterparty risks in HVB's derivatives business, which more than offset the rises in the risk-weighted assets caused by Basel III. At our subsidiaries, the changes in risk-weighted assets are also primarily due to the first-time application of Basel III requirements.

The risk-weighted assets for market risk increased by €1.7 billion to €10.9 billion. This development is mainly due to the first-time inclusion of the new Basel III credit value adjustment (CVA) risk parameter. According to the new requirements, equity capital must additionally be set aside to cover the risk of a change in the creditworthiness of the counterparty for OTC derivatives. By contrast, the reduction of the multiplier set by the banking supervisory authorities in the internal market risk model served to reduce risk-weighted assets.

The risk-weighted asset equivalents for operational risk remained almost unchanged, falling slightly by a total of €0.2 billion to €13.3 billion.

At 30 June 2014, the core capital of HVB Group compliant with Basel III excluding hybrid capital (Common Equity Tier 1 capital/CET1 capital) amounted to €18.9 billion. Compared with the core capital excluding hybrid capital compliant with Basel II (core Tier 1 capital), it increased by €0.5 billion over year-end 2013 due to the conversion in the calculation of capital from the German Commercial Code to IFRS and from Basel II to Basel III. The CET1 capital ratio (ratio of Common Equity Tier 1 capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) fell to 21.3% at 30 June 2014 after a core Tier 1 ratio of 21.5% at year-end 2013. The core capital of HVB Group (Tier 1 capital) increased to €18.9 billion at 30 June 2014 (31 December 2013: €18.5 billion) as a result of the factors discussed above. The core capital ratio under Basel III (Tier 1 capital ratio; including market risk and operational risk) decreased to 21.3% (31 December 2013: 21.6%). The equity capital amounted to €19.7 billion at 30 June 2014 and was thus below the year-end 2013 figure particularly on account of the regular expiry and change in eligibility of long-term subordinated liabilities under Basel III (31 December 2013: €20.0 billion). The equity funds ratio was 22.2% at the end of June 2014 (31 December 2013: 23.4%).

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 our 2013 Annual Report and in the section entitled "Development of Selected Risks" in this Half-yearly Financial 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 to 1.16 at the end of June 2014 after 1.33 at year-end 2013.

Ratings

The ratings of countries and banks are subject to ongoing monitoring by rating agencies. In March this year, the rating of UniCredit S.p.A. was reviewed by the Moody's rating agency. In this context, HVB's rating was also reviewed and adjusted by one notch from A3 to Baa1. The adjustment followed the strict application of Moody's criteria for banking groups where the financial strength of a subsidiary is very closely interconnected with that of its holding company. As a result of the downgrade for the financial strength of UniCredit S.p.A., the financial strength of HVB was also reduced one notch, which brought about a downgrade of the long-term bank rating by one notch to Baa1 with a stable outlook. In light of the introduction and implementation of the restructuring and resolutions mechanisms for banks (SRM/BRRD) in the eurozone and in the European Union, the rating agencies S&P, Moody's and Fitch are reviewing their assumptions regarding potential state aid for European banks. Since the three rating agencies named consequently view potential state aid for European banks as less likely, the outlook for the majority of European commercial banks was revised to negative from stable previously. In this context, Moody's and Fitch also adjusted their outlook for HVB to negative from stable previously, but also confirmed their long-term ratings of Baa1 (Moody's) and A+ (Fitch). S&P confirmed its already negative outlook on its long-term credit rating of A–.

Financial Review (Continued)

Report on subsequent events

Apart from the matters discussed in Note 3, "Events after the reporting period", in this Half-yearly Financial Report, there were no significant events at HVB Group after 30 June 2014 to report.

Forecast report/Outlook

The following comments on the outlook are to be viewed in connection with the comments on the outlook in the Financial Review and the Risk Report in the consolidated financial statements for the 2013 financial year (see the HVB Group Annual Report for 2013).

General economic outlook
The global economic upturn is expected to take firmer hold in the second half of 2014 and even accelerate in the developed world. The trend in the global sentiment indicators points clearly upwards. Monetary policy and the financial environment will probably remain accommodating, the fiscal burdens should decline following a defusing of the debt and budgetary risks, falling or very low inflation – driven by lower commodity prices and the persistent underusage of economic capacity – will reinforce purchasing power and the pent-up demand for investment should gradually unwind. The good news is that the recovery is likely to be driven more and more by domestic forces.

The economic recovery in the United States will probably continue. In this context, the pace of growth should even accelerate to 3.5% at an annualised rate over the summer months before falling back to still solid levels of 2.5% to 2.8%. Expansion is likely to be driven by private consumption, benefiting from an ongoing improvement on the labour market coupled with a decline in the savings rate. The housing market should also pick up again. Capital spending will in all probability remain relatively restrained, however, even if it is likely to have increased over the previous year. In light of the very weak first quarter of 2014 with an annualised decline of 2.9% in economic output, average annual economic growth of a projected 1.6% in 2014 is not only well behind our original expectations but also below the figure of 1.9% for the previous year. A strong second half of the year would probably also ensure that growth could be much greater in the coming year than predicted to date. Thus, there should be sufficient reasons for the Federal Reserve to successively pare back its extremely accommodating monetary policy, especially as the labour market and inflation reports over recent weeks have countered the proponents of persistently loose monetary policy in the Fed. We expect an initial interest rate rise in the middle of next year, which is somewhat earlier than currently priced in by the markets. The ECB will in all probability continue to counter the tightening of the financial conditions in the United States and the UK. Its goal will remain to ensure that the banks and the economy are supplied with extensive liquidity, to reactivate the transmission mechanism of monetary policy and to counter the disinflationary tendencies. At the beginning of June 2014, the ECB then also adopted an unexpectedly wide-ranging package of measures comprising interest rate cuts and unconventional measures. It reduced its benchmark interest rate, extended the full allocation of funding transactions to at least the end of 2016 and, which hardly anyone expected, interrupted the sterilisation of sovereign bond purchases. Above all, though, the central bank is expected to set up what it calls Targeted Long-term Refinancing Operations with a view to stimulating bank lending to the private sector, thus reactivating the transmission mechanism. Last but not least, the ECB is preparing to buy asset-backed securities (ABS). Apart from ABS, bond purchases are only likely to take place if the outlook for growth and inflation (deflationary downward spiral) were to deteriorate markedly, which is not something we expect. The consistently strong monetary stimulus is a main reason for our expectation that growth will accelerate in the eurozone. This is implied by both the upwards trend demonstrated by the leading and sentiment indicators and the fundamentals. The export industry should benefit from a reviving global economy and the domestic environment is likely to improve 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 an impending turnaround on the labour market should benefit private consumption. For these reasons, we expect to see real GDP expand by around 1.5% in 2014, which puts us in the upper bracket of the consensus expectations.

Germany will in all probability continue to set the pace in the eurozone. An optimistic prevailing mood among companies, solid employment trends and optimistic consumers suggest that growth will already rebound again in the current quarter. Furthermore, the economy in the rest of the eurozone should strengthen, which implies that exports by German companies to other eurozone countries will rise. This may be able to offset the burdens from the weak growth in China and the conflict in Ukraine, provided this crisis does not escalate further leading to wide-ranging sanctions. 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 should be a further rise in consumer spending in response to solid income and employment growth. Domestic demand is thus likely to increasingly establish itself as a pillar of growth. Consequently, for 2014/2015 we expect to see strong economic growth of 2.2% to 2.5%, which is above the consensus expectations.

Sector development in 2014

Germany was one of the first countries to translate the BRRD into national law. Already on 14 December 2010, the country adopted the Act for the Restructuring and Orderly Resolution of Credit Institutions, for the Establishment of a Restructuring Fund for Credit Institutions and for Extension of the Limitation Period of Corporate Law Management Liability. The Bank Restructuring Act was a major component of this package. This law makes it possible to already restrict creditor rights in the restructuring procedure, provided the credit institution in question is systemically relevant and its continued existence is at risk. Accordingly, the news that Germany is intending to already allow the use of the bail-in instrument, which permits the inclusion of subordinated LT2 and primarily unsecured creditors, from 2015 is unlikely to cause any major change in spreads.

The announcement of the asset quality review (AQR) and the stress test results, which are expected to take place in mid-October this year, could lead to greater volatility temporarily, especially if the Bank is not able to carefully examine the findings in advance. At present, the ECB is believed to be planning to inform the banks affected 24 to 48 hours before publication of the results in a supervisory meeting about their results. The purpose is to avoid affected institution releasing ad hoc statements in advance.

Development of HVB Group

The group of companies included in consolidation used as the basis for planning in 2014 will not change materially in the rest of 2014 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, 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.

In this context, we assume that operating income will not match the previous-year total. The consistently low interest rates will be a major factor in a decline in net interest. The restrained demand from customers for credit implies that the volume of lending will be lower than at year-end 2013. Dividends and other income from equity instruments will decline sharply in the 2014 financial year on account of significantly smaller holdings of private equity funds. We 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

Financial Review (Continued)

we will be able to generate a considerable net trading profit at HVB Group nonetheless. In contrast, we expect to record a positive performance in terms of net fees and commissions. 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 will 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 around the previous year's level thanks to the consistent application of the strict cost management we have employed for years, taking into account an inflation rate expected to reach 1.4%. We expect payroll costs to remain almost constant (excluding the effect arising from the consolidation of the BARD Group), with pay rises being offset by a smaller workforce, among other things. 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 decline in operating income, the cost-income ratio is projected to be 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 accordingly.

We will continue to enjoy an excellent capital base in 2014, measured by the new Basel III rules. In terms of risk-weighted assets (including market risk and operational risk), a slight increase is expected on account of the implementation of Basel III. In this context, the core Tier 1 ratio (in accordance with Basel III: CET1 ratio) will be slightly above the figure recorded at the previous year-end. 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.

We expect the CIB business segment to record a decline in operating income in the 2014 financial year compared with 2013. In this context, we assume that net interest will probably decline in a setting of very low interest rates that are expected to persist, due above all to the persistently strong downward pressure on margins and declining trading-induced interest coupled with restrained demand for credit. Dividends and other income from equity investments in the 2014 financial year will fall 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, we continue to project an increase mainly arising from Financing & Advisory products. With regard to Financing & Advisory products, we are planning to considerably boost earnings in the Global Capital Markets unit and step up cross-selling. At the same time, net other expenses/income should also improve. 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 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 at least partly offset this decline by expediting sales initiatives. Nevertheless, the profit before tax in 2014 will in all probability be much lower than the very good result recorded in 2013.

The profit before tax in the Commercial Banking business segment in 2013 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 slightly 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 slightly year-on-year due in part to the low interest rates that are expected to persist. Operating costs will in all probability rise slightly. This should stem from higher other administrative expenses coupled with slightly lower payroll costs. 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 pretax 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.

The profit before tax in the Other/consolidation business segment will decline significantly in 2014 compared with the 2013 financial year. The main reason for this is the sharply lower operating income. Besides the lower net interest, this can be attributed notably to the lower net trading income, which in 2013 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 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 changing operating environment, the further volatility that can still be expected on the financial markets and an expanding real economy.

The opportunities in terms of future business policy and corporate strategy, performance and other opportunities are described in detail in the 2013 Annual Report (see the HVB Group Annual Report for 2013, starting on page 49). The statements made there remain valid in the light of the developments in the first half of 2014.

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 business 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 were described separately in the section of the Financial Review in the 2013 Annual Report (starting on page 49) entitled "Opportunities in terms of future business policy and corporate strategy, performance and other opportunities".

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.

Risk types

Credit risk is defined as 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.

We define **market risk** 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 Capital Requirements Regulation (CRR), 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 fines, penalties and damages resulting from regulatory measures and settlements paid to private individuals, among other things.

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 profitability and the risk profile. **Reputational risk** is defined as the risk of a negative P/L effect caused by adverse reactions by stakeholders due to a changed 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 in accordance with 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

Risk management

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

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

Starting in 2014, multi-year plan has also been drawn up for internal capital in accordance with the Minimum Requirements for Risk Management (MaRisk).

The business 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 Commercial Banking and Corporate & Investment Banking (CIB) 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 business segments are responsible for controlling operational risk and reputational risk. Controlling of the financial investments is in the hands of the business segments to which they are assigned in each case and the Asset Liability Management unit in the Chief Financial Officer (CFO) organisation is responsible for controlling liquidity risk. Real estate risk is controlled by the Real Estate Management UniCredit Bank (GRE) and Real Estate Management UGBS (IME) units. The CRO organisation is responsible for controlling strategic risk.

Risk Report (Continued)

Risk monitoring

The central risk monitoring function within the CRO organisation is responsible for identifying, measuring and evaluating the risks at HVB 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 these risk types 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.

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 business segments and a summary of the risk strategies of the relevant subsidiaries. This is supplemented by the Industry Credit Risk Strategy.

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 business 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, financial 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, pension risk and outsourcing are also defined largely 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 risk-taking capacity. For the purposes of business 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 business 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 business segments. Both resources are expected to yield an appropriate return, the amount of which is derived from the expectations of the capital market.

In line with the parameters defined in the business and the risk strategy, the defined targets are broken down to business 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. 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)
– Common equity tier 1 capital 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 Half-yearly Financial Report.

The following process has essentially been defined to determine the appropriate capital funding: based on our (multi-year) annual plan, we prepare a monthly, rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the German Banking Act (Kreditwesengesetz – KWG).

HVB 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 will remain in force until further notice. The equity funds ratio of HVB Group was 22.2% at the end of June 2014 (31 December 2013: 23.4%).

Risk Report (Continued)

Economic capital adequacy

HVB Group determines its internal capital on a monthly basis. The internal capital is the sum total of the aggregated economic capital for all quantified risk types (with the exception of liquidity risk), a premium for pension risk and the economic capital for small legal entities. The economic capital measures the potential loss over a time horizon of one year with a confidence level of 99.93%.

When the aggregated economic capital is determined, risk-reducing portfolio diversification effects are taken into account, with the parameters applied in the aggregation method encompassing economic downturns. On account of the low risk content, the economic capital for small legal entities of HVB Group is approximated 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%)

	30/6/2014		31/12/2013	
Broken down by risk type	€ millions	in %	€ millions	in %
Credit risk	4,769	45.0	5,840	49.6
Market risk	2,355	22.2	2,134	18.1
Operational risk	1,556	14.7	1,894	16.1
Business risk	305	2.9	336	2.8
Real estate risk	346	3.2	371	3.2
Financial investment risk	508	4.8	517	4.4
Aggregated economic capital	**9,839**	**92.8**	**11,092**	**94.2**
Economic capital of small legal entities	92	0.9	63	0.5
Pension risk	668	6.3	619	5.3
Internal capital of HVB Group	**10,599**	**100.0**	**11,774**	**100.0**
Available financial resources of HVB Group	**20,090**		**20,401**	
Risk-taking capacity of HVB Group, in %	**189.6**		**173.3**	

Aggregated economic capital[1] after portfolio effects (confidence level 99.93%)

	30/6/2014		31/12/2013	
Broken down by business segments	€ millions	in %	€ millions	in %
Commercial Banking	2,104	21.2	2,185	19.6
Corporate & Investment Banking	6,182	62.3	6,757	60.6
Asset Gathering	207	2.1	182	1.6
Other/consolidation	1,438	14.4	2,031	18.2
Aggregated economic capital of HVB Group	**9,931**	**100.0**	**11,155**	**100.0**

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

The internal capital falls by €1.2 billion overall. For the most part, this can be attributed to the introduction of the new migration risk model in credit risk and downward trends in credit risk and market risk. 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, profitability, 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 local recovery and resolution plan for HVB Group and submitted it 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, the risk-taking capacity is analysed across the defined multi-year period as part of our planning process.

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 unexpected 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 €20.1 billion at 30 June 2014 (31 December 2013: €20.4 billion).

With internal capital of €10.6 billion, the risk-taking capacity indicator is approximately 190% (year-end 2013: 173%). We see this as a comfortable value. The increase of 17 percentage points for HVB Group compared with 31 December 2013 can be attributed to the sharp decline of €1.2 billion, or 10.0%, in internal capital. This effect is greater than the slight decrease of €0.3 billion, or 1.5%, in the available financial resources in the first half of 2014. 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 and an increase in the expected loss.

Risk Report (Continued)

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, financial investment, business and real estate risk are currently recorded. In addition, pension risk by means of a premium as well as the economic capital for small legal entities are included in the IC.

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

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 the first half of 2014:
- 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 are presented and analysed in the Stress Test Council (STC) on a quarterly basis and, where necessary, appropriate management measures are proposed to the Risk Committee (RC). The risk-taking capacity would currently be ensured, even if the stress scenarios listed above were to materialize.

Furthermore, inverse and ad hoc 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 the conflict in Ukraine.

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. They 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.

The risk management processes for concentrations have been optimised with a view to linking risk drivers across the risk types, such that concentration risk is integrated into assessment and controlling.

