HypoVereinsbank Member of UniCredit

The world is changing.

Let's change together.

2014 Annual Report

HypoVereinsbank Member of UniCredit

This year's report depicts how innovative UniCredit products and ideas help our customers and businesses respond to the challenges of this changing world.

By spotlighting sophisticated, new multichannel products and services we have developed to meet the modern needs of our customers, we show how our bank is adapting to rapid changes – and how our solutions are helping our customers adapt at the same time.

At UniCredit, we make it easy for the people who bank with us to take full advantage of the technologies and customized services now available to them – so that they can achieve their goals and live their lives on their own terms. As their partner, we have a clear responsibility to provide them the flexibility, the foresight and the tools they need to overcome obstacles and seize new opportunities.

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2014 Annual Report

HVB Group Profile

- HVB Group is one of the **biggest financial institutions** in Germany. In its position as a universal bank, HypoVereinsbank offers a broad range of modern products and financial services for all customer groups – retail and private banking customers, business, corporate and real estate customers, very wealthy individuals, and institutionals. Our customers are served by **two business segments:** Commercial Banking, and Corporate & Investment Banking.
- The **ambitions of our customers** give rise to high ambitions we set for ourselves in terms of quality, innovation and appeal. The ambitions of our customers form the focal point of all we do. It is our ambition to meet these demands every day and to constantly improve at the same time.
- HypoVereinsbank is **part of UniCredit,** one of the biggest banking groups in Europe. It is responsible for all of UniCredit's German activities and is simultaneously the **centre of competence for international investment banking.**
- Like no other German bank, HypoVereinsbank combines long-standing **regional roots** with a **group-wide network of financial institutions** in 18 countries of central and eastern Europe and central Asia. In total, HypoVereinsbank is represented in around 50 countries worldwide through UniCredit. The corporate affiliation is also reflected in our branding: Bayerische Hypo- und Vereinsbank AG was renamed UniCredit Bank AG in December 2009, although the brand name "HypoVereinsbank" was retained unchanged.
- Beyond its banking activities, HypoVereinsbank views itself as a **corporate citizen** and assumes a high level of social responsibility in the countries where we operate. We offer our people excellent opportunities to further their careers throughout Europe, thereby strengthening an entrepreneurial spirit. At the same time, we ensure strict compliance with the group-wide **Integrity Charter,** which encompasses the basic values are staff are expected to observe. We also have a coherent corporate mission statement. Among other things, this **Mission Statement** includes the self-imposed obligation to create customer benefits and generate lasting value.

Financial Highlights

Key performance indicators

	2014	2013
Net operating income[1]	€892m	€1,823m
Cost-income ratio (based on operating income)[1]	77.3%	63.1%
Profit before tax[1]	€1,083m	€1,439m
Consolidated profit[1]	€785m	€1,062m
Return on equity before tax[1, 2]	5.4%	7.0%
Return on equity after tax[2]	4.7%	5.2%
Earnings per share[1]	€0.96	€1.27

Balance sheet figures

	31/12/2014	31/12/2013
Total assets	€300.3bn	€290.0bn
Shareholders' equity	€20.6bn	€21.0bn
Leverage ratio[3]	6.7%	7.1%

Key capital ratios

	31/12/2014 Basel III	30/9/2014 Basel III	31/12/2013 Basel II
Core capital without hybrid capital (core Tier 1 capital)	—	—	€18.4bn
Common Equity Tier 1 capital	€19.0bn	€18.8bn	—
Core capital (Tier 1 capital)	€19.0bn	€18.8bn	€18.5bn
Risk-weighted assets (including equivalents for market risk and operational risk)	€85.7bn	€89.0bn	€85.5bn
Core capital ratio without hybrid capital (core Tier 1 ratio)[4]	—	—	21.5%
Common Equity Tier 1 capital ratio[4]	22.1%	21.2%	—
Core capital ratio (Tier 1 ratio)[4]	22.1%	21.2%	21.6%

	31/12/2014	31/12/2013
Employees (in FTEs)	17,980	19,092
Branch offices	796	933

1 without discontinued operations
2 return on equity calculated on the basis of average shareholders' equity according to IFRS
3 ratio of shareholders' equity (according to IFRS) shown in the balance sheet less intangible assets to total assets less intangible assets
4 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	watch negative	bbb+	3/2/2015	AAA	—	4/4/2014
Fitch Ratings	A+	F1+	negative	a–	9/1/2015	AAA	AAA	13/11/2014/ 1/10/2014

The world moves fast.

Anticipation makes a world of difference.

Serving talent.

In a world that is always on the move, UniCredit saw the need for a network of high-tech services.
UniCredit Start Lab is our accelerator for innovative startups. From mentoring and network development to managerial coaching, we've got it covered.
MyZabaStart is a platform, launched in Croatia by Zagrebačka Banca BB, that provides support for deserving business ideas in the green, creative and innovative sectors, to help drive their business growth.

Contents

Technology is for young people.

Young people of all ages.

The future is for everyone.

Simplicity and clarity appeal to all of us. That's why UniCredit created **Subito Banca via Internet**, a practical online banking interface with common sense graphics, intuitive navigation buttons and large fonts. We are making our online services easy to use even by people unfamiliar with new technologies. We are offering solutions based on the preferences of more than 300 customers over the age of 60, collected during workshops and laboratories in Italy. We are proof that you can always innovate in a new way.

Strategy and Results

Letter from the Supervisory Board Chairman

FEDERICO GHIZZONI
Supervisory Board Chairman

"HVB's solid business model, strong customer orientation and ambitious digitization initiatives all give me confidence that it will extend its impressive record of outstanding performance."

Ladies and Gentlemen

For UniCredit, 2014 was both a challenging and a rewarding year. The world economy continued to recover, but the pace of growth did not match early expectations. While growth accelerated in the United States and the United Kingdom, several European economies lagged. But the modest growth experienced in 2014 should be viewed in a positive light.

Notwithstanding these challenges, UniCredit performed well. The Group reported good results across nearly all of our operations. And UniCredit Bank AG (HVB) achieved solid results in Germany. I am particularly pleased that all segments made positive contributions to HVB's profits.

Occasionally someone will ask me about the secret of HVB's continuing success. But of course there is no single secret. The bank's success has been built on a number of positive elements, including its effective business model, a strong retail franchise, an excellent position in corporate finance – particularly in connection with the German Mittelstand – and a focused approach to investment banking that has proven resistant to the financial turmoil of recent years. HVB also benefits from its strong regional identity, currently being reinforced by a dynamic marketing campaign. Further advantages include the company's solid capital base, low refinancing costs and good liquidity.

HVB's strengths are particularly vital in a period in which the European banking sector is experiencing rapid changes in the way it is regulated. This process began with the Capital Requirements Directive and the introduction of stricter capital ratios. More recently, the Bank Recovery and Resolution Directive empowered a resolution authority to compel the owners and creditors of a failing institution to accept losses in connection with its stabilization. But the most significant change implemented in 2014 was the transfer of the supervision of large banks from national authorities to the European Central Bank. These developments represent an important part of the continuing harmonization of the European Union's legal framework.

A banking environment marked by change demands a highly disciplined approach to risk and to operating costs. The effectiveness of HVB's risk management can be gauged by its consistency in reducing net write-downs of loans. Additionally, the company has a solid track record of managing its operating costs. These have remained stable in spite of the substantial expenses involved in addressing recent regulatory changes.

At the national level, Germany presents some unique challenges and opportunities. The retail market is characterized by overbanking and fragmentation. At the same time, the expectations of Private Banking clients in the country have been changing rapidly. In response to these trends, HVB has modified its business model. The new strategy is marked by a stronger regional focus, a more entrepreneurial approach, and greater flexibility in terms of customer interactions, which now fully embrace the online, video and mobile channels. HVB is a true pioneer in the world of digital banking, and I am confident that our recent investments in new technology and state-of-the-art services will add to its competitiveness.

The updates at HVB are in synch with UniCredit's plans for service model changes throughout our network. These improvements are calculated to maintain and fortify our solid standing as a European commercial bank – and not just in our core markets of Italy, Germany and Austria. UniCredit is also deeply engaged in Central and Eastern Europe as well as in such emerging markets as Turkey. Our Group's geographic diversification is complemented by strong global platforms in both investment banking and IT services. These prudent synergies enable us to achieve increased revenues and valuable economies of scale.

Ultimately, a bank's performance depends heavily on its human resources. HVB has performed well under difficult conditions, and this warrants our warm thanks to both its employees and Management Board. We rely on their continued excellence in the current year, which will undoubtedly present challenges of its own. However, we expect the global economy to exhibit greater stability than it did in 2014, and we believe that 2015 will be a better year for the eurozone in particular, thanks to positive conditions which can help the real economy.

Meanwhile, the German economy continues to thrive. Despite the fall in oil prices, we do not foresee any increased risk of deflation. Germany is a key market for UniCredit as well as for Europe, and in 2015 we expect it to continue to be one of the eurozone's great engines of growth. In this context, HVB's solid business model, its strong customer orientation and its ambitious digitization initiatives all give me confidence that the company will extend its impressive record of outstanding performance.

Sincerely,

Federico Ghizzoni
Supervisory Board Chairman

Letter from the Management Board Spokesman

DR THEODOR WEIMER
Management Board Spokesman

> "HypoVereinsbank once again reaped the benefits of its robust and balanced universal bank business model in the 2014 financial year, proving itself profitable on a sustainable basis."

Dear Customers,
Investors and Partners
Ladies and Gentlemen

When contemporaries speak of historic times, such statements generally need to be taken with a pinch of salt: the distance is too small, people are too closely involved and it is not at all clear what will happen next. Nonetheless, there is plenty to suggest that later generations will come to view 2014 and 2015 as historically significant years.

Years in which geopolitical risks came to the fore again and the East-West conflict that many had long since believed overcome reignited. But also years that threw up new existential threats for the European Union.

The European economy has still not found its way to a strong, self-sustaining recovery. The ongoing economic crisis is tugging at the political strings that bind Europe together. Disagreements over the right way to deal with the crisis are threatening to destroy many recent achievements.

The ECB sees itself forced to enter ever deeper into unknown territory with its monetary policy. As a result, it has given us an unprecedented period of ultra-low interest rates in Europe, the long-term economic consequences of which are impossible to predict at the present moment. At the same time, the unrestricted flow of money from the major central banks has pushed both the bond and the equity markets to the kind of highs that no one previously thought possible.

In short, the 2014 reporting period for banks was shaped by high geopolitical and economic uncertainties. At the same time, the changes in the regulatory environment they face continued apace. Among other things, a new chapter was written in the history of banking supervision with the start of the first stage of the banking union – the transfer of regulatory oversight over Europe's banks to the ECB at the end of November.

HypoVereinsbank again performed extremely well in light of these challenges in the past financial year, recording a pre-tax profit of around €1.1 billion.

As might be expected, we were also affected by this difficult market environment. Lower operating income meant that we were not able to match the very good results reported last year. Although we did succeed in maintaining our net fees and commissions at almost the year-ago level, we had to accept declines in both net trading income and net interest caused by the operating environment. Nonetheless, HypoVereinsbank generated stable results across all four quarters, with all the business segments once again providing positive contributions. Commercial Banking – which encompasses our activities involving retail and business customers – performed particularly well, almost succeeding in keeping its earnings at the same level as last year, despite the wide-ranging modernisation of our retail banking business and the difficult environment.

HypoVereinsbank once again reaped the benefits of its robust and balanced universal bank business model in the 2014 financial year, proving itself profitable on a sustainable basis. We earn money even in a demanding market environment in all business segments and have costs and risks firmly under control, enabling us to make an important contribution to the overall success of UniCredit year after year. In addition, our financial strength is top class by both national and international standards thanks to a Common Equity Tier 1 capital ratio of 22.1% coupled with a permanently comfortable liquidity base and a solid funding structure.

We're leveraging the strengths of our organisation to make strategic decisions for the future, reinforce the focus on our core business and invest even more in growth.

With this in mind, we sold our holding in DAB Bank AG in full to BNP Paribas in 2014. Its specific target group and business model independent of us makes DAB a strategically important component of the corporate group for BNP Paribas. This environment provides it with the ideal conditions to continue growing.

Right at the top of our agenda is the need to adapt our commercial activities to reflect the increasing digitisation of our society. Digitisation is, of course, not a new phenomenon. But only now is it becoming apparent how greatly it is sweeping and changing our industry. Alongside the tighter regulatory regime, digitisation will be the key driver of fundamental change across our industry over the coming years. Although digitisation is affecting all of our business segments and customer groups, retail banking is caught up in a particularly strong current at present.

In my letter last year, I already announced the root-and-branch modernisation of our retail banking activities and the large-scale investments this would entail. More so than any of our competitors, we're placing digitisation and the changed patterns of customer behaviour at the centre of our strategy. We're creating an integrated network of access channels to our advisory, service and product offerings, geared systematically to the demand from our customers.

Streamlining our branch network is one of the ways we're achieving this. At the same time, we're investing over €300 million to make the remaining branches more attractive, to massively expand and enhance our digital offerings, and to update the skillset of our workforce. In just eighteen months since last summer, all of our branches will have been transformed into customer centres with a uniform appearance and state-of-the-art technology.

Once the modernisation has been completed at the end of 2015, we will be the most modern bank for retail customers in Germany. The feedback that we have received from customers and staff over the last few months gives us grounds for optimism and strengthens our conviction that we're on the right track.

Whereas digitisation is currently having a big impact on the retail banking side, corporate banking activities are not unaffected either. Here, too, the digitisation of our offerings is a key aspect of our business concept at present. We are, for instance, the only bank in Germany to provide a digital service platform – our Business Easy offering – for a large number of business customers.

Digitisation is a concept that has long since moved beyond individual digital offerings and now needs to cover the entire service and value chain of financial services. This starts with the use of digital advisory offerings and finishes with the digitisation of financial instruments for foreign trade. The focus here is less on technical implementation and more on the personalised utilisation options for the customer. Digitisation is something we can already do; personalisation is something we still have to work on.

Ladies and gentlemen, HypoVereinsbank is in good shape to keep pace with the constantly changing aspirations of our customers. We're doing this as a quality provider across all business segments, aiming to position ourselves in this regard even more clearly than ever on the market. In the process, we're focusing on customers who consider us their main bank; on customers, who expect more than usual from their bank and reward this with loyalty towards us.

One of the reasons why our customers can expect more from us is because we are part of UniCredit – an international banking group that facilitates collaboration across national borders for the benefit of its customers. HypoVereinsbank is a key pillar of UniCredit, contributing heavily to our shared success. At the same time, we can only achieve our success on the market because we have access to a strong network – a network that represents a unique selling proposition in Europe.

The expectations that customers have of us, and the aspirations we have for the Bank in terms of our quality and ability to innovate, form the focal point of the new advertising campaign that we launched at the end of 2014. For the first time in ten years, HypoVereinsbank is running a major campaign built largely around TV and cinema advertising. In the campaign, we're making clear that we're ready to meet the expectations that our customers have of us as their partner – and are also well aware of our social responsibilities at the same time.

The poor reputation of banks in society remains a cause for concern in our industry. In response to this, it is a top priority for every single bank to build and regain trust. HypoVereinsbank remains absolutely committed to acting as a good corporate citizen and making a positive contribution to society accordingly.

Again in 2014, we did not stint in our efforts to anchor ecological sustainability and social responsibility in our business model and put them into practice. We're delighted to note how this fundamental orientation in our Bank has once again been publicly recognised: for instance, the rating agency oekom research named us the most sustainable commercial bank in Germany again in 2014. We are among the top ten in the world in this regard.

Ladies and gentlemen, we're facing yet another challenging year in 2015. You don't need to be a prophet to predict that the topics of low interest rates, regulatory pressure, slow economic growth and debates about the future of European integration are set to remain with us. The obstacles that will make navigation so difficult over the coming months are already known. Nonetheless, we've made the most of the opportunities that have arisen over the last twelve months, and I'm sure that we'll do so again in 2015.

Another reason I'm so confident is that we have in place the most important thing that a company like ours needs: its team. This is one of the most important success factors for our Bank. I know that we're expecting a lot of our employees, in some cases far more than would normally be expected. I'm proud of what we've achieved over recent months, despite a difficult market environment, and, on behalf of the whole Management Board, I would sincerely like to thank the employees of HypoVereinsbank for all their outstanding hard work.

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

Best regards

Dr Theodor Weimer
Management Board Spokesman

Theodor Weimer

Summary of Results

Commercial Banking business segment

- Targets retail customers, wealthy individuals (private banking), business and corporate as well as real estate customers
- 2014: operating income at around same level as last year
- Loan-loss provisions still low
- Higher pre-tax profit; year-ago total was affected by restructuring costs, however

Corporate & Investment Banking business segment

- Targets institutional customers, multinationals and corporate customers with capital market activities
- 2014: operating income lower year-on-year due mainly to weaker net trading income
- Operating costs up somewhat due to initial consolidation of BARD Group and fully consolidated wind farm; 3.1% decline without these effects
- Loan-loss provisions well below last year's already low total
- Pre-tax profit lower than in previous year

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

Business segment highlights

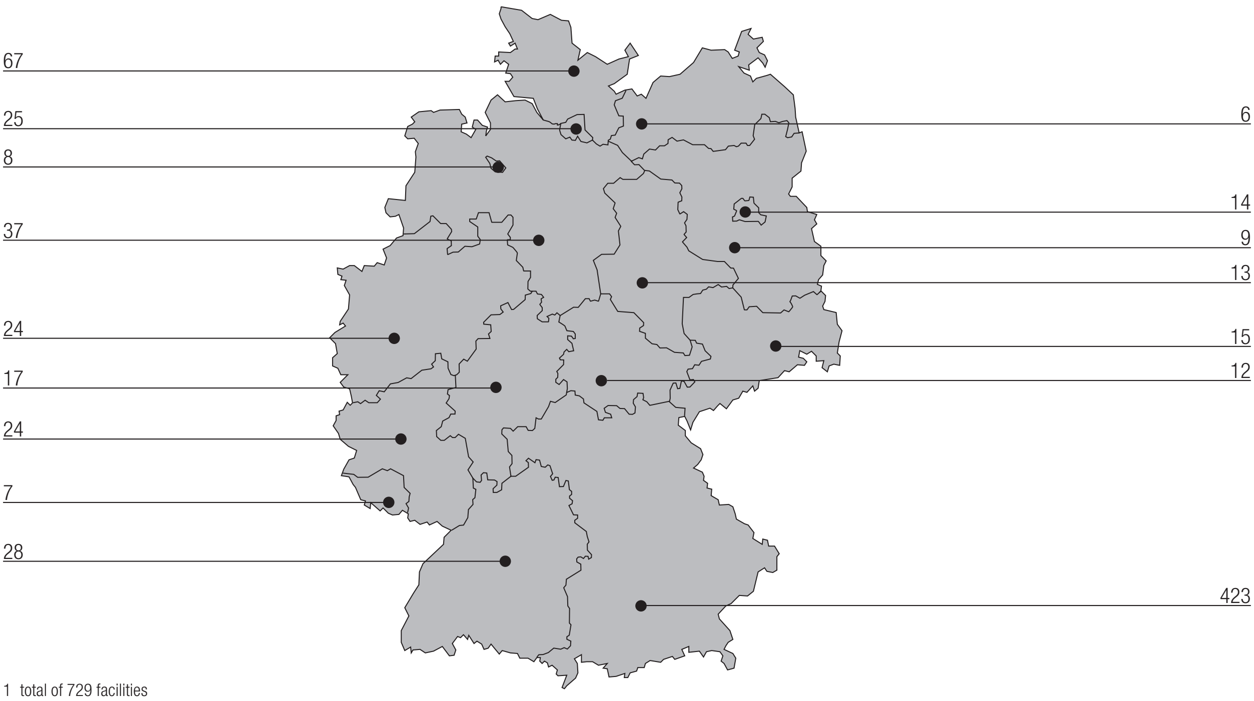
(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION
OPERATING INCOME			
2014	2,434	1,971	197
2013	2,466	2,565	484
Operating costs			
2014	(1,979)	(1,429)	(151)
2013	(1,986)	(1,341)	(151)
Net write-downs of loans			
and provisions for guarantees			
and commitments			
2014	(108)	(112)	69
2013	(74)	(240)	100
NET OPERATING PROFIT			
2014	347	430	115
2013	406	984	433
PROFIT BEFORE TAX			
2014	338	565	180
2013	48	966	425

Employees[1] by business segment

1 total of 17,980 employees, calculated as full-time equivalents (FTEs)

Facilities in Germany[1]



1 total of 729 facilities

Global Banking Services

Central service hubs boost customer focus and tap synergies

Global Banking Services (GBS) combines interdisciplinary functions and services that are critical to ensuring business success for UniCredit Bank AG (HVB). The departments under GBS include Organisation, Data Protection, Market Support, Workout Services, Security, IT Functions and Service Management & Governance. The UniCredit Global Business Services (UGBS) subsidiary comprises the units Real Estate Management, HR Service Centre, Purchasing and Operations for Markets & Treasury products.
The in-house consulting unit UniCredit Management Consultancy Germany set up at the Munich location in the spring of 2013 was able to further establish itself in the Bank in 2014 and expand its range of services. In total, GBS employs 2,300 persons.

Optimisation of operating costs through consistent cost management

The goal of HVB Group is to keep cost development at an almost constant level in the coming years. To counterbalance inflation rates and collectively bargained pay increases, consistent cost management is therefore essential. Besides strict budget targets and consistent monitoring, the Bank has introduced additional control mechanisms for significant cost items.

Among other things, an FTE Committee was set up to influence payroll costs. This contributes to an increase in performance and assesses whether personnel deployment is in line with market conditions.

For contracts with suppliers of more than €50,000, GBS has put a process in place which has the contracts reviewed through the organisational units set up for this purpose. For the approval of the project expenses of the commercial bank, a Project Expense Committee has been established to analyse and take a critical look at the planned expenses. In addition, the Bank examines the spending side on an ongoing basis to discover any saving potential and specifies measures to realise this potential in the short to medium term.

Security organisation further strengthened

HVB continued to press ahead with its integrated security concept in the period under review. Its integral approach no longer focuses on securing individual fragments but instead on the complete process chain which is to protect the Bank, its systems, customers and data against threats in both the virtual and the real world.

All the security policies were revised and brought into line with the new ISO 27001 standards. Our new information security management system (ISMS) implements the required processes through to service provider level. Workflows were appropriately restructured and optimised with our IT provider, UniCredit Business Integrated Solutions (UBIS). A newly developed monitoring tool will monitor IT security compliance. In addition, realistic tests that simulate IT emergencies show where we have a need for optimisation and can further improve the resilience of the company.

The efficiency of business continuity measures was increased further. For example, telephony solutions now ensure that the Bank can be reached by customers and business associates in a fail-safe manner. Access rights management was refined: The enhanced access management process now comprises around 600 applications at HVB and regulates who has what rights when to which application. The new standardised password policy also ensures a higher level of security in all of HVB's authentication systems and domains.

Since January 2015, the German Federal Office for Information Security has been represented in the cross-industry network "German Competence Centre against Cybercrime" (G4C), in which HVB works together with Commerzbank AG, ING DiBa AG and the Federal Criminal Police Office (BKA). The aim of this network is to make practical use of knowledge, expertise, experience and know-how for its members and thus contribute to fraud prevention.

The concept of integrated security and the diverse measures for increasing resilience are to make HVB more robust overall – against current and potential future threat scenarios.

Advice from Data Protection unit ensures appropriate protection level

The Data Protection unit provides advice in response to specific enquiries and in conjunction with projects, taking into account the relevant legal, technical and banking requirements. In the process the Data Protection unit attaches great importance to ensuring legal certainty and identifying reasonable practical solutions.

The extensive expansion of the multi-channel offer within the framework of KOMPASS was one of the focal points in data protection consulting in the reporting year. To optimise international networking in data protection, the cooperation with the contacts responsible for data protection at foreign branches was further deepened and expanded by a functional reporting line. By discussing and agreeing data protection matters with those responsible at foreign branches and domestic subsidiaries, data protection is positioned as a customer and employee-oriented quality feature.

Service Management & Governance safeguards standardised management of back office services

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

Service providers

The customer-account-partner services (core banking) and real estate loan servicing have been performed by UniCredit group subsidiaries since 2009, and by UBIS since 2011. The projected cost cuts were again achieved in 2014 while maintaining a high level of service and rolling out new, action-oriented services.

Securities settlement and flat tax activities, derivatives and treasury products

Caceis Bank Deutschland has carried out the back office activities for the Bank's cash securities und flat tax activities since 1 January 2008. The settlement of derivatives and structured loans was outsourced to UGBS on 1 November 2011.

Payment services

Betriebs-Center für Banken has handled all cashless payment services since 2007. HVB's complete credit card portfolio is processed via UniCredit's own credit card platform at UBIS.

Banking Support activities

The Banking Support unit oversees an extensive network of external service providers for the Bank and its subsidiaries. This ranges from the management of the purchasing services outsourced to UGBS and all mobility management services (incl. fleet management) through to the management of the Bank's entire insurance. For example, the management of insurance cover is carried out in conjunction with a respected insurance broker who secures access to national and international insurance markets.

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

Global Banking Services (Continued)

IT services
The IT services for the Bank are provided mainly by the partner UBIS. The foundation for steering these IT services are the IT processes agreed between the Bank and UBIS under the CRESCENDO project and the IT control system based on these.
To optimise UBIS services, some portions of the UBIS services portfolio were sub-outsourced to third parties in 2013 (VTS, a joint venture of IBM and UniCredit), including infrastructure operations for the data centre and parts of application support. In conjunction with UBIS and VTS, the Bank's IT Service Management and Governance unit as well as all relevant functional units are working on a consistent increase in IT operating quality.

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

The classical workout function, credit processing, is called for whenever all the restructuring measures in a debtor/creditor relationship have failed. The aim is to obtain as much of the amounts receivable from the borrower as possible, if necessary, realising the existing security. At the same time, however, it is important to work with the administrator to find an acceptable solution.

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

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

Global Markets Business Support: support independent of the trading function and increased monitoring of trading activities
The Trading department is facing changed requirements resulting from new international regulations, leading to a wide-ranging adjustment of processes and controls. Markets Business Support (GMS) in GBS pools the competencies required to support the trading units in their day-to-day business activities and implement the new regulations and controls.

The aim of this unit is to establish global support that is independent of the trading function and centralises certain operating activities in the Bank. GMS safeguards the completeness of trades in the Bank's books by ensuring the correct reproduction of the trades, securing data consistency in the systems, and carrying out a regular portfolio reconciliation with customers and counterparties. The control mechanisms form the basis for implementing the risk-mitigating measures in line with the European Market Infrastructure Regulation (EMIR), the US Dodd-Frank Act and Basel III (such as prompt validation of the trades).

Tax Implementation & Operation
The Tax Implementation & Operation unit set up in 2012 handles every aspect of capital gains taxes and financial market transaction taxes in order to provide prompt, comprehensive tax services for HVB's customers.

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

The complex and constantly changing national and international fiscal framework for our customers requires in-depth specialised and operational process and technological know-how which has been bundled in this centre of competence. In close cooperation with Legal and Tax, GBS continues to refine operating processes and adjust them to cater for the new legislation together with service providers, partly in the form of projects. The goal is to issue tax and interest certificates in a timely manner and to operationalise new tax-related aspects for our customers.

Real Estate Management

GBS manages the Group's own real estate centrally. Within HVB, this is the responsibility of the Bank's Real Estate unit and the HVB subsidiaries HVB Immobilien AG and UGBS, which was engaged by HVB Immobilien AG by way of an operating contract on 1 August 2011. The Real Estate unit was set up to ensure strategic decision-making and to exercise owner interests for the Group's own real estate. The units listed above manage both the real estate required by the Bank for its operations and the Bank's real estate not used by it.

In connection with the real estate portfolio used by the Bank, the GEMINI concept set up in 2010 and 2011 for the headquarters buildings in Munich and Hamburg was continued in 2014. The facility plans in Hamburg and Munich call for the optimisation of space utilisation, and the renovation and sale of buildings, and for HVB to vacate the empty buildings along with the relocation of the units affected. In Munich, this also includes the complete renovation of the HVB Tower and its conversion into a green building. The goal is to reduce energy consumption and thus significantly reduce the carbon footprint of the building. Implementation of the facility plan for Munich is running to plan and is expected to continue in stages until 2019.

The Management Board of the Bank has decided to strategically realign the Private Clients Bank so that it is fit for the future (Kompass project). In the process, locations will be concentrated and branches will be merged in the branch network. The remaining branches will be converted and modernised to reflect the change in customer requirements. The Real Estate Management unit is responsible for the implementation of the real estate part of the project.

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

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

Expansion of the in-house consulting unit within HVB

UniCredit Management Consultancy Germany (UMCG) was set up at the Munich facility in April 2013. In this context, the focus at HVB is on operational consulting, such as the implementation of regulatory requirements. The goal is to replace external consultants with internal staff with a view to reducing dependencies and cutting costs. The internal consultants support projects across the complete organisational structure of HVB and provide assistance through their project skills and expertise. In addition, UMCG acts as a talent factory, offering motivated employees opportunities for career development within the Bank. In 2014, the unit was actively expanded to currently just under 60 employees. The planned total headcount of around 75 employees is expected to be achieved in 2015.

Outlook: continuation of strict productivity management and cost optimisation

HVB will again focus on improving the quality of its customer service and enhancing its internal processes in 2015. The restructuring of various processes in connection with the service provider UGBS and UBIS will continue to provide a fixed framework for realising further gains in productivity.