The concentration of earnings in individual customers, business 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 2014. 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 will be presented to the RC of HVB in the autumn and included in the calculation and planning of the risk-taking capacity following approval. The risk inventory serves to review the overall risk profile of HVB Group and identify various topics, some of which are being incorporated in the stress test, 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 Risk 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 business 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

The economic capital for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €4.8 billion, which is €1.1 billion lower than the total at 31 December 2013 (€5.9 billion). The reduction can be attributed mainly to the introduction of the new migration risk model and declining risk developments.

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 €0.7 billion (31 December 2013: €0.8 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.

Risk Report (Continued)

Development of metrics by business segment (€ millions)

	EXPECTED LOSS		ECONOMIC CAPITAL[1]	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Commercial Banking	170	191	1,103	998
Corporate & Investment Banking	276	269	2,971	3,594
Asset Gathering	2	1	41	36
Other/consolidation	38	36	730	1,291
HVB Group	**486**	**497**	**4,845**	**5,919**

1 without taking account of diversification effects

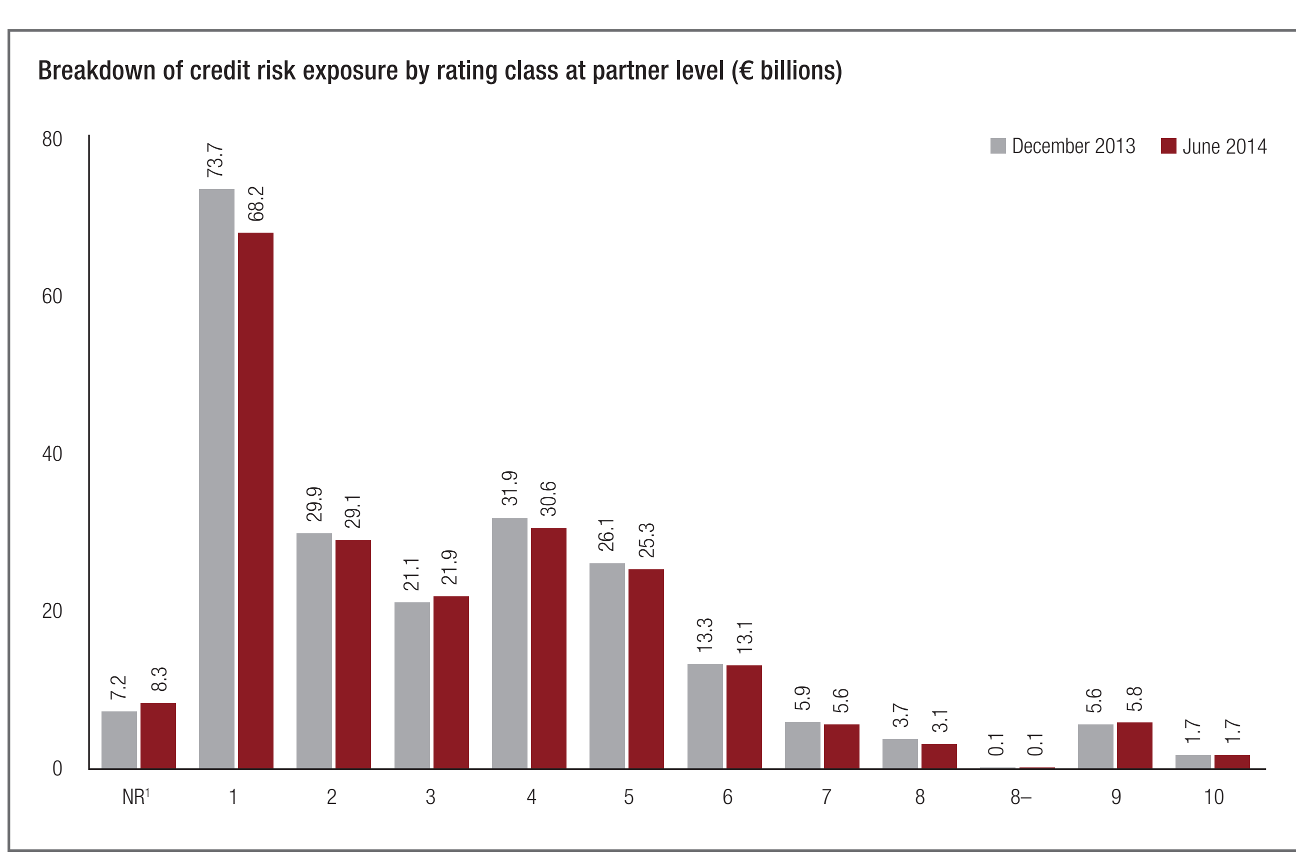
HVB Group's expected loss fell by €11 million in the first half of 2014. This development arose primarily in the Commercial Banking business segment. This was caused by various effects, including a decline in exposure and/or rating improvements among various customers.

The rise of €7 million in the expected loss in the CIB business segment can be attributed mainly to an adjustment of the calculation method for the special products industry group. The quality of the portfolio is unchanged. Furthermore, the expected loss in the banks, insurance companies industry group rose on account of rating downgrades and/or an increase in exposure to individual customers with weaker ratings.

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

Breakdown of EaD by business segment	CREDIT DEFAULT RISK		COUNTERPARTY RISK		ISSUER RISK TRADING BOOK		TOTAL	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Commercial Banking	88.5	88.9	1.9	1.8	0.1	0.2	90.5	90.8
Corporate & Investment Banking	53.0	61.0	17.4	16.3	42.7	42.9	113.1	120.2
Asset Gathering	0.8	1.1	0.0	0.0	2.7	2.5	3.5	3.6
Other/consolidation	1.7	1.7	0.0	0.0	4.0	3.9	5.7	5.6
HVB Group	**144.0**	**152.6**	**19.3**	**18.2**	**49.5**	**49.5**	**212.8**	**220.2**

There was a reduction of €7.1 billion in the exposure in the CIB business segment. The main reason for this is a reduction in the liquidity placed with Deutsche Bundesbank and other financial institutions.



1 not rated (of which €5.1 billion at 30 June 2014 with a rating at transaction level (31 December 2013: €4.0 billion))

The rating classes are shown broken down into non-rated partners (NR), the rating classes 1 to 7 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.

The HVB Group rating structure changed during the first half of 2014 mainly on account of a reduction in the liquidity placed with Deutsche Bundesbank and other financial institutions (rating classes 1 and 2).

Risk Report (Continued)

Breakdown of metrics by industry group

Industry group	EXPOSURE € billions		EXPECTED LOSS € millions		RISK DENSITY[1] IN BPS[2]	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Banks, insurance companies	49.5	53.7	57	39	12	7
Public sector	37.4	38.0	5	6	1	2
Real estate	22.9	22.9	30	31	14	14
Energy	9.8	10.4	20	25	21	24
Chemicals, pharmaceuticals, health	9.3	9.3	16	19	19	22
Special products	8.9	9.8	87	64	101	68
Machinery, metals	8.2	7.9	24	27	31	37
Construction, wood	5.7	5.5	15	15	35	34
Automotive industry	5.4	5.2	10	9	19	18
Shipping	5.3	5.9	72	104	182	221
Consumer goods	5.0	5.5	8	12	17	22
Services	4.9	5.0	21	21	44	44
Transport, travel	4.6	4.5	15	16	37	39
Food, beverages	4.2	4.4	8	10	19	22
Telecom, IT	2.6	3.0	5	8	18	27
Agriculture, forestry	2.2	2.0	4	5	20	25
Media, paper	2.2	2.2	5	7	26	36
Electronics	1.8	1.8	2	2	13	13
Tourism	1.5	1.4	11	7	73	51
Textile industry	1.4	1.4	4	5	31	42
Retail	20.0	20.4	66	65	33	32
HVB Group	**212.8**	**220.2**	**486**	**497**	**24**	**23**

1 risk density: expected loss as a proportion of performing exposure
2 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 declined by €4.2 billion in the first two quarters of 2014 as a result of a further reduction in the excess liquidity placed with Deutsche Bundesbank and other financial institutions in line with structural changes. The €18 million increase in the expected loss can be attributed mainly to downgrades and/or an increase in exposure to various customers with weak credit ratings. The risk density increased accordingly.

The expected loss in the special products industry group rose by €23 million on account of an adjustment to the calculation method. The risk density similarly increased accordingly.

Both the performing exposure and the expected loss in the shipping industry group declined sharply in the first half of 2014 in accordance with the defined reduction strategy. The decline in the expected loss was caused by transfers to the non-performing portfolio in the sense of conservative risk provisioning alongside actual repayments.

Banks, insurance companies

The negative rating developments seen worldwide in the wake of the financial crisis have stabilised; it is quite possible, however, that the results of the European Central Bank (ECB) stress test will again roil the financial markets at least in Europe.

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 vulnerability to crises was observed in the first half of 2014, however.

At the same time, regulatory requirements, the rising cost of compliance (fines and investments), falling earnings due to modified business models and less demand for credit are leading to strong downward pressure on margins throughout the industry.

Whereas the provision of liquidity is ensured by the large-scale supply of money by the central banks, bail-in regimes (distributing the cost of bank rescues to the creditors as well) could make it more expensive to raise capital on the bond market.

Part of the exposure in the banks, insurance companies industry group 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 Group). €8.8 billion of the net upstream exposure after 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).

Public sector
Of the thousand or so municipal utilities in Germany, the first German municipal utility holding company owned solely by the local municipality was recently forced to file for insolvency.

There is no need for HVB Group to take any action with regard to the existing risk strategy in response to this development, as the risk assessment of enterprises with municipal holdings is normally performed on a case-by-case basis in line with their own credit ratings. In other words, public-sector ownership does not lead to the credit risk being equated with the communal risk of the regional authority across the board.

In general, we expect this development to have an impact on banks' lending practices and margin calculations, giving rise to associated challenges for the funding of municipal enterprises.

Exposure in the public sector industry group was reduced by €0.6 billion in the first half of 2014 on account of reductions in exposure to individual German states and publicly owned banks.

Energy
The energy portfolio has again contracted slightly against the backdrop of restrained investment by many companies in response to the uncertain regulatory environment and large-scale disinvestment programmes of major power suppliers that have led to a substantial reduction in their debt levels. Many power generators have had to recognise massive write-downs on their conventional power plants in response to falling spot prices for electricity and low capacity utilisation levels. The defined risk strategy calls for us to ensure the quality of the portfolio in the medium term as well.

In accordance with the defined risk strategy, in the energy sector we focus on large, international enterprises. Exposures to enterprises that do not meet our financing conditions are being actively reduced or the risks limited by means of structural financing elements. We anticipated the amendments to the German Renewable Energy Act (Erneuerbare-Energien-Gesetz – EEG) in good time. This only led to marginal adjustments to the risk strategy. In terms of project loans, we concentrate on projects in countries with a stable regulatory environment and ensure compliance with our financing standards.

Special products
The special products portfolio again contracted in the first half of 2014, with the reduction taking place primarily in the non-strategic portion of the portfolio as planned. This enabled the portfolio to be further enhanced. The increase in the expected loss and the risk density reported in the table "Breakdown of metrics by industry group" is attributable exclusively to a change in the model and does not result from a deterioration in the quality of the portfolio.

Within the scope of the 2014 risk strategy, a strategy of growth in clearly defined asset classes complete with conservative lending standards was defined for sub-segments of the special products portfolio. Even if it has so far proved impossible to implement this strategy in full on account of the difficult market environment (due to the competitive situation and downward pressure on margins), we will continue to apply the growth strategy.

Risk Report (Continued)

Shipping

The industry remains dogged by the structural weakness in the shipping market, which is continuing to hinder 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.

After 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 had stabilised at a low level, price rises have been observed in some sub-segments of late. The Bank is again setting up its risk provisions for shipping loans on the basis of conservative assumptions this year and has made further additions to risk provisions for the portfolio in the current financial year.

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 Bank is confident of being able to reduce the non-core portfolio of the shipping portfolio by around €700 million in 2014 as planned (based on the current US dollar price).

Telecom, IT

HVB Group's exposure in the telecom, IT industry group fell sharply in the first half of 2014. This can essentially be attributed to declining credit volumes with individual major borrowers who have refinanced themselves more cheaply by raising funds on the capital market and reduced their existing liabilities to banks.

Despite little relation to the economic cycle and stable demand in the telecommunications industry, the market conditions remain highly challenging at present. First, a strong price war is ongoing (in the mobile segment among others) and the market is being affected by regulatory measures (such as the current reduction in roaming charges); and second, the demand for investment is high on account of the network expansions that are required (in connection with the new mobile 4G LTE and the much greater volumes of data). Among other things, the industry is meeting these challenges by stepping up M&A activities with a view to leveraging synergy effects. The profitability of the market players, which was declining somewhat of late, is likely to recover again as part of this consolidation process. The IT sector is continuing to profit from greater outsourcing of IT services and the megatrend of cloud computing.

Professional risk management made it possible to improve the risk content of the portfolio in the first half of 2014 in the described environment. This is reflected in a lower risk density.

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 as is usually the case with other major projects as well, various remedial works still need to be carried out 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 24 months or more, 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 – now that erection has been completed and regular operation is under way – will be enough to ensure that the debt level will be reduced over a timeframe that is usual for the industry.

According to the latest press reports regarding problems with the grid connection, responsibility for the failure rests in the wind farm. This view is inaccurate. The correct view is that the technical cause of the repeated power failures is not yet known for certain and both the grid operator and the company operating the wind farm are looking for the causes. Under the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG), the wind farm is fundamentally entitled to damages for lost electricity revenues, unless the transmission network operator can prove that the wind farm was responsible for the fault. Such proof has not been submitted at any point since the grid connection was interrupted at the end of March 2014.

Exposure development of countries/regions by risk category

The following tables show the concentration risk at country level. In contrast to last year, starting in 2014 the exposure figures are shown with regard to the risk country of the partner (instead of with regard to the country of the registered office in 2013). The exposure figures for 31 December 2013 were calculated retrospectively using the new methodology. The change will have the biggest impact in Russia and Switzerland.

The method used to calculate sovereign exposure has similarly been modified slightly. This adjustment primarily affects Spain.

Exposure developments of eurozone countries[1], 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
	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014
Luxembourg	4,957	5,413	1,386	1,152	4,539	3,816	543	852	11,425	11,233	22
Italy	1,610	3,111	2,946	2,643	4,963	4,856	1,472	2,402	10,991	13,012	2,315
France	3,225	3,004	1,195	1,218	2,097	1,773	1,057	1,173	7,574	7,168	1,128
Netherlands	2,954	3,022	193	271	1,670	1,353	305	264	5,122	4,910	301
Austria	1,453	2,592	181	252	1,078	1,044	440	586	3,152	4,474	455
Spain	958	1,136	91	65	1,535	1,575	324	293	2,908	3,069	371
Ireland	1,009	1,019	123	138	415	481	202	161	1,749	1,799	—
Greece	344	368	71	64	—	—	0	2	415	434	1
Belgium	82	55	73	50	61	60	122	173	338	338	—
Finland	94	113	28	23	15	12	87	88	224	236	19
Portugal	59	61	44	43	34	35	47	50	184	189	—
Malta	161	144	2	3	—	—	9	1	172	148	—
Cyprus	118	126	2	2	—	—	1	0	121	128	—
Slovenia	47	47	63	67	—	—	10	1	120	115	5
Slovakia	0	0	9	41	—	—	22	17	31	58	22
Latvia	16	—	—	—	—	—	11	—	27	—	11
Estonia	3	6	—	—	—	—	4	—	7	6	—
HVB Group	**17,090**	**20,217**	**6,407**	**6,032**	**16,407**	**15,005**	**4,656**	**6,063**	**44,560**	**47,317**	**4,650**

1 Latvia adopted the euro on 1 January 2014. Consequently, the country exposure is now shown separately and is no longer included in the region Eastern Europe as it was at 31 December 2013.

Risk Report (Continued)

Italy
The relatively large portfolio involving Italy results from the HVB Group's role as UniCredit's investment bank. This portfolio is 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 €192 million, due in part to major investments in bonds under the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM).

Development of the weaker eurozone countries
The strict austerity measures imposed by some eurozone countries have been successful, leading to a far more upbeat assessment by the capital markets. A trend towards normalisation is evident, reinforced by optimistic macroeconomic analysis. Spain and Portugal in particular should be highlighted here.

Even though Spain is not one of the Bank's core markets for corporate business, selective new business in individual product areas under the global responsibility of HVB was approved in the 2014 risk strategy.

The management signal for the country concentration limit has been set to neutral and left unchanged despite considerably reduced utilisation. Going forward, selective growth in accordance with our sustainability-focused business and risk strategy will be possible in clearly defined sectors or product areas. The strategy of reduction for portfolios that do not meet the Bank's definition of core market is being retained unchanged and exit opportunities arising on the market are being exploited where it makes sense to do so, although the Bank is under no compulsion to act, unlike other banks.

A similar scenario is conceivable for Portugal, although this country is of little significance for HVB Group.

In the case of Greece, selective new business will be possible, if key Bank customers wish to invest there and the Bank can create value for the customer and the Bank with its global product expertise.

All in all, the situation of the weaker eurozone countries has improved appreciably over recent months. At the same time, the Bank has created enough leeway to generate selective growth with its limits unchanged by further reducing its portfolio in the first half of the year.

Exposure development by region/country outside the eurozone[1]

(€ millions)

Region/country	TOTAL		OF WHICH ISSUER RISK IN TRADING BOOK	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013
UK	11,113	10,924	865	563
USA	8,809	8,108	219	232
Asia/Oceania	5,420	5,205	46	75
Switzerland	3,260	3,066	317	319
Turkey	2,245	1,923	50	31
Russia	1,787	1,881	27	85
Western Europe (without Switzerland, UK)	1,716	1,949	196	314
North America (including offshore jurisdictions, without USA)	1,464	1,474	62	75
Eastern Europe	1,074	1,133	168	238
Middle East/North Africa	979	1,062	3	16
Southern Africa	642	779	6	24
Central and South America	372	415	18	45
Central Asia (without Russia, Turkey)	118	115	18	7
HVB Group	**38,999**	**38,034**	**1,995**	**2,024**

1 Latvia adopted the euro on 1 January 2014. Consequently, the country exposure is now shown separately and is no longer included in the region Eastern Europe as it was at 31 December 2013.

Among other things, the reduction in exposure is driven by the strategy of reducing the shipping portfolio.

New trouble spots

In response to the conflict in eastern Ukraine and its economic impact on the country as a whole, unsecured business with Ukrainian banks has been discontinued. An escalation of the situation with Russian involvement may lead to more sanctions with an impact on cross-border business involving Russia.

In the Middle East, the rise of the terror organisation ISIS and the resurgence of the Israel/Palestine conflict mean that there are no signs of a political or economic stabilisation in the region.

Financial derivatives

Financial derivatives are used primarily to manage market price risk (in particular, interest-rate risk and currency risk) 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 2014 totalled €84.0 billion (31 December 2013: €78.9 billion).

The regulatory provisions under Basel III and the Capital Requirements Directive IV(CRD IV)/CRR are employed to determine counterparty risk taking into account the internal model method (IMM) approved by the regulatory authorities for use by HVB as of March 2014. Based on individual risk weightings and applying existing, legally enforceable, bilateral netting agreements as well as the collateral provided by borrowers for HVB Group, risk-weighted assets arising from counterparty risk amounted to €5.5 billion at 30 June 2014 (31 December 2013, in accordance with Basel II and the German Solvency Regulation (Solvabilitätsverordnung – SolvV) together with the mark-to-market method: €9.0 billion) for the derivatives business.

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

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	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Interest rate derivatives	852,597	933,097	823,434	2,609,128	2,759,783	74,604	67,897	71,280	65,586
Foreign exchange derivatives	170,136	23,781	676	194,593	184,712	1,816	2,588	1,944	2,582
Cross-currency swaps	42,977	131,768	71,526	246,271	243,078	3,413	3,910	3,939	4,295
Equity/index derivatives	118,953	66,721	26,496	212,170	142,194	3,063	3,228	3,076	3,376
Credit derivatives	23,472	69,979	2,062	95,513	110,648	1,146	1,072	1,087	1,079
– purchased	11,377	35,781	1,092	48,250	55,882	256	359	885	734
– written	12,095	34,198	970	47,263	54,766	890	713	202	345
Other transactions	4,088	2,665	784	7,537	7,159	129	228	146	272
HVB Group	**1,212,223**	**1,228,011**	**924,978**	**3,365,212**	**3,447,574**	**84,171**	**78,923**	**81,472**	**77,190**

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €527,681 million at 30 June 2014 (thereof credit derivatives: €3,660 million).

Risk Report (Continued)

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Central governments and central banks	4,475	3,800	1,740	1,710
Banks	54,834	51,026	54,953	50,864
Financial institutions	22,668	21,773	23,616	23,175
Other companies and private individuals	2,194	2,324	1,163	1,441
HVB Group	**84,171**	**78,923**	**81,472**	**77,190**

Summary and outlook

The Bank has put a strong focus on risk control in its business strategy together with conservative basic elements, formulating the creation of a less risky credit portfolio than most within the relevant peer group as its sustainable goal. This objective is measured using the risk density of the performing portfolio. The current risk density of 24 BPS is well below the long-term target which also takes account of macroeconomic downturn scenarios and forms part of the long-term plan to 2018. UniCredit is planning to reduce the risk density of the performing portfolio from 82 BPS to 51 BPS by 2018, with a constant trend at a low level planned for the HVB Group portfolio.

Long before its competitors, the Bank defined portfolios for reduction that are to be eliminated by 2015 in line with the repayment profile. Shipping is the biggest sub-portfolio among others included in this overall portfolio earmarked for elimination. The forward-looking strategy has made it possible to avoid expensive portfolio transactions to date. From the current standpoint, there are no indications that this strategy and its implementation need to be altered in any way.

Alongside credit risk, market risk and operational risk are also controlled in accordance with the conservative policies established in the business strategy and systematically managed as required.

The Bank views the risk culture firmly anchored in HVB Group and the very good quality of the loan portfolios as a key success factor for the future.

2 Market risk

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).

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 risk management, HVB determines further market risk metrics demanded by the present regulatory requirements (CRR) besides the VaR:
– 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 credit 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 securitisations and nth-to-default credit derivates are covered by the regulatory Standard Approach.
– Based on the new CRR regulations, we calculate risks with regard to the credit valuation adjustment (CVA). The CVA risk shows the risk of market value losses based on changes in the expected counterparty risk for all relevant OTC derivatives under CRR. We use our own internal model that has been approved by BaFin to calculate the vast majority of the CVA. The internal model calculates both the CVA VaR and the stressed CVA VaR on the basis of a 10-day holding period and a confidence level of 99%.

The economic capital for the market risk of HVB Group, without taking account of diversification effects between the risk types, amounts to €2.9 billion, up by €0.2 billion on the figure at 31 December 2013 (€2.7 billion).

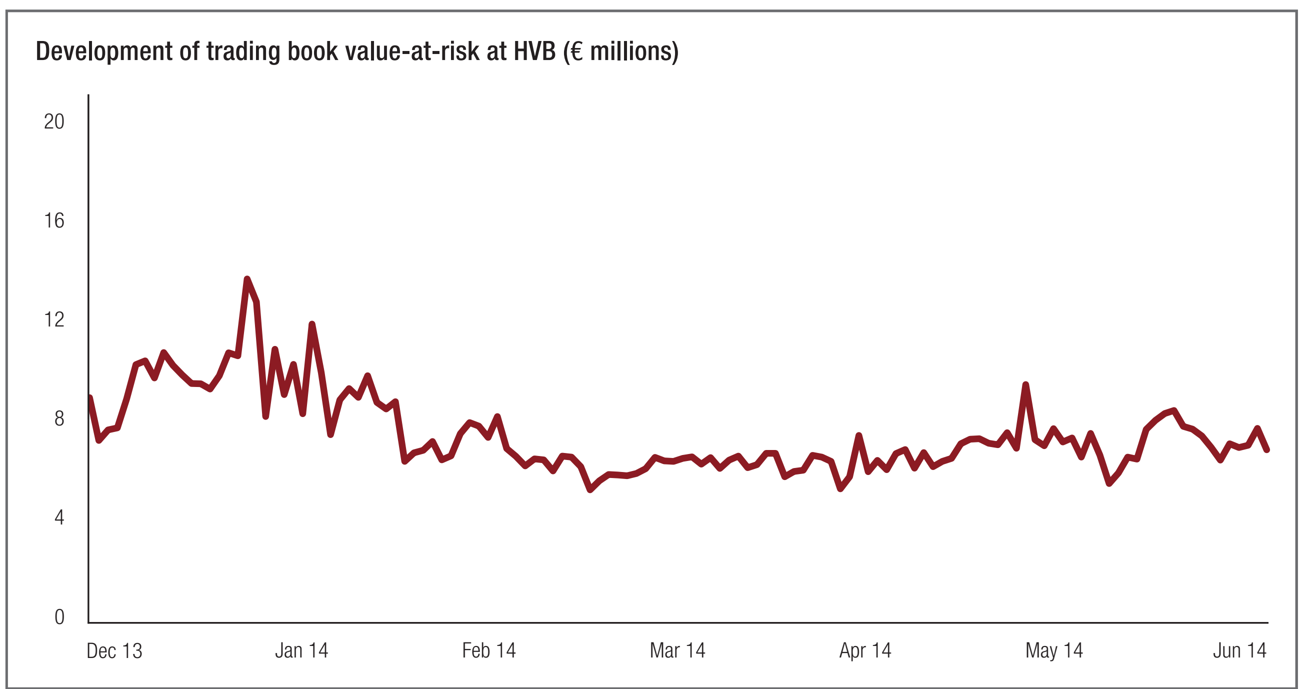
The following table shows the aggregated market risk for our trading positions at HVB Group over the course of the year.

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

	AVERAGE 2014[1]	30/6/2014	31/3/2014	31/12/2013	30/9/2013	30/6/2013
Interest rate positions (including credit spread risk)	7	7	6	9	12	15
Foreign exchange derivatives	1	1	1	1	1	1
Equity/index positions[2]	2	1	2	2	3	4
Diversification effect[3]	(4)	(3)	(3)	(3)	(4)	(4)
HVB Group	**6**	**6**	**6**	**9**	**12**	**16**

1 arithmetic mean of the two quarter-end figures
2 including commodity risk
3 because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks

Risk Report (Continued)



The VaR curve reflects a relatively stable development of risk in the first half of 2014, especially in the second quarter.

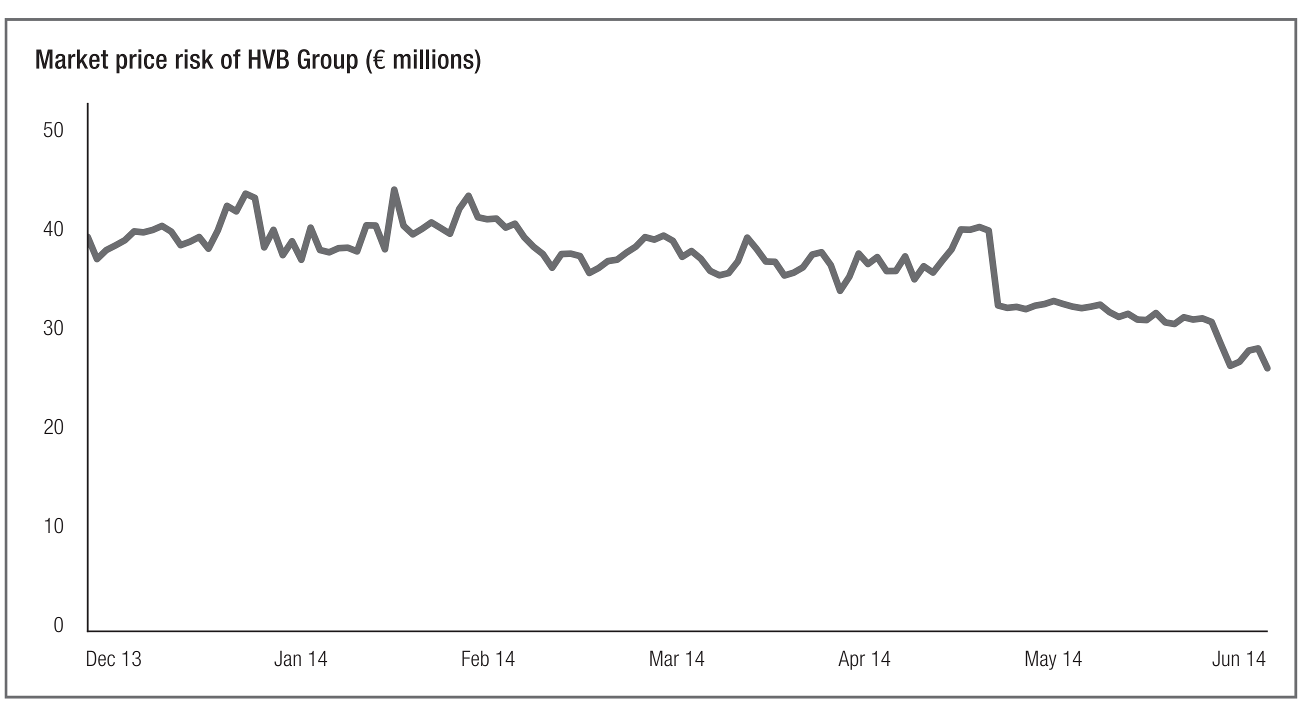
New regulatory metrics[1] at HVB

(€ millions)

	30/6/2014	31/3/2014	31/12/2013	30/9/2013	30/6/2013	31/3/2013
Stressed value-at-risk	21	19	27	22	27	34
Incremental risk charge	266	194	288	211	267	313
Market risk Standard Approach	4	6	4	5	5	16
CVA value-at-risk	27	32	—	—	—	—
Stressed CVA value-at-risk	65	66	—	—	—	—
CVA Standard Approach	30	30	—	—	—	—

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.



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 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. As of June 2014, customer margins have also been included in this analysis. With a notional utilisation of 0.1% (31 December 2013: 0.2%), or 3.7%, excluding the model book (31 December 2013: 3.9%), of its regulatory equity capital at the end of the first half of 2014, HVB Group is well below the 20% above which the banking supervisory authorities consider a bank to have increased interest rate risk.

In addition, a simulation of interest income in the banking book is carried out 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 rate shock of minus 100 basis points would serve to reduce net interest by €54 million within the next 12 months (result at 31 March 2014; 31 December 2013, plus 100 basis points: minus €19 million).

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 €16 million (0.1% of the regulatory capital) in the banking book of HVB Group (31 December 2013: a decrease of €25 million).

Risk Report (Continued)

Value change in case of a 10% FX depreciation against the euro
at 30 June 2014 (€ millions)

HVB GROUP BANKING BOOK	
Total	(16.44)
USD	(3.10)
GBP	(19.12)
CHF	1.52
JPY	5.39
TRY	(2.09)
HKD	0.61

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 the first half of 2014.

Market liquidity risk

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

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

In the course of stress tests, the risk from deteriorating market liquidity is analysed. In this regard, analysis is carried out to determine the amount of losses that would result from the liquidation of trading and banking book positions of HVB in a market environment with greatly expanded bid-offer spreads. For June 2014, the tests showed a potential loss of €344 million (31 December 2013: €373 million).

Summary and outlook

As was already the case in the first two quarters of 2014, efforts will again be made in the second half of 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

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €29.7 billion in HVB Group for the next banking day at the end of June 2014 (30 June 2013: €32.0 billion). The portfolio of highly liquid securities eligible at short notice to compensate for unexpected outflows of liquidity amounted to €27.2 billion at the end of June of 2014 (30 June 2013: €24.3 billion).

At the end of the second quarter of 2014, our stress tests showed that the available liquidity reserves covered the funding required for the Bank-specific, market-wide and combined scenarios for a period of more than one year.

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB Group during the reporting period. The funds available exceeded the payment obligations for the following month by an average of €18.2 billion for HVB Group in the second quarter 2014 (second quarter 2013: €30.5 billion) and €19.2 billion at 30 June 2014. 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 second quarter of 2014 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 €3.9 billion by

the end of June 2014 (30 June 2013: €2.9 billion). At the end of June 2014, 102.4% (30 June 2013: 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.

Summary and outlook

The banking industry again felt the effects of the European sovereign debt crisis in the first half of 2014. Various measures taken by the European Union in particular calmed the markets to some extent. It is, however, 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 the first half of 2014 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 global economic recovery to take further hold in the second half of 2014; strains arising from geographical hotspots, such as the conflict in Ukraine, should be more than offset, provided they do not escalate. 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

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 Capital Requirements Regulation (CRR), operational risk is therefore defined as the risk of losses resulting from failed internal processes or systems, human error and external events. This definition also includes legal risk but not strategic risk or reputational risk.

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 €2.1 billion at 30 June 2014 (31 December 2013: €2.5 billion). The main reason for the decline in the economic capital was the lower number of loss events arising from selling risks together with a similarly improved risk profile in this regard based on external data.

IT

HVB's IT services are mostly provided by the Group company UniCredit Business Integrated Services S.C.p.A (UBIS). HVB's IT operating processes continue to require adjustments to be made to the internal control system for IT to allow for all significant risks to be monitored and managed appropriately alongside performance and quality considerations. The refinement of relevant metrics and audit processes remains high on the agenda for 2014. In addition, the control system will continue to be adjusted in line with the potential improvements identified at regular intervals and findings from audits.

Business continuity management and crisis management

The business continuity management and crisis management function demonstrated its effectiveness and appropriateness in one genuine incident. In addition, HVB's crisis management team successfully managed all other critical situations, such that the impact was minimised. Several successfully completed IT contingency tests showed that the handling of processes in business continuity management works well.