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

It isn't always easy to see things clearly.

It's easy.

Precision, in just one click.

Goodbye receipts and daily ledgers. Hello online accounting. **UniCredit Family Budget**, a new web-based personal financial management service, sorts expenses into different categories and creates easy-to-understand charts and graphs to help you track transactions and balances. It offers an intuitive, practical approach to online banking, helping you manage savings and monitor accounts. Because the future begins with real answers.

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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 Mr Jürgen Danzmayr expired as planned on 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 responsibilities 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 shareholder representatives. The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business. The Supervisory Board has adopted by-laws specifically defining the details of the work within the Supervisory Board, the creation and tasks of committees and the tasks of the chairman. In addition, the by-laws state that certain types of transaction require the approval of the Supervisory Board. On 31 December 2013, Dr Susanne Weiss stepped down from the Supervisory Board. Dr Marita Kraemer was appointed to the Supervisory Board in her place with effect from 1 January 2014 for the remaining term of office. 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 of the members of the Management Board and the Supervisory Board of HVB is given under Note 95, "Members of the Supervisory Board", and Note 96, "Members of the Management Board", in the present consolidated financial statements.

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

Business model, main products, sales markets, competitive position and facilities in the 2014 financial year

HVB Group is part of UniCredit, which offers its financial services on the European market in particular. This enables us to combine our regional strength and local competence with the potential and know-how provided by an international banking group. Our integration into UniCredit is a strong basis for consistently exploiting its international network and economies of scale. UniCredit has a divisionally and regionally diversified business model with bases in 17 European countries and a network encompassing 50 markets. Apart from the domestic markets of Germany, Austria, Poland and Italy, it is one of the leading banks in most countries of central and eastern Europe. In particular, it is our corporate and institutional customers who benefit from this international diversification.

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, international companies and institutional customers. HVB Group has a well-developed network of branches in Germany, particularly in Bavaria and the greater Hamburg area, which is currently being modified to accommodate changed patterns of customer behaviour (see also the section entitled "Modernisation of the retail banking business"). In total, HVB Group has 796 offices around the world, including 465 HVB offices in Germany. A breakdown of the offices of HVB Group by region is shown in Note 93, "Offices", in the notes to the consolidated financial statements.

The positioning of HVB Group – and its aspiration in terms of quality, innovation and appeal

HVB Group is a bank for customers with aspirations. It wants to become the bank for people, entrepreneurs and enterprises that expect their concerns to be appreciated and are willing to reward such activity accordingly. Although their values and their lifestyles may well differ greatly, they do have one thing in common: they are customers with high expectations of us regarding quality, innovation and appeal. HVB Group wants to be the first choice for such people. To achieve this, HVB Group consistently spotlights the aspirations of our customers because our customers' aspirations give rise to high aspirations we have for ourselves in terms of quality, innovation and appeal. The aspirations of our customers form the focal point of all we do. It is our aspiration to meet these demands every day and to constantly improve at the same time. We wish not only to be a good bank, we want to be the best customer bank in Germany.

This is, and is set to remain, a constant challenge for all business segments and also all competence lines in light of requirements that are subject to ever-faster change. To achieve this, HVB Group has set up a holistic quality management programme covering all business segments and processes.

Furthermore, HVB Group launched a new advertising campaign under its HypoVereinsbank brand in December 2014 to highlight what HypoVereinsbank stands for and what customers can expect from it. The rebranding of HypoVereinsbank was accompanied by Kolle Rebbe, one of the leading creative agencies in Germany. Within the scope of the long-term campaign, the Bank is making greater use of digital media and employing large-scale TV and cinema advertising again for the first time in ten years.

The business segments

DAB Bank AG (DAB) together with its direktanlage.at AG subsidiary previously formed the Asset Gathering segment. As HVB sold its interest in DAB in 2014, this business segment no longer exists (see the section entitled "Corporate acquisitions and sales" in this Management's Discussion and Analysis). HVB Group is thus divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking
– Other/consolidation

Commercial Banking business segment

The Commercial Banking business segment serves around 2.5 million customers in Germany with a need for standardised or personalised service and advice. In this context, its Private Clients Bank and Unternehmer Bank business units offer a wide range of banking services, benefiting from the strong HypoVereinsbank brand. Commercial Banking is run by two Management Board members who bear joint responsibility. The business management and support

Financial Review (Continued)

functions are performed by staff units assigned to each of the business units. Reciprocal cross-servicing ensures that the products required are maintained only once. Starting in 2015, very wealthy clients will be served under joint sales responsibility achieved by bundling the Private Banking and Wealth Management sales channels with corporate banking investment advisors.

In line with the universal bank model, the range of products and services of Commercial Banking enables comprehensive customer support to be provided. This extends from mortgage loans, consumer loans, savings-and-loan and insurance products and banking services for private customers through to business loans and foreign trade financing for corporate customers. Also included are fund products for all asset classes, advisory and brokerage services, securities transactions, liquidity and financial risk management, advisory services for affluent customers and investment banking products for corporate customers.

The market environment for Commercial Banking is characterised by persistently low interest rates, fragmented competition and rising regulatory costs. In parallel with persistently subdued demand from customers, increasing digitisation is causing a lasting change in customer requirements. We are facing up to the challenges this poses and are proactively pressing ahead with digital change in Commercial Banking.

Within Commercial Banking, we position ourselves as a modern quality provider for private customers that creates considerable value added for customers with raised expectations. This is built on connecting innovative access channels with individual, high quality advice and a service orientation. When serving wealthy customers, it is our aspiration to offer them permanent support based on trust and hence to boost their prosperity over the long run. On the corporate customer side, the Commercial Banking business segment at HVB Group is today already positioned as a strategic business partner and core bank.

The Private Clients Bank is positioning itself as a modern quality provider. It combines a high standard of advisory and service quality with the modernity and convenience afforded by cross-channel and service usage for the customer. The private clients customer segment within the Private Clients Bank currently serves some two million customers in six sales regions with 29 branches and through its online branch.

HVB Group has responded promptly to the fundamental change in customer demands in this area by starting a broad-based programme of modernisation. The Private Banking customer segment is built around holistic care for very wealthy clients at 46 locations throughout Germany. This encompasses investment management, old-age provision and financing together with all aspects of wealth (succession) planning and specialist topics like foundation management, real estate advisory, art management and classic cars to suit the demanding clientele. Our range of advice and services combines an all-round view of customer needs with innovative concepts in digitisation technology and a balanced product offering.

On the Unternehmer Bank side of Commercial Banking, we aim to be a strategic partner for our customers. Today, we are already one of the three top banks in Germany in corporate banking. We nevertheless wish and indeed must continue improving the quality of our customer services. In this context, three key areas have been defined so that we meet our goal: the expansion of our international group network in order to support our customers in their international activities; the expansion of digitisation, insofar as this offers us and our customers added value; and the systematisation of sales activities to better understand our customers' needs.

Modernisation of the retail banking business

The needs and behavioural patterns of retail customers in terms of advice and self-service have been undergoing fundamental change for years. In many places, the branch model in its current form is being used less and less. In contrast, demand is rising for mobile and internet-based offerings for everyday banking activities – a trend that is set to continue and pick up even more pace. The digital revolution has finally reached retail banking and is now irreversible. At the same time, there is constant demand for high quality, personal advice relating to complex financial issues. HVB had anticipated this sea change at an early stage and responded by focusing on advisory quality and rolling out its multi-channel offer. We have once again stepped up this transformation process since the beginning of 2014, becoming the first bank in Germany to carry out a root-and-branch modernisation of our retail banking activities. We are setting ourselves up as a genuine multi-channel bank and investing heavily in mobile and internet-based offerings and in the attractiveness of our branches. This sea change is a great opportunity for HVB to position itself as a quality provider in order to offer customers better service going forward and to grow throughout Germany in the retail banking customer group in the future.

The strategic goals of our modernisation offensive are a clearly differentiated service model to increase the advisory and service quality for customers and a clear focus on customers who establish close ties to us and not only wish to maintain a third or fourth banking connection with HVB. In terms of our brand strategy, we see ourselves in a clear positioning in future in the retail business as a quality provider jointly with the CIB business segment and the Unternehmer Bank business unit of the Commercial Banking business segment. We consider ourselves to be definitely well on track regarding the implementation of the measures announced including the required personnel adjustments. For instance, after concluding an agreement with employee representatives, we pressed ahead with the planned consolidation of today's branch network on schedule as well as with the modernisation of a number of branches to ensure a uniform, up-scale appearance. Huge investments in new and expanded functions for digital distribution channels have also already produced significant improvements in customer convenience. Many more measures, such as the introduction of an innovative platform for the systematic support of comprehensive and needs-based customer advice as well as investments in high-class qualification measures for our staff, will make our positioning as a quality provider tangible for customers in practice. Since December 2014, this has also been clearly visible externally by our campaign in the media which has attracted much attention and has met with a favourable response.

We will complete the measures launched and already well under way to implement our forward-looking retail customer strategy by year-end 2015 and thus benefit from our timely response to changes in the retail banking business.

Corporate & Investment Banking (CIB) business segment

The CIB business segment is responsible for investment banking, institutional customers and select multinational corporations as well as large companies engaged in capital market activities (referred to as "corporates"). These customers are supported by an integrated value chain consisting of a service network and product specialists. The CIB business segment is divided into the Markets, Financing & Advisory (F&A) and Global Transaction Banking (GTB) product factories. The CIB business segment ensures high-quality advice with a tailored and solution-based approach and acts as an intermediary to the capital market. HVB Group is the centre of competence for the international markets and investment banking operations of the entire UniCredit corporate group. In addition, the Corporate & Investment Banking business segment acts as a product factory for customers in the Commercial Banking business segment.

By their very nature, the activities of the CIB business segment are premium in character on account of the demands placed on both products and services. We believe we already enjoy a very good position in this area. Further improvements are being implemented constantly with a view to retaining the confidence of our customers.

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

Financial Review (Continued)

Financing & Advisory (F&A) supports customers worldwide through the following departments: Financial Sponsors Solutions, Infrastructure & Power Project Finance, Natural Resources, Commodity Trade Finance, Structured Trade and Export Finance. Further global business lines are Global Capital Markets (GCM), Corporate Finance Advisory (CFA) and Loan Syndication. The Corporate Structured Finance (CSF) and Real Estate Structured Finance (RESF) business units work closely with the Commercial Banking business segment. The local Global Shipping unit tracks transactions worldwide. Portfolio & Pricing Management (PPM) is responsible for the management of all leveraged, project, aircraft and commodity finance transactions. All other F&A asset classes are managed at the level of HVB Group in collaboration with representatives of the distribution channels.

Global Transaction Banking (GTB) offers a diverse and proven range of core expertise in the fields of international cash management and e-banking, international trade finance and supply chain management.

Markets' business focuses on customer-related operations that support the corporate and institutional business of HVB Group as an integral part of the CIB value chain. Its operations encompass the following product lines: Rates, Integrated Credit Trading, FX, CEE Trading, Commodities, Equity Derivatives, and Treasury. Products are sold through three main distribution channels: Institutional Distribution, Corporate Treasury Sales, and Private Investor Product & Institutional Equity Derivatives. The distribution channels are an integral part of the product lines. Furthermore, Markets also includes Research, Structuring and Solutions, and Quantitative Products.

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

Other/consolidation business segment

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

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

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

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

On 31 July 2014, the Management Board of HVB reached agreement with BNP Paribas S.A. on the sale of the 81.4% interest in DAB Bank AG (DAB) held by HVB. The definitive contracts were signed on 5 August 2014 following approval by HVB's Supervisory Board. The buyer is BNP Paribas Beteiligungsholding AG, Frankfurt am Main, a subsidiary of BNP Paribas S.A. A price of €4.78 per share was agreed. After approval was obtained from the authorities responsible, the transaction was completed on 17 December 2014. DAB together with its Salzburg-based direktanlage.at AG subsidiary previously formed the Asset Gathering segment. This business segment now no longer exists following the sale of DAB.

In the course of focusing on its core business, the Bank has sold further parts of its private equity portfolio including what are known as co-investments. In order to continue offering its core customers access to private equity expertise, HVB set up a new investment and investment-advisory platform last year in which it also holds an interest as a passive shareholder. As a consequence, HVB can benefit from the successes of the platform and also maintain contact with its long-established customer relationships and access to expertise in the field of private equity.

There were no significant company acquisitions in the 2014 financial year.

Other changes in the group of companies included in consolidation are listed in Note 6, "Companies included in consolidation".

Economic report

Underlying economic conditions

The global economy continued to recover in 2014, even if the pace of growth failed to fully match expectations. Gross domestic product (GDP) in both industrialised nations and emerging economies continued to evolve at very different speeds. The repercussions of the global financial market crisis, including a high burden of debt in both the private and public sector, dampened the recovery. The resulting damage to global trade coupled with geopolitical uncertainties created further obstacles to a smooth recovery across the global economy. Following a fairly volatile and only moderate expansion of economic activity around the world in the first half of 2014, growth proved more robust in the second half of the year – even if the economy did lose some momentum again in the final quarter. The more solid fundamentals in a series of industrialised nations were the main reason for this. The United States and the UK in particular expanded at a solid clip, while a number of countries in the eurozone and major emerging markets continued to lag behind. Economic growth in China slowed somewhat, mainly due to declining investment. In addition, Brazil recorded weak growth and high inflation in 2014, while the economy in Russia suffered in part from tighter financing terms and international sanctions. By contrast, the Indian economy enjoyed moderate growth. All in all, the pace of growth in the global economy had accelerated back to its long-term average by the end of 2014. The financial markets were optimistic, as reflected in high share prices, narrow spreads (risk premiums) and very low volatility. Nonetheless, these factors failed to transfer to investment, which remained meagre, above all in the industrialised nations.

Economic growth in the eurozone failed to match expectations. Following on from a contraction of 0.4% in 2013, gross domestic product expanded by a mere 0.9% in 2014. All in all, domestic demand was more robust in 2014, but this was not enough to fuel a self-sustaining upturn. The support from foreign trade and overall confidence with regard to the geopolitical outlook continue to be key issues for releasing the backlog of investment that had built up. If this happened, it would also have a positive impact on the labour market and private consumption. Accordingly, disappointing figures for global trade figures from the summer, primarily on account of weak emerging markets, together increasingly with the escalating tensions between Russia and Ukraine, played a key role in the clouding of growth prospects in the eurozone. This meant that economic output remained below expectations during the reporting period. The German economy performed better than the eurozone average, with German GDP growth totalling a respectable 1.6% in 2014. The increase in economic output was slightly above the average of 1.3% for the last ten years. Once again, domestic demand delivered a much stronger contribution to growth than foreign trade. The most important pillar of growth was private consumption with an increase of 1.2 percentage points. In 2014, the German government recorded a budget surplus of 0.4% of nominal GDP. This was the third annual surplus in succession

Financial Review (Continued)

and the second-biggest since German reunification. Investment in Germany benefited from very low interest rates in Europe, making a major contribution to economic growth. In this setting, the labour market improved yet again, with employment in Germany rising to record levels in 2014.

The US economy achieved its strongest rise in GDP since 2010 in 2014, expanding by 2.4%. The growth rate would possibly have been even higher had the economy not been negatively affected by bad weather at the start of the year, which served to greatly depress the annual average. The most important pillar of growth was private consumption, which benefited from the fact that, with three million new jobs created, the labour market enjoyed its best year since 1999 and the stockmarkets also recorded new multi-year highs, while energy prices collapsed in the second half of the year. Following a disappointing 2013, companies invested slightly more in plant and equipment, although the total remained relatively low by historical standards. Public spending finally ceased to depress growth. However, foreign trade delivered a negative contribution to GDP because imports grew faster than exports.

Sector-specific developments

The EU banking union took further shape in 2014. The first major milestone was the introduction and implementation of the Capital Requirements Directive (CRD IV/CRR), which defines the new, stricter capital requirements for banks, among other things. During the course of its gradual roll-out through to 2019, the threshold for Common Equity Tier 1 capital under CRD IV/CRR including the systemic buffers will be raised step by step to 16%. Two further pillars of the banking union have been initiated. The first is the European Bank Recovery and Resolution Directive (BRRD) and the associated draft law on the transfer of contributions. This empowers the resolution authority to bail in the owners and certain creditors of an institution financially in the event of a resolution. The German Bundesrat approved the draft law at the end of November 2014, meaning that the law came into force on 1 January 2015. According to the German Federal Ministry of Finance, the draft law serves to consolidate the existing regulations that already govern intervention and resolution instruments like the German Bank Restructuring Act (Kreditinstitute-Reorganisationsgesetz). In the second move, in November 2014 the ECB took over the supervision of banks that have total assets of at least €30 billion. The reporting period was also dominated by the ECB's comprehensive assessment, which served to review the current situation of the banks coming under the ECB's supervision. This was followed by a stress test conducted by the European Banking Authority. In November, the Financial Stability Board published the proposal for the total loss-absorbing capacity (TLAC), which reflects the proportion of loss-absorbing liabilities for systemically important banks. Excluding the combined capital buffers, this will total between 16% and 20%. We expect issuing activity in 2015 to be dominated by the TLAC debate.

Yields on ten-year German government bonds had fallen sharply year-on-year as of the end of December 2014, from 1.93% to 0.54%. This means that, by year-end 2014, yields had reached their lowest level ever since the euro was first introduced. The spreads on the credit markets for non-financials with good credit ratings remained fairly constant in the fourth quarter of 2014, closing the year at an average of 70 basis points. The spreads on financials narrowed only slightly, from 47 basis points to 44 basis points. The 3-month Euribor sank at the end of the fourth quarter of 2014 to 0.08%, similarly a new all-time low for the end of a quarter since the launch of the euro. This represents a decline of 21 basis points since year-end 2013.

The ECB left its benchmark rate unchanged at 0.05% in the fourth quarter. The interest rate on the deposit facility remained minus 0.2%. Furthermore, it set up its second series of targeted longer-term refinancing operations (TLTROs) and commenced the announced programme of ABS and covered bond purchases. The Federal Reserve, on the other hand, terminated its bond-purchasing programme in the fourth quarter of 2014.

The euro weakened by nearly 4% against the US dollar in the fourth quarter of 2014 while remaining virtually unchanged against the Swiss franc and the British pound. By contrast, it rose by 4.6% against the Japanese yen. Compared with year-end 2013, the euro fell 12% against the US dollar, 6.5% against the British pound and 2% against the Swiss franc. It remained unchanged against the Japanese yen, however.

After the German stockmarket declined slightly in the third quarter, the benchmark DAX 30 index rose by 3.5% in the fourth quarter of 2014. The European market as a whole, as measured by the EURO STOXX 50 index, on the other hand, lost 2.5%. On a year-on-year basis, the DAX rose by 2.7% in 2014 and the EURO STOXX 50 by 1.2%.

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

We again faced many challenges in terms of the economic and financial environment in 2014. HVB Group nonetheless generated a satisfactory profit before tax of €1,083 million in the 2014 financial year, although the good profit before tax of €1,439 million posted for the equivalent period last year was not matched. It is important to bear in mind, however, that the reporting period does not include either the current results of DAB that had accrued until its sale in 2014 or the gain on disposal of DAB. Including these factors would give a profit before tax of €1,268 million, representing a decrease of only €190 million against last year (€1,458 million).

The decline in profit before tax is mainly due to the €913 million decrease to €4,602 million in operating income. In particular, the extremely low interest rates again in 2014 once more impacted the development of earnings in interest-related operations, causing net interest to fall by €230 million in the reporting period to €2,643 million. At €1,082 million, net fees and commissions almost matched the good year-ago total of €1,102 million. On the other hand, there was a sharp decline in net trading income that was down by €612 million to €483 million. However, it must be taken into account that the year-ago total included gains on the buyback of hybrid capital instruments that did not recur in the reporting period. In addition, the result in the reporting period was impacted by a sharp increase in credit value adjustments. Moreover, net other expenses/income fell slightly by €26 million to €302 million. Operating costs were up by €81 million to €3,559 million compared with the same period last year, which can, however, be attributed to the initial consolidation of the BARD Group and the depreciation taken on our offshore wind farm which is included in full for the first time in 2014. If this effect is eliminated, operating costs would have declined by 1.4% or €47 million. At €151 million, net write-downs of loans and provisions for guarantees and commitments are at a very low level and are even below the very low figure recorded last year (2013: €214 million). In the reporting period, there was a net reversal of €25 million in provisions after net additions totalling €220 million had been recognised in 2013. The same applies to restructuring costs which show net reversals of €18 million in the reporting period, while net additions of €362 million were incurred in 2013 due to the modernisation of the retail business.

The results achieved did not quite match our expectations regarding the development of profit before tax described in the Outlook in last year's Management's Discussion and Analysis. In our business plan, we had assumed that interest rates would rise again during the reporting period. Instead, the low interest rate policy applied by the ECB was strengthened, causing interest rates to decline again during the course of 2014. Besides net interest which failed to match our budget, this is also reflected in the development of net fees and commissions, which was much lower than planned on account of income lacking from lending and lending-related operations. The budgeted earnings were not achieved in net trading income either. For the most part, we managed to compensate this development by means of under-budget operating costs and considerably under-budget net write-downs of loans and provisions for guarantees and commitments.

Financial Review (Continued)

All the segments contributed to the profit before tax of HVB Group. The Commercial Banking business segment recorded a good profit before tax of €338 million in light of the interest rate environment, which is thus €290 million higher than the year-ago total of €48 million. However, it must be taken into account that last year’s profit before tax was adversely affected by restructuring costs of €325 million in connection with the modernisation of the retail customer operations of HVB Group. At €2,434 million, operating income was only slightly lower than that of last year (2013: €2,466 million) and there was even a slight decline of 0.4% to €1,979 million in operating costs. Net write-downs of loans and provisions for guarantees and commitments continue to be at a low level with a net addition of €108 million (2013: €74 million).

The Corporate & Investment Banking (CIB) business segment recorded operating income of €1,971 million (2013: €2,565 million). This sharp year-on-year decline of €594 million results mainly from decreases of €434 million in net trading income and €171 million in net interest. The €88 million rise in operating costs to €1,429 million is due to the initial consolidation of the BARD Group and the commissioning of the offshore wind farm at the end of 2013; without this effect, there would have been a tangible decline of 3.1% or €40 million. With a very low level of net write-downs of loans and provisions for guarantees and commitments of €112 million (2013: €240 million) and a net reversal of provisions of €9 million (2013: net addition of €134 million), the CIB business segment recorded a disappointing profit before tax of €565 million overall, on account of the weak net trading income, after €966 million last year.

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) rose to 22.1% at 31 December 2014 compared with the 21.5% determined under Basel II (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 €19.6 billion at 31 December 2014 (31 December 2013: €20.0 billion); the equity funds ratio was 22.9% at the end of December 2014 (31 December 2013: 23.4%). The shareholders’ equity shown in the balance sheet fell by €0.4 billion to €20.6 billion compared with the end of last year. This decline is primarily due to other reserves which decreased by €0.3 billion mainly due to actuarial losses on defined benefit plans.

With total assets up by 3.6% compared with year-end 2013 to €300.3 billion, the leverage ratio (defined as the ratio of shareholders’ equity shown in the balance sheet less intangible assets to total assets less intangible assets) amounted to 6.7% at 31 December 2014 after 7.1% at year-end 2013 and is thus still at an excellent level. 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.

With our customer-centric business model, high capital base, solid funding foundation and good market position in our core business areas, we remain a reliable partner for our customers and investors. As an integral part of UniCredit, HVB Group is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers. HVB is building on these advantages by adjusting its business model as begun in this financial year to reflect the rapidly changing social, economic and regulatory environment and push further growth through a stronger entrepreneurial focus.

We would expressly like to thank our employees at this point. Their willingness to embrace change and at the same time to help secure our commercial success forms the basis for our good performance. We also wish to thank the employee representatives for their constructive cooperation in spite of the very difficult issues. This gives all of us the confidence we need to master the challenges of the future.

Operating performance of HVB Group

All the statements regarding the operating performance of HVB Group in this Management's Discussion and Analysis refer to the structure of our segmented income statement (see Note 29, "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.

	2014	2013	CHANGE	
Income/Expenses	€ millions	€ millions	€ millions	in %
Net interest	2,643	2,873	(230)	(8.0)
Dividends and other income from equity investments	92	117	(25)	(21.4)
Net fees and commissions	1,082	1,102	(20)	(1.8)
Net trading income	483	1,095	(612)	(55.9)
Net other expenses/income	302	328	(26)	(7.9)
OPERATING INCOME	**4,602**	**5,515**	**(913)**	**(16.6)**
Payroll costs	(1,782)	(1,770)	(12)	+ 0.7
Other administrative expenses	(1,532)	(1,509)	(23)	+ 1.5
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(245)	(199)	(46)	+ 23.1
Operating costs	(3,559)	(3,478)	(81)	+ 2.3
OPERATING PROFIT	**1,043**	**2,037**	**(994)**	**(48.8)**
Net write-downs of loans and provisions for guarantees and commitments	(151)	(214)	+ 63	(29.4)
NET OPERATING PROFIT	**892**	**1,823**	**(931)**	**(51.1)**
Provisions for risks and charges	25	(220)	+ 245	
Restructuring costs	18	(362)	+ 380	
Net income from investments	148	198	(50)	(25.3)
PROFIT BEFORE TAX	**1,083**	**1,439**	**(356)**	**(24.7)**
Income tax for the period	(298)	(377)	+ 79	(21.0)
PROFIT AFTER TAX	**785**	**1,062**	**(277)**	**(26.1)**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**785**	**1,062**	**(277)**	**(26.1)**
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**173**	**12**	**+ 161**	**>+ 100.0**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**958**	**1,074**	**(116)**	**(10.8)**

Financial Review (Continued)

Net interest

Net interest generated in the reporting period fell by €230 million, or 8.0%, to €2,643 million compared with the same period last year in an environment weighed down by persistently very low interest rates. This can be attributed mainly to the decrease of €171 million in net interest in the CIB business segment to €1,022 million. By contrast, net interest in the Commercial Banking business segment was down only slightly on the previous year, falling €15 million to €1,585 million, while it fell by €44 million in the Other/consolidation business segment to €36 million.

The decline in the CIB business segment results mainly from two developments. First, trading-induced interest declined by a sharp €84 million. Second, contracting volumes in lending operations involving our corporate customers served to depress net interest.

The slight decline in the Commercial Banking business segments similarly results from falling volumes in lending operations involving real estate loans extended to retail customers, although new business in this field increased by around 8%. Interest income declined by 4%, however, on account of rising repayments of current loans. Restrained demand for credit from corporate customers was again responsible for a slight decline in net interest. Income from deposit-taking operations remained stable, despite a further tightening in low interest rates during the course of the year.

Dividends and other income from equity investments

The income generated from dividends and other income from equity investments declined by €25 million compared with last year to total €92 million in the reporting period, which is almost exclusively due to lower dividends paid by private equity funds and direct investments on account of the reduced portfolio.

Net fees and commissions

We recorded a pleasing result of €1,082 million for net fees and commissions during the reporting period. The slight decline of €20 million year-on-year stems from the lower fees and commissions from lending operations, which fell by €33 million to €310 million. This development can be attributed mainly to restrained demand for credit. With a total of €520 million, we succeeded in matching the prior-year figure (2013: €520 million) in management, brokerage and consultancy services. Lower earnings on account of the deconsolidation of iii GmbH and lower income from securities operations were offset by improved income from mandated operations and management fees. Income from payment services rose a slight €4 million to €225 million, notably thanks to international payments. We generated an increase of €9 million to €27 million in net fees and commissions from other services operations.

Net trading income

At €483 million, net trading income was well below the good year-ago-total of €1,095 million. The €612 million decline can be attributed primarily to the CIB business segment, which recorded a decrease of €434 million in net trading income. Among other things, this development results from strong activities involving Pfandbriefs and collateralised loans in the previous year together with contracting money-trading operations due to persistently low interest rates. Although there was an increase in trading with equity derivatives, this failed to offset the decline in other areas. Furthermore, net trading income in the CIB business segment was depressed by credit value adjustments of €69 million in the reporting period (2013: reversals of €28 million); the burden from credit value adjustments for the whole HVB Group amounted to €98 million (2013: reversals of €41 million). In addition, valuation effects accruing on the own portfolio of financial liabilities held for trading (own credit spread) served to reduce the net trading income of HVB Group by €30 million (2013: €5 million).

At the same time, net trading income in the Other/consolidation business segment contracted by €132 million to €5 million. This large decline was caused by the non-recurrence of the gains in connection with the buy-back of hybrid capital instruments recorded in the previous year. No buy-backs were carried out during the reporting period.

Net other expenses/income
Net other expenses/income decreased by a slight €26 million to €302 million year-on-year in the reporting period. This decrease is mainly attributable to the non-recurrence of income from services in earlier years contained last year. This was offset by, among other things, higher income in connection with our Bard Offshore 1 offshore wind farm.

Operating costs
We succeeded in continuing our cost management of operating costs, which for years has been very successful. At €3,559 million, operating costs in the reporting period were significantly lower than when HVB was acquired by UniCredit (2005: €3,885 million). Compared with last year, operating costs rose slightly by 2.3%, or €81 million, which is attributable primarily to the initial consolidation of the BARD Group and the depreciation taken for the first time in full on our offshore wind farm. If these effects are eliminated, total operating costs would have fallen by 1.4% or €47 million.