Legal risk and compliance risk

Legal risk is a subcategory of operational risk that might represent a risk to the earnings position due to infringements of the law or violations of rights, regulations, agreements, obligatory practices or ethical standards.

Risk Report (Continued)

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

Compliance risk is defined as the risk of statutory and regulatory sanctions, financial losses or reputational damage that HVB could suffer as a result of non-compliance with the law, regulations or other provisions.

The management of compliance risk is normally a task of the Bank's Management Board. Compliant with Section 25a KWG, it is required to ensure that a proper business organisation is in place, encompassing in particular appropriate and effective risk management, including an internal control system. The Compliance function forms part of the internal control system that helps the Management Board to manage compliance risk.

The structure of the Compliance function is defined by the Minimum Requirements for Compliance (MaComp) and the Minimum Requirements for Risk management (MaRisk). At HVB, both functions are combined in the Compliance unit in order to ensure a uniform approach. Money-laundering and fraud prevention are also assigned to the Compliance unit. Comprehensive risk assessment is ensured by this approach.

Compliance function under MaComp
The Compliance unit is responsible for carrying out monitoring and advisory tasks. The Compliance function tracks and assesses the policies drawn up and procedures set up in the Bank as well as the measures taken to remedy deficiencies.

It carries out risk-based second level controls at regular intervals with a view to ensuring that the devised policies and the defined organisation and operating guidelines of the Bank are observed.

The scope and focus of the Compliance function's activities are defined on the basis of a risk analysis. This risk analysis is carried out by Compliance at regular intervals in order to track the currentness and appropriateness of, and – where necessary – adjust the definition. Alongside the regular review of the identified risks, ad hoc audits are carried out as and when required in order to incorporate newly arising risks in the assessment. The opening of new lines of business or structural changes in the Bank are examples of activities that may give rise to new risks.

Among other things, Compliance's advisory obligations include providing support for staff training, giving day-to-day advice to employees and contributing to the creation of new policies and procedures within the Bank. Compliance helps the operating units (meaning all employees directly or indirectly involved in the provision of investment services) to carry out training courses or carries out such courses itself.

The management is informed about the results of the activities of the Compliance function in writing on an ongoing basis. The reports contain a description of the implementation and effectiveness of the entire controlling function with regard to investment services together with a summary of the identified risks and the measures taken or to be taken to remedy or eliminate deficiencies and defects and to reduce risk. The reports are drawn up at least once a year.

Compliance function under MaRisk
The Compliance function counters the risks arising from non-compliance with statutory obligations and other requirements. It is required to work towards the implementation of effective procedures and appropriate controls to ensure compliance with the material statutory provisions and other requirements for the institution.

The Compliance function supports and advises the Management Board regarding compliance with the statutory provisions and other requirements. The Management Board and the business segments remain fully responsible for compliance with statutory provisions and other requirements.

Compliance is required to identify the material statutory provisions and other requirements, non-compliance with which could endanger the institution's assets, taking into account risk considerations, at regular intervals. Based on a database that is currently under development, a risk map is drawn up for the Bank taking into account amended/new laws, any control gaps are identified and counter-measures proposed.

Reporting to the Management Board takes place within the framework of the existing reports on the activities of the Compliance function. The Management Board is notified directly of any serious findings that require ad hoc counter-measures.

Money-laundering and fraud prevention
HVB is obliged by law to set up suitable internal precautions to ensure that it cannot be misused for the purposes of money laundering, terrorist financing or other criminal acts.

The Anti-money-laundering/Financial Sanctions and Fraud Prevention units define, identify and analyse risk factors and units in the Bank, taking into account the statutory and regulatory requirements. Appropriate measures to prevent money laundering and fraud and to reduce risk are devised, performed and coordinated.

Once a year, both units draw up a threat analysis describing the effectiveness of the risk management measures for the specific risks, among other things.

Regular second level controls serve to document compliance with the Bank's policies and processes. The operating units are supported with advice on money-laundering and fraud-specific questions and subject-specific training courses.

Legal risks/arbitration proceedings
HVB and other companies belonging to the HVB subgroup are involved in various legal proceedings. The following is a summary of pending cases against HVB or other companies belonging to HVB Group which have a value in dispute exceeding €50 million or are of significance for HVB for other reasons.

HVB is required to deal appropriately with various legal and regulatory requirements in relation to issues such as anti-money-laundering laws, privacy and data-protection rules and regarding avoidance of 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-end funds lawsuits
Various investors in VIP Medienfonds 4 GmbH & Co. KG brought legal proceedings against HVB. HVB did not sell shares of the VIP 4 Medienfonds fund, but granted loans to all private investors for a part of the amount invested in the fund; furthermore HVB assumed specific payment obligations of certain film distributors with respect to the fund.

Risk Report (Continued)

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 besides the civil proceedings and concerning 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-end funds (mainly media funds, but also other asset classes). The changed view of the fiscal authorities regarding tax benefits granted earlier often represents the economic background to the respective litigation. Among other things, the plaintiffs base their claims on alleged inadequate advice and/or on supposed errors in the prospectus. With their claims the investors demand restitution of their equity contribution and offer in return the transfer of the related fund share to the Bank.

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 of 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 LLC (formerly UniCredit Capital Markets Inc.), was dismissed as to the underwriters by the trial court. This class 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 judgements 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, paying the total amount stated in the liability notice to the tax authorities. The dispute continues. 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 (accrued late payment penalties).

In a Preliminary Investigation (Ermittlungsverfahren) against the client and others (including former and current employees of HVB), the General Public Prosecutor (Generalstaatsanwaltschaft) Frankfurt am Main searched inter alia the Munich premises of HVB. HVB is fully cooperating with the prosecutor and the tax police (Steuerfahndung). The General Public Prosecutor has initiated proceedings against HVB for an administrative fine according to the German Administrative Offences Act (Ordnungswidrigkeitengesetz – OWiG). There is a risk that 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 client 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 still ongoing. HVB expects results of the internal audit in the next few months. 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 Cologne Public Prosecutor (Staatsanwaltschaft) has opened a Preliminary Investigation against former and current employees of the Bank with regard to applications for refunds vis-à-vis the Central Federal Tax Authority. The Munich Public Prosecutor (Staatsanwaltschaft) has opened a preliminary investigation with regard to withholding tax credits claimed in the corporate tax returns. In addition, HVB has notified 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 only partly been ruled out in higher German tax courts so far. On 16 April 2014, the German Federal Fiscal Court (Bundesfinanzhof) decided in a case dealing with specifically structured equity transactions around the dividend record date. According to a press release issued by the German Federal Fiscal Court, the court denied economic ownership of the purchaser upon certain conditions.

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, 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. Three 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 at first instance but is not final and binding as of today. In the second case, the court of appeal has dismissed the lawsuit and the German Federal Court of Justice has not allowed a further appeal. The last 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 thereafter paid the disputed amount to the opposing party conditionally and appealed against this decision. The appeal was rejected at second instance. HVB has filed for admission of a further appeal at the UK Supreme Court.

Repo transactions

Two customers belonging to the same group of companies have filed claims against HVB with a total amount in dispute of €491 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 defended itself against the actions as it regarded the claims as being unjustified. Both proceedings have now been terminated by mutual settlement.

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 appeal proceedings were suspended over the period of time suits challenging the confirmatory resolutions adopted during the Annual General Meeting of HVB on 30 July 2008 were pending. As suits against the resolutions adopted at the Annual General Meeting on 30 July 2008 were terminated at the beginning of June 2014, the appeal proceedings with respect to the resolutions of approval passed at the Extraordinary Shareholders' Meeting on 25 October 2006 will start again.

Other administrative proceedings

Recently, violations of US sanctions have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the US Treasury Department's Office of Foreign Assets Control (OFAC), the US Department of Justice (DOJ), the New York State District Attorney (NYDA), the US Federal Reserve (Fed) and the New York Department of Financial Services (DFS) depending on the individual circumstances of each case.

In March 2011, HVB received a subpoena from the NYDA relating to historic transactions involving certain Iranian entities, designated by OFAC, and their affiliates. In June 2012, the DOJ opened an investigation of OFAC-related compliance by HVB and its subsidiaries more generally. HVB Group is cooperating with various US authorities and is updating other relevant non-US authorities as appropriate. Although we cannot at this time determine the form, extent or the timing of any resolution with any relevant 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.

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, financial investment 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 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

The VaR, without taking account of diversification effects between the risk types, rose by €72 million to €798 million in the first half of 2014 on account of the greater risk in line with the operating profit. The fully diversified economic capital for the business risk of HVB Group amounted to €305 million at 30 June 2014 (31 December 2013: €336 million).

Real estate risk

A fundamental distinction is made in real estate risk between real estate required for operations (strategic) and non-strategic real estate. The general focus for the existing real estate portfolio in 2014 is on measures targeting current market value and cost optimisation together with portfolio optimisation for the branch properties used by the Bank. No additional purchases are planned for 2014, except where they would serve the interests of HVB Group (in other words, in exceptional circumstances only). The longer term orientation for strategic real estate corresponds with the Bank's strategy of preferring Bank-owned properties over rented properties for own use and making such properties available for the banking operations of HVB Group at market terms on a cost-optimised basis. As a result, around one-third of the properties currently used by the Bank are owned by the HVB Immobilien Group, including almost all of the buildings housing central functions.

Risk Report (Continued)

The facility concepts adopted in 2011 for the central locations are being implemented as planned. In 2014, this relates notably to the major project to renovate the HVB Tower (Z2) in Munich as a green building. Implementation is running as planned and will continue through 2018.

The main risks for the Bank-owned portfolio stem mainly from the development of the current market value, which is always compared with the carrying amount, and the Bank's own usage requirements. The risk drivers are the future usage by the Bank, property rents/Bank rents, market rents, rental contract periods and required investment.

The medium- to long-term goal for the non-strategic real estate portfolio, on the other hand, is to realise the best possible value upon dispose of the overall portfolio; in this regard, the impact on both the income statement and the Bank's other management instruments is crucial for the individual decisions. This tallies with the general strategy for dealing with real estate risk.

The VaR, without taking account of diversification effects between the risk types, declined by €26 million in the first half of 2014 to total €452 million at 30 June 2014. The figure is based on a portfolio worth €2.9 billion.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € billions		SHARE in %	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Strategic real estate	1.5	1.5	51.2	49.9
Non-strategic real estate	1.4	1.5	48.8	50.1
HVB Group	**2.9**	**3.0**	**100.0**	**100.0**

The economic capital for real estate risk at HVB Group taking into account diversification effects totals €345 million (31 December 2013: €372 million). The real estate portfolio of HVB Group is assigned primarily to Munich, which accounts for 36% of the total.

Financial investment risk

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.

In terms of risk measurement, starting in June 2014 fluctuations in the market value of individual investments are simulated for listed and unlisted holdings as part of a Monte Carlo simulation and the ensuing losses aggregated to form the portfolio VaR. The same economic correlations between the value drivers are assumed in the simulation as in the credit portfolio model. Existing residual payment obligations to private equity funds are included in the calculation of financial investment risk. The different method previously used for the listed investments was eliminated to ensure that uniform methods are applied. Furthermore, diversification effects are systematically incorporated.

The VaR, without taking account of diversification effects between the risk types and without the economic capital of small legal entities, fell by €24 million in the first two quarters of 2014 to total €635 million at 30 June 2014. The fully diversified economic capital of HVB Group (without small legal entities) amounts to €508 million (31 December 2013: €517 million).

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Private equity funds	380	403	46.6	45.8
Private equity business	162	205	19.9	23.2
Other holdings	273	274	33.5	31.0
HVB Group	**815**	**882**	**100.0**	**100.0**

As in the first two quarters of 2014, the Bank will continue to dispose of non-strategic shareholdings in the second half of 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

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 as 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 risk

Risk Report (Continued)

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, counter-measures are defined for the individual risks.

The Bank has decided not to directly quantify reputational risk 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 (also during the year, if appropriate).

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 self-assessments and interviews and prepares a RepRisk Report covering the largest reputational risks at HVB.

Strategic risk

The statements made in the 2013 Annual Report regarding strategic risk remain valid. Statements on overall economic trends, in particular in international financial markets, and on the development of HVB Group in the second half of 2014 can be found in the Outlook section of the Financial Review in the present Half-yearly Financial Report.

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. Pension 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. The model was revised and slightly modified as part of the regular review process in the first half of 2014. These adjustments led to a slightly higher figure for risk (up approx. €66 million). A figure of €668 million was determined at 30 June 2014 (31 December 2013: €619 million) for the total pension risk of HVB Group; this is incorporated in the calculation of the risk-bearing capacity in the form of an additive component to the internal capital.

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 rates persist for a longer period of time, the discount rate will have to be lowered again (the discount rate was modified from 3.75% to 3.25% as of 30 June 2014), thus causing the pension obligations 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 risk, market risk 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 help the project managers 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. In the first half of 2014, various already outsourced services relating to accounts/payments were pooled at Bankenverlag Zahlungssysteme GmbH and expanded to form a significant outsourcing arrangement. HVB has performed the internal audit function of its Bankhaus Neelmeyer AG subsidiary since 1 April 2014. No further significant new outsourcing arrangements were set up in the first half of 2014.

Consolidated Income Statement

for the period from 1 January to 30 June 2014

		1/1–30/6/2014	1/1–30/6/2013	CHANGE	
Income/Expenses	NOTES	€ millions	€ millions	€ millions	in %
Interest income		2,605	2,967	(362)	(12.2)
Interest expense		(1,240)	(1,471)	+ 231	(15.7)
Net interest	7	1,365	1,496	(131)	(8.8)
Dividends and other income from equity investments	8	49	56	(7)	(12.5)
Net fees and commissions	9	568	619	(51)	(8.2)
Net trading income	10	300	709	(409)	(57.7)
Net other expenses/income	11	77	91	(14)	(15.4)
Payroll costs		(904)	(906)	+ 2	(0.2)
Other administrative expenses		(819)	(765)	(54)	+ 7.1
Amortisation, depreciation and impairment losses on intangible and tangible assets		(147)	(93)	(54)	+ 58.1
Operating costs	12	(1,870)	(1,764)	(106)	+ 6.0
Net write-downs of loans and provisions for guarantees and commitments	13	(90)	(86)	(4)	+ 4.7
Provisions for risks and charges	14	39	9	+ 30	> (100.0)
Restructuring costs		—	(2)	+ 2	(100.0)
Net income from investments	15	75	94	(19)	(20.2)
PROFIT BEFORE TAX		**513**	**1,222**	**(709)**	**(58.0)**
Income tax for the period		(179)	(404)	+ 225	(55.7)
CONSOLIDATED PROFIT		**334**	**818**	**(484)**	**(59.2)**
attributable to the shareholder of UniCredit Bank AG		330	808	(478)	(59.2)
attributable to minorities		4	10	(6)	(60.0)

Earnings per share

(in €)

	NOTES	1/1–30/6/2014	1/1–30/6/2013
Earnings per share (undiluted and diluted)	16	0.41	1.01

Consolidated statement of total comprehensive income for the period from 1 January to 30 June 2014

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Consolidated profit recognised in the income statement	**334**	**818**
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)	(237)	(88)
Assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	74	27
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	2	8
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	32	11
Unrealised gains/(losses)	35	21
Gains/(losses) reclassified to the income statement	(3)	(10)
Changes in valuation of financial instruments (hedge reserve)	1	4
Unrealised gains/(losses)	—	—
Gains/(losses) reclassified to the income statement	1	4
Other changes	10	—
Taxes on income and expenses to be reclassified to the income statement in future periods	(9)	(8)
Total income and expenses recognised in equity under other comprehensive income	**(127)**	**(46)**
Total comprehensive income	**207**	**772**
of which:		
attributable to the shareholder of UniCredit Bank AG	203	756
attributable to minorities	4	16

Consolidated Income Statement (Continued)

for the period from 1 April to 30 June 2014

	1/4–30/6/2014	1/4–30/6/2013	CHANGE	
Income/Expenses	€ millions	€ millions	€ millions	in %
Interest income	1,301	1,453	(152)	(10.5)
Interest expense	(605)	(730)	+ 125	(17.1)
Net interest	696	723	(27)	(3.7)
Dividends and other income from equity investments	43	39	+ 4	+ 10.3
Net fees and commissions	291	307	(16)	(5.2)
Net trading income	33	334	(301)	(90.1)
Net other expenses/income	33	42	(9)	(21.4)
Payroll costs	(435)	(434)	(1)	+ 0.2
Other administrative expenses	(409)	(402)	(7)	+ 1.7
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(91)	(45)	(46)	>+ 100.0
Operating costs	(935)	(881)	(54)	+ 6.1
Net write-downs of loans and provisions				
for guarantees and commitments	(12)	3	(15)	
Provisions for risks and charges	(1)	18	(19)	
Restructuring costs	2	(2)	+ 4	
Net income from investments	67	26	+ 41	>+ 100.0
PROFIT BEFORE TAX	**217**	**609**	**(392)**	**(64.4)**
Income tax for the period	(74)	(194)	+ 120	(61.9)
CONSOLIDATED PROFIT	**143**	**415**	**(272)**	**(65.5)**
attributable to the shareholder of UniCredit Bank AG	141	402	(261)	(64.9)
attributable to minorities	2	13	(11)	(84.6)