Within this total, payroll costs rose slightly by €12 million to €1,782 million due to the first time inclusion of the BARD Group. Without this effect, payroll costs would have even fallen slightly on account of a lower headcount. By contrast, there was also a slight increase of €23 million, or 1.5%, to €1,532 million in other administrative expenses. The main increases within this total relate to expenses for marketing, advertising and public relations, for insurance and other administrative services, which were offset by lower costs of external advisory services. A slight decline would also be reported overall for other administrative expenses if the effect of the initial consolidation of the BARD Group is eliminated. Amortisation, depreciation and impairment losses on intangible and tangible assets increased by a sharp €46 million to €245 million, which is also attributable to the initial consolidation of the BARD Group as well as the write-downs on our offshore wind farm to be fully included for the first time in the reporting period.

Operating profit (before net write-downs of loans and provisions for guarantees and commitments)
The operating profit of HVB Group fell by a sharp €994 million, or 48.8%, to €1,043 million in the reporting period particularly on account of the decline in net trading income and net interest. With a slight rise in operating costs, this produced a cost-income ratio (ratio of operating expenses to operating income) of 77.3% (2013: 63.1%).

Net write-downs of loans and provisions for guarantees and commitments and net operating profit
At €151 million, net write-downs of loans and provisions for guarantees and commitments in the reporting period were at a very low level and thus significantly below the already very low figure of €214 million posted a year ago. A net reversal from additions and reversals of value adjustments in the Other/consolidation business segment also resulted in this low level of net write-downs of loans and provisions for guarantees and commitments, which arose among other things from the successful reduction of expiring portfolios. In total, a historically low cost-of-risk is calculated for HVB Group (ratio of net write-downs of loans and provisions for guarantees and commitments to average holdings of receivables with customers) of 14 basis points compared with the 18 basis points a year earlier.

In gross terms, the expenses of €1,198 million for additions in the current reporting period (2013: €1,709 million) are largely offset by releases and recoveries from write-offs of loans and receivables amounting to €1,047 million (2013: €1,495 million).

Net operating profit thus fell by €931 million to €892 million.

Provisions for risks and charges
There was net income of €25 million from net additions/net reversals for risks and charges in the reporting period. Within this total, reversals in connection with derivatives operations exceed additions for legal and other risks. A detailed description of the legal risks is provided in the section of the Risk Report in Management's Discussion and Analysis entitled "Operational risk".

In the previous year, there was net expense of €220 million from net additions/net reversals for risks and charges, which resulted particularly from additions for legal risks in addition to provisions for derivative transactions.

Financial Review (Continued)

Restructuring costs
In the reporting period, net reversals of restructuring provisions no longer required came to €18 million. Restructuring costs in 2013 totalled €362 million, relating for the most part to the creation of restructuring provisions for the modernisation of the retail customer business of HVB Group.

Net income from investments
Net income from investments came to €148 million in the reporting period, resulting from disposal gains of €170 million which were partially offset by expenses of €22 million for write-downs and value adjustments. The gains on disposal essentially arose from available-for-sale financial assets (€155 million) stemming from the sale of private equity funds. In addition, gains of €16 million were generated among other things on investment properties. Write-downs and value adjustments of €22 million were essentially taken on the available-for-sale financial assets (€14 million) and on companies accounted for using the equity method (€9 million).

The year-ago total of €198 million was also generated from disposal gains of €242 million which were partially offset by expenses for write-downs and value adjustments of €44 million. Of the gains, €164 million related to available-for-sale financial assets mainly originating from the sale of private equity funds and to the gains on the disposal of land and buildings of €54 million in connection with the sale of properties at the Bank's facilities in Hamburg. The write-downs and value adjustments of €44 million were particularly due to available-for-sale financial assets (€50 million).

Profit before tax, income tax for the period and consolidated profit from continuing operations
HVB Group generated a satisfactory profit before tax of €1,083 million in the 2014 financial year against the backdrop of the persistently difficult operating environment. Compared with the year-ago total of €1,439 million, this signifies a decline of €356 million which is largely attributable to a decrease in operating income that was only partially offset by lower restructuring costs and provisions.

Income tax in the reporting period totalled €298 million – due above all to the lower profit – and was €79 million down on the income tax reported for the equivalent period last year (€377 million).

After deducting income tax, the consolidated profit from continuing operations totalled €785 million, which is €277 million less than the year-ago profit (2013: €1,062 million).

Profit after tax from discontinued operations and consolidated profit of full HVB Group
This item contains the income and expenses of DAB accruing in the reporting period up until it was sold. The profit before tax from discontinued operations in the reporting period amounted to €185 million (2013: €19 million). This includes operating income of €124 million (2013: €125 million), consisting of net interest of €46 million (2013: €39 million) and net fees and commissions of €78 million (2013: €86 million). Operating costs totalled €103 million in the reporting period (2013: €109 million). The net income from investments of €165 million (2013: €5 million) essentially results from the gain on the sale of DAB. After the tax expense of €12 million is deducted (2013: €7 million), profit after tax from discontinued operations totals €173 million (2013: €12 million), of which €167 million (2013: €10 million) relates to the shareholder of HVB.

The consolidated profit of the full HVB Group amounted to €958 million after €1,074 million in the previous year.

Return on equity
The return on equity after tax sets the consolidated profit accruing to HVB shareholders against the average shareholders' equity reported in the balance sheet consisting of subscribed capital, additional paid-in capital and other reserves without valuation changes of financial instruments and without consolidated profit and minority interest. It amounted to 4.7% in the 2014 financial year (2013: 5.2%). 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 year-on-year decline can be attributed to the decrease of 8.3% in consolidated profit accruing to shareholders while the underlying average shareholders' equity increased by a slight 0.4%.

Appropriation of net income

The profit available for distribution based on the German Commercial Code (Handelsgesetzbuch – HGB) disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €627 million. We will propose to the Shareholders' Meeting that a dividend of €627 million be paid in total to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.78 per share.

The consolidated profit of €756 million (around €0.94 per share) reported last year was distributed to UniCredit in accordance with a resolution adopted by the Shareholders' Meeting on 2 June 2014.

Segment results by business segment

The business segments contributed the following amounts to the profit before tax of €1,083 million in the reporting period from the continuing operations of HVB Group:

Commercial Banking	€338 million
Corporate & Investment Banking	€565 million
Other/consolidation	€180 million

As a result of the sale of DAB, the Asset Gathering business segment is no longer included. The results generated by DAB until the sale are contained in the income statement item "Profit after tax from discontinued operations". The income statements for each business segment and comments on the economic performance of the individual business segments are provided in Note 29 "Income statement, broken down by segment", in these consolidated financial statements. The tasks and objectives of each business segment are described in detail in Note 28, "Notes to segment reporting by business segment".

Financial situation

Total assets

The total assets of HVB Group increased by €10.3 billion, or 3.6%, to €300.3 billion at 31 December 2014 compared with year-end 2013.

On the assets side, financial assets held for trading rose by €20.5 billion to €111.8 billion compared with year-end 2013. This was primarily due to an increase of €17.4 billion in the positive fair values of derivative financial instruments as a result of a fall in medium-term interest rates in significant currencies such as the euro, US dollar and British pound, with the euro simultaneously depreciating against these currencies. In addition, there were increases of €2.5 billion in equity instruments and €2.3 billion in other financial assets held for trading resulting from an increase in reverse repos, while fixed-income securities fell by €1.7 billion. Due to the increase in the portfolio of fixed-income securities, the financial assets at fair value through profit or loss were up by €1.5 billion in total. In contrast, there was a sharp decline in cash and cash balances, which fell by €5.5 billion to €5.2 billion on account of lower credit balances held at Deutsche Bundesbank. Available-for-sale financial assets fell by €3.0 billion to €1.6 billion mainly on account of a reduction in fixed-income securities. Loans and receivables with banks also decreased by €2.7 billion to €32.7 billion, which is attributable notably to a smaller portfolio of reverse repos (down €2.7 billion). There were also slight decreases of €0.5 billion, €0.5 billion and €0.6 billion in reclassified securities, receivables on current accounts and other receivables respectively, while cash collateral rose by €1.7 billion. Loans and receivables with customers remained almost unchanged compared with year-end 2013, whereby the declining trend in mortgage loans (down €0.6 billion) and reclassified securities (down €0.5 billion) continued. Furthermore, credit balances on current accounts fell slightly by €0.4 billion while other receivables were up by €0.4 billion and credit balances pledged as collateral by €0.7 billion.

On the liabilities side, financial liabilities held for trading increased by €14.4 billion year-on-year to €88.0 billion which, in line with the financial assets held for trading, is due to higher negative fair values of derivative financial instruments (up €15.8 billion to €76.4 billion). In contrast other financial liabilities held for trading fell by €1.3 billion to €11.6 billion on account of lower repos. There was also a rise of €6.2 billion to €54.1 billion in deposits from customers. Within this total, there were increases of €4.4 billion in repos and €2.8 billion in cash collateral (pledged credit balances) in particular, while term deposits were down by €1.7 billion. Compared with year-end 2013, there was a sharp decline of €7.2 billion to €100.7 billion in deposits from customers. Major factors driving this development were decreases in term deposits (down €4.8 billion), repos (down €2.6 billion) and promissory notes (down €1.7 billion) while credit balances

Financial Review (Continued)

on current accounts rose by €2.2 billion to €56.3 billion. Our debt securities also fell a sharp €3.6 billion to €28.2 billion, mainly on account of issues due.

The loan-to-deposit ratio used by the Bank is calculated by dividing customer loans by customer deposits. At year-end 2014, the ratio was 1.09%, which represents an increase of 0.07 percentage points.

The shareholders' equity shown in the balance sheet fell by €0.4 billion to €20.6 billion over year-end 2013. This decline is largely attributable to other reserves, which were down by a total of €0.3 billion to €7.7 billion primarily due to actuarial losses of €0.6 billion on defined benefit plans. In addition, the balance sheet profit reported of €627 million is €129 million lower than last year's total of €756 million, which was paid as a divided to UniCredit in the second quarter of 2014 as resolved by the Shareholders' Meeting. The subscribed capital and additional paid-in capital remained unchanged compared with the previous year. In contrast, changes in valuation of financial instruments recognised in shareholders' equity fell slightly by €7 million and minority interest by €16 million over year-end 2013.

The return on total assets compliant with Section 26a of the German Banking Act (Kreditwesengesetz – KWG) is defined as the ratio of net profit to total assets; it amounted to 0.32% at year-end 2014 (31 December 2013: 0.37%).

The contingent liabilities and other commitments not included in the balance sheet increased by €6.1 billion to €63.3 billion at 31 December 2014 compared with the 2013 year-end total (2013: €57.2 billion). This figure includes increases of €3.3 billion to €40.7 billion in irrevocable credit commitments and €2.9 billion to €22.5 billion in contingent liabilities in the form of financial guarantees. These contingent liabilities are offset by contingent assets of the same amount. Other commitments fell by €0.1 billion to €0.1 billion.

Risk-weighted assets, key capital ratios, liquidity and leverage ratio 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 in accordance with the Internal Model Method (IMM) for counterparty risk amounted to €85.7 billion at 31 December 2014. At year-end 2013 under Basel II (based on the German Commercial Code) and in accordance with the market valuation method for counterparty risk, the risk-weighted assets totalled €85.5 billion, which represents a slight increase of around €0.2 billion overall as per 31 December 2014. At the same time, 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 over the year was almost completely offset by other effects.

The risk-weighted assets for credit risks (including counterparty default risk) determined by applying partial use fell by €0.9 billion to €61.9 billion. In the process, credit risk rose by €1.8 billion at HVB, particularly on account of the new regulatory requirements. In contrast, HVB's counterparty risk decreased by €2.6 billion, mainly due to the introduction of the Internal Model Method for counterparty risk in HVB's derivatives business, which more than compensated the increases in risk-weighted assets due to Basel III. At subsidiaries, the decline in risk-weighted assets caused by the sale of DAB was almost offset particularly through an expansion of volumes at UniCredit Luxembourg S.A.

The risk-weighted assets for market risk increased by €3.6 billion to €12.8 billion. This development is mainly due to the first-time inclusion of the new Basel III credit value adjustments (CVA) risk parameter. According to the new regulatory requirements from January 2014, 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 in March 2014 of the multiplication factor set by the banking supervisory authorities in the internal market risk model served to reduce risk-weighted assets.

The German banking supervision allowed HVB Group to use the new Advanced Measurement Approach Model (AMA model) applied throughout UniCredit with effect from September 2014. Taking account of the effects of the new AMA model, the risk-weighted asset equivalents for operational risk fell by €2.5 billion to €11.0 billion.

At 31 December 2014, the core capital of HVB Group compliant with Basel III excluding hybrid capital (Common Equity Tier 1 capital/CET1 capital) amounted to €19.0 billion. Compared with the core capital excluding hybrid capital compliant with Basel II (core Tier 1 capital), it increased by €0.6 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) increased to 22.1% at 31 December 2014 after a core Tier 1 ratio compliant with Basel II of 21.5% at year-end 2013.The core capital of HVB Group (Tier 1 capital) rose to €19.0 billion at 31 December 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) increased to 22.1% (31 December 2013: 21.6% compliant with Basel II). The equity capital amounted to €19.6 billion at 31 December 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 22.9% at the end of December 2014 (31 December 2013: 23.4% compliant with Basel II).

To ensure sufficient liquidity at all times, key figures are used, among other things, which act as triggers. A detailed description is given of the management of liquidity and the liquidity position in the Risk Report of this Annual Report. A bank's liquidity is evaluated using the liquidity ratio defined in the German Banking Act/German Liquidity Regulation (KWG/LiqV). This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure declined to 1.20 at the end of December 2014 after 1.33 at year-end 2013.

The introduction of Basel III results in the calculation of another metric – the leverage ratio – for the first time in addition to the existing capital ratios. This ratio sets the core capital measure against the exposure measure, expressed as a percentage. The total exposure measure is the sum total of the exposure values of all assets and off-balance-sheet items. At 31 December 2014, the leverage ratio of HVB Group amounted to 6.1%.

To manage and ensure adequate risk-taking capacity, the Bank conducts analyses of its risk-taking capacity on a regular basis. In this context, the risk-taking capacity is defined by the comparison between the maximum losses possible (internal capital) and the ability to absorb losses with existing equity (available financial resources). The ratio of available financial resources to internal capital is referred to as risk-taking capacity and amounted to 189% at year-end 2014 (year-end 2013: 173%). We consider this figure to be very comfortable and it is also considerably higher than the minimum figure defined by the Bank as a threshold. Further details on the calculation and definition of the risk-taking capacity are given in the Risk Report.

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

Financial Review (Continued)

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 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-. In December 2014, S&P downgraded Italy one notch. This change led to a review of the ratings for Italian banks and their subsidiaries, as a result of which the rating for UniCredit S.p.A. was harmonised with the rating for the Italian state in accordance with the strict S&P criteria. However, S&P confirmed its long-term rating for HVB at A- with a negative outlook.

Significant investments

Work started in 2013 on turning the HVB Tower in Munich into a green building that meets the requirements for a facility strategy geared to sustainability and environmental compatibility. A total amount of around €250 million is being invested in this construction work. This will be completed by the end of 2015/start of 2016 in the case of the tower itself and the South building and 2019 in the case of the North building. The main aims of the renovation work are to improve energy efficiency and reduce carbon emissions. At the same time, the office spaces are being revamped to meet the requirements of modern telecommunication systems and the existing areas rearranged to allow more efficient use of space at the same time as enhancing the working environment by applying innovative office concepts. HVB has been carrying out a pilot project called Smart Working to examine a future-looking office landscape since 2012 with this in mind. Building on the insights gained from the pilot project, this concept will also be applied to the main floors in the HVB Tower. Once completed, the HVB Tower will become the Bank's future headquarters and seat of the Management Board.

Report on subsequent events

In January 2015, Fitch again confirmed its A+ rating for HVB with negative outlook. In February 2015, S&P put several banks, including HVB, on Credit Watch negative as a result of the early enactment of the EU directive to introduce and implement the recovery and resolution mechanisms for banks in Germany, Austria and the UK. Should HVB be downgraded, this could lead to an expansion in the provision of collateral, although this is available in an adequate amount in HVB. We do not think this would result in a significant worsening of our funding options.

On 18 February 2015, the German Federal Labour Court (Bundesarbeitsgericht – BAG) published an explanation of its ruling relating to a court decision of 30 September 2014. The Court decided that, if an employer has made a pension commitment to its employees by way of a pension fund and the fund reduces the retirement benefits due to economic difficulties, the employer is obliged to compensate the employees for the reduction. Within the scope of the ruling, the Court also commented at length on the employer's obligation to adjust the pension. According to Section 16 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG), the employer is normally obliged to assess a potential increase of its commitment under occupational pensions every three years and has to make a decision at its own discretion. Contrary to the largely prevailing opinion in the literature, the Court has now determined that the escape clause concerning the pension adjustment obligation incorporated in Section

16 (3) No. 2 BetrAVG is not applicable for occupational pensions originated before the German Actuarial Reserve Regulation (Deckungsrückstellungsverordnung – DeckRV) that came into force in 1996. This opinion expressed by the Court in respect of the pension adjustment obligation may also be applicable to the occupational pension commitments undertaken by the Bank by way of Versorgungskasse des Bankgewerbes e.V. (BVV). This could result in an obligation for the Bank for which the extent and amount have still to be assessed. Due to the explanation recently published by the Court, the detailed effects are still unclear and the ensuing potential obligations cannot be reliably determined at this time.

Forecast report/Outlook

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

General economic outlook

The global economy is likely to grow at around its long-term average of 3.5% in 2015 and the signs are increasing that the individual economies will expand somewhat more evenly than in the previous year. These forecasts are based on the assumption that important factors underpinning the recovery in the industrialised nations will remain in place, including reduced strains from the consolidation of state finances and highly accommodating monetary policy. Private households and companies in the United States, Europe and most emerging markets will also benefit from low oil prices going forward. The geopolitical tensions (above all the Russia-Ukraine crisis) should recede, which could help ease the burden on stressed economies somewhat.

We believe that 2015 will be a better year than its predecessor for the eurozone. Over 2015 as a whole, average GDP growth of 1.4% should be far greater than in 2014. According to our forecast for 2015, the quarterly GDP growth trajectory is twice as high as in the previous year. The supporting factors in this context are a weaker euro, much lower oil prices, a more neutral fiscal policy and a decline in interest on borrowings in the peripheral countries. For the first time since the worsening of the debt crisis, these responded to interest rate cuts by the European Central Bank. At country level, Germany and Spain should again record above-average growth rates of 2.0% (not adjusted for calendar reasons) and 2.4% respectively, while France and Italy are likely to rank among the laggards in the eurozone with growth rates of 0.9% and 0.6% respectively (the first expansion for three years). The fact that the inflation rate is like to turn negative is, we believe, attributable primarily to the rapid fall in oil prices; we do not, however, see increased risk of deflation for 2015. Instead, we project a slight rise in inflation by the end of the year. In Germany,

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private consumption should benefit from the higher levels of employment, rising take-home pay, a decline in the savings rate and the boost to purchasing power brought about by low inflation. By contrast, the key to the development of corporate investment rests with the contribution of foreign trade, which means that this factor will be crucial for the speed of the recovery. Nonetheless, companies should be better prepared for the geopolitical tensions, which could boost capital spending. France and Italy are likely to suffer from the relatively subdued domestic demand. The resulting weakness in corporate profitability will limit the upside potential for investment, employment and hence also private consumption. We expect Spain to benefit from the competitiveness that improved greatly during the course of the crisis, and this should transmit itself to the endogenous growth drivers. The strong productivity increases of recent years are, however, mainly cyclical in nature and will possibly not be maintained over the medium term. The growth prospects for 2015 should not suffer as a result, however.

The US economy is set to remain one of the key drivers of global expansion in 2015, with real GDP growth likely to reach 3%. That would be the highest annual rate for exactly ten years and the US economy would surpass the average pace of expansion over the first five years of the recovery by three-quarters of a percentage point. Constantly rising consumption remains the most important motor of accelerated growth. The ongoing recovery on the labour market coupled with faster pay growth and lower oil prices should help consumer spending to rise by at least 3%, the fastest growth since 2005. In addition, public spending is likely to deliver a positive contribution to GDP again in 2015, after putting a brake on expansion over the past five years. Furthermore, spending on residential property should increase again after more or less marking time in 2014. And capital spending growth is projected to pick up more pace again in 2015. The flip side of stronger domestic demand is a larger trade deficit. Consequently, foreign trade will, if anything, tend to dampen GDP growth this year. Although falling oil prices are set to cushion inflation overall, the bigger pay rises should more than offset the impact of energy prices on the core inflation rate. In this environment, the Federal Reserve is likely to start raising its benchmark rate as of mid-2015.

There was a change of government in Greece in the first quarter of 2015. The new Greek administration and its European partners are facing the task of agreeing on the future of the country's bailout programme. The first step towards a new programme was taken in mid-February 2015 when the Greek government requested a four-month extension of the existing programme. In the request, Greece undertook to continue the reform course and not to take any uncoordinated measures – especially the reversal of measures that have already been implemented. Furthermore, the Greek government has announced that it would meet all its payment obligations in full and on time. Thus, Greece acceded to the core demands of the Eurogroup in the declaration and withdrew earlier demands for a haircut and the reversal of key reforms and austerity measures. In return, the group of observers from the European Commission, the ECB and the IMF that was previously known as the 'troika' is now only described in official communiqués collectively as the 'institutions'. The term 'troika' had become a political issue in Greece in particular. In one further, somewhat more substantial point, the Greek government succeeded in gaining a concession from the Eurogroup. The target for the primary budget surplus – meaning the surplus before interest and debt payments – is being reduced somewhat from 4.0% to 4.5% of GDP at present. The target will, however, probably be higher than the 1.0% to 1.5% demanded by the Greek government. And the list of reforms that the Eurogroup asked Greece to submit has been deemed acceptable. All in all, this compromise seems to have averted the immediate risk of Greece leaving the eurozone, the impact of which would be hard to estimate. The details of a further – third – programme will be negotiated over the coming months. Uncertainties could return accordingly.

Against the backdrop of historically low inflation rates in the eurozone, the ECB announced an expansion of its asset-buying programme in January 2015. The purchase programme encompassing ABS and covered bonds already launched at the end of 2014 is to be rolled into this. As part of the new purchasing programme, the ECB aims to buy bonds issued by eurozone central governments, agencies and European institutions. The ECB is planning to buy assets with a value of €60 billion each month. The programme is intended to run until September 2016. The purpose of this measure is to ease the monetary and financial conditions in the eurozone further and hence to provide incentives to invest in the economy. In response to these measures, the yield on 10-year German government bonds at the start of 2015 fell to below 0.4%. The yield on 2-year bonds even fell to below –0.2% at times, which is even less than the interest rate on the ECB's deposit facility. It is expected that one main channel for the effect of the purchase programme will run through the currency side, as the euro is likely to become even cheaper. This should boost the demand for European exports and hence have a positive impact on European economic growth.

Sector development in 2015

We expect that the key issues in 2014 will continue to dominate 2015. At the same time, persistently low interest rates will present major challenges. Volatility will increase as a result of the unremittingly acute geopolitical risks like the tensions between Russia and Ukraine together with the threat of terrorism. This may be exacerbated by a series of elections across Europe. The TLAC discussion may force banks to not only optimise the structure of their equity capital and liabilities but also to evaluate the optimum corporate structure for the future.

Development of HVB Group

The group of companies included in consolidation used as the basis for planning in 2015 will not change materially compared with the 2014 financial year. All the companies initially consolidated or deconsolidated in the reporting period were incorporated appropriately when the budget was drawn up. The results of DAB Bank, which was sold during the 2014 financial year, are no longer included in the income statement for the forecast period; these are only included in the comparative figures in compressed form as profit from discontinued operations, which means they do not interfere with the comparison between the planning period and the 2014 financial year.

On account of the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are very 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 the 2015 financial year that is only slightly below the previous-year total. Taking into account the current operating conditions, the Bank is planning to record a profit that is moderately lower than the year-ago total.

We do not expect the positive impact of the wide-ranging measures that we have launched as part of the realignment of the Bank in 2014 to be reflected in the operating figures until further down the road. The Bank views both the past financial year and the 2015 financial year as periods of transition.

We nevertheless expect operating income to once again increase slightly after the sharp declines in previous years. The persistently extremely low level of interest rates will, however, significantly contribute to net interest falling again slightly. Although we anticipate a small rise in volumes in the lending business, this effect is likely to only partially offset the effect caused by low interest rates. Due to the

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sharp reduction in the holdings of private equity funds and direct investments, dividends and similar income from capital investments will fall further in the 2015 financial year. In contrast, we expect net trading income to undergo a substantial improvement over 2014. In particular, increases in the customer-facing business are planned in the areas of Foreign Exchange, Equity Derivatives Trading and Integrated Credit Trading (securitisation of loans and receivables, repos). Net fees and commissions should also improve, which will probably increase sharply again compared with the good year-ago total. We are planning higher fee income in both the Commercial Banking business segment and the CIB business segment. The operating costs planned in HVB Group will probably rise slightly based on the consistent application of the strict cost management we have employed for years due to higher payroll costs. The workforce will nevertheless continue to decrease. Other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets are likely to remain at last year's level. Due to the increase in operating income coupled with an only moderate rise in operating costs, the cost-income ratio is projected to improve slightly over last year. In terms of net write-downs of loans and provisions for guarantees and commitments, which also remained at a very low level in 2014, we expect the need for additions to normalise in 2015 and thus to increase significantly compared with the 2014 financial year; however, net write-downs of loans and provisions for guarantees and commitments will remain at a moderate level.

We will continue to enjoy an excellent capital base in 2015. The capital ratio for the core capital (Common Equity Tier 1 capital ratio) will approximate the level of year-end 2014. In terms of risk-weighted assets (including market risk and operational risk), a slight increase is expected year-on-year on the back of the planned increase in lending volume.

We expect all the business segments to contribute a profit before tax to the results of HVB Group in the 2015 financial year as a whole. The results trends for the individual business segments in the 2015 financial year are discussed below.

In the Commercial Banking business segment, we project a profit before tax for the 2015 financial year which is likely to be at around the level in the year under review. We anticipate an 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 our new joint venture "Private Banking & Wealth Management". Net interest will again be adversely affected by the extremely low level of interest rates in the 2015 financial year, which is why we assume that it will remain at roughly the level of 2014. Although we wish to continue to grow in our lending operations, the deposit-taking business will probably decline on account of interest levels. Operating costs will in all probability rise slightly. With payroll costs remaining almost stable, we expect an increase in other administrative expenses due to the conversion of the Private Clients Bank and the investments this entails. After the very low level of net write-downs of loans and provisions for guarantees and commitments in the 2014 financial year, we project a normalisation for 2015 and thus a moderate increase in the cost of risk.

In the 2015 financial year, we expect the CIB business segment to record an increase in operating income compared with 2014. In this context, we assume that net interest will probably decline slightly in a setting of persistently very low interest rates, due above all to the declining trading-induced interest and lower margins in the deposit-taking business. For strategic reasons, a large part of the holdings of private equity funds and direct investments was sold in 2014 so that no significant income will be generated in dividends or in net income from investments in 2015. We expect net trading income to provide a much higher contribution to earnings in 2015, which is planned mainly in the areas of Foreign Exchange, Equity Derivatives Trading and Integrated Credit Trading (securitisation of loans and receivables, repos). In terms of net fees and commissions, we also continue to project a significant increase compared to the already good result of the 2014 financial year. The rise in net fees and commissions is expected primarily in the areas of Global Transaction Banking (Trade

Finance) and Financing & Advisory (Debt Capital Markets and well as credit-related commissions). In 2015, operating costs are also likely to increase, half of which will be due to payroll costs and the other half to other administrative expenses and depreciation. After the very low level of net write-downs of loans and provisions for guarantees and commitments in the 2014 financial year – which also benefited from several net reversals – we expect a normalised level again in 2015. Particularly on account of the higher amount of net write-downs of loans and provisions for guarantees and commitments and the non-recurrence of results from private equity funds, the profit before tax in 2015 is most likely to be lower than the profit before tax in the 2014 financial year.

The profit before tax in the Other/consolidation business segment will continue to decline in 2015 compared with the 2014 financial year. The main reason for this development is a sharp decline in net interest on the back of the low interest rates coupled with a lower net reversal of net write-downs of loans and provisions for guarantees and commitments.

The performance of HVB Group will again depend on the future development on the financial markets and in the real economy in 2015 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 sees itself as being 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 in the real economy.

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

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

HVB Group is an important part of one of the largest, best-positioned banking groups in Europe, UniCredit. It is one of the largest financial institutions in Germany and has core competence for all UniCredit customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB Group operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries in the world that continues to enjoy a financial rating of AAA. Hence, HVB Group, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers.

HVB Group is the bank for customers who expect more from their bank. This means that it wants to be the bank for retail customers, entrepreneurs and enterprises who demand, and are willing to reward, top quality and build strong ties with their bank. With this business policy geared to sustainability, strong capital base and the investments in the modernisation of its retail banking business it initiated in 2014, HVB Group stands for innovation, reliability, stability and security. This results in the opportunities described below:

Within the Commercial Banking business segment, the main purpose of the Unternehmer Bank business unit in its customer contact is to position itself as a core bank and strategic business partner that is heavily involved in the strategic considerations and priorities of the customer. Today we are already perceived as a quality provider, which gives us an outstanding springboard. The concept is built upon strong industry and product competence and distinct advisory and service quality from our employees across all customer segments. The one-stop-shop approach we take to serving companies and entrepreneurs is intended to reduce the complexity of the customer/bank relationship so as to achieve a high level of customer satisfaction. Our customers increasingly have activities in countries outside of Germany and are entering new markets. Our aspiration is to be one of the top banks when it comes to accompanying the international

Financial Review (Continued)

activities of our customers. We can leverage our excellent network to add considerable value for the export-oriented German Mittelstand by accompanying their international business activities. At the same time, it facilitates the cross-border consolidation of company investment and financing needs in western, central and eastern Europe. In 2012, we became the first bank in Germany to provide a digital service in this regard, with more than 125,000 customers now taking advantage of our Business Easy product. We will continue to invest in this offering in order to expand our position.