Earnings per share

(in €)

	1/4–30/6/2014	1/4–30/6/2013
Earnings per share (undiluted and diluted)	0.17	0.50

Consolidated statement of total comprehensive income for the period from 1 April to 30 June 2014

(€ millions)

	1/4–30/6/2014	1/4–30/6/2013
Consolidated profit recognised in the income statement	**143**	**415**
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)	(237)	(88)
Assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	74	27
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	2	(24)
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	7	(5)
Unrealised gains/(losses)	10	5
Gains/(losses) reclassified to the income statement	(3)	(10)
Changes in valuation of financial instruments (hedge reserve)	(2)	3
Unrealised gains/(losses)	—	—
Gains/(losses) reclassified to the income statement	(2)	3
Other changes	10	—
Taxes on income and expenses to be reclassified to the income statement in future periods	—	(2)
Total income and expenses recognised in equity under other comprehensive income	**(146)**	**(89)**
Total comprehensive income	**(3)**	**326**
of which:		
attributable to the shareholder of UniCredit Bank AG	(5)	332
attributable to minorities	2	(6)

Consolidated Balance Sheet

at 30 June 2014

Assets

	NOTES	30/6/2014 € millions	31/12/2013 € millions	CHANGE € millions	in %
Cash and cash balances		5,050	10,626	(5,576)	(52.5)
Financial assets held for trading	17	95,614	91,301	+ 4,313	+ 4.7
Financial assets at fair value through profit or loss	18	30,959	29,712	+ 1,247	+ 4.2
Available-for-sale financial assets	19	4,581	4,576	+ 5	+ 0.1
Investments in associates and joint ventures	20	78	71	+ 7	+ 9.9
Held-to-maturity investments	21	217	217	—	—
Loans and receivables with banks	22	46,442	35,312	+ 11,130	+ 31.5
Loans and receivables with customers	23	107,009	109,589	(2,580)	(2.4)
Hedging derivatives		1,220	1,053	+ 167	+ 15.9
Hedge adjustment of hedged items					
in the fair value hedge portfolio		64	67	(3)	(4.5)
Property, plant and equipment		2,905	2,913	(8)	(0.3)
Investment properties		1,316	1,456	(140)	(9.6)
Intangible assets		504	518	(14)	(2.7)
of which: goodwill		418	418	—	—
Tax assets		1,537	1,654	(117)	(7.1)
Current tax assets		347	431	(84)	(19.5)
Deferred tax assets		1,190	1,223	(33)	(2.7)
Non-current assets or disposal groups held for sale		57	154	(97)	(63.0)
Other assets		1,059	799	+ 260	+ 32.5
Total assets		**298,612**	**290,018**	**+ 8,594**	**+ 3.0**

Liabilities

	NOTES	30/6/2014 € millions	31/12/2013 € millions	CHANGE € millions	in %
Deposits from banks	26	54,733	47,839	+ 6,894	+ 14.4
Deposits from customers	27	108,675	107,850	+ 825	+ 0.8
Debt securities in issue	28	29,172	31,804	(2,632)	(8.3)
Financial liabilities held for trading	29	77,155	73,535	+ 3,620	+ 4.9
Hedging derivatives		564	373	+ 191	+ 51.2
Hedge adjustment of hedged items					
in the fair value hedge portfolio		2,098	1,646	+ 452	+ 27.5
Tax liabilities		752	906	(154)	(17.0)
Current tax liabilities		575	700	(125)	(17.9)
Deferred tax liabilities		177	206	(29)	(14.1)
Liabilities of disposal groups held for sale		1	4	(3)	(75.0)
Other liabilities		2,932	3,083	(151)	(4.9)
Provisions	30	2,045	1,969	+ 76	+ 3.9
Shareholders' equity		20,485	21,009	(524)	(2.5)
Shareholders' equity attributable to					
the shareholder of UniCredit Bank AG		20,412	20,962	(550)	(2.6)
Subscribed capital		2,407	2,407	—	—
Additional paid-in capital		9,791	9,791	—	—
Other reserves		7,772	7,920	(148)	(1.9)
Changes in valuation of financial instruments	31	112	88	+ 24	+ 27.3
AfS reserve		86	63	+ 23	+ 36.5
Hedge reserve		26	25	+ 1	+ 4.0
Consolidated profit 2013		—	756	(756)	(100.0)
Net profit 1/1–30/6/2014[1]		330	—	+ 330	
Minority interest		73	47	+ 26	+ 55.3
Total shareholders' equity and liabilities		**298,612**	**290,018**	**+ 8,594**	**+ 3.0**

1 attributable to the shareholder of UniCredit Bank AG

The 2013 profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the appropriation of profit, amounts to €756 million. On 2 June 2014, the Shareholders' Meeting adopted a resolution to pay the consolidated profit of €756 million as a dividend of €756 million to our sole shareholder, 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 Shareholders' Equity

at 30 June 2014

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES	
			TOTAL OTHER RESERVES	OF WHICH: PENSIONS AND SIMILAR OBLIGATIONS (IAS 19)
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]	**—**	**—**	**(60)**	**(61)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(61)	(61)
Reserve arising from foreign currency translation	—	—	1	—
Other changes	—	—	—	—
Total other changes in equity	**—**	**—**	**(3)**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	(3)	—
Shareholders' equity at 30/6/2013	**2,407**	**9,791**	**7,696**	**(660)**
Shareholders' equity at 1/1/2014	**2,407**	**9,791**	**7,920**	**(648)**
Consolidated profit recognised in the consolidated income statement	**—**	**—**	**—**	**—**
Total income and expenses recognised in equity under other comprehensive income[3]	**—**	**—**	**(151)**	**(163)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(163)	(163)
Reserve arising from foreign currency translation	—	—	2	—
Other changes	—	—	10	—
Total other changes in equity	**—**	**—**	**3**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	—	—
Changes in group of consolidated companies	—	—	3	—
Shareholders' equity at 30/6/2014	**2,407**	**9,791**	**7,772**	**(811)**

1 attributable to the shareholder of UniCredit Bank AG
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	PROFIT 1/1–30/6[1]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[2]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
30	**26**	**2,462**	**—**	**22,475**	**794**	**23,269**
—	**—**	**—**	**808**	**808**	**10**	**818**
5	**3**	**—**	**—**	**(52)**	**6**	**(46)**
13	—	—	—	13	(1)	12
(8)	3	—	—	(5)	—	(5)
—	—	—	—	(61)	—	(61)
—	—	—	—	1	7	8
—	—	—	—	—	—	—
—	**—**	**(2,462)**	**—**	**(2,465)**	**(15)**	**(2,480)**
—	—	(2,462)	—	(2,462)	(18)	(2,480)
—	—	—	—	—	—	—
—	—	—	—	(3)	3	—
35	**29**	**—**	**808**	**20,766**	**795**	**21,561**
63	**25**	**756**	**—**	**20,962**	**47**	**21,009**
—	**—**	**—**	**330**	**330**	**4**	**334**
23	**1**	**—**	**—**	**(127)**	**—**	**(127)**
26	—	—	—	26	—	26
(3)	1	—	—	(2)	—	(2)
—	—	—	—	(163)	—	(163)
—	—	—	—	2	—	2
—	—	—	—	10	—	10
—	**—**	**(756)**	**—**	**(753)**	**22**	**(731)**
—	—	(756)	—	(756)	(3)	(759)
—	—	—	—	—	—	—
—	—	—	—	3	25	28
86	**26**	**—**	**330**	**20,412**	**73**	**20,485**

Consolidated Cash Flow Statement (abridged version)

(€ millions)

	2014	2013
Cash and cash equivalents at 1 January	10,626	15,655
Net cash provided/used by operating activities	(3,790)	(2,694)
Net cash provided/used by investing activities	121	444
Net cash provided/used by financing activities	(1,907)	(3,296)
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale and discontinued operations	—	—
Cash and cash equivalents at 30 June	5,050	10,109

Selected Notes

1 Accounting and valuation principles

IFRS basis

The present Half-yearly Financial Report has been prepared in accordance with the regulations defined in the International Financial Reporting Standards (IFRS) and complies with IAS 34, which covers interim reporting. Thus, the present Half-yearly Financial Report meets the requirements of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) for the half-yearly financial reporting of capital-market-oriented companies.

We have applied the same accounting, valuation and disclosure principles in 2014 as in the consolidated financial statements for 2013 (please refer to the HVB Group Annual Report for 2013, starting on page 120).

The following standards newly published or revised by the IASB are mandatorily applicable in the EU for the first time in the 2014 financial year:
– 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"
– Amendments to the consolidation standards IFRS 10, IFRS 12 and IAS 27 – "Investment Entities"
– Amendments to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities"
– Amendments to IAS 36 "Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets"
– Amendments to IAS 39 "Financial Instruments – Novation of Derivatives and Continuation of Hedge Accounting"

IFRS 10 replaces SIC 12 "Consolidation: Special Purpose Entities" and parts of IAS 27 "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 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 did not give rise to any changes in the group of companies included in consolidation by HVB Group.

IFRS 11 revises the provisions regarding the consolidation of joint arrangements. 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 arrangement for the classification of joint arrangements and eliminates the option to consolidate joint ventures using the proportionate method. Initial adoption did not lead to any changes in the consolidated financial statements. The group of consolidated companies does not include any companies for which the proportionate method is applied and joint ventures are insignificant for the corporate group.

IFRS 12 requires much more extensive disclosures regarding subsidiaries, joint arrangements, associates and non-consolidated structured units in the consolidated financial statements than IAS 27, IAS 28 and IAS 31. The standard is to be adopted in full as of 31 December 2014.

Implementation of the remaining standards will have no material effect on the consolidated financial statements of HVB Group. Necessary additional disclosures in the notes to the financial statements will be included in the consolidated financial statements at 31 December 2014.

Selected Notes (Continued)

Consistency
The assessment of a purchase option for leased property classified until now as beneficial under a lease was revised, as exercising the option is not economically beneficial for the Bank and hence not probable. Against this backdrop, we corrected an error in accordance with IAS 8.41 during the reporting period, leading to decreases of €72 million in investment properties, €48 million in liabilities under finance leases and €38 million in other provisions (rental guarantees). Corresponding to this, deferred tax assets declined by €27 million and deferred tax liabilities by €23 million. We have decided not to adjust the year-ago figures for materiality reasons. The overall effect arising from the corrected error was recognised in retained earnings, serving to increase shareholders' equity by €10 million.

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. 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.

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 35):
– 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)

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 35 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 35 similarly contains a detailed description of this hierarchy, which is only used for the purpose of disclosure in the notes.

Segment reporting
In the segment reporting, the activities of HVB Group are divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking
– Asset Gathering
– Other/consolidation

Method of segment reporting
The same principles are being applied in the 2014 financial year as were used at year-end 2013. We use risk-weighted assets compliant with Basel III as the criterion for allocating tied equity capital. The interest rate used to assess the equity capital allocated to companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) was 3.17% in 2013. This interest rate was redetermined for 2014 and has been 2.80% since 1 January 2014.

In addition, we carried out a minor reorganisation in net interest in the first quarter of 2014. In the second quarter of 2014, there was a shift in net interest in the Other/consolidation and Corporate & Investment Banking business segments as part of the reorganisation. The reassignment of one business unit from the Other/consolidation business segment to the Corporate & Investment Banking business segment resulted in a corresponding allocation of this unit's costs. In addition, there was a minor shift in the other administrative expenses of the Commercial Banking and Corporate & Investment Banking business segments as a result of a modified system of charging between these two business segments.

Last year's figures and those of previous quarters have been adjusted accordingly.

2 Companies included in consolidation
The following companies were added to the group of companies included in consolidation in the first half of 2014:
– Newstone Mortgage Securities No. 1 Plc., London
– WMC Management GmbH, Munich

In addition, one borrower has been initially consolidated in accordance with IFRS 10. The borrower has the German legal form of GmbH & Co. KG (a type of limited partnership), the only asset of which is a property over which HVB gained economic ownership during the course of restructuring. Under the provisions set forth in IFRS 10, this leads to an obligation on the part of HVB to consolidate the borrower. The Company shareholders' equity of €26 million that is held by third parties is shown in the consolidated balance sheet under minority interest. For data protection reasons, no further details, including the name of the company involved, are provided.

The following companies left the group of companies included in consolidation in the first half of 2014 due to imminent or completed liquidation:
– Elektra Purchase No. 24 Ltd., Dublin
– GELDILUX-PP-2011 S.A., Luxembourg
– HVB Asia Limited, Singapore
– HVB Finance London Limited, London
– HVB London Investments (CAM) Limited, London
– Salome Funding Plc, Dublin
– UniCredit London Investments Limited, London

3 Events after the reporting period
In light of the changes to the regulatory environment and the related restrictions on the principal investments activities of banks, HVB decided in 2013 to reduce its private equity portfolio in order to minimise the detrimental effect on the economic capital to be held for private equity funds (ICAAP) and to enhance the capital structure of the corporate group at the same time.

At the end of 2013, HVB sold a first tranche of its private equity portfolio and also set up the SwanCap investment management platform in which the Bank holds an interest as a shareholder (Swan I transaction).

Against this backdrop, the Management Board decided in July to sell a further tranche of HVB's private equity portfolio previously managed by the Corporate & Investment Banking business segment to a newly created investment fund based in Luxembourg (SwanCap Opportunities Fund II SCS-SIF). This fund is intended for institutional investors and will be managed by the existing SwanCap investment management platform (Swan II project).

In analysing the strategic orientation of HVB Group, the Management Board of HVB has examined various strategic options for the majority interest in DAB Bank AG (Asset Gathering business segment), also exploring the market situation for a disposal. A decision was made after the reporting date to continue examining a disposal as a strategic option as well.

Notes to the Income Statement

4 Income statement, broken down by segment

Income statement, broken down by segment for the period from 1 January to 30 June 2014 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	803	527	25	10	1,365
Dividends and other income from equity investments	5	42	—	2	49
Net fees and commissions	443	89	43	(7)	568
Net trading income	(8)	300	1	7	300
Net other expenses/income	9	(2)	—	70	77
OPERATING INCOME	**1,252**	**956**	**69**	**82**	**2,359**
Payroll costs	(362)	(238)	(21)	(283)	(904)
Other administrative expenses	(619)	(450)	(30)	280	(819)
Amortisation, depreciation and impairment					
losses on intangible and tangible assets	(5)	(70)	(6)	(66)	(147)
Operating costs	**(986)**	**(758)**	**(57)**	**(69)**	**(1,870)**
OPERATING PROFIT	**266**	**198**	**12**	**13**	**489**
Net write-downs of loans and provisions					
for guarantees and commitments	(44)	(62)	—	16	(90)
NET OPERATING PROFIT	**222**	**136**	**12**	**29**	**399**
Provisions for risks and charges	2	25	—	12	39
Restructuring costs	2	—	—	(2)	—
Net income from investments	2	71	1	1	75
PROFIT BEFORE TAX	**228**	**232**	**13**	**40**	**513**

Income statement, broken down by segment for the period from 1 January to 30 June 2013 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	782	602	17	95	1,496
Dividends and other income from equity investments	4	51	—	1	56
Net fees and commissions	436	133	43	7	619
Net trading income	12	582	—	115	709
Net other expenses/income	1	14	—	76	91
OPERATING INCOME	**1,235**	**1,382**	**60**	**294**	**2,971**
Payroll costs	(377)	(225)	(20)	(284)	(906)
Other administrative expenses	(617)	(413)	(28)	293	(765)
Amortisation, depreciation and impairment					
losses on intangible and tangible assets	(5)	(5)	(6)	(77)	(93)
Operating costs	**(999)**	**(643)**	**(54)**	**(68)**	**(1,764)**
OPERATING PROFIT	**236**	**739**	**6**	**226**	**1,207**
Net write-downs of loans and provisions					
for guarantees and commitments	(28)	(170)	—	112	(86)
NET OPERATING PROFIT	**208**	**569**	**6**	**338**	**1,121**
Provisions for risks and charges	20	(10)	—	(1)	9
Restructuring costs	(2)	—	—	—	(2)
Net income from investments	1	34	4	55	94
PROFIT BEFORE TAX	**227**	**593**	**10**	**392**	**1,222**

Notes to the Income Statement (Continued)

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

INCOME/EXPENSES	1/1–30/6/ 2014	1/1–30/6/ 2013	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Net interest	803	782	405	399	408	409	384
Dividends and other income from equity investments	5	4	4	1	3	1	4
Net fees and commissions	443	436	218	225	213	198	209
Net trading income	(8)	12	(7)	—	21	(16)	1
Net other expenses/income	9	1	2	6	(8)	—	—
OPERATING INCOME	**1,252**	**1,235**	**622**	**631**	**637**	**592**	**598**
Payroll costs	(362)	(377)	(177)	(184)	(176)	(198)	(184)
Other administrative expenses	(619)	(617)	(311)	(309)	(317)	(310)	(312)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(5)	(5)	(3)	(3)	(3)	(3)	(3)
Operating costs	**(986)**	**(999)**	**(491)**	**(496)**	**(496)**	**(511)**	**(499)**
OPERATING PROFIT	**266**	**236**	**131**	**135**	**141**	**81**	**99**
Net write-downs of loans and provisions for guarantees and commitments	(44)	(28)	(13)	(31)	(10)	(35)	4
NET OPERATING PROFIT	**222**	**208**	**118**	**104**	**131**	**46**	**103**
Provisions for risks and charges	2	20	—	2	(48)	(7)	19
Restructuring costs	2	(2)	2	—	(323)	—	(2)
Net income from investments	2	1	—	2	—	—	1
PROFIT/(LOSS) BEFORE TAX	**228**	**227**	**120**	**108**	**(240)**	**39**	**121**
Cost-income ratio in %	78.8	80.9	78.9	78.6	77.9	86.3	83.4

Development of the Commercial Banking business segment
In the first half of 2014, the Commercial Banking business segment increased its operating income by 1.4%, or €17 million, to €1,252 million compared with the equivalent year-ago figure.