In the Private Clients Bank business unit, we are the first bank in Germany to initiate a root-and-branch modernisation of our retail banking business. We are setting ourselves up as a genuine multi-channel bank and invest heavily in mobile and internet-based offerings and in the attractiveness of our branches. We want to achieve Germany-wide positioning in the market by completing a future-looking expansion of our multi-channel offer. The main strategic objectives are to implement a clearly differentiated service model aimed at upgrading the quality of the advice and service we give customers and to focus clearly on higher value customers holding their main bank account with HVB. The branch will continue to represent the core element of our multi-channel offer going forward, featuring a standard, modern and upscale appearance. The branch will, however, act as much more than just a point of contact for top-drawer advice. At the same time, service, information and advisory offerings are being expanded in the multi-channel setting (online, mobile, remote) and made even more customer-friendly. This strategic reorientation is a great opportunity for HVB to position itself as a premium provider in order to offer customers better service going forward and to grow throughout Germany in the retail banking customer group in the future.

In the Private Banking customer segment, which comes under the Private Clients Bank business unit, we aim to expand our good positioning in activities involving wealthy customers. We benefit from our comparatively strong local presence with 46 locations in Germany and the quality and strength of the advice we offer, which is achieved by a balanced ratio of customers to relationship managers and a dense network of highly qualified specialists for financial/wealth planning, succession planning, foundation management and finance. We are looking to gain further growth by increasing penetration of the customer base with HVB mandated solutions, expanding fee-based advisory offerings with the DepotGlobal flat-fee model and achieving selective growth in our lending activities. In addition, we are investing specifically in the skills of our employees and in digital advisory/communications media.

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

HVB Group can respond quickly and flexibly to expansion opportunities arising on the market. On account of its excellent capital base, it is already well equipped for any tightening of regulatory requirements and will be able to actively operate on the market even in that kind of scenario.

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

HVB Group has cross-selling potential in all customer groups. The Bank has taken an important step to tap this potential by consolidating the Private Clients Bank and the Unternehmer Bank, serving among other things to pool activities in fast-growing fields. There are opportunities to support customers demanding cross-border financial services in other markets where UniCredit is represented, and to further improve operating income by creating and using new products for all customer segments through tailored solutions.

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

Digitisation has greatly altered the finance industry and the expectations of customers with regard to their bank and will continue to do so going forward. Already today, HVB Group is progressing digital change in individual business areas (such as its online branch) and has applied diverse models in several areas of the Bank in terms of digitisation/fintech.

As an attractive employer, HVB Group has opportunities to recruit highly qualified employees and managers. Both the size of UniCredit and the strategic positioning of HVB Group have a beneficial impact on the recruitment of employees and managers. Supporting female managers at junior level is an explicit part of the business strategy.

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

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

Non-financial performance indicators

Human resources

Our values, our performance

The concept that HVB has of itself is shaped by a mode of operation built around cooperation and respect. Our day-to-day work is increasingly governed by networks that cross segment and company lines together with multinational and diversified teams. This demands a high degree of integrity from every single employee, something we promote by means of the transparent values that we have codified in our Integrity Charter. Fairness, transparency, respect, reciprocity, freedom and trust form the basic values of UniCredit and the framework for our actions. All employees across the corporate group are expected to comply with the Integrity Charter. A further cornerstone of our collaboration is open and transparent communication. We promote a constant conversation through numerous channels and across hierarchy levels – specifically including our Management Board.

At the beginning of 2014, HVB was named one of the top employers in Germany for the fourth consecutive year. Each year, the international Top Employers Institute honours companies whose HR work meets the highest standards. The factors assessed include corporate culture, training and development offerings, and career prospects. At the European level, UniCredit was one of 15 companies to make the list of Europe's top employers.

Financial Review (Continued)

Accompanying change, accepting responsibility

With the modernisation of its retail banking business, HVB is responding to significant changes in patterns of customer behaviour and the underlying conditions for banks. The move will serve to secure the future of this line of business with a clear perspective for our employees and customers. At the same time, the consolidation of the branch network will entail the loss of around 1,500 full-time positions throughout Germany. Of this total, almost 1,300 relate to the retail banking business and around 200 to head office. In parallel to this, new jobs are being created by the expansion of the multichannel offering. The forthcoming steps in the transformation of the Private Clients Bank are painful, especially for those employees who are directly affected. We are very well aware of the responsibility this entails, seeking to remain as fair and transparent as possible in preparing the next steps for the staff, in close coordination with the employee representatives. In order to ensure that the measures are implemented in a way that is as socially responsible as possible, HVB is looking to find mutually acceptable solutions based on a redundancy plan and make use of part-time and partial-retirement models. We are doing everything we can to avoid compulsory redundancies. Furthermore, HVB has issued a guarantee covering 3,000 full-time positions in the Private Clients Bank through to the end of 2018 at the latest as part of a long-term employment agreement.

HVB Group's workforce (measured in FTEs) decreased to 17,980 by year-end 2014 (2013: 19,092). The workforce at HVB decreased from 14,449 in 2013 to 14,227 in 2014. The total fluctuation rate at HVB (defined as the number of employees leaving as a proportion of the average number of employees) amounted to 7.4% during the reporting period.

Fair pay

Competitive remuneration is an important element of our HR management. At the same time, variable remuneration helps to promote right behaviour and good governance. In 2013, HVB jointly issued a policy paper with four other financial institutions on ethical principles of management compensation. The goal is to make remuneration systems transparent and eliminate false incentives. We are thus making it less attractive to assume disproportionately high risks and causing employees and managers alike to appreciate the downsides associated with high-risk transactions. By complying with these principles, we wish to contribute to the sustainable success of the banking sector and demonstrate the willingness of financial institutions to regulate themselves.

The regulatory requirements for the remuneration systems of significant financial institutions have been further specified and tightened in recent years. We have continually adapted and refined our remuneration systems accordingly. We did so again in 2014, partly in connection with the amendment of the German Regulations governing Supervisory Requirements for Institutions' Remuneration Systems (Institutsvergütungsverordnung). Under the regulatory requirements covering remuneration governance, moreover, our Management Board appointed a Remuneration Officer for the first time in 2014. The position has a supervisory and advisory function, serving to provide operational support to the Remuneration Control Committee as it expands its practical oversight of remuneration questions.

Uncovering potential, promoting development

HVB constantly invests in the training and development of talented junior staff. The apprentice rate (defined as total number of apprentices at year-end as a proportion of the total number of employees at year-end) totalled 5.1% (2013: 6%) in 2014. The number of graduate trainees has risen significantly at the same time, particularly in terms of female trainees (accounting for 29.9% of the total in 2013 and 34.8% in the reporting period). The task of developing and retaining talents, and permanently securing future leaders for all management levels, is set to become far more important over the coming years in light of demographic developments. Added to this is that the increasing regulatory requirements are demanding new training concepts and development approaches for senior management. In response, we maintain a comprehensive talent management programme to support gifted specialists and managers across the various stages of their career, thus securing future leaders for all management levels. All the development and training measures are based on the Group-wide Performance Management Tool, the portfolio meetings, and talent-management and executive-development processes. This makes it possible for us to assess performance transparently and plan binding career steps, including international transfers.

The accelerated pace of change and adaptation in the financial sector presents a major challenge for the Bank and the HR department in terms of the strategic planning of future staffing requirements. Rising cost pressure and ongoing restructuring coupled with demographic change call for much greater efficiency in HR planning.

Equal opportunities for all

HVB Group aims to demonstrate a culture of inclusion and diversity. One of the priorities in this context is to make evident and integrate in management the specific potential of talented women. HVB has set itself an ambitious target in this regard: women are to hold 30% of our senior positions by 2017. At present, the rate is 24.9% (2013: 24.2%). Furthermore, we are seeking to increase the proportion of female members of our Supervisory Board to one in three.

In order to increase the share of women in management positions, the Management Board has appointed ten senior managers to act as 'shared future officers'. HVB has employed mentoring as an HR development tool for many years now. The concept is paying off, with 70% of our female employees supported by mentoring already taking that next step on the career ladder. Furthermore, in 2009 HVB became the first bank in Germany to set up a Women's Council, consisting of around 30 top-class female entrepreneurs and managers. The goals of the Women's Council explicitly include promoting female managers through mentoring and generating ideas for the Management Board of HVB.

Work-life balance

Actively promoting the work-life balance is one of our strategic goals. We view starting a family as a natural part of any curriculum vitae and offer our employees considerable support with childcare under our parental leave concept. HVB opened a nursery with space for 36 children in Munich at the beginning of 2014. Under our Office@home programme, we make it possible for employees to work from home, thus helping to dismantle a culture that demands a constant physical presence. We maintain contact with colleagues on parental leave and provide tips on returning to work through the online portal "hvb-familie.de" and regional parental information boards. We offer our employees a family service for questions about childcare and caring for the elderly, while holiday clubs are also run in cooperation with the HVB Sportclub. At 25%, the proportion of part-time workers at HVB was higher than in 2014 (24.6%). Our employees normally have the chance to take a sabbatical of up to 12 months. We have also been active in the "Erfolgsfaktor: Familie" network of the German Ministry of Family Affairs, Senior Citizens, Women and Youth since 2008.

Healthy, well-rounded staff

Since the end of 2010, the health management activities of HVB have been gradually and strategically refined and defined as a core responsibility of HR management. The HVB Health Forum brings together all health management players, working to achieve an appropriate balance of health and safety at work for the respective target group together with precautionary and preventive measures for physical and emotional wellbeing. Around 12,000 employees make use of the diverse offerings of the Health Forum each year. We also ran a Health Week at the Munich location for the first time in 2014. For several years, the Bank's extensive track record for outstanding health management programme has been confirmed through its regular participation in the Corporate Health Award, the leading benchmark in the German-speaking area; in 2014, it achieved its best result to date with 92.1 points out of 100.

Outlook

Banks are continuing to experience a time of change, facing a constantly evolving economic and regulatory environment. During the transition to a multichannel bank complete with a wide-ranging digital offer, HR work will play a key role in 2015 and beyond. For us, preparing our employees for their future activities in the field of multichannel advisory, and hence ensuring their employability in a fast-changing banking environment, has top priority. Similarly, it is important to constantly empower our employees to implement new regulatory requirements on time and competently. The topics of ethical and competitive pay, employer branding and diversity remain crucial in the area of tension between banks' damaged reputations and their attractiveness as employers.

Financial Review (Continued)

Sustainability

Solid and future-looking

For HVB, sustainability means generating lasting value through its commercial activities – for the company, its customers and society at large. Our ambition is to bring economic success in line with ecological and social standards and to generate our profits with integrity. With this strategy, we are promoting sustainable development and meeting the expectations and demands of our stakeholders. We give their long-term interests priority over short-term gain. Indeed, we are convinced that giving our business a sustainable orientation serves to foster our long-term business success and makes it possible for us to optimally support our customers with future-looking products and services.

Responsible corporate governance

We seek to bring about credible solutions for a fair and future-looking economy. Alongside business performance and social responsibility, the basic preconditions for responsible corporate governance include lawful and ethically correct behaviour. Consequently, HVB believes that good corporate governance entails both responsible management and effective control of our business activities. Efficient collaboration and monitoring of our corporate governance are just as important in this regard as appropriate and sustainability-oriented management pay and transparent corporate communications.

In 2012, we became the first major German bank to commit to the German Sustainability Code (GSC) of the German Council for Sustainable Development. In 2011, we signed the Code of Responsible Conduct for Business as a sign of our commitment to fair competition and sustainability, among other things.

Strategic controlling

The Corporate Sustainability department is responsible for coordinating and enhancing the Bank's sustainability management programme. We control the implementation of our sustainability strategy using targets and KPIs, which we review at regular intervals. In order to accommodate the interdisciplinary nature of sustainability, we have set up cross-divisional workgroups to look at individual topics. The company-wide management of ecological and social risks, together with the systematic monitoring of compliance issues, accompanies our business activities. Sustainability is a key performance indicator alongside factors like profitability and growth in the Bank's overall strategy that we use to measure and control our activities with a focus on values.

The rankings published by the sustainability rating agency oekom research AG in spring 2014 are a sign that we are on the right track in our pursuit of sustainability. These indicate that HVB is the most sustainable commercial bank in Germany. We are among the ten best banks in the world out of a total of nearly 300 financial institutions analysed. HVB occupied a leading spot in the German CSR Award 2014 twice over, in the categories "Avoiding carbon emissions as a contribution to climate protection" and "Best video on a company's CSR commitment".

Risk focus

Managing the risks inherent in financial transactions is one of a bank's core tasks. We take a cautious, restrictive approach to risk, knowing that a wrong decision can nullify many successful transactions. We do not see profit orientation and risk awareness as contradictory. At HVB, the systematic integration of ecological and social risks in the risk analysis takes place, among other things, as part of the reputational risk management process, as described in the Risk Report in the present Management's Discussion and Analysis.

Major projects like power plants or dams may have negative ecological and social consequences; this is primarily the case in emerging and developing countries that have inadequate environmental and social legislation in place. In our role as one of the major providers of finance in the world, back in 2003 HVB joined with ten other banks to draw up a global industry standard for loans with a volume in excess of $10 million – the Equator Principles (EP). In 2014, we implemented the new EP III standards that we helped to devise. They expand the body of rules for project finance to include project-related corporate loans, thus greatly increasing the level of coverage.

Corporate citizenship
HVB Group aims to bring economic success in line with ecological and social responsibilities. In part, this means that we work towards the public good at the various locations where we operate. Through our corporate citizenship activities, we give people opportunities to be involved in business and social life locally. We have geared our social activities to this objective and pooled them in our corporate citizenship strategy. Through our programmes, we aim to promote engagement and make it easier for people to participate in society. In terms of content, the corporate citizenship of HVB focuses on three areas:

- **Financial education:** financial knowledge, promotion of bank-related scientific research
- **Society:** social hardship, integration of handicapped people and immigrants, social business
- **Culture:** music, fine arts, promotion of talented youngsters

We address various groups of people with our diverse activities. Many of the initiatives and projects we support are geared to young or socially disadvantaged people. We cooperate with established institutions in our long-standing commitments. We maintain long-term partnerships, initiate beacon projects and support non-profit organisations with donations and sponsorships. In this context, our engagement goes well beyond mere financial aspects: we actively integrate our employees in initiatives, thus investing time and personal involvement for the people around us. When selecting the projects, we ensure that they are related to our business activities and are consistent with our values and our Mission Statement.

Climate protection begins at home
We make the greatest contribution to climate protection through our products and services. The place we want to start, though, is at home. To ensure ecologically responsible management of our banking operations and our buildings, we are striving to make efficient use of resources, turning to renewable energy sources and working hard to reduce carbon emissions. Since 2006, we have employed an environmental management system certified in accordance with the international ISO 14001 standard to systematically steer and enhance the environmental performance of our operations. Alongside our climate strategy, our focus is on green buildings, green offices, mobility, green events and good nutrition. This helps us to cut costs as well as reduce use of natural resources.

Our banking operations are 100% carbon-neutral. This notable corporate contribution to climate protection is the result of a long-standing, consistent improvement process. It stems from a strategic decision by management to view climate protection as an obligation under the terms of responsible corporate governance.

Outlook
Fostering a future-looking conversation regarding the key sustainability topics for HVB enjoys a high priority for us at present. We are connecting the discussion with the creation of a sustainability steering committee comprising representatives of all the business segments and the central departments. The goal is to push materiality in both the Bank's reporting and its sustainability management. Our focus in 2015 will be on adapting our sustainability activities to reflect the strategic orientation of the Bank, primarily with regard to the distribution of sustainable investments. For detailed information on our goals, our success in achieving them and our corporate social responsibility activities in general, see the material on our website or the annual HVB Sustainability Report at www.hvb.de/sustainability report.

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 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.

Together with its direktanlage.at AG subsidiary, DAB Bank AG (DAB Bank AG and direktanlage.at AG are together called DAB below) used to form the Asset Gathering business segment. After HVB sold its participating interest in DAB to the BNP Paribas Group during the 2014 financial year, this business segment was dissolved. HVB Group is now divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking (CIB)
– Other/consolidation

The income statements for each business segment and the comments on their economic performance are provided in Note 29, "Income statement, broken down by segment", in the present Annual Report. The tasks and objectives of each segment are described in detail in Note 28, "Notes to segment reporting by business segment".

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

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 contracting party (borrower, counterparty, issuer or country) induces a change in the value of the corresponding receivables. This change in value may be brought about by a worsening in the credit quality of the contracting party. The change in value may also be caused by the default of the contracting party, under which the contracting party is no longer in a position to meet its contractual obligations.

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

In line with the Capital Requirements Regulation (CRR), HVB Group defines **operational risk** as the risk of losses resulting from flawed internal processes, systems, human error or external events. This definition includes legal risk but not strategic risk or reputational risk. Legal risk includes, but is not limited to, the assertion of claims to damages under civil law, including settlements paid to private individuals, fines, penalties and other sanctions resulting from regulatory measures.

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 are not attributed to other risk types. It can lead to serious losses in earnings, thereby diminishing the fair 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. **Real estate risk** covers potential losses resulting from changes in the fair 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 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. **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, strategic risk or other primary risks. **Strategic risk** results from management being slow to recognise important developments and 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 or impossible to directly reverse. In the worst case, this may have a negative impact on the Bank's profitability and risk profile. **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 now built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk strategy. Implementation of the risk strategy is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation.

Risk Report (Continued)

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

Starting in 2014, a multi-year scenario has also been calculated for internal capital in accordance with the Minimum Requirements for Risk Management (MaRisk). This involves analysing the relevant risk types over an additional time horizon of five years and taking into account a deteriorating macroeconomic environment. The deteriorating macroeconomic environment entails two adverse scenarios. Whereas the first scenario starts from a delayed economic recovery in some EU countries, the second scenario assumes a conventional recession in Germany on account of falling demand for exports. Since the available financial resources are considered with the same assumptions, it is possible to make a statement about how the risk-taking capacity will evolve overall over five years, taking into account the macroeconomic scenarios.

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.

New releases and updates to instructions, policies and the risk strategy are communicated over the intranet. In 2014, the sales and marketing staff received comprehensive training on ICAAP via a web-based training programme (WBT).

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 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 and the Finance unit within the Chief Financial Officer (CFO) organisation for controlling liquidity risk. The operational risk managers in the individual business segments are responsible for controlling reputational risk and operational risk.

Business risk is defined as a negative, unexpected change in the volume of business and/or margins that cannot be attributed to credit, market or operational risk. Hence it results mainly from the planning of earnings and costs of the individual business segments, which the CFO organisation is responsible for coordinating. The relevant business segments are responsible for controlling the financial investments. The real estate risk arising from Group-owned property is controlled centrally by Global Banking Services (GBS). Within HVB Group, this is performed by the Real Estate (GRE) unit, HVB Immobilien AG and UniCredit Global Business Services GmbH (UGBS), which was engaged by HVB Immobilien AG by way of an operating contract. HVB Group has undertaken to provide a range of different pension plans which are largely financed by various investment vehicles, some of which are external. Under the capital investment process, there are separate rules covering the specific risk controlling of the different pension plans in each case. Some of these are subject to supervision by the German Federal Financial Supervisory Authority (BaFin) (insurers and pension funds) and therefore need to comply with external rules and regulations. Controlling of strategic risk is the shared responsibility of HVB's Management Board.

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 monitoring functions for the following risk types: market risk, liquidity risk (stress tests, calculation and monitoring of early warning indicators, calculation of the short-term concentration risk, evaluation of the funding plan), operational risk and reputational risk. In addition, the Market Risk unit also monitors the market risk component of pension risk at regular intervals using a separately developed model (aggregated view of the plan assets and liabilities). As part of the asset management of the plan assets, the options for risk positioning are limited by the external and internal regulations listed in the section entitled “Risk controlling”. Ongoing monitoring of the respective rules is performed in accordance with the specific policies of the various pension plans. With regard to the monitoring of liquidity risk, some tasks are performed by the Market Risk unit while further risk controlling functions for this risk type are the responsibility of the Finance unit within the CFO organisation (constant 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 with market risk and operational risk for the determination of the economic capital requirement. Monitoring of strategic risk is the shared responsibility of HVB’s Management Board.

The following are quantifiable risk types: credit risk, market risk, liquidity risk, operational risk, business risk, financial investment risk, real estate risk and pension risk. A qualitative approach is used to monitor strategic risk and reputational risk.

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.

Divisions and committees

Chief Risk Officer

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

The CRO organisation is divided into units that deal with lending business in the back office. The main functions of these units include:
- operational functions in the credit-decision and monitoring processes for the risk-relevant lending business, complete with monitoring of the issuer and counterparty limits
- data management for the restructuring and workout portfolio
- restructuring activities with a view to minimising potential losses for the Bank

At the same time, there are units that cover operational and strategic aspects of risk monitoring. Their main functions include:
- the development, enhancement, validation, parameterisation and calibration of the rating models used to determine the probability of our customer defaulting
- the development of concepts used to identify and control credit risk and concentrations, including country risk
- responsibility for and refinement of measurement methods and systems, management and measurement of market risk and operational risk
- responsibility for and management of reputational risk
- the determination of the internal capital and the economic capital base, and the performance of stress tests
- ensuring ICAAP compliance and compliance with the MaRisk rules as part of the responsibility for credit risk and economic capital
- ensuring compliance with regulatory rules regarding internal and external reports
- risk reporting

Risk Report (Continued)

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

Asset Liability Management
The Finance department controls Asset Liability Management by managing short-term and long-term liquidity within HVB Group. Its main objectives are to ensure that HVB Group has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and refinancing requirements. As part of liquidity risk management, for instance, it defines underlying conditions, limits and processes, specifies responsibilities and oversees funding activities together with the front office units. Within the framework of a liquidity cost allocation mechanism for all significant business activities, the internal transfer prices for the lending and deposit-taking activities are continually reviewed for appropriateness and regularly adjusted to reflect the market situation, for instance. The measures implemented in connection with these functions serve to support HVB Group's return targets.

Internal Audit
A number of important tasks regarding the implementation of an efficient risk management system have been entrusted to the Internal Audit department, as described in the section entitled "Responsibilities for the ICS in connection with financial reporting".

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

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

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

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

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

Reputational Risk Council

The Reputational Risk Council (RRC) takes decisions regarding potential reputational risk resulting essentially from business transactions. Starting in 2013, further potentially risk-bearing activities and transactions undertaken by the Bank will be submitted to the RRC for decisions, notably arising from:
– projects and outsourcing activities
– the development of new products and the exploitation of new markets
– special purpose entities

The full Management Board may be called in for particularly critical cases involving high reputational risk. The reputational crisis process is employed to deal with reputational events that have already occurred.

Loan Loss Provision Committee

The Loan Loss Provision Committee (LLPC) is kept informed about developments in HVB's watchlist- and restructuring/workout portfolio and takes decisions within HVB regarding:
– the submitted risk provision requests, where these lead to allowances in excess of €5 million resulting from the initial assessment or follow-up assessments entailing a material change in the risk assessment
– debt forgiveness in excess of a risk provision/forgiveness competence of €5 million
– internal impairments at HVB in excess of a competence value I of €250 million or greater than 5% of HVB's regulatory equity capital

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 subsidiaries, outsourcing and information and communications technology (ICT) are incorporated in both the risk strategy and the business strategy.

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 risk and market risk together with their controlling using the economic capital and limits, as well as operational risk, investment, real estate and business risk, which are only controlled using the economic capital. In addition, the strategic objectives for reputational risk, strategic risk, liquidity risk, 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 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 and the risk appetite defined by the Management Board. 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 and sustainability.

Risk Report (Continued)

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 risk strategies, 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, 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) and the Capital Requirements Directive IV (CRD IV) as the implementation of Basel III at European level for systemically important banks or groups of institutions have been satisfied for HVB Group at present. Furthermore, the expected return on investment is derived from the average used core capital.

Management of regulatory capital adequacy requirements

To plan our regulatory core capital taking account of regulatory requirements, we apply the three capital ratios listed below, 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 Common Equity Tier 1 capital 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, liquidity and leverage ratio of HVB Group" in Management's Discussion and Analysis in the present Annual 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 Solvency Regulation (Solvabilitätsverordnung – SolvV) and the Capital Requirements Regulation (CRR).

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 22.9% at the end of December 2014 (31 December 2013: 23.4%).

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), an undifferentiated 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%)

	2014		2013	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Credit risk	4,749	46.5	5,840	49.6
Market risk	2,038	20.0	2,134	18.1
Operational risk	1,711	16.8	1,894	16.1
Business risk	302	3.0	336	2.8
Real estate risk	346	3.4	371	3.2
Financial investment risk	304	3.0	517	4.4
Aggregated economic capital	**9,450**	**92.7**	**11,092**	**94.2**
Economic capital of small legal entities	93	0.9	63	0.5
Pension risk	657	6.4	619	5.3
Internal capital of HVB Group	**10,200**	**100.0**	**11,774**	**100.0**
Available financial resources of HVB Group	**19,284**		**20,401**	
Risk-taking capacity of HVB Group, in %	**189.1**		**173.3**	

The internal capital falls by €1.6 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, market risk and operational risk. The decline in internal capital for financial investment risk results from the completed reduction of the private equity portfolio. The individual changes are described in greater detail in the sections on the respective risk types below.

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

	2014		2013	
Broken down by business segment	**€ millions**	**in %**	**€ millions**	**in %**
Commercial Banking	2,186	22.9	2,185	19.6
Corporate & Investment Banking	5,834	61.1	6,757	60.6
Asset Gathering[2]	—	—	182	1.6
Other/consolidation	1,523	16.0	2,031	18.2
Aggregated economic capital of HVB Group	**9,543**	**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
2 business segment discontinued in the 2014 financial year

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 risk responsibility and positioning, regulatory requirements, profitability and risk, and controlling of specific risks. Thresholds and limits are defined for these ratios that allow risk to be identified and countermeasures 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.

Risk Report (Continued)

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 plan for HVB Group and submitted it to the German Federal Financial Supervisory Authority (BaFin) in December 2013. The recovery plan will now be updated at least once a year, taking into account the further development of the regulatory requirements. Consequently, an updated recovery plan was submitted to BaFin at the end of 2014.

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 €19.3 billion at 31 December 2014 (31 December 2013: €20.4 billion).

With internal capital of €10.2 billion, the risk-taking capacity is approximately 189.1% (year-end 2013: 173.3%). This figure is much higher than the target we have set for ourselves. The increase of 16 percentage points for HVB Group compared with 31 December 2013 can be attributed to the sharp decline of €1.6 billion, or 13.4%, in internal capital. This effect is greater than the slight decrease of €1.1 billion, or 5.5%, in the available financial resources in 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 the reduction of the comparison of impairment losses.

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 is included in the IC by means of a premium and the economic capital for small legal entities is also included in the IC.

This system of limits reflects the business and risk strategies, 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. After six months of the year, the limits are additionally checked to ensure for their adequacy and, if necessary, adjusted.

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

Various macroeconomic downturn scenarios and a historical scenario were calculated for the cross-risk-type stress tests in 2014:
– Contagion scenario – sovereign debt crisis becomes systemic and other countries are infected
– Grexit scenario – disorderly departure of Greece from the eurozone (This was calculated regularly up until the third quarter of 2014 before being replaced by a Central Eastern Europe Crisis scenario as of the fourth quarter of 2014 to reflect the conflict involving Russia. The Grexit scenario continues to be calculated as a special analysis in response to current developments.)
– Recession scenario – recession in Germany due to a massive decline in global demand
– Historical scenario – based on the 2009 financial crisis

The cross-risk-type stress tests were presented and analysed in the Stress Test Council (STC) on a quarterly basis and, where necessary, appropriate management measures were 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 Bank's risk structure and the interviews that are conducted regularly as part of the risk inventory. The hypothetical events analysed included fraud by a trader, rating downgrades, a bank run or default by the biggest customers. After being discussed by the STC, it was decided that further measures were not 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: expansion of the conflict in Syria, immediate interruption of energy and mining exports from Russia to the West, and an embargo on Russia.

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 regard to the connection of risk drivers across the risk types, such that concentration risk is integrated into the assessment and controlling.

The concentration of earnings in individual customers, 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 at HVB Group was started in March 2014. The overall risk profile of HVB Group was examined during the risk inventory. The existing and potential new risks were analysed and scrutinized by means of structured interviews with numerous decision-makers in the Bank, among other things. The larger subsidiaries adapted this approach as appropriate for their situation. A simplified procedure is used to determine the relevant risks for smaller subsidiaries. The results were presented to the RC of HVB in September 2014 and included in the calculation and planning of the risk-taking capacity following approval. No significant changes in the overall risk profile of HVB Group were identified compared with the previous year.

Risk Report (Continued)

Internal reporting system
The internal reporting system supports risk monitoring at portfolio level in particular. This involves providing information about the overall risk to the Management Board on a monthly basis and to the 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, countries or industries, to be communicated to the RC and the units involved with risk management, among others.