There was a pleasing rise of €21 million in net interest to €803 million. Within this total, lower interest income from lending activities caused by declines in volumes of property loans extended to private customers and consistently restrained demand for credit from business customers is set against higher interest income from deposit-taking operations involving private customers as a result of positive margin and volume effects. Net fees and commissions also increased by €7 million to €443 million as a result of expanded mandated and corporate finance activities.

The €20 million decline in net trading income is mainly attributable to credit value adjustments, which reduced the total during the reporting period after boosting it in the equivalent period last year.

Operating costs of €986 million were down €13 million. Within this total, the slight increase in other administrative expenses as a result of the conversion to a multi-channel bank was more than offset by the €15 million reduction in payroll costs compared with the equivalent quarter last year.

The cost-income ratio improved by 2.1 percentage points to 78.8% after 80.9% in the year-ago period on account of the increase in operating income coupled with the lower operating costs.

Net write-downs of loans and provisions for guarantees and commitments increased by €16 million over the equivalent period last year to a still very moderate level of €44 million.

After taking account of positive effects from reversals of provisions of €2 million (first half of 2013: €20 million) and net income from investments of €2 million (first half of 2013: €1 million), the Commercial Banking business segment generated a total profit before tax of €228 million in the first half of 2014 (first half of 2013: €227 million).

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

INCOME/EXPENSES	1/1–30/6/ 2014	1/1–30/6/ 2013	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Net interest	527	602	277	249	291	299	275
Dividends and other income from equity investments	42	51	37	5	17	34	34
Net fees and commissions	89	133	56	33	50	49	71
Net trading income	300	582	42	258	190	192	332
Net other expenses/income	(2)	14	(18)	17	28	31	2
OPERATING INCOME	**956**	**1,382**	**394**	**562**	**576**	**605**	**714**
Payroll costs	(238)	(225)	(107)	(132)	(115)	(115)	(99)
Other administrative expenses	(450)	(413)	(228)	(222)	(212)	(206)	(222)
Amortisation, depreciation and impairment							
losses on intangible and tangible assets	(70)	(5)	(52)	(18)	(25)	(2)	(2)
Operating costs	**(758)**	**(643)**	**(387)**	**(372)**	**(352)**	**(323)**	**(323)**
OPERATING PROFIT	**198**	**739**	**7**	**190**	**224**	**282**	**391**
Net write-downs of loans and provisions							
for guarantees and commitments	(62)	(170)	(4)	(58)	(46)	(24)	(114)
NET OPERATING PROFIT	**136**	**569**	**3**	**132**	**178**	**258**	**277**
Provisions for risks and charges	25	(10)	(5)	31	(120)	(4)	—
Restructuring costs	—	—	—	—	—	—	—
Net income from investments	71	34	65	6	69	13	22
PROFIT BEFORE TAX	**232**	**593**	**63**	**169**	**127**	**267**	**299**
Cost-income ratio in %	79.3	46.5	98.2	66.2	61.1	53.4	45.2

Development of the Corporate & Investment Banking business segment

The Corporate & Investment Banking business segment generated operating income of €956 million in a difficult market environment in the first half of 2014. This is €426 million below the total for the equivalent period last year (first half of 2013: €1,382 million).

The decline in operating income is due primarily to the decrease of €282 million in net trading income to €300 million (first half of 2013: €582 million). Among other things, this large fall results from declining results in activities involving Pfandbriefs and loan securitisations. Positive effects from factors like sovereign bonds and asset-backed securities in the first half of 2013 only recurred during the reporting period to a much smaller extent. Improved activities involving stock derivatives only partially offset this development. Moreover, net trading income in the first half of 2014 was depressed by credit value adjustments of €104 million (first half of 2013: €10 million). At the same time, valuation effects on the financial liabilities held for trading resulting from the incorporation of the own credit spread served to dampen net trading income.

Net interest declined by €75 million to €527 million (first half of 2013: €602 million). This development can be attributed to a decline of €56 million in trading-induced interest together with lower income from lending operations, notably due to contracting credit volumes. At the same time, dividend income essentially comprising payments from private equity funds declined by €9 million compared with the equivalent period last year to €42 million (first half of 2013: €51 million). Among other things, this development can be put down to the focus on the core business and much lower holding of private equity investments in anticipation of regulatory changes. Net fees and commissions of €44 million (first half of 2013: €133 million) on the back of fee and commission income of €89 million; this sharp decline results mainly from credit-related commission business. Net other expenses/income amounted to a net expense of €2 million in the first half of 2014, down €16 million (first half of 2013: net income of €14 million).

Operating costs increased by €115 million to €758 million in the reporting period compared with the first half of 2013 (first half of 2013: €643 million). Whereas payroll costs rose a mere €13 million to €238 million (first half of 2013: €225 million), there was a sharp increase on aggregate of €102 million in other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets to €520 million (first half of 2013: €418 million). This development was caused by the initial consolidation of the BARD Group together with the offshore wind farm that was commissioned and fully consolidated at the end of 2013. The cost-income ratio rose by 32.8 percentage points to 79.3% after 46.5% in the first half of last year on account of the lower operating income coupled with the simultaneous rise in operating costs.

At €62 million, the amount transferred to net write-downs of loans and provisions for guarantees and commitments in the first half of 2014 was much lower than in the same period last year (first half of 2013: €170 million). The positive balance of €25 million in provisions for risks and charges results notably from the reversal of provisions relating to derivatives operations. As in the equivalent period last year, the net income from investments of €71 million (first half of 2013: €34 million) results mainly from the sale of shares in private equity funds. In total, the CIB business segment generated a profit before tax of €232 million in the first six months of 2014 (first half of 2013: €593 million).

Notes to the Income Statement (Continued)

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

INCOME/EXPENSES	1/1–30/6/ 2014	1/1–30/6/ 2013	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Net interest	25	17	13	12	11	10	8
Dividends and other income from equity investments	—	—	—	—	—	—	—
Net fees and commissions	43	43	20	23	23	20	22
Net trading income	1	—	—	1	—	1	—
Net other expenses/income	—	—	—	—	—	—	—
OPERATING INCOME	**69**	**60**	**33**	**36**	**34**	**31**	**30**
Payroll costs	(21)	(20)	(10)	(11)	(9)	(10)	(10)
Other administrative expenses	(30)	(28)	(15)	(15)	(16)	(13)	(15)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(6)	(6)	(3)	(3)	(3)	(3)	(3)
Operating costs	**(57)**	**(54)**	**(28)**	**(29)**	**(28)**	**(26)**	**(28)**
OPERATING PROFIT	**12**	**6**	**5**	**7**	**6**	**5**	**2**
Net write-downs of loans and provisions for guarantees and commitments	—	—	—	—	—	—	—
NET OPERATING PROFIT	**12**	**6**	**5**	**7**	**6**	**5**	**2**
Provisions for risks and charges	—	—	—	—	(1)	(1)	—
Restructuring costs	—	—	—	—	—	—	—
Net income from investments	1	4	1	—	—	1	3
PROFIT BEFORE TAX	**13**	**10**	**6**	**7**	**5**	**5**	**5**
Cost-income ratio in %	82.6	90.0	84.8	80.6	82.4	83.9	93.3

Development of the Asset Gathering business segment

The Asset Gathering business segment increased its operating income by 15.0%, or €9 million, year-on-year to €69 million in the first half of 2014.

Within this total, net interest rose by €8 million to €25 million over the same period last year on account of higher volumes of deposits and enhanced treasury management. At €43 million, net fees and commissions remained unchanged compared with the equivalent period last year. The cost-income ratio improved by a strong 7.4 percentage points to 82.6% after 90.0% in the same period last year on the back of the higher operating income.

Other administrative expenses increased by €2 million year-on-year to €30 million partly due to the rebound in the trading business, which, taken together with the increase of €1 million payroll costs to €21 million, led to a rise of €3 million in operating costs to €57 million.

Including the net income from investments of €1 million (first half of 2013: €4 million), the Asset Gathering business segment generated a profit before tax of €13 million in the first half of 2014 (first half of 2013: €10 million).

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

INCOME/EXPENSES	1/1–30/6/ 2014	1/1–30/6/ 2013	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Net interest	10	95	1	9	6	(18)	56
Dividends and other income from equity investments	2	1	2	—	6	—	1
Net fees and commissions	(7)	7	(3)	(4)	(4)	(2)	5
Net trading income	7	115	(2)	8	4	17	1
Net other expenses/income	70	76	49	21	124	61	40
OPERATING INCOME	**82**	**294**	**47**	**34**	**136**	**58**	**103**
Payroll costs	(283)	(284)	(141)	(142)	(140)	(141)	(141)
Other administrative expenses	280	293	145	136	127	145	147
Amortisation, depreciation and impairment							
losses on intangible and tangible assets	(66)	(77)	(33)	(32)	(43)	(35)	(37)
Operating costs	**(69)**	**(68)**	**(29)**	**(38)**	**(56)**	**(31)**	**(31)**
OPERATING PROFIT/(LOSS)	**13**	**226**	**18**	**(4)**	**80**	**27**	**72**
Net write-downs of loans and provisions							
for guarantees and commitments	16	112	5	11	(18)	5	113
NET OPERATING PROFIT	**29**	**338**	**23**	**7**	**62**	**32**	**185**
Provisions for risks and charges	12	(1)	4	7	(54)	4	(1)
Restructuring costs	(2)	—	—	(2)	(37)	—	—
Net income from investments	1	55	1	—	26	—	—
PROFIT/(LOSS) BEFORE TAX	**40**	**392**	**28**	**12**	**(3)**	**36**	**184**
Cost-income ratio in %	84.1	23.1	61.7	111.8	41.2	53.4	30.1

Development of the Other/consolidation business segment

The operating income of this business segment amounted to €82 million in the first six months of 2014 after €294 million in the equivalent period last year. Half of this sharp decline of €212 million results from the net trading income, which fell a tangible €108 million to €7 million due to the non-recurrence of the gains generated in connection with the buy-back of hybrid capital instruments in the previous year (first half of 2013: €115 million). At the same time, net interest fell by a sharp €85 million to €10 million and net other expenses/income by €6 million to €70 million due in part to the very low interest rates. Net fees and commissions shows a net expense of €7 million, which is €14 million less than the net income recorded in the first half of 2013.

With operating costs up by €1 million to €69 million, the operating profit was down by €213 million during the reporting period to €13 million (first half of 2013: €226 million).

Net write-downs of loans and provisions for guarantees and commitments show a net reversal of €16 million in the first half of 2014; the high net reversal of €112 million in the equivalent period last year arose among other things from the successful reduction of expiring portfolios. Including a net reversal of €12 million in provisions for risks and charges (first half of 2013: net addition of €1 million), restructuring costs of €2 million and net income from investments of €1 million, the profit before tax amounted to €40 million in the first half of 2014. The year-ago profit before tax of €392 million included net income from investments of €55 million resulting notably from gains on the sale of land and buildings.

Notes to the Income Statement (Continued)

5 Balance sheet figures, broken down by segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING	OTHER/ CONSOLIDATION	HVB GROUP
Loans and receivables with banks					
30/6/2014	857	44,700	1,378	(493)	**46,442**
31/12/2013	790	33,054	1,406	62	**35,312**
Loans and receivables with customers					
30/6/2014	75,242	32,007	306	(546)	**107,009**
31/12/2013	75,890	34,743	279	(1,323)	**109,589**
Goodwill					
30/6/2014	130	288	—	—	**418**
31/12/2013	130	288	—	—	**418**
Deposits from banks					
30/6/2014	3,407	43,197	20	8,109	**54,733**
31/12/2013	10,687	37,305	18	(171)	**47,839**
Deposits from customers					
30/6/2014	69,689	27,062	4,911	7,013	**108,675**
31/12/2013	70,685	24,839	4,980	7,346	**107,850**
Debt securities in issue					
30/6/2014	945	1,938	—	26,289	**29,172**
31/12/2013	3,931	2,482	—	25,391	**31,804**
Risk-weighted assets compliant with Basel III					
(including equivalents for market risk					
and operational risk)					
30/6/2014	28,708	46,978	1,385	11,674	**88,745**
31/12/2013	29,172	48,553	1,015	6,773	**85,513**

6 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									
1/1–30/6/2014	2,242	12	84	169	34	46	1	(230)	2,359
1/1–30/6/2013	2,644	33	110	202	39	45	24	(124)	2,971
OPERATING PROFIT/(LOSS)									
1/1–30/6/2014	274	29	65	70	28	18	(23)	(62)	399
1/1–30/6/2013	555	56	93	174	28	19	121	77	1,121

Total assets, broken down by region (€ millions)

	30/6/2014	31/12/2013
Germany	267,711	260,341
Italy	52,434	49,317
Luxembourg	21,714	20,821
UK	12,036	15,502
Rest of Europe	4,162	2,636
Americas	6,879	6,303
Asia	3,341	3,333
Consolidation	(69,664)	(68,235)
Total	**298,612**	**290,018**

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

	30/6/2014	31/12/2013
Germany	2,851	2,859
Italy	—	—
Luxembourg	32	32
UK	15	16
Rest of Europe	3	3
Americas	3	1
Asia	1	2
Consolidation	—	—
Total	**2,905**	**2,913**

Investment properties, broken down by region (€ millions)

	30/6/2014	31/12/2013
Germany	1,292	1,431
Italy	—	—
Luxembourg	—	—
UK	24	25
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**1,316**	**1,456**

Notes to the Income Statement (Continued)

Intangible assets, broken down by region (€ millions)

	30/6/2014	31/12/2013
Germany[1]	501	514
Italy	—	—
Luxembourg	—	1
UK	1	1
Rest of Europe	2	2
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**504**	**518**

1 includes goodwill

Employees, broken down by region [1]

	30/6/2014	31/12/2013
Germany[2]	16,822	17,330
Italy	285	293
Luxembourg	175	183
UK	540	533
Rest of Europe	377	367
Africa	2	2
Americas	185	196
Asia	188	188
Total	**18,574**	**19,092**

1 in full-time equivalents
2 the totals includes 389 FTEs at 30 June 2014 and 680 FTEs at 31 December 2013 attributable to the BARD Group

7 Net interest

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Interest income from	**2,605**	**2,967**
lending and money market transactions[1]	1,798	2,018
other interest income	807	949
Interest expense from	**(1,240)**	**(1,471)**
deposits	(319)	(358)
debt securities in issue and other interest expenses	(921)	(1,113)
Total	**1,365**	**1,496**

1 A reclassification from net fees and commissions to net interest was carried out in 2013. The year-ago figures have been adjusted accordingly.

Net interest attributable to related parties

The following table shows the net interest attributable to related parties: (€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Non-consolidated affiliated companies	51	69
of which: UniCredit S.p.A.	24	40
Joint ventures	—	—
Associated companies	—	2
Other participating interests	—	—
Total	**51**	**71**

Besides the amounts attributable to UniCredit S.p.A., the net interest of €51 million (first half of 2013: €69 million) from non-consolidated affiliated companies includes interest income of €26 million (first half of 2013: €29 million) attributable to sister companies.

8 Dividends and other income from equity investments

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Dividends and other similar income	47	54
Companies accounted for using the equity method	2	2
Total	**49**	**56**

9 Net fees and commissions

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Management, brokerage and consultancy services	274	290
Collection and payment services	114	113
Lending operations[1]	164	198
Other service operations	16	18
Total	**568**	**619**

1 A reclassification from net fees and commissions to net interest was carried out in 2013. The year-ago figures have been adjusted accordingly.