Risk types in detail

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

1 Credit risk

Definition
Credit risk is defined as the risk that a change in the credit rating of a contracting party (borrower, counterparty, issuer or country) induces a change in the value of the corresponding receivables. This change in value may be brought about by a worsening in the credit quality of the contracting party. The change in value may also be caused by the default of the contracting party, under which the contracting party is no longer in a position to meet its contractual obligations. Credit risk comprises the following risk types:
– credit default risk
– counterparty risk
– issuer risk
– country risk

Categories
Credit default risk
Credit default risk is defined as the potential loss arising from commercial lending operations. It is taken into account by recognising allowances for losses on loans and advances in the balance sheet whenever specific indicators of a default emerge (incurred loss). The methods used to set up net write-downs of loans and provisions for guarantees and commitments and the amounts involved are described in Notes 39, 52, 53 and 54 in our consolidated financial statements.

Counterparty risk
Counterparty risk is defined as the potential losses arising from the downgraded credit rating or default of a counterparty with whom we have engaged in derivative transactions involving interest rates, foreign exchange, equities/indices, or other futures or derivative transactions.

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

Issuer risk
Issuer risk is defined as credit risk in the securities holding resulting from the downgraded credit rating or default of an issuer. It relates notably to the purchase of securities for own account, securities issuance and placement transactions, and credit derivatives.

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

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

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

HVB Group's successful strategy in recent years of strictly limiting risk and managing the Bank in a risk-conscious manner was continued again in 2014. By selectively writing new business, employing active portfolio management and expanding its professional restructuring and workout capacity, HVB Group has evolved into a bank that has a lower than average risk profile for the industry. The goal in 2014 was to continue this trend and stabilise the overall portfolio at a sustainable level.

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

Active management of the exposure in the countries badly affected by the financial crisis also contributed to the positive development described. The strategy of HVB Group in its role as a universal bank was to concentrate on strong regional core markets like Switzerland, the UK, Belgium and France that have been less badly hit by the crisis alongside the domestic market of Germany. The markets in Spain, the Netherlands and Scandinavia are now served mainly by a different UniCredit bank, except for multinational customers who continue to be served by HVB Group. At the same time, the Markets unit in the CIB business segment will enter into credit risk and market risk subject to clearly defined standards in UniCredit's core countries as a result of the corporate function as UniCredit's investment bank.

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

The credit risk strategy defines limits for risk metrics and risk types for individual portfolios. These are allocated at the following level:
- HVB Group
- HVB
- business segments of HVB Group and HVB
- products and special portfolios (Leverage- and Project Finance (LP))

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

Risk Report (Continued)

In order to avoid concentrations of risk in credit default risk, counterparty risk and, in specific aspects, also issuer risk, the following concentration limits and, where appropriate, target portfolios are used for controlling purposes:
- single name concentrations
  The references unit for setting limits on single name concentrations are economic or legal borrower groups with an unsecured exposure of more than €50 million.
- industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB Group.
- concentration limits for countries and regions
  Exposures outside Germany are exposed to the risk of a sovereign default and hence possibly related problems in the financial system. The concentration limit restricts the credit risk of all borrowers in a given country. Every country and region has been assigned a limit that reflects the risk appetite and the strategic orientation (expand, reduce or maintain) of HVB Group.
- cross-border country risk limits
  Cross-border country risk (in all currencies) encompasses credit risk, counterparty risk (including settlement risk) and issuer risk in the trading and banking books. HVB Group has applied this expanded concept since mid-2014.

The utilisation of the individual limits is classified using a traffic light system:
- Green: limit utilisation is below a defined threshold
- Yellow: limit utilisation is below the limit but above the defined threshold
- Red: limit utilisation is above the limit

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

Credit risk reduction

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

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

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

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

Measurement

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

Probability of default (PD)

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

The PDs determined on the basis of the rating and scoring methods lead to classification to a rating class in a ten-point scale. The rating classes 1 to 7 are set aside for performing loans and the rating classes 8 to 10 for non-performing loans, with the rating classes 8–, 9 and 10 representing default classes.

HVB master scale with PD bandwidths

HVB rating class	Average PD	Lower PD bandwidth	Upper PD bandwidth
1	0.03%	0.001%	0.048%
2	0.08%	0.048%	0.121%
3	0.19%	0.121%	0.306%
4	0.49%	0.306%	0.775%
5	1.23%	0.775%	1.961%
6	3.12%	1.961%	4.965%
7	7.90%	4.965%	12.570%
8	20.00%	12.570%	99.999%
8–/9/10	100.00%	100.000%	

Loss given default (LGD)
The LGD indicates what proportion of the underlying portfolio of receivables would almost certainly be lost in the event of a default. The expected proceeds from the collateral used to reduce credit default risk have a major influence on the amount of the LGD. At the same time, the amount of the LGD is determined by borrower-related criteria. The reliable determination of our customers' LGD is critical for credit decisions, pricing, core capital backing under Basel III (A-IRB model) and our internal counterparty risk model. Consequently, the refinement and annual validation of our LGD estimation methodology is a high priority for us.

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

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

In terms of counterparty risk, a simulation method is used to determine future exposure figures for the pre-settlement risk within the scope of the internal model. The default conditional metric used in the internal model to determine the future exposures makes it possible among other things to incorporate the correlation effects between market and credit risk, and notably the specific wrong-way risk. The simulation is carried out for up to 50 future dates on the basis of 3,000 market data scenarios for each calculation date.

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

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

Unexpected loss (credit value-at-risk, credit VaR)
The economic capital measures the amount of capital required to cover the unexpected loss beyond the EL which, with a probability of 99.93%, will not be exceeded over the next 12 months. This potential loss provides a figure that makes the risk inherent in the various sub-portfolios transparent. It is also used in pricing and the Bank's profitability calculations.

Risk Report (Continued)

Internal credit risk model
A standard credit portfolio model is used within UniCredit to measure credit risk, by means of which the credit default risk and counterparty risk of the Bank as a whole is measured together with the issuer risk in the banking book of HVB Group. The model reflects the specific characteristics of the HVB Group portfolio and is validated by HVB Group in conjunction with UniCredit. At present, the Group portfolio model determines the unexpected loss on account of credit default risk. In addition, the risk arising from value fluctuations on account of rating changes (migration risk) is measured using a local migration risk model based on a discounted cash flow approach. It should be noted that, in contrast to last year, the maturity-dependent, regulatory premium factors in accordance with Basel III were applied at year-end 2013. Accordingly, the complete migration risk model that has been introduced represents an improvement in that the migration risk can now be quantified precisely for each portfolio using the cash flow data instead of residual maturities. Country risk is integrated using appropriate PD premiums. Risk-reducing factors are incorporated by reducing the LGDs, the PDs and correlations at individual transaction level. The credit portfolio model follows a net asset value approach and the correlations between the borrowers are reflected in a specific multi-factor model. The parameters PD, LGD, EaD and cash flows are used as business-specific inputs.

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

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

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

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

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

Quantification and specification
The economic capital for credit risk at HVB Group, without taking account of diversification effects between the risk types, amounts to €4.8 billion, which is €1.0 billion lower than the total at 31 December 2013 (€5.8 billion). The reduction can be attributed mainly to the introduction of the new migration risk model and declining risk developments. In particular, the exposure to UniCredit declined by €1.5 billion over the course of the year. The economic capital also decreased sharply as a result of the reduced concentrations of individual counterparties.

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 business segment. These are excluded from the analysis because the portfolio, which has already been reduced considerably in recent years to €0.5 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.

Development of metrics by business segment (€ millions)

	EXPECTED LOSS[1]		ECONOMIC CAPITAL[2]	
	2014	2013	2014	2013
Commercial Banking	166	191	1,024	998
Corporate & Investment Banking	243	269	2,997	3,594
Asset Gathering[3]	—	1	—	36
Other/consolidation	35	36	795	1,291
HVB Group	**444**	**497**	**4,816**	**5,919**

1 expected loss of the performing exposure
2 without taking account of diversification effects
3 business segment discontinued in the 2014 financial year

The expected loss of HVB Group fell by €53 million in 2014. This development can be attributed mainly to an improvement in the portfolio structure resulting from both the reduction in the credit risk exposure and improved ratings for various customers.

Breakdown of credit risk exposure[1] by business segment and risk category (€ billions)

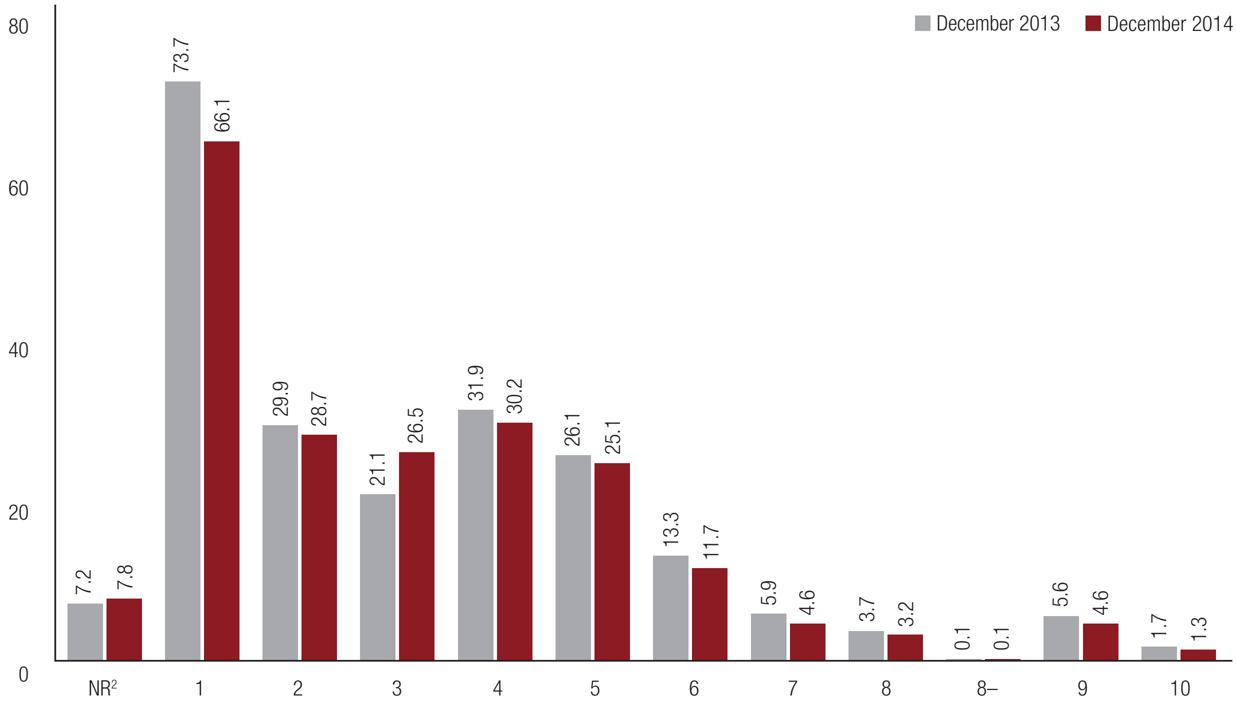
Breakdown of exposure by business segment	CREDIT DEFAULT RISK		COUNTERPARTY RISK		ISSUER RISK IN TRADING BOOK		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
Commercial Banking	88.9	88.9	2.0	1.8	0.1	0.2	91.0	90.8
Corporate & Investment Banking	52.2	61.0	18.4	16.3	42.5	42.9	113.1	120.2
Asset Gathering[2]	—	1.1	—	0	—	2.5	—	3.6
Other/consolidation	1.8	1.7	0	0	4.0	3.9	5.8	5.6
HVB Group	**142.9**	**152.6**	**20.4**	**18.2**	**46.6**	**49.5**	**209.9**	**220.2**

1 total of non-performing and performing exposure
2 business segment discontinued in the 2014 financial year

The total exposure of HVB Group declined by €10.3 billion. In particular, the CIB business segment recorded a fall of €7.1 billion in its exposure. The main reason for this is a reduction in the liquidity placed with Deutsche Bundesbank and other financial institutions.

Risk Report (Continued)

Breakdown of credit risk exposure[1] by rating class at partner level (€ billions)



1 total of non-performing and performing exposure
2 not rated (of which €6.1 billion at 31 December 2014 with a rating at transaction level (31 December 2013: €4.0 billion))

The HVB Group rating structure changed during the year 2014 mainly on account of a reduction in the liquidity placed with Deutsche Bundesbank and other financial institutions (rating classes 1 and 2). The sale of DAB also had an impact in these rating classes in particular.

The increase in rating class 3 can be attributed to the build-up of exposure in Spain, among other things.

Development of metrics by industry group

Industry group	EXPOSURE[1] € billions		EXPECTED LOSS[2] € millions		RISK DENSITY in BPS[3]	
	2014	2013	2014	2013	2014	2013
Banks, insurance companies	46.7	53.7	41	39	9	7
Public sector	36.8	38.0	2	6	1	2
Real estate	22.9	22.9	26	31	12	14
Energy	10.0	10.4	19	25	20	24
Special products	9.6	9.8	67	64	72	68
Chemicals, pharmaceuticals, health	9.2	9.3	17	19	19	22
Machinery, metals	8.4	7.9	27	27	34	37
Automotive industry	5.7	5.2	8	9	14	18
Shipping	5.5	5.9	87	104	214	221
Consumer goods	5.2	5.5	8	12	16	22
Transport, travel	4.8	4.5	15	16	35	39
Services	4.7	5.0	20	21	43	44
Construction, wood	4.6	5.5	11	15	25	34
Food, beverages	4.5	4.4	7	10	16	22
Telecoms, IT	3.1	3.0	6	8	19	27
Electronics	2.3	1.8	2	2	10	13
Agriculture, forestry	2.2	2.0	4	5	20	25
Media, paper	2.0	2.2	4	7	25	36
Tourism	1.5	1.4	10	7	64	51
Textile industry	1.3	1.4	4	5	29	42
Retail	18.9	20.4	59	65	32	32
HVB Group	**209.9**	**220.2**	**444**	**497**	**22**	**23**

1 total of non-performing and performing exposure
2 expected loss of the performing exposure
3 RD as expected loss as a proportion of performing exposure in 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 €7.0 billion in 2014 as a result of a further reduction in the liquidity placed with Deutsche Bundesbank and other financial institutions. In addition, the sale of DAB had an impact here. The €2 million increase in the expected loss is mainly attributable to downgraded ratings and/or increased exposures to individual customers. The risk density rose accordingly.

The public sector industry group recorded a €1.2 billion decline in exposure in 2014 as a result of reductions in individual German states and public-sector banks within the scope of the usual trading and business activities. The decrease in the expected loss can essentially be attributed to improvements in the ratings of individual counterparties.

The expected loss in the special products industry group rose by €3 million, mainly on account of an adjustment to the calculation method. The risk density similarly increased accordingly.

Risk Report (Continued)

The strategy of reduction in the shipping industry group continued to be implemented in 2014. Most of the loans are extended in US dollars. As a result of the development of the US dollar exchange rate, the reduction in the exposure denominated in euros is actually smaller than in the currency of the loans. The decline in the expected loss in this sub-portfolio 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 tailed off. This is also confirmed by the stress tests carried out by the European Central Bank (ECB).

HVB Group has deployed a monitoring tool known as the "Radar screen for financial institutions/banks" in order to be in a position to promptly identify and counter negative developments in the banking sector. Should bank downgrades be noted, measures will be taken to reduce the risk arising from the exposure to banks. A stabilisation of the banks in terms of rating development and instability was observed in 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.

The provision of liquidity to banks is now largely resolved. As a result of ECB policies, negative interest rates for deposits may be imposed in individual cases in the industry.

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 HVB Group) on account of the strategic positioning 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

The public sector industry group contains private enterprises with public-sector owners as well as state entities. As the German states in particular and the development banks enjoying their full liability represent important counterparties for internal liquidity management, the vast majority of the exposure is caused by our own liquidity investments. The exposure remains comfortably within the industry limits defined for this segment.

Real estate

The real estate market in Germany proved very stable in 2014 thanks to historically low long-term interest rates coupled with a stable labour market and persistently strong demand for residential property, especially in major conurbations. The change in investment patterns seen during the financial crisis led to large shifts of assets into real estate.

Deteriorating economic prospects could, however, have an increasingly negative effect starting in 2015, particularly on the commercial side. At the same time, the residential property market is showing indications of cooling following the signs of overheating in the core markets (including Berlin, Munich and Hamburg), especially in the case of high-price properties.

Partly as a result of the conservative, forward-looking credit risk strategy for the real estate sector that has been applied for years, the portfolio of existing properties was again robust in 2014 and relatively low-risk compared with the competition (measured by risk density). No risk concentrations exist with regard to individual exposures or the security provided.

All in all, the real estate portfolio is expected to grow in line with expected economic growth, taking into account the proven financing parameters. The financing business is restricted to Germany.

Special products

The special products portfolio stabilised at the year-ago level in 2014, with reductions mainly in the non-strategic portion of the portfolio being offset by new business. This served to enhance the quality of the portfolio.

A strategy of growth in clearly defined asset classes with conservative credit standards was defined for sub-segments of the special products portfolio under the 2014 risk strategy. However, it proved impossible to realise this growth in full in all sub-segments on account of the difficult market environment (including the competitive situation and downward pressure on margins). We are retaining the existing growth strategy for 2015.

Shipping

The industry was again shaped by the structural weakness of the shipping market in 2014, which continues to hinder a fast, sustained recovery in freight rates in many segments. At the same time, these have stabilised of late in some sub-markets, such as oil tankers, while coming under great pressure in other segments, such as bulk carriers.

After the prices on the market for new ships and the secondary market that had fallen sharply during the course of the ongoing crisis finally started to stabilise at a low level, prices demonstrated differing trends – similar to the development of freight rates. While the tanker segment saw prices beginning to rise tangibly, the figures for bulk carriers fell sharply in the second half of the year.

HVB Group continues to apply a conservative strategy in its ship financing activities. The focus remains on managing the risk in the existing portfolio. HVB Group is confident of being able to further reduce the existing portfolio in the shipping industry in 2015 as planned, while also selectively writing new business where this would help to enhance the quality of the portfolio. HVB Group focuses on market segments and participants that proved to be robust during the past shipping crisis and for which the market can be expected to perform sustainably well going forward.

Global acquisition finance in the core markets of HVB Group

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

The HVB Group portfolio for acquisition finance again contracted in 2014 year-on-year. New transactions failed to fully offset the reduction caused by scheduled and early repayments. All in all, the portfolio benefited from improved ratings, especially in large exposures, meaning that an improvement in the quality of the portfolio was achieved (measured by risk density) despite a difficult market environment. Concentration risk management was stepped up in 2014 and notable successes were achieved. In accordance with the strategy, no new business was written in Greece or Portugal.

In new acquisition finance business, HVB Group continues to concentrate on consortium-leader mandates. The goal here is to consolidate the leading market position in Germany and increase market shares in the UK, France, the Benelux and Scandinavia.

Special focus facilities

The HVB Group portfolio includes exposures relating to the completion of an offshore wind farm (Ocean Breeze). 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 completed in August 2013. This enabled the transfer of the facility from the general contractor to the company Ocean Breeze to be included at year-end 2013 as planned. 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 offshore wind farm in the world. Given the scope of the project, some rectification work needs to be done after the handover, as is often the case with major projects.

Risk Report (Continued)

It may well take several years to finish optimising the facilities, as certain work can only be carried out in periods of light winds (in the summer, for instance).

Based on the performance parameters of the wind farm, it can be assumed that the cash flow forecast to be generated by regular operation will be enough to ensure that the debt level will be reduced over a period that is usual for the industry.

Specialists have been looking for the technical cause of the problems connecting the wind farm to the grid for months. This seems to involve a previously unknown phenomenon leading to overvoltages that then result in the grid failing. Opinions show that Ocean Breeze has a case to demand payment of damages under Section 17 of the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG). Only in the event of negligence on the part of Ocean Breeze would the claim be nullified. There are no indications whatsoever of negligence on the part of Ocean Breeze. The grid operator is actually already paying damages for the power failure from 23 March to 23 September 2014. The wind farm has been in controlled test operation since then. It is ensured that the debt can be serviced out of the cash flow expected from this operation.

Exposure development of countries/regions by risk category
The following tables show the concentration risk at country level (except for Germany). In contrast to last year, starting in 2014 the exposure figures are shown with regard to the risk country of the partner (instead of the country of the registered office in 2013). The exposure figures for 31 December 2013 were calculated retrospectively in accordance with the new methodology. The change has 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 development[1] of eurozone countries[2], 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
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Italy	2,397	3,111	3,650	2,643	5,098	4,856	1,630	2,402	12,775	13,012	2,887
Luxembourg	5,274	5,413	1,592	1,152	3,771	3,816	1,170	852	11,807	11,233	20
France	3,281	3,004	821	1,218	1,902	1,773	829	1,173	6,833	7,168	686
Netherlands	2,679	3,022	300	271	1,359	1,353	341	264	4,679	4,910	392
Spain	767	1,136	63	65	2,904	1,575	240	293	3,974	3,069	1,475
Austria	1,388	2,592	149	252	837	1,044	459	586	2,833	4,474	534
Ireland	1,808	1,019	261	138	325	481	183	161	2,577	1,799	—
Belgium	131	55	298	50	51	60	183	173	663	338	—
Greece	316	368	85	64	—	—	0	2	401	434	2
Finland	71	113	31	23	—	12	154	88	256	236	15
Malta	153	144	2	3	—	—	10	1	165	148	—
Slovenia	49	47	67	67	—	—	9	1	125	115	4
Portugal	44	61	32	43	32	35	14	50	122	189	12
Cyprus	112	126	2	2	—	—	0	0	114	128	—
Latvia	17	—	—	—	—	—	0	—	17	—	0
Slovakia	1	0	8	41	—	—	8	17	17	58	8
Estonia	2	6	—	—	—	—	4	—	6	6	—
HVB Group	**18,490**	**20,217**	**7,361**	**6,032**	**16,279**	**15,005**	**5,234**	**6,063**	**47,364**	**47,317**	**6,035**

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

The exposure developed within the scope of the risk strategy defined for 2014. The Bank will continue to apply its conservative strategy, with the possibility of writing selective new business. This principle remains valid against the backdrop of signs of the economy cooling and the associated sharp corrections that have been made to the economic forecasts for the eurozone.

Italy

The relatively large portfolio results from HVB Group's role as group-wide centre of competence for the markets and investment banking business of UniCredit. This portfolio is also being actively managed in accordance with market standards (such as secured derivatives activities). The exposure to Italy includes the exposure with UniCredit S.p.A., for which a separate strategy was defined (see also the comments above regarding the banks, insurance companies industry group).

Luxembourg

The exposure in Luxembourg increased by €574 million, due among other things to investments in bonds under the European Stability Mechanism (ESM). The absolute amount of the exposure is attributable mainly to the subsidiary in Luxembourg, where some German corporate banking transactions are also booked.

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. Spain in particular should be highlighted in this regard. The portfolio in the weaker eurozone countries was again actively managed in 2014, albeit with different strategies.

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 new business 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 HVB Group is under no compulsion to act.

Selective new business will be possible for Greece if key accounts of the Bank wish to invest there and the Bank can add value for the customer and the Bank with its global product expertise.

Exposure development[1] by region/country outside the eurozone[2]

(€ millions)

	TOTAL		OF WHICH ISSUER RISK IN TRADING BOOK	
Region/country	**2014**	**2013**	**2014**	**2013**
UK	11,636	10,924	633	563
USA	7,172	8,108	214	232
Asia/Oceania	4,624	5,205	22	75
Switzerland	3,186	3,066	298	319
Turkey	2,483	1,923	57	31
Russia	2,014	1,881	36	85
Western Europe (without Switzerland, UK)	1,820	1,949	346	314
North America (including offshore jurisdictions, without USA)	1,326	1,474	69	75
Eastern Europe	1,075	1,133	281	238
Middle East/North Africa	916	1,062	8	16
Southern Africa	684	779	13	24
Central and South America	356	415	12	45
Central Asia (without Russia, Turkey)	92	115	—	7
HVB Group	**37,384**	**38,034**	**1,989**	**2,024**

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

Risk Report (Continued)

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 led to stronger EU and US sanctions with an impact on cross-border business involving Russia. The country concentration limit for Russia has been greatly reduced and new business is only written after each individual case has been analysed, provided compliance with all sanctions and customer interests.

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

Derivative transactions

Alongside the goal of generating profits as part of HVB's proprietary trading activities, derivatives are used to manage market price risk (in particular, risk arising from interest-rate fluctuations and currency fluctuations) arising from trading activities, and also serve to provide cover for on- and off-balance-sheet items within asset/liability management. Besides market risk, derivatives 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 credit 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 31 December 2014 totalled €103.2 billion (31 December 2013: €78.9 billion).

The regulatory provisions under Basel III and the Capital Requirements Directive IV(CRD IV)/Capital Requirements Regulation (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 €6.2 billion at 31 December 2014 (31 December 2013, in accordance with Basel II and the German Solvency Regulation 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 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	2014	2013	2014	2013	2014	2013
Interest rate derivatives	**834,364**	**872,340**	**858,381**	**2,565,085**	**2,759,783**	**88,708**	**67,897**	**85,213**	**65,586**
OTC products									
Forward rate agreements	122,343	1,824	—	124,167	119,311	13	8	8	10
Interest rate swaps	578,258	792,893	687,118	2,058,269	2,211,966	83,040	63,754	77,411	60,597
Interest rate options									
– purchased	29,359	34,613	86,075	150,047	174,315	4,959	3,756	496	236
– written	23,418	30,393	82,873	136,684	159,696	692	343	7,295	4,711
Other interest rate derivatives	2,916	—	—	2,916	12,829	3	36	2	31
Exchange-traded products									
Interest rate futures	24,461	12,506	926	37,893	55,998	—	—	1	1
Interest rate options	53,609	111	1,389	55,109	25,668	1	—	—	—
Foreign exchange derivatives	**208,037**	**21,417**	**796**	**230,250**	**184,712**	**4,716**	**2,588**	**5,070**	**2,582**
OTC products									
Foreign exchange forwards	183,782	17,367	776	201,925	158,933	4,284	2,214	4,618	2,162
Foreign exchange options									
– purchased	12,282	2,166	19	14,467	12,973	348	269	101	122
– written	11,963	1,884	1	13,848	12,773	84	105	351	298
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	10	—	—	10	33	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**57,656**	**119,183**	**74,695**	**251,534**	**243,078**	**5,911**	**3,910**	**6,869**	**4,295**
Equity/index derivatives	**92,671**	**40,777**	**24,496**	**157,944**	**142,194**	**2,271**	**3,228**	**2,891**	**3,376**
OTC products									
Equity/index swaps	3,548	5,825	452	9,825	11,667	219	220	217	225
Equity/index options									
– purchased	13,710	6,042	488	20,240	12,781	515	919	169	109
– written	54,768	13,836	22,859	91,463	78,713	30	36	897	1,745
Other equity/index derivatives	2,330	2	—	2,332	8,101	136	678	2	2
Exchange-traded products									
Equity/index futures	5,797	28	—	5,825	6,691	12	8	11	31
Equity/index options	12,518	15,044	697	28,259	24,241	1,359	1,367	1,595	1,264
Credit derivatives[1]	**20,771**	**69,026**	**2,706**	**92,503**	**110,648**	**1,823**	**1,072**	**1,533**	**1,079**
Other transactions	**4,506**	**2,868**	**793**	**8,167**	**7,159**	**365**	**228**	**319**	**272**
HVB Group	**1,218,005**	**1,125,611**	**961,867**	**3,305,483**	**3,447,574**	**103,794**	**78,923**	**101,895**	**77,190**

1 For details of credit derivatives, please see the tables "Credit derivatives" and "Credit derivatives by reference asset" below.

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €595,424 million at 31 December 2014 (thereof credit derivatives: €3,864 million).

Risk Report (Continued)

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2014	2013	2014	2013
Central governments and central banks	5,838	3,800	2,027	1,710
Banks	64,752	51,026	66,040	50,864
Financial institutions	30,133	21,773	31,787	23,175
Other companies and private individuals	3,071	2,324	2,041	1,441
HVB Group	**103,794**	**78,923**	**101,895**	**77,190**

Credit derivatives

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL		POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2014	2013	2014	2013	2014	2013
Banking book	**104**	**386**	**—**	**490**	**434**	**—**	**1**	**10**	**9**
Protection buyer									
Credit default swaps	104	286	—	390	334	—	1	9	7
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	—	100	—	100	100	—	—	1	2
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Trading book	**20,667**	**68,640**	**2,706**	**92,013**	**110,214**	**1,823**	**1,071**	**1,523**	**1,070**
Protection buyer									
Credit default swaps	10,330	30,294	374	40,998	53,207	522	304	648	700
Total return swaps	—	—	—	—	26	—	3	—	—
Credit-linked notes	263	3,988	1,054	5,305	2,315	126	51	278	27
Protection seller									
Credit default swaps	9,863	31,683	565	42,111	54,149	696	702	526	335
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	211	2,675	713	3,599	517	479	11	71	8
HVB Group	**20,771**	**69,026**	**2,706**	**92,503**	**110,648**	**1,823**	**1,072**	**1,533**	**1,079**

Credit derivatives by reference asset

(€ millions)

	NOMINAL AMOUNT				
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	TOTAL 2014	TOTAL 2013
Public sector bonds	42,254	—	589	42,843	42,601
Corporate bonds	36,701	—	6,127	42,828	62,130
Equities	—	—	—	—	—
Other assets	4,643	—	2,189	6,832	5,917
HVB Group	**83,598**	**—**	**8,905**	**92,503**	**110,648**

Single-name credit derivatives make up 53.7% of the total; multi-name credit derivatives, relating to baskets or indices, account for a share of 46.3%.

Stress tests
By carrying out stress tests in the credit portfolio, the credit risk managers obtain information about the possible consequences of a deterioration in the underlying economic conditions in addition to the monthly analysis of the real portfolio development. The focus here is on the risk metrics of risk-weighted assets (RWA), expected loss and economic capital, and changes in the portfolio quality. Concentration stress tests, ad hoc stress tests and inverse stress tests are carried out alongside the stress tests based on macroeconomic scenarios (results of which are included in the cross-risk-type stress analysis).

Summary and outlook
The Bank has put a strong focus on growth with simultaneous risk control in its business strategy. It is still the goal to retain a low-risk credit portfolio within the relevant peer group. This goal is measured using the risk density. The current risk density of 22 BPS is well below the long-term target which also takes account of macroeconomic downturn scenarios and forms part of the long-term plan.

The very good quality of the credit portfolio was confirmed by the ECB's comprehensive assessment.

The Bank views the risk culture firmly anchored in HVB Group and the quality of its staff as key success factors for the future. Future-looking strategic decisions have been implemented promptly, meaning that no fundamental measures will need to be taken, despite the difficult market environment, which will remain the case in the medium term.

Closer attention will need to be paid to country risk in particular in 2015 as a result of the downgraded economic forecasts and the increasingly worrying international hotspots.

2 Market risk

Definition
We define market risk as the potential loss arising from 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 (specific price risk for interest net positions).

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

Foreign currency risk arises from fluctuations in exchange rates.

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

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

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

Strategy
Our market risk is essentially managed by the CIB business segment and to a lesser extent by our subsidiaries. As was already the case in previous years, the focus in 2014 was again on concentrating on customer transactions. Trading in equity derivatives was successfully extended to branch-based business in Italy and iron ore, among other things, added to our commodity trading operations. Activities involving reverse repos were expanded under a joint initiative of the Integrated Credit Trading, Central Eastern Europe and Treasury business lines. Also expanded were the liquidity reserves and the lending business in eastern Europe. The global concentration of FX trading was progressed and the product range simultaneously enlarged to include Latin American and Asian currencies and further automated. On the other hand, legacy holdings in credit trading and investment in private equity and hedge funds were reduced. Around one-fifth of our market risk is located in the trading book and is widely spread across various trading units. Market risk outside of the trading book is concentrated in legacy holdings of bonds and in the Treasury business. These activities are included in the limit system as part of market risk management.

Risk Report (Continued)

Limit system

All transactions exposed to market risk in the trading and banking books of HVB Group are aggregated every day to form a total value-at-risk (VaR) and set against the risk limits. The Management Board of HVB approves and, if necessary, adjusts the risk limits every year. Limits are defined for trading books by using VaR limits, whereas limits are set for the combination of trading and banking books by VaR warning levels. Both groups of limits are equally binding and compliance is equally enforceable. The trading book limit for HVB Group was reduced from €43 million to €40 million at the beginning of 2014 when the risk strategy was adopted. The VaR warning level to restrict all market risks remained at €120 million for HVB Group in 2014 and €90 million for the CIB business segment.

In addition to the market risk under the responsibility of the trading units, market risk also arises from positions that are allocated directly to the full Management Board. The VaR warning level used for such positions was not changed and remained at €40 million in 2014.

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

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

Measurement

The 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).

HVB Group has defined several further market risk metrics under the current CRR rules for risk management as well as 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 (specific 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 securitizations and Nth-to-default credit derivatives 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 fair 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. For the regulatory report, 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%.

Monitoring and controlling

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

The VaR figures are reported daily along with the limit utilisation and the earnings figures (P/L figures) to the Management Board and the responsible persons in the CIB business segment. Whenever trading book limits or VaR warning levels are exceeded, an escalation process is triggered immediately and the reduction of the positions in question monitored. In 2014, such reduction was, with a few exceptions, carried out within one day. If the specified limit was exceeded on the following day as well, the escalation process was again initiated immediately.

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

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

To calculate and allocate the economic capital requirements for market risk, the hypothetical distribution used to determine the VaR has been expanded to an observation period of (at least) six years and combined with the results arising from the CVA risk. Unlike in internal risk controlling, any hedge effect of the model book for equity is not included in the economic capital. In addition, market risk arising from the IRC, the market risk Standard Approach and an ABS add-on is also taken into account. All risks are scaled accordingly to obtain a confidence level of 99.93% and a holding period of one year.

The regulatory capital requirement for market risk amounts to 8% of risk-weighted assets (RWA). This encompasses the VaR and stressed VaR for a 10-day holding period together with the incremental risk charge and the market risk Standard Approach. The CVA risk has been included since 2014. When calculating the capital requirement, the individual risk metrics are aggregated by regulatory averages, maximum calculation and scaling.

Simulation of interest income

In addition, a dynamic simulation of interest income in the banking book is carried out for HVB on a quarterly basis. The future development of the net interest income is simulated under various scenarios regarding the development of interest rates. Model assumptions are incorporated in the analysis. This relates notably to products with unknown and/or undefined capital used and included options. The interest rate risk inherent in these product types in the banking book is measured on the basis of assumptions and analyses of customer behaviour in lending and deposit-taking together with forecasts of the development of future market rates.

One scenario calls for a parallel interest shock of minus 100 basis points. Assuming that the excesses over the 3-month Euribor close within the next 12 months, this would serve to reduce net interest income by €33 million (31 December 2013, minus 100 basis points: plus €10 million), whereas a parallel interest shock of plus 100 basis points would increase net interest income for the same period by €156 million (31 December 2013, plus 100 basis points: minus €19 million).

The resulting sensitivity analysis is carried out on the basis of the planned net interest income for the coming financial year.

The very different results from the previous year can essentially be explained by the refinement of the determination methodology as well as the changed market conditions and the persistently low interest rates.

Quantification and specification

The economic capital for the market risk of HVB Group, without taking account of diversification effects between the risk types, amounts to €2.6 billion, down by €0.1 billion on the figure at 31 December 2013 (€2.7 billion). In this context, the reducing effect caused by the omission of DAB was almost completely offset by a slight increase in economic capital at HVB.

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 book activities of HVB Group (VaR, 99% confidence level, one-day holding period) **(€ millions)**

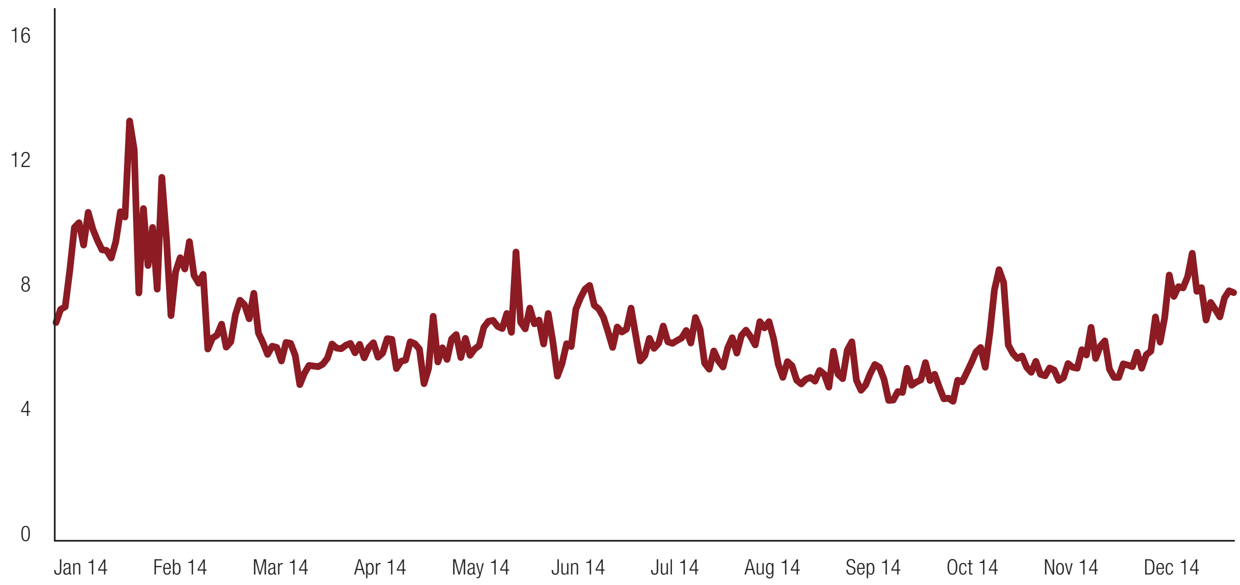
	AVERAGE 2014[1]	31/12/2014	30/9/2014	30/6/2014	31/3/2014	31/12/2013
Credit spread risks	6	7	6	6	5	9
Interest rate positions	5	5	3	6	5	5
Foreign exchange derivatives	1	1	1	1	1	1
Equity/index positions[2]	2	2	2	1	2	2
HVB Group[3]	**6**	**8**	**5**	**6**	**6**	**9**

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

Risk Report (Continued)

The decline in risk in the first quarter of 2014 is mainly attributable to lower credit spread risk, caused primarily by reduced bond positions and a modified position in iTraxx indices. The risk was also reduced by two historical scenarios that were still included in the VaR calculation at year-end 2013 falling out of calculation for the observation period. The rise in risk in the fourth quarter is explained by larger positions in credit-linked notes and iTraxx indices, among other things. The change was also caused by two new historical scenarios that are now part of the observation period.

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



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

The regulatory capital requirements for the last year are described below, broken down by the relevant risk metrics.

Regulatory metrics of HVB Group

(€ millions)

	31/12/2014	30/9/2014	30/6/2014	31/3/2014	31/12/2013
Value-at-risk	74	68	76	95	100
Stressed value-at-risk	344	384	225	306	346
Incremental risk charge	288	258	266	230	288
Market risk Standard Approach	4	3	4	7	4
CVA value-at-risk	63	64	82	97	—
Stressed CVA value-at-risk	189	184	192	185	—
CVA Standard Approach	65	30	30	30	—

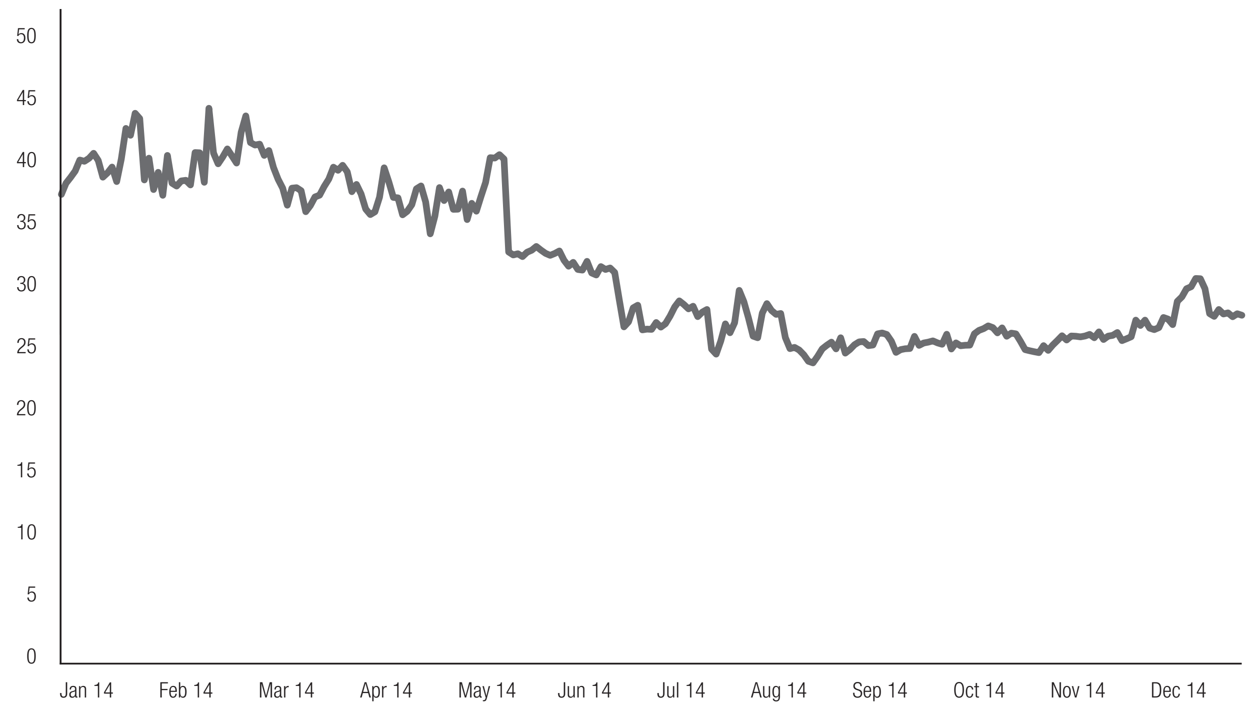
Alongside the market risk arising that is relevant for regulatory reporting, further market risk arises from positions in the banking book. All transactions exposed to market risk in the trading and banking books of HVB Group are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB business segment at HVB Group.

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

	AVERAGE 2014[1]	31/12/2014	30/9/2014	30/6/2014	31/3/2014	31/12/2013
Credit spread risks	27	28	28	24	28	33
Interest rate positions	9	6	7	7	15	11
Foreign exchange derivatives	2	2	2	1	1	4
Equity/index positions[2]	2	2	2	2	3	3
HVB Group[3]	**30**	**28**	**26**	**26**	**39**	**39**

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

Development of value-at-risk at HVB Group (€ millions)

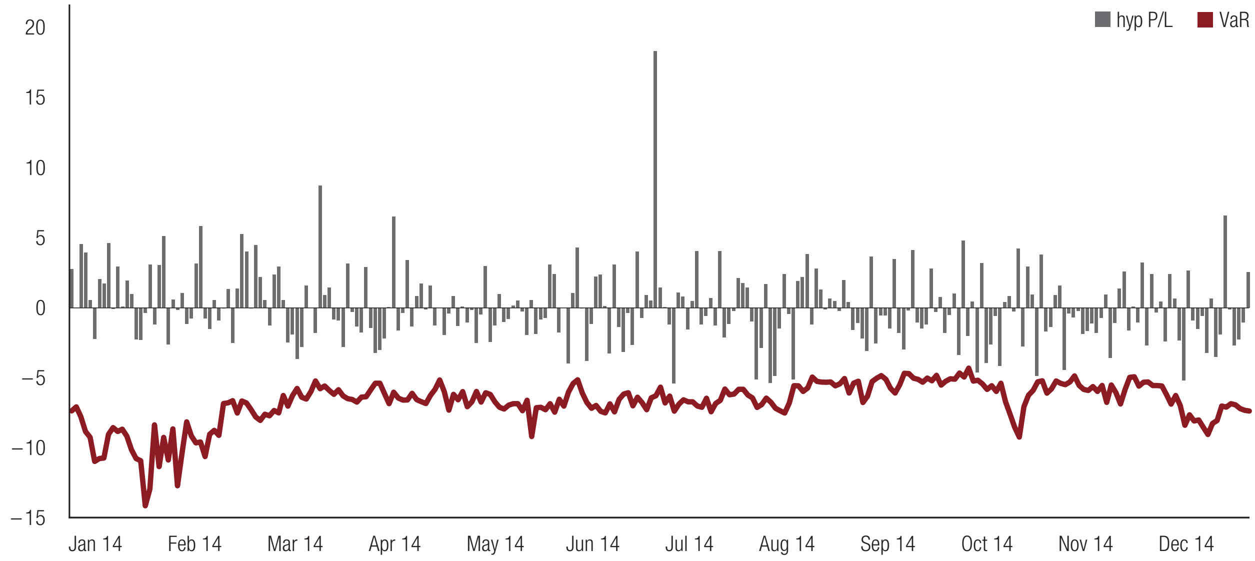


Risk Report (Continued)

The chart entitled "Development of value-at-risk at HVB Group" shows the VaR curve for all market price risk arising from trading and banking book positions and for the market price risk assigned directly to the Management Board. The market risk of the subsidiaries was integrated into HVB's internal model in May 2014 for the purposes of internal risk controlling. The VaR of HVB Group declined by around €7 million on account of the risk diversification this change yielded and the changed methodology.

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 fair 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 2014 (see chart "Regulatory back-testing of the internal model at HVB, 2014").

Regulatory back-testing of the internal model at HVB, 2014 (€ millions)



Starting in 2012, we have used a back-test based on the economic P/L ("dirty P/L") to validate the model alongside the back-test using the hypothetical value change ("hyp P/L"). There were six overshoots in 2014 caused by monthly P/L adjustments (mainly CVA). The statement about the quality of the model is not affected by these special cases.

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

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 under "Measurement" and "Monitoring and controlling" above. An appropriate stress test is used for quantification purposes.

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

In the course of stress tests, the risk from deteriorating market liquidity is analysed. In this regard, analysis is carried out to determine the amount of losses that would result from the liquidation of trading and banking book positions of HVB in a market environment with greatly expanded bid-offer spreads. For December 2014, the tests showed a potential loss of €370 million (31 December 2013: €373 million).

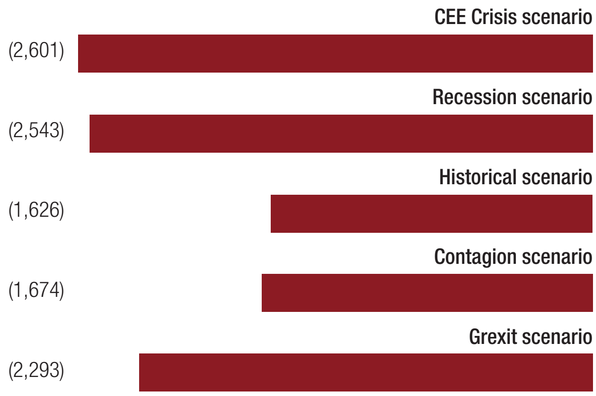
Stress tests
In addition to calculating the value-at-risk and the new risk metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements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

One example for a historical scenario used is based on experience gained from the financial crisis. To evaluate the effects of a financial crisis on a regular basis, we introduced the stress-test scenario "Financial crisis". This scenario reflects the trend in the financial crisis at the end of 2008. To take account of the low market liquidity, the time horizon for this scenario was extended to cover a period of three months.

Further hypothetical scenarios are based on the potential market movements in the event of a worsening of the debt crisis in Europe (Contagion scenario) or a negative demand shock in Germany (Recession scenario). The Central Eastern Europe Crisis scenario (CEE Crisis scenario) considers the escalation of the Russia conflict and the associated negative impact on other CEE countries.

The most significant stress result from this package of stress test scenarios at 31 December 2014, with a potential loss of €2.6 billion (31 December 2013: minus €2.2 billion from the Recession scenario), results from the CEE Crisis scenario. This scenario is also used in the cross-risk-type stress tests, where it is analysed for risk-taking capacity.

HVB Group stress testing at 31 December 2014 (€ millions)



As described under the sub-header "Stress tests" in the section entitled "Implementation of overall bank management", inverse stress tests were again performed in 2014. Risks resulting from market risk in the banking portfolio were also included in this analysis.

Risk Report (Continued)

In compliance with the regulatory rules published by BaFin on 9 November 2011, the change in the fair 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 on a monthly basis. This analysis is carried out both with and without the hedging effect from the equity capital model book. At 31 December 2014, there was no theoretical requirement (31 December 2013: 0.2%), or a theoretical requirement of 5.3% excluding the model book (31 December 2013: 3.9%), of regulatory capital. HVB Group is well below the 20% mark specified above which the banking supervisory authorities consider a bank to have increased interest rate risk. These figures include the positions of HVB as well as the positions of the material Group companies.

Summary and outlook

As was already the case in 2014, efforts will again be made in 2015 to concentrate on low-risk customer business in our financial market activities. HVB Group will continue to invest in the development and implementation of electronic sales platforms.

3 Liquidity risk

Definition

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

Categories

Short-term liquidity risk

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

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

Operational liquidity risk arises when a financial institution cannot meet its intraday payment obligations from its current incoming and outgoing payments, hence becoming technically insolvent. This can be considered a special type of short-term liquidity risk. An intraday cushion is set up as part of the short-term liquidity cushion with a view to balancing the intraday liquidity requirement and covering unforeseen payment obligations.

Funding risk

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

Market liquidity risk

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

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

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

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

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

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

The difference between the calculated potential liquidity requirement and the existing liquidity reserves is limited.

A limit was set for operational liquidity risk as part of short-term liquidity risk by implementing a minimum balance to be observed during the day, by means of which additional liquidity is maintained to cover unforeseeable outflows (intraday liquidity buffer).

Funding risk and structural liquidity risk are restricted by defining a limit for the ratio of liabilities to assets.

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

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

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

Furthermore, stress scenarios based on the liquidity profiles of the HVB Group units are simulated at regular intervals and the impact on liquidity calculated. The corresponding stress scenarios take account of both company-specific influences (e.g. possible HVB Group-specific incidents) and external factors (e.g. disruptions in global financial markets), as well as a combination of company-specific and external factors (e.g. scenario demanded under the MaRisk rules).

Risk Report (Continued)

A time horizon of up to two months is defined for the individual stress scenarios, during which the available liquidity reserves are expected to exceed the simulated outflows of liquidity. This ensures that counter-measures can be initiated promptly, if required. In addition, the defined early warning indicators and relevant concentration risks are determined and monitored at regular intervals.

Alongside this internal measurement methodology, HVB and its domestic subsidiaries engaged in banking activities are subject to the regulatory standards defined in the German Liquidity Regulation for short-term liquidity risk. The CRR has introduced new, additional liquidity requirements through the liquidity coverage ratio (LCR) as of 1 January 2014. The LCR is intended to ensure that an institution is able to meet its short-term payment obligations under the assumption of an acute stress scenario over a period of 30 calendar days. The Bank was not yet required to comply with an LCR in the 2014 financial year.

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

Monitoring and controlling

Short-term liquidity risk
The task of monitoring the short-term liquidity situation at HVB Group has been entrusted to the Finance unit in the CFO organisation. This essentially involves analysing and managing the short-term liquidity profiles within the scope of the predefined limits. Compliance with the allocated limits in short-term liquidity risk is monitored on a daily basis. The monitoring and controlling of operational liquidity risk are essentially performed on the basis of the intraday minimum balance that must be observed. This is set against the current volumes in the relevant accounts and monitored. Responsibility for monitoring and controlling developments on the respective local markets rests with the local Treasury units, which report to the Finance unit as and when necessary.

For short-term liquidity risk, moreover, weekly stress analyses based on various scenarios enable us to make projections on the impact on the liquidity position of sudden disruptions, enabling us to take the necessary management measures as early as possible. Units in the CRO organisation are responsible for monitoring and analysing the stress scenarios, the early warning indicators and concentration risk, while the CFO organisation has been tasked with monitoring and analysing the holding of freely disposable securities eligible as collateral for central bank borrowings that can be used at short notice to cover unexpected liquidity outflows.

Funding risk
The task of monitoring the structural liquidity situation at HVB Group has similarly been entrusted to the Finance unit in the CFO organisation. This essentially involves analysing and managing the long-term mismatches in the maturities of assets and liabilities within the scope of the defined limits and also specified funding targets. Compliance with the long-term funding ratios is monitored on a monthly basis. The funding risk of HVB Group is well-balanced thanks to the diversification of our funding across products, markets and investor groups. The front-office units implement the volume and product parameters derived from the funding targets cost-efficiently upon consultation with the Finance unit. This activity is similarly supported by a liquidity cost allocation mechanism – known as Funds Transfer Pricing (FTP) – for all significant business activities, the principles of which are defined in the FTP policy.

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

The rules and regulations governing liquidity management are defined in a liquidity policy adopted by the Management Board of HVB. The key points contained in the policy relate to the ability to satisfy financial obligations at all times in line with the defined risk appetite. Its objectives include the following: optimising the projected cash flows, restricting the cumulative short-term and operational liquidity differences, performing stress tests at regular intervals and restricting the long-term maturity mismatches between the liabilities side and the assets side of the balance sheet.

The liquidity policy and contingency plan together with supplementary remarks are updated at regular intervals. The liquidity policy is implemented by the operational business units and coordinated and monitored for the relevant units of HVB Group by the Finance unit in the CFO organisation.

Quantification and specification

Short-term liquidity risk

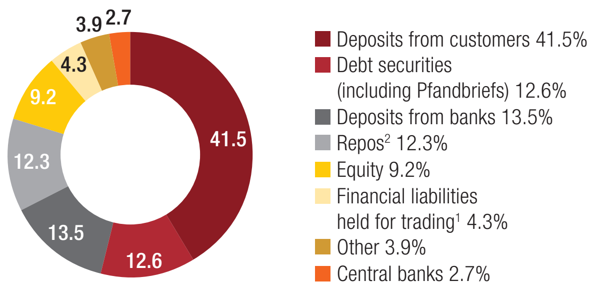
Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €20.9 billion in HVB Group for the next banking day at the end of December 2014 (31 December 2013: €33.9 billion). The change in the total amount is mainly down to strategic decisions, such as the reduction of the volume of long-term funding outstanding, together with the greater volatility on the money market caused by very low, and sometimes even negative, interest rates. The highly liquid securities included in the total amount that are eligible at short notice to compensate for unexpected outflows of liquidity amounted to €21.8 billion at the end of December of 2014 (31 December 2013: €29.9 billion).

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 its payment obligations for the following month by an average of €19.8 billion for HVB in 2014 (31 December 2013: €30.3 billion) and €17.0 billion at 31 December 2014. This means that we are above the internally defined threshold.

Funding risk

The funding risk of HVB Group was again quite low in the year 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 €5.7 billion on the capital market during 2014 (end of 2013: €5.7 billion). At the end of December 2014, 96.8% (31 December 2013: 102.4%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief-covered bonds still remain an important funding instrument.

Breakdown of sources of funding of HVB Group (31 December 2014)



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

Stress test

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

We include Bank-specific, market-wide and combined scenarios when conducting our stress tests. The calculations at year-end 2014 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded in each case.

Risk Report (Continued)

Summary and outlook
The banking industry again felt the long-term after-effects of the European sovereign debt crisis in 2014. Various monetary and economic measures taken to date within 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 states, current geopolitical uncertainties (such as the conflict in Ukraine) and the risks arising from changes in interest and exchange rates.

HVB Group put in a solid performance in 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. The global economic upturn envisaged for 2014 lost momentum as a result of the various crisis situations. Counterbalancing the difficulties emerging from the various geographical hotspots is proving to be a tricky challenge.

4 Operational risk

Definition
In accordance with the CRR, HVB Group defines operational risk as the risk of losses resulting from flawed internal processes or systems, human error or external events. This definition also includes legal risk but not strategic risk or reputational risk. Legal risk includes, but is not limited to, the assertion of claims to damages under civil law, including settlements paid to private individuals, fines, penalties and damages resulting from regulatory measures.

Strategy
The risk strategy for operational risk forms part of the HVB and HVB Group risk strategy which is updated and adopted by the Management Board of HVB on an annual basis.

The risk strategy aims to reduce operational risk to a reasonable level from an economic standpoint (under cost/benefit considerations), taking into account the defined risk appetite. This approach is intended above all to reduce or prevent significant losses by applying suitable measures, which additionally helps to boost sustainable profitability.

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

To make the risk strategy more specific, Bank-wide and business segment-specific action areas are defined on the basis of external and internal factors.

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

Reduction
HVB Group has a group-wide operational risk organisational structure. The individual business segments and each subsidiary of HVB Group are responsible for identifying, analysing and managing operational risk.

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

Risks identified by HVB Group are concentrated mainly in selling risks and risks arising from settlement and process management. In terms of product groups, we are exposed especially to risk related to derivatives, which results in part from the associated legal actions by customers. Analysis of the risks revealed that, from the organisational standpoint, there is a further concentration of risk in the CIB business segment.

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

Information technology (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 appropriate metrics and review processes is a key part of the activities planned for 2015, with a focus notably on the outsourcing of the IT infrastructure to Value Transformation Services (VTS, a joint venture of IBM and UBIS) carried out by UBIS. 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 as a subcategory of operational risk 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.

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, notably regarding the Bank's tax position, labour law (except for legal disputes), data protection 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 of the German Banking Act (Kreditwesengesetz – 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 and structural changes in the Bank are examples of activities that may give rise to new risks.

Risk Report (Continued)

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 on an ongoing basis the material statutory provisions and other requirements, non-compliance with which could endanger the institution's assets, taking into account risk considerations. 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 HVB Group 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 and other companies belonging to HVB Group are required to deal appropriately with various legal and regulatory requirements. Failure to do so may lead to litigation and administrative proceedings or investigations, and subject HVB and other companies belonging to HVB Group to damage claims, regulatory fines or other penalties. In many cases, there is substantial uncertainty regarding the outcome of the proceedings and the amount of possible damages. 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 proceedings 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 IFRS accounting principles applied by HVB Group.

Medienfonds and other closed-ended funds lawsuits

Various investors in VIP Medienfonds 4 GmbH & Co. KG brought legal proceedings against HVB. HVB did not sell shares 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. The granted loans as well as the assumed payments obligations were due on 30 November 2014. The loans were paid back to HVB and the assumed payment obligations were paid to the fund by HVB.