This item comprises the balance of fee and commission income of €790 million (2013: €822 million) and fee and commission expenses of €222 million (2013: €203 million).

Net fees and commissions from related parties

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

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Non-consolidated affiliated companies	33	44
of which: UniCredit S.p.A.	(10)	3
Joint ventures	—	—
Associated companies	27	17
Other participating interests	—	—
Total	**60**	**61**

Besides the amounts attributable to UniCredit S.p.A., the net fees and commissions of €33 million (first half of 2013: €44 million) from non-consolidated affiliated companies include €43 million (first half of 2013: €41 million) from sister companies.

10 Net trading income

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Net gains on financial assets held for trading[1]	279	468
Effects arising from hedge accounting	(32)	15
Changes in fair value of hedged items	(495)	790
Changes in fair value of hedging derivatives	463	(775)
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	50	93
Other net trading income	3	133
Total	**300**	**709**

1 including dividends on 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

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 net gains on holdings at fair value through profit or loss (held-for-trading portfolio 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. To ensure that the full contribution of these activities to profits is disclosed, the interest cash flows are only carried in net trading income for the interest rate swap trading book, which exclusively contains interest rate derivatives.

Notes to the Income Statement (Continued)

11 Net other expenses/income

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Other income	280	179
Other expenses	(203)	(88)
Total	**77**	**91**

Net other expenses/income includes income totalling €41 million (2013: €23 million) from Ocean Breeze Energy GmbH & Co. KG and the BARD Group. Electricity feed-in gains account for a large proportion of the total during the reporting period.

Net other expenses/income attributable to related parties

The following table shows the net other expenses/income attributable to related parties: (€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Non-consolidated affiliated companies	14	61
of which: UniCredit S.p.A.	(16)	6
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**14**	**61**

Besides the amounts attributable to UniCredit S.p.A., the net other expenses/income of €14 million (first half of 2013: €61 million) attributable to non-consolidated affiliated companies include €30 million (first half of 2013: €54 million) attributable to sister companies.

12 Operating costs

The operating costs include expenses totalling €92 million (2013: €4 million) incurred by Ocean Breeze Energy GmbH & Co. KG and the BARD Group. Write-downs of €33 million on the wind farm and the ships (2013: €2 million) account for a large proportion of the total during the reporting period.

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)

	1/1–30/6/2014	1/1–30/6/2013
Non-consolidated affiliated companies	(302)	(297)
of which: UniCredit S.p.A.	(1)	3
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(302)**	**(297)**

Besides the amounts attributable to UniCredit S.p.A., the operating costs of €302 million (first half of 2013: €297 million) attributable to non-consolidated affiliated companies include €301 million (first half of 2013: €300 million) attributable to sister companies.

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

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Additions/releases	**(116)**	**(114)**
Allowances for losses on loans and receivables	(110)	(155)
Allowances for losses on guarantees and indemnities	(6)	41
Recoveries from write-offs of loans and receivables	**26**	**28**
Gains/(losses) on the disposal of impaired loans and receivables	**—**	**—**
Total	**(90)**	**(86)**

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)

	1/1–30/6/2014	1/1–30/6/2013
Non-consolidated affiliated companies	—	—
of which: UniCredit S.p.A.	—	—
Joint ventures	—	—
Associated companies	—	—
Other participating interests	1	—
Total	**1**	**—**

14 Provisions for risks and charges

There was a net reversal of €39 million in provisions for risks and charges in the first half of 2014, resulting almost exclusively from derivative transactions.

Net additions to provisions for risks and charges amounted to €9 million during the equivalent period last year, essentially in connection with legal risks.

15 Net income from investments

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Available-for-sale financial assets	67	40
Shares in affiliated companies	—	—
Companies accounted for using the equity method	—	—
Held-to-maturity investments	4	—
Land and buildings	—	54
Investment properties[1]	4	—
Total	**75**	**94**

1 gains on disposal, impairments and write-ups

Notes to the Income Statement (Continued)

Net income from investments breaks down as follows:

(€ millions)

	1/1–30/6/2014	1/1–30/6/2013
Gains on the disposal of	**88**	**128**
available-for-sale financial assets	81	73
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	4	—
land and buildings	—	54
investment properties	3	1
Write-downs, value adjustments and write-ups on	**(13)**	**(34)**
available-for-sale financial assets	(14)	(33)
shares in affiliated companies	—	—
companies accounted for using the equity method	—	—
held-to-maturity investments	—	—
investment properties	1	(1)
Total	**75**	**94**

16 Earnings per share

	1/1–30/6/2014	1/1–30/6/2013
Consolidated profit attributable to the shareholder (€ millions)	330	808
Average number of shares	802,383,672	802,383,672
Earnings per share (€)	0.41	1.01

Notes to the Balance Sheet

17 Financial assets held for trading

(€ millions)

	30/6/2014	31/12/2013
Balance sheet assets	**29,054**	**28,025**
Fixed-income securities	9,881	11,504
Equity instruments	7,048	6,928
Other financial assets held for trading	12,125	9,593
Positive fair value from derivative financial instruments	**66,560**	**63,276**
Total	**95,614**	**91,301**

The financial assets held for trading include €223 million (31 December 2013: €194 million) in subordinated assets at 30 June 2014.

Financial assets held for trading of related parties

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

(€ millions)

	30/6/2014	31/12/2013
Non-consolidated affiliated companies	16,732	14,399
of which: UniCredit S.p.A.	11,473	10,005
Joint ventures	—	—
Associated companies	253	254
Other participating interests	—	20
Total	**16,985**	**14,673**

Besides the amounts attributable to UniCredit S.p.A., the financial assets held for trading of €16,732 million (31 December 2013: €14,399 million) attributable to non-consolidated affiliated companies include financial assets of €5,259 million (31 December 2013: €4,394 million) attributable to sister companies (mostly derivative transactions involving UniCredit Bank Austria AG) and €0 million (31 December 2013: €0 million) attributable to subsidiaries.

18 Financial assets at fair value through profit or loss

(€ millions)

	30/6/2014	31/12/2013
Fixed-income securities	29,721	28,478
Equity instruments	—	—
Investment certificates	2	2
Promissory notes	1,236	1,232
Other financial assets at fair value through profit or loss	—	—
Total	**30,959**	**29,712**

The financial assets at fair value through profit or loss include €286 million (31 December 2013: €282 million) in subordinated assets at 30 June 2014.

Notes to the Balance Sheet (Continued)

19 Available-for-sale financial assets

(€ millions)

	30/6/2014	31/12/2013
Fixed-income securities	3,625	3,533
Equity instruments	201	264
Other available-for-sale financial assets	198	201
Impaired assets	557	578
Total	**4,581**	**4,576**

At 30 June 2014, available-for-sale financial assets include financial instruments of €587 million (31 December 2013: €685 million) valued at cost.

The available-for-sale financial assets contain a total of €557 million (31 December 2013: €578 million) in impaired assets at 30 June 2014 for which impairments of €13 million (first half of 2013: €37 million) were taken to the income statement during the first half of 2014. None of the non-impaired debt instruments are financial instruments past due.

The available-for-sale financial assets include €194 million (31 December 2013: €189 million) in subordinated assets at 30 June 2014.

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

(€ millions)

	30/6/2014	31/12/2013
Associated companies accounted for using the equity method	78	71
of which: goodwill	38	37
Joint ventures accounted for using the equity method	—	—
Total	**78**	**71**

21 Held-to-maturity investments

(€ millions)

	30/6/2014	31/12/2013
Fixed-income securities	217	217
Impaired assets	—	—
Total	**217**	**217**

The held-to-maturity investments include a total of €10 million (31 December 2013: €11 million) in subordinated assets at 30 June 2014.

Held-to-maturity investments at 30 June 2014 include no impaired assets, as was also the case at 31 December 2013.

22 Loans and receivables with banks

(€ millions)

	30/6/2014	31/12/2013
Current accounts	2,172	1,856
Cash collateral and pledged credit balances	8,791	9,013
Reverse repos	21,154	9,855
Reclassified securities	1,459	1,724
Other loans to banks	12,866	12,864
Total	**46,442**	**35,312**

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

The loans and receivables with banks include €22 million (31 December 2013: €41 million) in subordinated assets at 30 June 2014.

Loans and receivables with related parties

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

(€ millions)

	30/6/2014	31/12/2013
Non-consolidated affiliated companies	6,765	7,188
of which: UniCredit S.p.A.	4,445	4,927
Joint ventures	—	—
Associated companies	175	105
Other participating interests	10	4
Total	**6,950**	**7,297**

Besides the loans and receivables with UniCredit S.p.A., the loans and receivables of €6,765 million (31 December 2013: €7,188 million) with non-consolidated affiliated banks include loans and receivables of €2,320 million (31 December 2013: €2,261 million) with sister companies (mainly UniCredit Bank Austria AG).

23 Loans and receivables with customers

(€ millions)

	30/6/2014	31/12/2013
Current accounts	8,455	8,100
Cash collateral and pledged cash balances	2,234	2,114
Reverse repos	476	622
Mortgage loans	40,816	41,222
Finance leases	2,015	2,039
Reclassified securities	802	2,670
Non-performing loans and receivables	3,635	3,585
Other loans and receivables	48,576	49,237
Total	**107,009**	**109,589**

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 €1,210 million (31 December 2013: €1,406 million) funded under the fully consolidated Arabella conduit programme. This essentially involves buying short-term accounts payable and medium-term receivables under lease agreements from customers and funding them by issuing commercial paper on the capital market. The securitised loans and receivables essentially reflect loans and receivables of European borrowers, with a majority of the loans and receivables relating to German borrowers.

The loans and receivables with customers include €792 million (31 December 2013: €853 million) in subordinated assets at 30 June 2014.

Loans and receivables with related parties

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

(€ millions)

	30/6/2014	31/12/2013
Non-consolidated affiliated companies	97	98
Joint ventures	—	—
Associated companies	62	70
Other participating interests	452	554
Total	**611**	**722**

The loans and receivables of €97 million (31 December 2013: €98 million) with non-consolidated affiliated companies include loans and receivables of €72 million (31 December 2013: €74 million) with sister companies and €25 million (31 December 2013: €24 million) with subsidiaries.

Notes to the Balance Sheet (Continued)

24 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
Balance at 30/6/2014	2.1	2.2	2.3
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 at 30/6/2014	1.8	2.0	1.9
Balance of reclassified assets at 30/6/2014	**3.9**	**4.2**	**4.2**

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 €4.2 billion at 30 June 2014. 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 €202 million in net trading income in the first half of 2014. A net gain of €286 million (2013), €498 million (2012), €96 million (2011), €416 million (2010) and €1,159 million (2009) would have arisen in net trading income in the financial years 2013, 2012, 2011, 2010 and 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 the first six months of 2014, we took write-downs of €4 million on reclassified holdings. In the 2013 financial year, write-downs of €10 million on reclassified holdings were reversed, whereas write-downs of €31 million had been taken in 2012, €3 million in 2011, €8 million in 2010, €80 million in 2009 and €63 million in 2008. 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 €19 million in the first half of 2014 (whole of 2013: €38 million, 2012: €66 million, 2011: €100 million, 2010: €160 million, 2009: €208 million, 2008: €127 million), which is recognised in net interest.

A gain of €0 million (whole of 2013: €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 the first six months of 2014.

In the first half of 2014, the reclassifications carried out in 2008 and 2009 resulted in a profit before tax that was €187 million lower. 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 €189 million before tax (first half of 2014: minus €187 million, whole of 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).

25 Allowances for losses on loans and receivables with banks and customers

Analysis of loans and receivables (€ millions)

Balance at 1 January 2013	**4,448**
Changes affecting income[1]	155
Changes not affecting income	(196)
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	—
Use of existing loan-loss allowances	(227)
Effects of currency translation and other changes not affecting income	31
Non-current assets or disposal groups held for sale	—
Balance at 30 June 2013	**4,407**
Balance at 1 January 2014	**3,373**
Changes affecting income[1]	110
Changes not affecting income	(201)
Changes due to make-up of group of consolidated companies and reclassifications of disposal groups held for sale	—
Use of existing loan-loss allowances	(170)
Effects of currency translation and other changes not affecting income	(31)
Non-current assets or disposal groups held for sale	—
Balance at 30 June 2014	**3,282**

1 the changes affecting income include the gains on the disposal of impaired loans and receivables

26 Deposits from banks

(€ millions)

	30/6/2014	31/12/2013
Deposits from central banks	**4,851**	**6,398**
Deposits from banks	**49,882**	**41,441**
Current accounts	3,287	2,181
Cash collateral and pledged credit balances	10,122	10,243
Repos	21,554	13,286
Term deposits	5,459	6,840
Other liabilities	9,460	8,891
Total	**54,733**	**47,839**

Notes to the Balance Sheet (Continued)

Amounts owed to related parties

The following table shows the breakdown of deposits from banks involving related parties:

(€ millions)

	30/6/2014	31/12/2013
Non-consolidated affiliated companies	6,694	6,763
of which: UniCredit S.p.A.	2,201	2,561
Joint ventures	—	—
Associated companies	44	29
Other participating interests	22	21
Total	**6,760**	**6,813**

Besides the deposits from UniCredit S.p.A., the deposits of €6,694 million (31 December 2013: €6,763 million) from non-consolidated affiliated companies include deposits of €4,493 million (31 December 2013: €4,202 million) from sister companies; the largest single item relates to UniCredit Bank Austria AG.

27 Deposits from customers

(€ millions)

	30/6/2014	31/12/2013
Current accounts	57,209	54,140
Cash collateral and pledged credit balances	1,024	1,092
Savings deposits	15,075	14,837
Repos	10,359	10,336
Term deposits	18,676	19,932
Other liabilities	6,332	7,513
Total	**108,675**	**107,850**

Amounts owed to related parties

The following table shows the breakdown of deposits from customers involving related parties:

(€ millions)

	30/6/2014	31/12/2013
Non-consolidated affiliated companies	355	248
Joint ventures	1	—
Associated companies	1	1
Other participating interests	186	227
Total	**543**	**476**

The deposits of €355 million (31 December 2013: €248 million) from non-consolidated affiliated companies include deposits of €10 million (31 December 2013: €8 million) from subsidiaries and €345 million (31 December 2013: €240 million) from sister companies.

28 Debt securities in issue

(€ millions)

	30/6/2014	31/12/2013
Bonds	28,091	30,644
Other securities	1,081	1,160
Total	**29,172**	**31,804**

Debt securities in issue, payable to related parties

The following table shows the breakdown of debt securities in issue involving related parties:

(€ millions)

	30/6/2014	31/12/2013
Non-consolidated affiliated companies	247	597
of which: UniCredit S.p.A.	—	351
Joint ventures	—	—
Associated companies	181	155
Other participating interests	—	—
Total	**428**	**752**

Besides the debt securities attributable to UniCredit S.p.A., the debt securities in issue of €247 million (31 December 2013: €597 million) attributable to non-consolidated affiliated companies include debt securities of €247 million (31 December 2013: €246 million) attributable to sister companies.

29 Financial liabilities held for trading

(€ millions)

	30/6/2014	31/12/2013
Negative fair values arising from derivative financial instruments	62,485	60,644
Other financial liabilities held for trading	14,670	12,891
Total	**77,155**	**73,535**

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.

30 Provisions

(€ millions)

	30/6/2014	31/12/2013
Provisions for pensions and similar obligations	338	146
Allowances for losses on guarantees and commitments and irrevocable credit commitments	213	204
Restructuring provisions	387	400
Actuarial provisions	—	—
Other provisions	1,107	1,219
Total	**2,045**	**1,969**

Notes to the Balance Sheet (Continued)

Provisions for pensions and similar obligations
At 30 June 2014, a revaluation of the provisions for pensions and similar obligations was carried out on the basis of updated actuarial assumptions and market values of the plan assets. Compared with year-end 2013, the pension provisions shown in the consolidated balance sheet have increased by €192 million (131.5%) to €338 million.

The main cause of the rise in pension provisions was the reduction of 50 basis points in the discount rate (weighted average) to 3.25% (31 December 2013: 3.75%) arising from developments on the capital markets in the first half of 2014. A reduced discount rate leads to less discounting of the obligations arising from defined benefit pension obligations and hence to an increase in the present value of the obligation.

The actuarial losses resulting from the calculation of the estimated present value of the defined benefit obligation (DBO) at the reporting date yielded a negative overall effect from revaluation of €237 million when netted with the gains from the current market valuation of the plan assets (difference between the normalised return and the actual return). This amount was recognised immediately in shareholders' equity in the balance sheet and is shown under other comprehensive income (OCI) in the statement of total comprehensive income.