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 was recently referred back to Munich Higher Regional Court (Oberlandesgericht) by 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. However, the German Federal Court of Justice overruled significant findings of the first instance court and set the barriers for liability on the part of HVB because of an allegedly incorrect prospectus at a very high level. In the fiscal proceedings initiated by the fund, which are pending alongside the civil proceedings and concern the tax declaration of the fund for the 2004 financial year, no final decision has been issued regarding whether the tax benefits were revoked rightfully.

Furthermore there are a number of separate lawsuits from investors pending regarding other closed-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. 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 retail fund with investment target in heating plants, a number of investors brought legal proceedings against HVB pursuant to the Capital Markets Test Case Act. Munich Higher Regional Court 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.

Risk Report (Continued)

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.

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 fair value has decreased slightly. Among other things, the arguments produced are that the Bank allegedly did not sufficiently inform the customer with respect to the relevant investment and potential risks related to such transactions. Generally, there has been a trend for 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. In particular, the statute of limitations under Section 37a of the earlier version of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the client's economic experience and risk tolerance, and the actual investment advice given may be relevant questions.

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 opposed the tax authorities' position.

The tax authorities also served upon HVB a secondary liability notice demanding payment in the same amount on the basis of alleged issuer liability for tax certificates. HVB has challenged the notice.

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.

After the German tax authorities had demanded payment by the client and HVB, the client asserted claims against HVB and vice versa HVB asserted claims amongst others against the client, each requiring payment and full indemnification.

In August 2014 the parties agreed on the settlement of all disputes subject to civil law and tax law in this context, without acknowledgement of any legal obligation. Accordingly all proceedings subject to civil law and tax law relating to the customer case were terminated.

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 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 penalties, fines and profit claw backs, and/or criminal exposure. At this time it is not possible to assess the timing, extent, scope or impact of the decision.

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 (so-called cum/ex trades) and related withholding tax credits claimed or applications for refund of related taxes by HVB in Germany and elsewhere. In response to the client case, the Management had 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 investigation of such events by external advisors. These investigations were supported by UniCredit without reservation.

HVB has completed its investigations into these transactions. The results of the investigations performed by renowned international law firms show that, in some instances and to different extents, the cum/ex trades that HVB was involved in from 2005 to 2008 demonstrated similarities to the transactions carried out in the case of the client. From 2009 onwards such transactions were no longer conducted. The results of the inquiry indicate misconduct by individuals in the past. The Supervisory Board has requested individual former Management Board members to comment on the findings. The Supervisory Board sees no reason to take action against current members of the Management Board.

In the course of the open regular tax audits for 2005 to 2008, the Munich tax authorities and the German Central Federal Tax Authority (Bundeszentralamt für Steuern) are currently especially examining above mentioned proprietary transactions close to dividend dates in which withholding tax credits were claimed or applications for refund of related taxes have been made. Also in this respect, HVB with the support of external advisors is actively reviewing all aspects as well as supporting the tax audit and has an ongoing dialogue and exchange of information with the relevant tax authorities.

The 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 also opened a Preliminary Investigation with regard to withholding tax credits claimed in the corporate tax returns and has furthermore initiated a proceeding against HVB for an administrative fine according to the German Administrative Offences Act. 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.

It remains largely unclear whether and under what circumstances taxes can be applied or reimbursed for certain types of trades undertaken near dividend dates. The related questions on the tax treatment of such transactions have only partly been adjudicated 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. In this specific case, the German Federal Fiscal Court denied economic ownership of the purchaser and hence application for capital gains tax purposes upon certain conditions, thereby leaving open numerous further questions.

The impact of any review by the competent domestic and foreign (tax) authorities regarding above mentioned proprietary trades is currently open. In this connection, HVB could be subject to tax, liability and interest claims, as well as penalties, fines and profit claw backs, and/or other consequences. At this time, it is not possible to assess the timing, extent, scope or impact of any decisions. In addition, HVB could be exposed to damage claims from third parties.

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

Risk Report (Continued)

Lawsuits 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. A second case has ruled in favour of HVB in second instance and the German Federal Court of Justice has rejected an appeal against denial of leave to appeal by the plaintiff. The third 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 disputed 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 which was rejected on 16 December 2014. In the absence of further remedies, the case has now been finally decided.

Legal proceedings relating to the restructuring of HVB
Numerous former 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 proceeding was 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 proceeding with respect to the resolutions of approval passed at the Extraordinary Shareholders’ Meeting on 25 October 2006 will continue.

Financial sanctions
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 historical 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 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.

Measurement
The operational risk of HVB Group is calculated for HVB and its major subsidiaries – Bankhaus Neelmeyer AG, HVB Immobilien AG, UniCredit Luxembourg S.A. and UniCredit Leasing GmbH (together with subsidiaries) – using an internal model in accordance with the Advanced Measurement Approach (AMA model). DAB Bank AG left the group of companies fully consolidated by HVB Group as of 17 December 2014 and hence also the AMA perimeter from the reporting date of 31 December 2014. The standard approach is applied for all other minor subsidiaries.

The AMA model is based mainly on internal and external loss data. The loss distributions are determined for each Basel loss event category. Scenario data are used to round out the data records in rare yet extreme impact cases. The model is developed by UniCredit. HVB Group checks the plausibility of the results on a regular basis and validates the model to ensure that it is appropriate.

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

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.

Quantification and specification
The economic capital for operational risk at HVB Group, without taking account of the diversification effects between the risk types, amounted to €2.2 billion at 31 December 2014 (31 December 2013: €2.5 billion). The main reasons for the decline in economic capital are the reduced number of loss events arising from selling risk and a similarly improved risk profile based on external data.

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

Summary and outlook
The risk strategy specifies the specific action areas that have been identified for strengthening risk awareness with regard to operational risk in the Bank and expanding the management of operational risk. HVB is planning to start using the new UniCredit group-wide AMA model to calculate the economic capital for operational risk as of 2015.

5 Other risks

HVB Group groups together business risk, real estate risk, shareholding/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 definitions of the individual risk types can be found under "Risk types" above. The risk arising from outsourcing activities does not constitute a separate risk type at HVB Group; instead, it is treated as a cross-risk-type risk and consequently listed under other risks.

Business risk
We define business risk as potential losses arising from unexpected negative changes in the business volume and/or margins that are not attributed to other risk types. It can lead to serious losses in earnings, thereby diminishing the fair value of a company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour, or changes to the legal framework.

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

Risk Report (Continued)

The strategic focus of the CIB business segment in 2014 was on growth across all product lines. Strategic initiatives intended to counter earnings risk centre on much deeper customer penetration for investment banking products in order to boost the share of earnings, active interest rate management and the central control of major transactions by higher level bodies. At the same time, the risk of declining demand for credit from enterprises due to the business model as a universal bank is being countered by stepping up debt capital markets activity, involving the issuance of bonds and other debt securities for companies.

The goal of the Commercial Banking business segment in 2014 was to expand its market position, despite the challenging market environment. Among other things, strategic initiatives intended to counter earnings risks focused on risk-adjusted pricing, the central control of major transactions by higher level bodies, reinforced value creation with the customer in order to generate earnings, greater customer orientation by enhancing quality in the core business and sustainable cost management achieved through high cost awareness and continuous cost controlling.

Business risk is managed overall on the basis of an IC limit for HVB Group. Based on this limit, early warning indicators have been additionally defined in the form of targets and thresholds in order to identify an overshoot of the limit in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

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

The economic capital for business risk is determined by CEC and reported to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board.

The VaR, without taking account of diversification effects between the risk types, increased by €55 million to €781 million in 2014 as a result of the higher risk associated with the operating profit. The fully diversified economic capital for the business risk of HVB Group amounted to €302 million at 31 December 2014 (31 December 2013: €336 million). After the correlations between the risk types were updated in 2014, the correlations declined between business risk and other risk types, primarily credit risk. This caused the diversification effect in business risk to rise and even surpass the increase in economic capital before diversification effects between the risk types.

The impact of macroeconomic scenarios on business risk is analysed within the scope of the cross-risk-type stress tests. This quarterly analysis provides information on the lower earnings that would result should the scenario occur compared with the base scenario. This is used as the basis for determining the change in the VaR.

Real estate risk

Real estate risk covers potential losses resulting from changes in the fair value of the real estate portfolio of HVB Group. Besides the real estate owned by HVB, the HVB Group portfolio also includes the real estate owned by the real estate holding companies and SPVs.
No land or properties are included that are held as security in lending transactions.

A fundamental distinction is made in real estate risk between (strategic) real estate required for operations and non-strategic real estate. The general focus for the existing real estate portfolio in 2014 was on measures targeting current fair value and cost optimisation together with portfolio optimisation for the branch properties used by the Bank. No additional purchases are planned for 2015, 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 HVB Immobilien Group, including almost all of the buildings housing central functions.

Facility concepts are drawn up for both the Bank-owned portfolio and the rented properties, under which the requirements of the business segments and also profitability are the key factors for decisions, taking into account the assumptions listed.

In terms of the central locations, in 2015 this relates primarily to the major renovation project aimed at turning the HVB Tower (Z2) in Munich into a green building. Implementation is running as planned and will continue until around 2019.

Regarding the branch locations, there will be changes to the portfolio in 2015 as part of the Kompass project (restructuring of the Private Clients Bank). Affected by this are both the branches to be modernised, some of which are located in Group-owned buildings, and the branches to be consolidated which will subsequently no longer be used as a property by the Bank.

The main risks for the Bank-owned portfolio stem mainly from the development of the current fair 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 disposal 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.

Real estate risk is managed overall on the basis of an IC limit for HVB Group. In addition, standalone EC limits adjusted for diversification effects were allocated to the business segments and the relevant subsidiaries for 2014 in the context of overall bank management. Based on these limits, early warning indicators have also been defined in the form of targets and thresholds in order to identify an overshoot of the limit in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

Real estate indices are employed as explanatory risk factors for the quantification of real estate risk. These indices are broken down by property type (rents for office areas, flats, residential rents, owner-occupied homes, land for housing construction, retailer with small floor areas, retailer with large floor areas, land for commercial construction, warehouse/logistics properties) and, starting in 2012, geographical location.

In the case of foreign real estate, there is currently only one index that is derived from the present portfolio in terms of its composition due to the current strategic orientation of the portfolio. For German properties, time series are currently available for the most important municipalities (around 80).

Twenty selected real estate indices covering various (and in some cases composite) segments are allocated to the individual properties. These are the indices that deliver the greatest clarity for the portfolio as a whole.

The CEC department determines the economic capital for real estate risk and reports this to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual values with the limits.

The VaR, without taking account of diversification effects between the risk types, declined by €17 million in 2014 to total €461 million at 31 December 2014. The figure is based on a portfolio worth €2,915 million.

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2014	2013	2014	2013
Strategic real estate	1,484	1,503	50.9	49.9
Non-strategic real estate	1,431	1,511	49.1	50.1
HVB Group	**2,915**	**3,014**	**100.0**	**100.0**

Risk Report (Continued)

The economic capital for real estate risk at HVB Group taking into account diversification effects totals €346 million (31 December 2013: €372 million). Apart from a few transactions involving additions and disposals, the real estate portfolio of HVB Group remained largely unchanged in 2014. The main geographical focus is on the Munich area, which accounts for 37.4% of the total.

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

Again for 2015, it is planned to further reduce the holding of non-strategic real estate by selling properties. The situation on the real estate markets will again depend on economic developments in 2015. The demand from investors for core real estate continues to increase. The extent to which the demand for other locations evolves remains to be seen.

Financial investment risk

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

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

Financial investment risk is managed overall on the basis of an IC limit for HVB Group. In addition, standalone EC limits adjusted for diversification effects were allocated to the business segments and the relevant subsidiaries for 2014 in the context of overall bank management. Based on these limits, early warning indicators in the form of targets and thresholds have been additionally defined in order to identify an overshoot of the limits in advance. The limits are checked for adequacy in the middle of the year and, if necessary, adjusted.

In terms of risk measurement, starting in June 2014 fluctuations in the fair 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.

CEC calculates the economic capital for financial investment risk, and reports it to the business segments, the CRO, the Management Board and the Risk Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual values with the limits.

The VaR, without taking account of diversification effects between the risk types, fell by €272 million in 2014 to total €387 million at 31 December 2014. The fully diversified economic capital of HVB Group amounts to €304 million (31 December 2013: €517 million). The reduction of financial investments in the private equity sector is the reason for the lower risk figures in 2014.

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	2014	2013	2014	2013
Private equity funds	150	403	31.4	45.8
Private equity investments	69	205	14.4	23.2
Other holdings[1]	259	274	54.2	31.0
HVB Group	**478**	**882**	**100.0**	**100.0**

1 listed and unlisted investments

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

As in 2014, HVB Group will continue to dispose of non-strategic shareholdings in 2015. It will also look into fresh investments in line with its business strategy and the current market environment, provided these complement our structure and our business priorities, and generate added value for HVB and HVB Group.

Reputational risk

Reputational risk is defined as the risk of a negative P/L effect caused by adverse reactions by stakeholders due to a 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, strategic risk or other primary risks. Customers, employees, regulatory authorities, rating agencies and creditors are defined as key stakeholders.

HVB and its most important subsidiaries apply 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 (including mergers and acquisitions) and new activities like new product processes, 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 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 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.

Risk Report (Continued)

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 (possibly during the year).

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

Strategic risk

Strategic risk results from management being slow to recognise important trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that may prove to be disadvantageous in terms of the Bank's long-term ex post goals; in addition, some of them may be difficult to reverse. In the worst case, this may have a negative impact on the Bank's profitability and risk profile of HVB Group.

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

Strategic risk is monitored by the Management Board and its staff offices on an ongoing basis and, if necessary, analysed at length on an ad hoc basis. Changes to the strategic parameters are discussed by the Management Board, and options are drawn up and implemented as appropriate. This is done during the Management Board meetings as well as the Management Board conclaves that are held at least once a year. An ongoing dialogue with external experts (such as management consultants and independent auditors) regarding strategic issues and options at Management Board level and below ensures that the expertise of external experts is incorporated.

Risk arising from the overall economic environment

Based on the orientation of HVB Group with its Commercial Banking, CIB and Asset Gathering business segments (the last of which will cease to exist going forward due to the sale of DAB in December 2014) offering customer-oriented products and concentrating on the core market of Germany, general economic developments in Germany in particular together with developments on the international financial and capital markets are of great importance for the assets, liabilities, financial position, and profit or loss of HVB Group.

The regular economic analysis carried out by HVB Group covers macroeconomic developments in the EU and at a global level, the monetary policy of central banks and the discussions surrounding the deleveraging of highly indebted countries. As a well-positioned universal bank with excellent customer relationships, HVB Group considers itself fundamentally in good shape to continue operating successfully in this challenging environment. Should, however, the measures taken to stabilise the eurozone fail to have the desired effect, for instance, or economic growth slow in Europe or globally, or further turmoil roil the financial markets, this could also have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB Group.

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

HVB Group is a universal bank that focuses on the regional management of the German market and also acts as the centre of competence for the investment banking activities of UniCredit as a whole. This gives rise to a business model built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise. Thus, the low interest rates that have persisted for some time now are depressing earnings in the Commercial Banking business segment in particular.

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

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

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

Risks arising from the consolidation of the banking market

Consolidation on the German and international banking and financial markets has continued for many years. Further shifts in market share may arise, which could potentially have a negative impact on the assets, liabilities, financial position, and profit or loss of HVB Group. HVB Group does, however, enjoy a high level of flexibility that would allow it to exploit attractive opportunities arising from the tougher competition at the right time thanks to its excellent capital base, its permanent access to stable sources of funding at attractive costs and a conservative risk profile. The associated acquisition risk is adequately addressed on the basis of the available internal expertise and potentially by calling in external specialists.

Risks arising from changing competitive conditions in the German financial sector

The German financial services market, which is HVB Group's core market, is subject to tough competition due in part to its three-pillar structure (public sector, cooperative sector and private banks). Overcapacity and market players with different profitability requirements still exist on the retail side of the German market despite some mergers and acquisitions. In addition, more and more European and international players in retail and corporate banking are seeking to enter the German market. The result is intensive competition for customers and market share, in which HVB Group is facing a lasting trade rivalry.

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

Risks arising from changes to the regulatory environment for HVB Group

The activities of HVB Group are regulated and supervised by the central banks and regulatory authorities in the countries and regions where HVB Group does business. The regulatory requirements in the individual countries/regions are subject to change at regular intervals. Their impact on the business activities and business models of banks needs to be tracked closely and could make it necessary to adjust the strategic orientation. The discussions surrounding the legislation to separate commercial and investment banking ("Trennbankengesetz"), the Markets in Financial Instruments Directive (MiFID) and IFRS 9 to 13 can be cited as typical examples in this respect. We assume that the trend towards more stringent regulatory provisions will persist.

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

The failure of HVB or one of its subsidiaries to fully satisfy the regulatory requirements of the supervisory authorities could lead to the responsible authority imposing sanctions. In the worst case, the business activities of HVB or its subsidiaries could be restricted.

Risk Report (Continued)

The single European banking regulator came into effect as of November 2014. At the same time, the ECB took over the task of supervising the 130 biggest, systemically important banks in the eurozone. HVB Group now comes under the supervision of the ECB both in its capacity as part of UniCredit and as a separate subsidiary.

Risks arising from the introduction of new charges and taxes to stabilize the financial markets and involve banks in the sharing of costs for the financial crisis
A number of countries in Europe have already introduced bank levies.

The Single Resolution Fund (SRF) is being introduced at EU level on 1 January 2016, replacing most national bank levies. In its initial structure at country level, the purpose of the SRF is to set aside enough financial resources to mitigate or prevent negative effects on other market participants caused by the bankruptcy of a European bank. The target size of the SRF is around €55 billion.

Now that Germany has incorporated the SRF rules in the German Banking Recovery and Resolution Directive (BRRD) Implementation Act (BRRD Umsetzungsgesetz), the new provisions of the SRF will already apply to HVB Group in 2015. These additional costs will, however, essentially affect all German banks.

Furthermore, 11 EU states, including Germany, Austria, Italy and France, are discussing the introduction of a European Financial Transaction Tax (EU FTT). There are already similar levies in individual countries like France and Italy. An EU FTT of 0.1% of the trade value has been considered of late, only charged on trades in shares, equity-like instruments and derivatives (0.01%) at this stage, although it would be expanded later. The political objectives of the EU FTT are to make banks bear some of the cost of the financial market crisis and at the same time to limit so-called "speculative" trades. If introduced, this could have an impact on market structures and alter the competitive situation in Europe. The potentially higher tax burden resulting from the introduction of an EU FTT could possibly also have an impact on the profitability of HVB Group.

Risks arising from a change in HVB's rating
HVB has a solid investment grade rating from the external rating agencies Standard & Poor's (S&P), Moody's and Fitch. Among other things, HVB's rating benefits from an assumed state guarantee for the Bank in the event of a crisis. The value of this guarantee depends on how the rating agency assesses the systemic importance of a bank and the willingness or ability of the government in the bank's home country to provide support when drawing up the rating. The rating agencies are becoming ever more sceptical about the willingness of governments to provide support and have changed the outlook for bank ratings, including that of HVB, such that the possibility of a downgrade can no longer be ruled out. Such a move could make funding costs higher for HVB or have a negative impact on the business opportunities for HVB as a counterpart in the interbank market or with rating-sensitive major customers.

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 fair 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 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 (approx. €66 million). A figure of €657 million was determined at 31 December 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 rate levels 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, a further reduction to 2.35% was made at year-end), thus causing the pension obligations to rise further. During the course of 2014, it was discovered that the market risk model for pension risk newly devised last year needs to be adjusted. Depending on the final structure of the model with regard to the various risk factors applied, the pension risk could rise sharply once the model has been adjusted. Furthermore, uniform European rules for the measurement of pension risk do not exist at present. This gives rise to further uncertainty regarding the future development of the disclosed pension risk.

Risks arising from outsourcing activities

Outsourcing risk is considered a cross-risk-type risk at HVB Group and not treated as a separate risk type. Outsourcing activities affect the following risk types in particular: operational risk, reputational risk, strategic risk, business risk, credit, market and liquidity risk. Those risks that are identified and assessed in an in-depth risk analysis are managed as part of the respective risk type. 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 manager and the heads of the RTOs to prepare and/or update the related risk analysis.

In order to make the presentation of the outsourcing risk situation more transparent, work began in 2012 on expanding the existing methods and modifications to the required IT systems were commissioned. 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 material outsourcing arrangement. HVB has performed the internal audit function of its Bankhaus Neelmeyer AG subsidiary since 1 April 2014. No further material new outsourcing arrangements were set up in 2014.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definitions and objectives

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

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

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

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

The method used for the introduction and risk assessment of processes is based on the international "Internal Control – Integrated Framework" standard issued by the Treadway Commission's Committee of Sponsoring Organizations (COSO) and thus on a solid methodological framework. The main task in this context is to define specific objectives to facilitate a control system and to monitor the effectiveness of the control system on this basis. The following objectives are pursued:

- Completeness: All transactions have been recorded and all assets and liabilities included in the financial statements.
- Measurement: The assets, liabilities and transactions are disclosed at their correct amounts in the financial reports.
- Presentation and disclosure: The financial reports are correctly classified and discussed with regard to recognition, structure and disclosures in the notes to the consolidated financial statements, and comply with the legal requirements.

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

Responsibilities for the ICS in connection with financial reporting

Responsibilities of the Management Board and Supervisory Board

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

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

It is the task of the Supervisory Board to advise the Management Board on corporate governance and monitor it as it conducts its business. It is directly involved in decisions that are of fundamental importance. To support it in the performance of these duties, the Supervisory Board set up an Audit Committee made up of four of its members tasked among other things with monitoring the financial reporting process. The Audit Committee looks at the development of the assets, liabilities, financial position and profit and loss, particularly in connection with the interim reports, half-yearly financial reports and annual financial statements on a regular and ongoing basis. To monitor the effectiveness of the ICS, the Audit Committee also examined these systems and the planned improvements in detail at three of its meetings in 2014 on the basis of documents and verbal explanations provided by the Management Board. In the process of preparing the annual and consolidated financial statements, the Supervisory Board is responsible for approving the annual financial statements and adopting the consolidated financial statements. To enable these tasks to be performed, the financial statement documents are submitted to the Supervisory Board complete with the Management Board's proposal for appropriation of profits together with the Auditors' Report. The Audit Committee examines these documents in great detail during a preliminary audit. At the preparatory meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the annual financial statements, the independent auditor reports on the material findings of the audit of the annual and consolidated financial statements, specifically including any significant weaknesses of the ICS in connection with the financial reporting process identified during the audit. In addition, the Management Board explains the annual and consolidated financial statements in detail at the meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the financial statements. The chairman of the Audit Committee also reports to that meeting on the results of the Audit Committee's audit of the documents. Based on the written reports and verbal explanations, the Supervisory Board determines at its meeting devoted to the financial statements whether it concurs with the findings of the audit by the independent auditor and whether objections are to be raised after its own examination of the annual and consolidated financial statements, the Management Report and Management's Discussion and Analysis and the proposal for the appropriation of net profit, and whether it approves the annual and consolidated financial statements prepared by the Management Board.

Position and function of Internal Audit

Internal Audit

The Internal Audit department is a process-independent instrument of the Management Board and is required to report directly to it. According to its internal regulations, the Management Board bears the overall responsibility for setting up the Internal Audit department and ensuring that it functions properly. In 2014, operational responsibility for the audit function was assigned to the Board Spokesman (CEO).

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

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

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

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

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

ICS – Internal Control System (Continued)

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

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

The head of the Internal Audit department presents a report prepared by the Management Board and Internal Audit at meetings of the Audit Committee of the Supervisory Board to report on the main findings of the audits carried out by Internal Audit and other significant aspects of its work.

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

Alongside the internal CFO controls, there are also review and control steps in the upstream processes and organisations.

Organisational structure and tasks of the CFO organisation

For the purposes of the financial reporting processes, the Chief Financial Officer (CFO) organisation is essentially broken down into the following areas, from which the responsible Management Board member can draw on staff with the required skills and experience:
- A number of departments within the **Accounting**, **Shareholdings**, **Regulatory Reporting** (CFF) unit are assigned to deal with financial reporting processes. The financial reporting for HVB together with the financial reporting for the markets and investment banking activities are carried out by the CFA unit. In addition, this department has functional responsibility for the financial reporting systems used at HVB. At the same time, the CFA unit is responsible for fundamental accounting questions under IFRS and preparing the consolidated financial statements. Furthermore, it prepares the external reporting in the annual reports for HVB and HVB Group.

- The **Accounting** (CFA4) and **Accounting Markets** (CFA3) units are responsible for accounting in the narrow sense. The Accounting Markets unit is responsible for the financial reporting on securities and derivative transactions of HVB in Germany.
- The accounting units at HVB's international branches and the **Central Reporting/Coordination** (CFM1) unit report to CFM. Besides having responsibility for local accounting departments and the accounting systems, the CFM units are also responsible notably for local reporting to the respective financial supervisory authorities.
- Responsibility for the management and reporting-related administration of participating interests rests with the **Shareholdings** (CFS) department.
- In particular, the **Regulatory Reporting** (CFR) department submits HVB's or HVB Group's reports to the banking supervisors. Based on European and national laws and regulations, this includes all the reports of the Common Reporting Framework (COREP) on equity and equity requirements (capital adequacy), debt level (leverage ratio), liquidity (LCR, NSR) and large loans. In addition, the department is responsible for monitoring and documenting large loans, multimillion loans and loans to executives as well as for drawing up and submitting a number of other regulatory and banking statistical reports. CFR also interprets existing and new national and international reporting standards and ensures that they are implemented and transformed into IT rules.
- The **Tax Affairs** (CFT) department is responsible for all tax-related concerns of HVB, including its foreign branches.

– For purposes of the financial reporting process, the **Data Governance** (CFG) department is responsible for the operation, refinement (in conjunction with the functional units responsible and the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS)) and quality assurance of selected accounting and controlling systems. CFG also has responsibility for the implementation of various IT-related projects.
– **Finance** notably deals with liquidity management in close cooperation with the front office units and Asset Liability Management.
– **Regional Planning & Controlling** (CCP) is tasked with central business management, cost controlling and equity capital management at HVB. In addition, this department is responsible for the preparation of income budgets and income projections. Moreover, CCP prepares and validates the segment report prepared in accordance with IFRS that is published externally.
– Furthermore, the business segment-related controlling departments for all the segments are assigned to CCP.

Process of accounting and preparing HVB's financial statements

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

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

Data from the international branches are entered in the books at the location and submitted to the central accounting system via an interface; validations and closing postings are carried out centrally as a basic principle.

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

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

A process is in place at the Bank for developing and launching new products (new product process), as recorded in the Operating Guidelines. All the products relevant for a new product process are addressed in this process. Under the new product process, all concerned departments are involved to the extent that they have veto rights at the least and are authorised to enforce adjustments up to and including the termination of the new product process.

ICS – Internal Control System (Continued)

Responsibility for checking, creating and adjusting specific allowances for losses on guarantees and indemnities rests with the respective restructuring and workout units. This is done using processes that are defined in Operating Guidelines.

The risk assessment/request to set up an allowance prepared by the responsible restructuring or workout specialist must be submitted to the appropriate lending approval authority or the Loan Loss Provision Committee (LLP Committee) for approval. A risk provision report which is drawn up by the CRO Central Functions department (CCF) serves to keep the Management Board regularly informed about the current risk provision situation and as required by current developments.

The Bank employs the IME system, which is the responsibility of CCF, to determine and manage the approved risk provision amounts. It is used for the preparation and final booking of risk provisions by Accounting when drawing up the financial statements.

Portfolio allowances pursuant to IFRS accounting rules are calculated centrally by the Accounting department and CCF and general allowances pursuant to the German Commercial Code centrally by the Accounting department.

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

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

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

The involvement of external third parties in the technical process of preparing the financial statements essentially extends to various reports prepared by external service providers relating to such things as the valuation of, and accounting for, pension provisions.

Process documentation

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

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

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

New processes are subject to half-yearly reviews in terms of organisational changes or changes in content by the persons responsible for the process. If necessary, the documentation is modified and a new risk assessment performed. In addition, the completeness of the process documentation is checked on an ongoing basis and, if necessary, further relevant processes added and assessed, and integrated into routine ICS operations. The unit CFA7IK (Internal Control System) within the CFO organisation is tasked with supporting the Management Board in the ongoing development and efficient monitoring of the ICS with regard to the financial reporting process.

Continuous updates of the ICS and RMS

For the CFO division, additional locations and product groups for the Markets unit were linked to the established sub-ledger, and further improvements were made in the daily income statement calculations and the reconciliation of profit/loss items as per cost accounts and financial accounts. These adjustments served to reduce operational risk in the financial reporting process.

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

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

Consolidated financial statements in accordance with IFRS

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

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

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

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

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

Time is precious.

Give it more value.

Advice when you want it.

Everyone needs advice. And no one wants to waste time. That is why we created **Video Advice@home**. This convenient service delivers expert advice online, allowing you to connect with our consultants from the comfort of home. Easy-to-install software enables us to respond quickly to questions about your current account, car loan or mortgage. We can create value for you, whenever and wherever you need us.