31 Change in valuation of financial instruments

The reserves arising from changes in the valuation of financial instruments recognised in equity totalled €112 million at 30 June 2014 (31 December 2013: €88 million). This rise of €24 million compared with year-end 2013 can be attributed almost exclusively to the €23 million increase in the AfS reserve to €86 million, resulting primarily from positive fair value fluctuations of fixed-income securities and of equity instruments classified as available for sale. The hedge reserve similarly included in the reserves arising from changes in the value of financial instruments recognised in equity increased a slight €1 million compared with year-end 2013 to €26 million.

32 Subordinated capital

The following table shows the breakdown of subordinated capital included in deposits from banks and customers and debt securities in issue: (€ millions)

	30/6/2014	31/12/2013
Subordinated liabilities	799	1,650
Hybrid capital instruments	48	47
Total	**847**	**1,697**

Other Information

33 Contingent liabilities and other commitments

(€ millions)

	30/6/2014	31/12/2013
Contingent liabilities[1]	**21,190**	**19,607**
Guarantees and indemnities	21,190	19,607
Other commitments	**37,467**	**37,573**
Irrevocable credit commitments	37,291	37,383
Other commitments[2]	176	190
Total	**58,657**	**57,180**

1 contingent liabilities are offset by contingent assets to the same amount
2 without commitments arising from leases

Contingent liabilities payable to related parties

(€ millions)

	30/6/2014	31/12/2013
Non-consolidated affiliated companies	2,784	2,094
of which: UniCredit S.p.A.	1,074	778
Joint ventures	—	—
Associated companies	—	—
Other participating interests	92	96
Total	**2,876**	**2,190**

Besides the contingent liabilities attributable to UniCredit S.p.A., the contingent liabilities of €2,784 million (31 December 2013: €2,094 million) attributable to non-consolidated affiliated companies include contingent liabilities of €1,710 million (31 December 2013: €1,316 million). As in the previous year, there were no contingent liabilities attributable to subsidiaries.

34 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		30/6/2014 SENIOR	30/6/2014 MEZZANINE	30/6/2014 JUNIOR	30/6/2014 TOTAL	31/12/2013 TOTAL
Positions retained from own securitisations		**—**	**61**	**—**	**61**	**106**
Positions in third-party ABS transactions		**3,445**	**1,121**	**—**	**4,566**	**4,645**
Residential mortgage-backed securities (RMBS)		2,021	456	—	2,477	2,339
thereof:						
US subprime		1	—	—	1	1
US Alt-A		1	—	—	1	1
Commercial mortgage-backed securities (CMBS)		564	153	—	717	792
Collateralised debt obligations (CDO)		56	—	—	56	61
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		178	401	—	579	848
Consumer loans		474	80	—	554	444
Credit cards		64	—	—	64	—
Receivables under finance leases		79	31	—	110	148
Others		9	—	—	9	13
Total	**30/6/2014**	**3,445**	**1,182**	**—**	**4,627**	
	31/12/2013	**3,449**	**1,302**	**—**	**4,751**	
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**30/6/2014**	**—**	**—**	**—**	**—**	
	31/12/2013	**—**	**24**	**—**	**24**	

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		30/6/2014 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**61**	**—**	**—**	**—**	**61**
Positions in third-party ABS transactions		**4,051**	**404**	**6**	**105**	**4,566**
Residential mortgage-backed securities (RMBS)		2,397	3	6	71	2,477
thereof:						
US subprime		—	1	—	—	1
US Alt-A		—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		643	74	—	—	717
Collateralised debt obligations (CDO)		6	33	—	17	56
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		330	232	—	17	579
Consumer loans		497	57	—	—	554
Credit cards		64	—	—	—	64
Receivables under finance leases		105	5	—	—	110
Others		9	—	—	—	9
Total	**30/6/2014**	**4,112**	**404**	**6**	**105**	**4,627**
	31/12/2013	**4,193**	**424**	**7**	**127**	**4,751**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**30/6/2014**	**—**	**—**	**—**	**—**	**—**
	31/12/2013	**—**	**24**	**—**	**—**	**24**

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		30/6/2014			
		LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	MORE THAN 5 YEARS	TOTAL
Positions retained from own securitisations		**61**	**—**	**—**	**61**
Positions in third-party ABS transactions		**389**	**3,141**	**1,036**	**4,566**
Residential mortgage-backed securities (RMBS)		133	1,521	823	2,477
thereof:					
US subprime		—	1	—	1
US Alt-A		—	1	—	1
Commercial mortgage-backed securities (CMBS)		79	540	98	717
Collateralised debt obligations (CDO)		—	6	50	56
thereof:					
US subprime		—	—	—	—
US Alt-A		—	—	—	—
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		55	484	40	579
Consumer loans		75	454	25	554
Credit cards		—	64	—	64
Receivables under finance leases		47	63	—	110
Others		—	9	—	9
Total	**30/6/2014**	**450**	**3,141**	**1,036**	**4,627**
	31/12/2013	**377**	**3,288**	**1,086**	**4,751**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**30/6/2014**	**—**	**—**	**—**	**—**
	31/12/2013	**—**	**24**	**—**	**24**

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		30/6/2014 HELD FOR TRADING	FAIR VALUE OPTION	LOANS & RECEIVABLES	HELD TO MATURITY	AVAILABLE FOR SALE	TOTAL
Positions retained from own securitisations		**—**	**—**	**—**	**—**	**61**	**61**
Positions in third-party ABS transactions		**216**	**35**	**4,055**	**74**	**186**	**4,566**
Residential mortgage-backed securities (RMBS)		58	14	2,352	1	52	2,477
thereof:							
US subprime		—	—	—	1	—	1
US Alt-A		—	—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		75	8	624	—	10	717
Collateralised debt obligations (CDO)		—	6	33	17	—	56
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	—	—	—	—
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		20	7	394	50	108	579
Consumer loans		54	—	494	6	—	554
Credit cards		—	—	64	—	—	64
Receivables under finance leases		9	—	85	—	16	110
Others		—	—	9	—	—	9
Total	**30/6/2014**	**216**	**35**	**4,055**	**74**	**247**	**4,627**
	31/12/2013	**268**	**41**	**3,866**	**74**	**502**	**4,751**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**30/6/2014**	**—**	**—**	**—**	**—**	**—**	**—**
	31/12/2013	**24**	**—**	**—**	**—**	**—**	**24**

1 the amounts shown in the table represent the carrying amount (fair value)

Other Information (Continued)

35 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.

There were only a few transfers between Level 1 and Level 2 in the first half of 2014.

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	—	131
	Transfer from Level 2	159	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	43
	Transfer from Level 2	50	—
Available-for-sale financial assets			
	Transfer from Level 1	—	58
	Transfer from Level 2	50	—
Financial liabilities held for trading			
	Transfer from Level 1	—	2
	Transfer from Level 2	12	—

Within the scope of disclosures under IFRS 13, 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.

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%

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 carried at fair value, the positive change in fair values at 30 June 2014 resulting from the use of possible appropriate alternatives would be €173 million (31 December 2013: €142 million), and the negative change would be €85 million (31 December 2013: €64 million). The presentation broken down by product type instead of holding category as at 31 December 2013 gives rise to other netting effects when determining the sensitivities.

Other Information (Continued)

The following table shows the significant sensitivity effects, broken down by the individual classes of product type: (€ millions)

	30/6/2014		31/12/2013	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	6	(6)	5	(5)
Asset-backed securities (ABS)	3	(1)	3	(2)
Equities	18	(18)	13	(13)
Equity derivatives	122	(49)	87	(23)
Interest rate derivatives	9	(3)	8	(3)
Credit derivatives	13	(8)	11	(5)
Currency derivatives	1	—	1	—
Commodity derivatives	1	—	1	—
Hybrid derivatives	—	—	13	(13)
Total	**173**	**(85)**	**142**	**(64)**

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)	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Financial assets recognised in the						
balance sheet at fair value						
Financial assets held for trading	17,492	18,540	76,861	71,438	1,261	1,323
thereof: derivatives	2,052	1,989	63,465	60,314	1,043	973
Financial assets at fair value through profit or loss	15,304	15,247	15,068	13,889	587	576
Available-for-sale financial assets[1]	2,280	2,799	1,611	862	103	230
Hedging derivatives	—	—	1,220	1,053	—	—
Financial liabilities recognised in the						
balance sheet at fair value						
Financial liabilities held for trading	4,407	4,510	70,686	67,609	2,062	1,416
thereof: derivatives	1,875	1,659	59,912	58,271	698	714
Hedging derivatives	—	—	564	373	—	—

1 available-for-sale financial assets include financial instruments of €587 million (31 December 2013: €673 million) valued at historical cost that are not included in these totals at 30 June 2014

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)

	2014			
	FINANCIAL ASSETS HELD FOR TRADING	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES
Balance at 1/1/2014	**1,323**	**576**	**230**	**—**
Additions				
Acquisitions	306	—	22	—
Realised gains[1]	251	—	1	—
Transfer from other levels	122	286	—	—
Other additions[2]	33	—	3	—
Reductions				
Sale/repayment	(340)	(275)	(31)	—
Realised losses[1]	(61)	—	—	—
Transfer to other levels	(297)	—	(122)	—
Other reductions	(76)	—	—	—
Balance at 30/6/2014	**1,261**	**587**	**103**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

(€ millions)

	2014	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2014	**1,416**	**—**
Additions		
Acquisitions	739	—
Realised gains[1]	104	—
Transfer from other levels	519	—
Other additions[2]	43	—
Reductions		
Sale/repayment	(269)	—
Realised losses[1]	(58)	—
Transfer to other levels	(410)	—
Other reductions	(22)	—
Balance at 30/6/2014	**2,062**	**—**

1 in the income statement and shareholders' equity
2 also including changes in the group of companies included in consolidation

Other Information (Continued)

(€ 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

36 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	30/6/2014		31/12/2013	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	5.1	5.1	10.6	10.6
Financial assets held for trading	95.6	95.6	91.3	91.3
Financial assets at fair value through profit or loss	31.0	31.0	29.7	29.7
Available-for-sale financial assets				
thereof: measured				
at cost	0.6	0.6	0.7	0.7
at fair value	4.0	4.0	3.9	3.9
Held-to-maturity investments	0.2	0.2	0.2	0.2
Loans and receivables with banks	46.4	46.9	35.3	35.9
Loans and receivables with customers	107.0	112.6	109.6	114.2
thereof: finance leases	2.0	2.0	2.0	2.0
Hedging derivatives	1.2	1.2	1.1	1.1
Total	**291.1**	**297.2**	**282.4**	**287.6**

(€ billions)

ASSETS	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 (LEVEL 3)	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Financial assets not carried						
at fair value in the balance sheet						
Cash and cash balances	—	—	5.1	10.6	—	—
Held-to-maturity investments	0.1	0.2	0.1	—	—	—
Loans and receivables with banks	0.7	0.6	18.6	18.7	27.6	16.6
Loans and receivables with customers	0.6	0.6	15.7	14.3	96.3	99.3
thereof: finance leases	—	—	—	—	2.0	2.0

(€ billions)

LIABILITIES	30/6/2014		31/12/2013	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Deposits from banks	54.7	54.9	47.8	48.6
Deposits from customers	108.7	110.1	107.9	108.1
Debt securities in issue	29.2	32.1	31.8	34.1
Financial liabilities held for trading	77.2	77.2	73.5	73.5
Hedging derivatives	0.6	0.6	0.4	0.4
Total	**270.4**	**274.9**	**261.4**	**264.7**

Other Information (Continued)

(€ billions)

LIABILITIES	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 (LEVEL 3)	
	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013
Financial liabilities not carried						
at fair value in the balance sheet						
Deposits from banks	—	—	12.0	12.5	42.9	36.1
Deposits from customers	—	—	57.2	55.4	52.9	52.7
Debt securities in issue	9.5	9.8	7.1	9.0	15.5	15.3

The fair values of certain financial instruments stated with their nominal values are roughly equivalent to their carrying amounts. These include the cash and cash balances as well as receivables and liabilities without a defined maturity or fixed interest rate. 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 III-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 35 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 35 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.

At 30 June 2014 the difference in HVB Group between the fair values and carrying amounts totals €6.1 billion (31 December 2013: €5.2 billion) for assets and €4.5 billion (31 December 2013: €3.3 billion) for liabilities. The balance of these amounts is €1.6 billion (31 December 2013: €1.9 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.

37 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 30/6/2014
Derivatives[1]	85,099	(17,319)	67,780	(46,249)	(2,796)	(7,446)	11,289
Reverse repos[2]	29,337	(7,707)	21,630	—	(21,317)	—	313
Loans and receivables[3]	22,978	(1,326)	21,652	—	—	—	21,652
Total at 30/6/2014	**137,414**	**(26,352)**	**111,062**	**(46,249)**	**(24,113)**	**(7,446)**	**33,254**

1 derivatives are covered in balance sheet items 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 30/6/2014
Derivatives[1]	80,368	(17,319)	63,049	(46,249)	(881)	(9,608)	6,311
Repos[2]	39,620	(7,707)	31,913	—	(31,913)	—	—
Liabilities[3]	72,968	(1,326)	71,642	—	—	—	71,642
Total at 30/6/2014	**192,956**	**(26,352)**	**166,604**	**(46,249)**	**(32,794)**	**(9,608)**	**77,953**

1 derivatives are covered in the balance sheet items 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)

				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 balance sheet items 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 balance sheet items 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 a legally enforceable master netting arrangement or a 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.

38 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 the 2013 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 €282.9 million (first half of 2013: €279.8 million) for these services during the first half of 2014. This was offset by income of €5.6 million (first half of 2013: €4.4 million) from services rendered and internal charges. Moreover, software products worth €0.9 million (first half of 2013: €4.2 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 €35.0 million (first half of 2013: €34.7 million) for these services during the first half of 2014.

Transactions involving related parties are always conducted on an arm's length basis.

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: Members of the Supervisory Board and Management Board at HVB, and members of the Executive Management Committee and their respective immediate family members are considered related parties.

(€ thousands)

	30/6/2014			31/12/2013		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	1,318	7	8,208	937	7	6,011
Members of the Supervisory Board of UniCredit Bank AG	470	—	3,518	4,682	15	8,425
Members of the Executive Management Committee[1]	—	—	93	—	—	—

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 credit facilities with interest rates of 6% and no fixed maturity and 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 6% and 11.15% with no fixed maturity and mortgage loans with interest rates of between 3.21% and 4.35% falling due in the period from 2015 to 2018.

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

Other Information (Continued)

39 Members of the Supervisory Board and Management Board

Supervisory Board

Federico Ghizzoni	**Chairman**
Peter König Dr Wolfgang Sprissler	**Deputy Chairmen**
Mirko Davide Georg Bianchi since 2 June 2014 Aldo Bulgarelli Beate Dura-Kempf Klaus Grünewald Werner Habich Dr Marita Kraemer since 1 January 2014 Dr Lothar Meyer Marina Natale until 2 June 2014 Klaus-Peter Prinz Jens-Uwe Wächter	**Members**

	Management Board
Dr Andreas Bohn	Corporate & Investment Banking
Peter Buschbeck	Commercial Banking/ Private Clients Bank
Jürgen Danzmayr until 30 June 2014	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, 29 July 2014

UniCredit Bank AG
The Management Board

Dr Bohn   Buschbeck   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 for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Management Report 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 for the remaining months of the financial year.

Munich, 29 July 2014

UniCredit Bank AG
The Management Board

Dr Bohn Buschbeck Diederichs Hofbauer

Laber Varese Dr Weimer

Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Net interest	696	669	716	700	723
Dividends and other income from equity investments	43	6	26	35	39
Net fees and commissions	291	277	282	265	307
Net trading income	33	267	215	194	334
Net other expenses/income	33	44	144	92	42
OPERATING INCOME	**1,096**	**1,263**	**1,383**	**1,286**	**1,445**
Operating costs	(935)	(935)	(932)	(891)	(881)
OPERATING PROFIT	**161**	**328**	**451**	**395**	**564**
Net write-downs of loans and provisions					
for guarantees and commitments	(12)	(78)	(74)	(54)	3
NET OPERATING PROFIT	**149**	**250**	**377**	**341**	**567**
Provisions for risks and charges	(1)	40	(223)	(8)	18
Restructuring costs	2	(2)	(360)	—	(2)
Net income from investments	67	8	95	14	26
PROFIT/(LOSS) BEFORE TAX	**217**	**296**	**(111)**	**347**	**609**
Income tax for the period	(74)	(105)	109	(89)	(194)
CONSOLIDATED PROFIT/(LOSS)	**143**	**191**	**(2)**	**258**	**415**
attributable to the shareholder of UniCredit Bank AG	141	189	(12)	237	402
attributable to minorities	2	2	10	21	13
Earnings per share (€) (undiluted and diluted)	**0.17**	**0.24**	**(0.02)**	**0.30**	**0.50**

Financial Calendar

Important Dates 2014[1]

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
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This edition of our interim report is prepared for the convenience of our English-speaking readers. It is based on the German original, which takes precedence in all legal respects.

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