Financial Statements (2)

Consolidated Financial Statements

Consolidated Income Statement

for the year ended 31 December 2014

Income/Expenses	NOTES	2014 € millions	2013 € millions	CHANGE € millions	CHANGE in %
Interest income		5,014	5,685	(671)	(11.8)
Interest expense		(2,371)	(2,812)	+ 441	(15.7)
Net interest	33	2,643	2,873	(230)	(8.0)
Dividends and other income from equity investments	34	92	117	(25)	(21.4)
Net fees and commissions	35	1,082	1,102	(20)	(1.8)
Net trading income	36	483	1,095	(612)	(55.9)
Net other expenses/income	37	302	328	(26)	(7.9)
Payroll costs		(1,782)	(1,770)	(12)	+ 0.7
Other administrative expenses		(1,532)	(1,509)	(23)	+ 1.5
Amortisation, depreciation and impairment losses on intangible and tangible assets		(245)	(199)	(46)	+ 23.1
Operating costs	38	(3,559)	(3,478)	(81)	+ 2.3
Net write-downs of loans and provisions for guarantees and commitments	39	(151)	(214)	+ 63	(29.4)
Provisions for risks and charges	40	25	(220)	+ 245	
Restructuring costs	41	18	(362)	+ 380	
Net income from investments	42	148	198	(50)	(25.3)
PROFIT BEFORE TAX		**1,083**	**1,439**	**(356)**	**(24.7)**
Income tax for the period	43	(298)	(377)	+ 79	(21.0)
PROFIT AFTER TAX		**785**	**1,062**	**(277)**	**(26.1)**
Impairment on goodwill		—	—	—	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS		**785**	**1,062**	**(277)**	**(26.1)**
Profit before tax from discontinued operations	44	185	19	+ 166	>+ 100.0
Income tax from discontinued operations	44	(12)	(7)	(5)	+ 71.4
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**44**	**173**	**12**	**+ 161**	**>+ 100.0**
CONSOLIDATED PROFIT OF FULL HVB GROUP		**958**	**1,074**	**(116)**	**(10.8)**
attributable to the shareholder of UniCredit Bank AG		947	1,033	(86)	(8.3)
attributable to minorities		11	41	(30)	(73.2)

Earnings per share

(in €)

	NOTES	2014	2013
Earnings per share from continuing operations (undiluted and diluted)	45	0.96	1.27
Earnings per share of full HVB Group (undiluted and diluted)	45	1.18	1.29

Consolidated statement of total comprehensive income for the year ended 31 December 2014

(€ millions)

	2014	2013
Consolidated profit recognised in the income statement	**958**	**1,074**
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)	(873)	(75)
Non-current assets held for sale	—	—
Other changes	—	—
Taxes on income and expenses not to be reclassified to the income statement in future periods	276	23
Income and expenses to be reclassified to the income statement in future periods		
Changes from foreign currency translation	6	(29)
Changes from companies accounted for using the equity method	—	—
Changes in valuation of financial instruments (AfS reserve)	17	47
Unrealised gains/(losses)	42	71
Gains/(losses) reclassified to the income statement	(25)	(24)
Changes in valuation of financial instruments (hedge reserve)	3	(1)
Unrealised gains/(losses)	—	—
Gains/(losses) reclassified to the income statement	3	(1)
Other changes	20	(57)
Taxes on income and expenses to be reclassified to the income statement in future periods	(14)	(16)
Total income and expenses recognised in equity under other comprehensive income	**(565)**	**(108)**
Total comprehensive income	**393**	**966**
of which:		
attributable to the shareholder of UniCredit Bank AG	379	948
attributable to minorities	14	18

Consolidated Balance Sheet

at 31 December 2014

Assets

	NOTES	2014 € millions	2013 € millions	CHANGE € millions	in %
Cash and cash balances	46	5,173	10,626	(5,453)	(51.3)
Financial assets held for trading	47	111,838	91,301	+ 20,537	+ 22.5
Financial assets at fair value through profit or loss	48	31,205	29,712	+ 1,493	+ 5.0
Available-for-sale financial assets	49	1,569	4,576	(3,007)	(65.7)
Investments in associates and joint ventures	50	77	71	+ 6	+ 8.5
Held-to-maturity investments	51	66	217	(151)	(69.6)
Loans and receivables with banks	52	32,654	35,312	(2,658)	(7.5)
Loans and receivables with customers	53	109,636	109,589	+ 47	+ 0.0
Hedging derivatives	55	753	1,053	(300)	(28.5)
Hedge adjustment of hedged items					
in the fair value hedge portfolio		66	67	(1)	(1.5)
Property, plant and equipment	56	2,949	2,913	+ 36	+ 1.2
Investment properties	57	1,293	1,456	(163)	(11.2)
Intangible assets	58	478	518	(40)	(7.7)
of which: goodwill		418	418	—	—
Tax assets		1,695	1,654	+ 41	+ 2.5
Current tax assets		476	431	+ 45	+ 10.4
Deferred tax assets		1,219	1,223	(4)	(0.3)
Non-current assets or disposal groups held for sale	59	32	154	(122)	(79.2)
Other assets	60	858	799	+ 59	+ 7.4
Total assets		**300,342**	**290,018**	**+ 10,324**	**+ 3.6**

Liabilities

	NOTES	2014 € millions	2013 € millions	CHANGE € millions		in %	
Deposits from banks	62	54,080	47,839	+	6,241	+	13.0
Deposits from customers	63	100,674	107,850		(7,176)		(6.7)
Debt securities in issue	64	28,249	31,804		(3,555)		(11.2)
Financial liabilities held for trading	65	87,970	73,535	+	14,435	+	19.6
Hedging derivatives	66	749	373	+	376	>+	100.0
Hedge adjustment of hedged items							
in the fair value hedge portfolio	67	2,430	1,646	+	784	+	47.6
Tax liabilities		749	906		(157)		(17.3)
Current tax liabilities		660	700		(40)		(5.7)
Deferred tax liabilities		89	206		(117)		(56.8)
Liabilities of disposal groups held for sale	68	1	4		(3)		(75.0)
Other liabilities	69	2,534	3,083		(549)		(17.8)
Provisions	70	2,309	1,969	+	340	+	17.3
Shareholders' equity	71	20,597	21,009		(412)		(2.0)
Shareholders' equity attributable to the							
shareholder of UniCredit Bank AG		20,566	20,962		(396)		(1.9)
Subscribed capital		2,407	2,407		—		—
Additional paid-in capital		9,791	9,791		—		—
Other reserves		7,660	7,920		(260)		(3.3)
Changes in valuation of financial instruments		81	88		(7)		(8.0)
AfS reserve		54	63		(9)		(14.3)
Hedge reserve		27	25	+	2	+	8.0
Consolidated profit		627	756		(129)		(17.1)
Minority interest		31	47		(16)		(34.0)
Total shareholders' equity and liabilities		**300,342**	**290,018**	**+**	**10,324**	**+**	**3.6**

The profit available for distribution disclosed in the separate financial statements of UniCredit Bank AG (= consolidated profit of HVB Group), which forms the basis for the appropriation of profit, amounts to €627 million. We will propose to the Shareholders' Meeting that a dividend of €627 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.78 per share after around €0.94 in 2013.

Statement of Changes in Consolidated Shareholders' Equity

	SUBSCRIBED CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER RESERVES: TOTAL OTHER RESERVES	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]	**—**	**—**	**(117)**	**(52)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(52)	(52)
Reserve arising from foreign currency translation	—	—	(8)	—
Other changes	—	—	(57)	—
Total other changes in equity	**—**	**—**	**278**	**3**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	277	—
Changes in group of consolidated companies	—	—	1	3
Shareholders' equity at 31/12/2013	**2,407**	**9,791**	**7,920**	**(648)**
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]	**—**	**—**	**(581)**	**(597)**
Changes in valuation of financial instruments not affecting income	—	—	—	—
Changes in valuation of financial instruments affecting income	—	—	—	—
Actuarial losses on defined benefit plans	—	—	(597)	(597)
Reserve arising from foreign currency translation	—	—	7	—
Other changes	—	—	9	—
Total other changes in equity	**—**	**—**	**321**	**—**
Dividend payouts	—	—	—	—
Transfers from consolidated profit	—	—	320	—
Changes in group of consolidated companies	—	—	1	—
Shareholders' equity at 31/12/2014	**2,407**	**9,791**	**7,660**	**(1,245)**

1 The Shareholders' Meeting of 7 May 2013 resolved to distribute the 2012 consolidated profit in the amount of €2,462 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.07 per share.
The Shareholders' Meeting of 2 June 2014 resolved to distribute the 2013 consolidated profit in the amount of €756 million as a dividend to our sole shareholder UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €0.94 per share.
2 UniCredit Bank AG (HVB)
3 see Consolidated statement of total comprehensive income

(€ millions)

	CHANGE IN VALUATION OF FINANCIAL INSTRUMENTS					
	AFS RESERVE	HEDGE RESERVE	CONSOLIDATED PROFIT[1]	TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE SHAREHOLDER OF HVB[2]	MINORITY INTEREST	TOTAL SHAREHOLDERS' EQUITY
	30	**26**	**2,462**	**22,475**	**794**	**23,269**
	—	**—**	**1,033**	**1,033**	**41**	**1,074**
	33	**(1)**	**—**	**(85)**	**(23)**	**(108)**
	52	—	—	52	1	53
	(19)	(1)	—	(20)	(3)	(23)
	—	—	—	(52)	—	(52)
	—	—	—	(8)	(21)	(29)
	—	—	—	(57)	—	(57)
	—	**—**	**(2,739)**	**(2,461)**	**(765)**	**(3,226)**
	—	—	(2,462)	(2,462)	(32)	(2,494)
	—	—	(277)	—	—	—
	—	—	—	1	(733)	(732)
	63	**25**	**756**	**20,962**	**47**	**21,009**
	63	**25**	**756**	**20,962**	**47**	**21,009**
	—	**—**	**947**	**947**	**11**	**958**
	11	**2**	**—**	**(568)**	**3**	**(565)**
	27	—	—	27	2	29
	(22)	2	—	(20)	—	(20)
	—	—	—	(597)	—	(597)
	(1)	—	—	6	—	6
	7	—	—	16	1	17
	(20)	**—**	**(1,076)**	**(775)**	**(30)**	**(805)**
	—	—	(756)	(756)	(4)	(760)
	—	—	(320)	—	—	—
	(20)	—	—	(19)	(26)	(45)
	54	**27**	**627**	**20,566**	**31**	**20,597**

Consolidated Cash Flow Statement

for the year ended 31 December 2014

(€ millions)

	2014	2013
Consolidated profit	**958**	**1,074**
Write-downs, provisions for losses on, and write-ups of,		
loans and receivables and additions to provisions for losses on guarantees and indemnities	202	285
Write-downs and depreciation less write-ups on non-current assets	266	180
Change in other non-cash positions	(249)	(2,251)
Profit from the sale of investments, property, plant and equipment	(334)	(82)
Other adjustments (net interest and dividend income from the income statement, taxes on income paid)	(2,680)	(2,380)
Subtotal	**(1,837)**	**(3,174)**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Financial assets held for trading	(4,738)	(8,089)
Loans and receivables with banks	2,215	992
Loans and receivables with customers	617	11,768
Other assets from operating activities	(65)	599
Deposits from banks	6,288	2,723
Deposits from customers	(5,031)	(2,580)
Debt securities in issue	(2,618)	(3,427)
Other liabilities from operating activities	(1,198)	(3,703)
Taxes on income paid	(231)	(588)
Interest received	5,025	5,792
Interest paid	(2,524)	(3,000)
Dividends received	295	99
Cash flows from operating activities	**(3,802)**	**(2,588)**
Proceeds from the sale of investments	1,465	2,565
Proceeds from the sale of property, plant and equipment	155	233
Payments for the acquisition of investments	(641)	(1,644)
Payments for the acquisition of property, plant and equipment	(412)	(235)
Effects of the change in the group of companies included in consolidation	—	72
Effect of the disposal of discontinued operations	307	—
Cash flows from investing activities	**874**	**991**

(€ millions)

	2014	2013
Change in additional paid-in capital	—	—
Dividend payments	(755)	(2,462)
Issue of subordinated liabilities and hybrid capital	434	6
Repayment/buy-back of subordinated liabilities and hybrid capital	(1,585)	(810)
Other financing activities (debt, fund for general banking risks) (+)	—	—
Other financing activities (debt, fund for general banking risks) (–)	(619)	(166)
Cash flows from financing activities	**(2,525)**	**(3,432)**
Cash and cash equivalents at end of previous period	**10,626**	**15,655**
Net cash provided/used by operating activities	**(3,802)**	**(2,588)**
Net cash provided/used by investing activities	**874**	**991**
Net cash provided/used by financing activities	**(2,525)**	**(3,432)**
Effects of exchange rate changes	—	—
Less non-current assets or disposal groups held for sale	—	—
Cash and cash equivalents at end of period	**5,173**	**10,626**

Notes to the Consolidated Financial Statements

for the period from 1 January 2014 to 31 December 2014

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

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

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) pursuant to EU Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (IAS-VO) together with further regulations regarding the adoption of certain IFRS within the framework of the EU endorsement in conjunction with Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) as non-exempt consolidated financial statements compliant with Section 4 of the IAS-VO Regulation. The present consolidated financial statements were prepared by the Management Board on 2 March 2015 and adopted by the Supervisory Board on 10 March 2015. Besides the standards defined as IFRS, the IFRS also comprise the existing International Accounting Standards (IAS) together with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC), respectively. All the standards and interpretations subject to mandatory adoption in the EU for the 2014 financial year have been applied. Section 315a HGB also contains national regulations to be applied alongside the IFRS by capital-market-oriented companies.

Our listed subsidiaries DAB Bank AG (until 17 December 2014) and AGROB Immobilien AG have published the equivalent statements of compliance required by Section 161 AktG on their websites.

Management's Discussion and Analysis meets the requirements of Section 315 (1, 2) HGB. Also incorporated is a risk report pursuant to Section 315 HGB. Compliant with Section 264b HGB, the following companies are exempted from the obligation to prepare a management report and publish their annual financial statements:
– A & T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG, Munich
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG, Grünwald
– Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG, Grünwald
– BIL Immobilien Fonds GmbH & Co Objekt Perlach KG, Munich
– BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG, Munich
– Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG, Munich
– Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft, Munich
– H & B Immobilien GmbH & Co. Objekte KG, Munich
– HAWA Grundstücks GmbH & Co. oHG Hotelverwaltung, Munich
– HAWA Grundstücks GmbH & Co. oHG Immobilienverwaltung, Munich
– HVB Gesellschaft für Gebäude mbH & Co. KG, Munich
– HVZ GmbH & Co. Objekt KG, Munich

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

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

Accounting and Valuation

1 Uniform Group accounting policies

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

2 Consistency

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

Reclassifications were made between net trading income and net fees and commissions during the reporting period, with the year-ago figures being adjusted accordingly. The main criteria applied when allocating the respective results components are the assumption of the risks inherent in the underlying transactions and whether these predominate or arise solely in the interest of the customer, and hence the nature of a service predominates. The corrected error led to an adjustment of the year-ago figures for net fees and commissions and net trading income. In all, net fees and commissions increased by €22 million while net trading income declined by the same amount.

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.

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

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

The following matters in particular are affected by estimates, assumptions and discretionary decisions:
– Measurement of goodwill: The multi-year plan drawn up by the Bank forms the main basis for the impairment test for goodwill. The multi-year plan contains forecasts of future trends in terms of both the Bank's respective business units and macroeconomic developments. This means that the impairment test for goodwill is also subject to estimates, assumptions and discretionary decisions.
– Determination of loan-loss allowances:
  Specific allowances: These represent the difference between the estimated, discounted expected future cash inflows and the carrying amount. This means that, to determine the loan-loss allowances, assumptions and forecasts must be made regarding the payments that may still be received from the borrower and/or proceeds from the realisation of the collateral.
  Portfolio allowances: Portfolio allowances are determined on the basis of the Bank's credit portfolio model described in the Risk Report. This internal model similarly draws on forecasts and assumptions which are thus relevant for the measurement of the portfolio allowance.
– Determination of fair values: The Bank employs internal models to determine the fair value of financial instruments for which no price is available on an active market. The application of these internal models presupposes assumptions and forecasts, among other things, the scope of which depends on the complexity of the financial instrument involved.

- Provisions are recognised for present or future obligations to cover the payments required to settle these obligations. In this context, it is necessary to estimate the amount of these expenses or costs and also the date at which the liabilities are expected to be settled. This involves making assumptions regarding the actual amount of the costs occurring and, in the case of long-term provisions, also estimating possible cost increases up until the settlement date. If the settlement date is more than one year in the future, the forecast expenses and costs are discounted over the period until the liability is settled.
- Deferred tax assets and liabilities: Apart from a few exceptions defined in the standard, deferred tax assets and liabilities are recognised for all temporary differences between the values stated in accordance with IFRS and the values stated for tax-reporting purposes (liability method). Accounting and valuation are performed in accordance with IAS 12 on the basis of local tax regulations that are expected to apply to the period when an asset is realised or a liability is settled. The regulations and applicable local tax rates are assumed that are enacted or substantively enacted at the reporting date. Deferred tax assets are not recognised to the extent that is seems unlikely that sufficient taxable profit will be available in future periods. Furthermore, deferred tax assets are recognised for unused tax losses carried forward and unused tax credits to the extent that recoverability is demonstrated. This is done on the basis of a five-year plan for HVB Group, which is subject to segment-specific and macroeconomic assumptions and takes account of local tax regulations. Appropriate haircuts are applied in the multi-year plan. Estimation uncertainties are inherent.
- Share-based compensation: Assumptions must similarly be made to determine the cost of share-based compensation programmes. The costs for the instruments to be transferred are amortised over the vesting period or the beneficiaries' claims expire if they leave UniCredit first. This makes it necessary to forecast what proportion of employees will leave UniCredit during the vesting period. At the same time, the shares granted must be measured at fair value at the grant date. The comments made above regarding the determination of fair values are applicable analogously.
- Property, plant and equipment: Depreciable items of property, plant and equipment are depreciated over their useful lives. Since the useful life is not independent of the usage of the actual asset in question, it must be estimated in light of the circumstances in each case.
- Intangible assets: With the exception of goodwill, intangible assets are amortised over their useful life. Here, too, suitable assumptions must be made to estimate the useful life.
- Investment properties: These assets are depreciated over the useful life of the property, meaning that a forecast is also required here.

Apart from this, the accounting, valuation and disclosure principles applied in 2014 are the same as those applied in the consolidated financial statements for 2013, with the exception of the new IFRS rules to be applied as described in Note 4.

3 Events after the reporting period

On 18 February 2015, the German Federal Labour Court (Bundesarbeitsgericht – BAG) published an explanation of its ruling relating to a court decision of 30 September 2014. The Court decided that, if an employer has made a pension commitment to its employees by way of a pension fund and the fund reduces the retirement benefits due to economic difficulties, the employer is obliged to compensate the employees for the reduction. Within the scope of the ruling, the Court also commented at length on the employer's obligation to adjust the pension. According to Section 16 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG), the employer is normally obliged to assess a potential increase of its commitment under occupational pensions every three years and has to make a decision at its own discretion. Contrary to the largely prevailing opinion in the literature, the Court has now determined that the escape clause concerning the pension adjustment obligation incorporated in Section 16 (3) No. 2 BetrAVG is not applicable for occupational pensions originated before the German Actuarial Reserve Regulation (Deckungsrückstellungsverordnung – DeckRV) that came into force in 1996. This opinion expressed by the Court in respect of the pension adjustment obligation may also be applicable to the occupational pension commitments undertaken by the Bank by way of Versorgungskasse des Bankgewerbes e.V. (BVV). This could result in an obligation for the Bank for which the extent and amount have still to be assessed. Due to the explanation recently published by the Court, the detailed effects are still unclear and the ensuing potential obligations cannot be reliably determined at this time.

Accounting and Valuation (Continued)

4 Initial adoption of new IFRS accounting rules

The following standards newly published or revised by the IASB were mandatorily applicable for EU-based enterprises 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.

In comparison to IAS 27, IAS 28 and IAS 31, IFRS 12 requires much more extensive disclosures regarding subsidiaries, joint arrangements, associates and unconsolidated structured entities, which we have incorporated in the notes to the consolidated financial statements (Note 6, "Companies included in consolidation"; Note 85, "Disclosures regarding structured entities").

The further amendments to the standards IAS 32, IAS 36 and IAS 39 had no significant effects on the consolidated financial statements of HVB Group:

The amendments to IAS 32 clarify the conditions for offsetting financial instruments. It is made clear that a present legal right to set off must exist at the reporting date and which gross settlement systems correspond to a net set-off within the meaning of the standard.

The amendments to IAS 36 contain minor modifications to notes disclosures when the recoverable amount for impaired non-financial assets was determined on the basis of fair value less costs to sell.

The amendments to IAS 39 make it possible to continue designating derivatives as hedging instruments in a continuing hedge, despite a novation, if the contract is transferred to a central counterparty as a result of legal or regulatory requirements.

5 Published IFRS that are not yet the subject of mandatory adoption and that have not been the subject of early adoption

As permitted, we have decided against the early voluntary adoption of the standards and interpretations adopted or revised by the IASB, which only become the subject of mandatory adoption for the 2015 financial year or thereafter. The Bank will apply these standards and interpretations in the financial year in which the new provisions in question become mandatorily applicable for EU-based enterprises for the first time.

The EU has adopted the following into European law:

– Amendments to IAS 19 "Employee Benefits – Defined Benefit Plans: Employee Contributions". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 February 2015.
– IFRIC Interpretation 21 "Levies". The provisions are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 July 2014.
– "Annual Improvements to IFRSs 2010–2012 Cycle". These minor amendments and corrections to various existing standards are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 February 2015.
– "Annual Improvements to IFRSs 2011–2013 Cycle". These minor amendments and corrections to various existing standards are subject to mandatory adoption by EU-based enterprises for reporting periods beginning on or after 1 January 2015.

The EU has not yet adopted the following into European law:

– IFRS 9 "Financial Instruments (July 2014)". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2018.
– IFRS 14 "Regulatory Deferral Accounts". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– IFRS 15 "Revenue from Contracts with Customers". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2017.
– Amendments to IFRS 10, IFRS 12 and IAS 28 – "Investment Entities: Applying the Consolidation Exception". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– Amendments to IFRS 10 and IAS 28 – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– Amendments to IAS 27 "Equity Method in Separate Financial Statements". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– Amendments to IAS 1 "Presentation of Financial Statements – Disclosure Initiative". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– Amendments to IAS 16 and IAS 38 – "Clarification of Acceptable Methods of Depreciation and Amortisation". The provisions are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.
– "Annual Improvements to IFRSs 2012-2014 Cycle". These minor amendments and corrections to various existing standards are subject to mandatory adoption for reporting periods beginning on or after 1 January 2016.

The new IFRS standards to be applied in the future that are relevant for HVB Group are discussed below:

In July 2014, the IASB published the definitive version of IFRS 9 "Financial Instruments" to replace IAS 39, the current standard covering the recognition and measurement of financial instruments. IFRS 9 contains a complete revision of the main regulations regarding the classification and measurement of financial instruments, the recognition of impairments of financial assets and the recognition of hedges. A final analysis of the significant effects arising for HVB Group is currently being carried out prior to implementation. Provided it is adopted into European law by the EU, IFRS 9 is subject to adoption for reporting periods beginning on or after 1 January 2018. Initial application should be retrospective.

Accounting and Valuation (Continued)

In May 2014, the IASB published a new standard regarding revenue realisation, IFRS 15 “Revenue from Contracts with Customers”, which defines a uniform principles-based model for determining how and when revenue is recognised. Since income accruing in connection with financial instruments is not affected by this, we only expect IFRS 15 to have a minor effect on HVB Group.

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

6 Companies included in consolidation

The group of companies included in consolidation by HVB Group encompasses 192 (2013: 209) subsidiaries, of which 37 (2013: 45) are classified as structured entities within the meaning of IFRS 12.

	2014	2013[1]
Total subsidiaries	**344**	**344**
Consolidated companies	192	209
of which:		
structured entities according to IFRS 12	37	45
Non-consolidated companies	152	135
of which:		
structured entities according to IFRS 12	11	—
Joint ventures	**2**	**2**
of which:		
accounted for using the equity method	—	—
Associated companies	**15**	**18**
of which:		
accounted for using the equity method	7	6

1 In order to enhance comparability, the group of companies included in consolidation in 2013 has been broken down in accordance with the terminology of IFRS 10 to IFRS 12 that came into effect on 1 January 2014.

At year-end 2014, we had a total of 162 (2013: 149) affiliated and associated companies, and joint ventures in HVB Group that were neither fully consolidated nor fully accounted for using the equity method as they do not have a material impact for the Group.

The structured entities include 23 borrowers over which HVB gained control during the course of restructuring or resolution. The borrowers are classified as structured entities within the meaning of IFRS 12 as, on account of their financial difficulties, they are controlled by their credit relationship with HVB and longer by voting rights. Not all of the borrowers are disclosed in Note 94, “List of holdings pursuant to Section 313 HGB”, for data protection reasons. Twelve of these borrowers have been consolidated; eleven borrowers have not been consolidated for materiality reasons.

The effects on the balance sheet of the contractual relationships between the Group companies and these non-consolidated companies are included in the consolidated financial statements. The aggregate net income for the year of these minor non-consolidated affiliated companies makes up around 0.23% (2013: 0.46%) of the consolidated profit of HVB Group, while such companies provide around 0.18% (2013: 0.04%) of consolidated assets. Our interests in these companies are carried as available-for-sale financial assets and loans extended under loans and receivables with customers.

Subsidiaries
The group of companies included in consolidation has been defined taking into account materiality criteria. In addition, smaller companies that are below the materiality thresholds have also been consolidated on account of the rules defined by the supervisory authorities that regulate UniCredit. The fully consolidated subsidiaries prepared their annual financial statements for the period ending 31 December 2014.

The following companies have different year-end dates:

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

Since these companies are insignificant for the consolidated financial statements, it was decided not to convert their financial years. When the consolidated financial statements are being prepared, interim financial statements are prepared at the corporate year-end date for all these companies.

37 fully consolidated subsidiaries are classified as structured entities in accordance with IFRS 12. Please refer to Note 85 for more information about structured entities.

There were significant restrictions on the ability of HVB Group to access assets of the subsidiaries as follows:
– Subsidiaries classified as credit institutions or financial services institutions for supervisory purposes are subject to the provisions of the German Banking Act, the CRR and MaRisk/ICAAP regarding their capital base. The capital to be maintained under these provisions limits the ability of HVB Group to adopt resolutions regarding dividend distributions.
– Fully consolidated structured entities are not generally included in the consolidated financial statements on account of HVB Group's position as a shareholder. Accordingly, HVB Group has no ability to decide on dividend distributions and is bound by the contractual arrangements (such as lending agreements or derivative contracts).

The non-controlling interests at 31 December 2014 have no significant effects on the consolidated financial statements of HVB Group either individually or in aggregate. At 31 December 2014, third parties hold non-controlling interests in 51 (2013: 63) fully consolidated subsidiaries. The non-controlling interests are shown separately in the consolidated balance sheet and generally participate in the profits and losses of the companies; their shareholders hold voting rights in the companies, but without breaking the controlling influence of HVB Group. The largest non-controlling interests in the past related to DAB Bank AG, which was sold and deconsolidated during the reporting period.

In 2014, the following companies were newly added to the group of companies included in consolidation at HVB Group:
– Elektra Purchase No. 32 S.A., Luxembourg
– Elektra Purchase No. 33 Ltd., Dublin
– Elektra Purchase No. 34 Ltd., Dublin
– Elektra Purchase No. 35 Ltd., Dublin
– Elektra Purchase No. 36 Ltd., Dublin
– Newstone Mortgage Securities No. 1 Plc., London
– UniCredit Zweite Beteiligungs GmbH, Munich
– WealthCap Kapitalverwaltungsgesellschaft mbH, Munich

WMC Management GmbH was renamed WealthCap Kapitalverwaltungsgesellschaft mbH with effect from 30 October 2014.

Accounting and Valuation (Continued)

The structured entities (Elektra Purchase No. 32 S.A., Luxembourg, Elektra Purchase No. 33 Ltd., Dublin, Elektra Purchase No. 34 Ltd., Dublin, Elektra Purchase No. 35 Ltd., Dublin, Elektra Purchase No. 36 Ltd., Dublin, Newstone Mortgage Securities No. 1 Plc., London) are new entities that have entered into their assets (receivables) and liabilities (notes issued) at normal market terms and conditions. Thus, the carrying amounts correspond to the fair values upon addition or at the date of initial consolidation, meaning that it is not necessary to carry out a remeasurement in line with the application of IFRS 3.

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 €28 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.

BV-BGPB Beteiligungsgesellschaft privater Banken für Internet- und mobile Bezahlungen mbH, Berlin, which was similarly added to the group of companies included in consolidation by HVB Group in 2014, is consolidated using the equity method.

In 2014, the following companies left the group of companies included in consolidation of HVB Group due to sale, imminent or completed liquidation:
– Bandon Leasing Ltd., Dublin
– BARD Phönix Verwaltungs GmbH, Emden
– Chiyoda Fudosan GK, Tokyo
– DAB Bank AG, Munich
– direktanlage.at AG, Salzburg
– Elektra Purchase No. 23 Ltd., Dublin
– Elektra Purchase No. 24 Ltd., Dublin
– GELDILUX-PP-2011 S.A., Luxembourg
– GELDILUX-TS-2010 S.A., Luxembourg
– GELDILUX-TS-2011 S.A., Luxembourg
– Grand Central Re Limited, Hamilton
– HVB Asia Limited, Singapore
– HVB Finance London Limited, London
– HVB Global Assets Company (GP), LLC, City of Dover
– HVB London Investments (CAM) Limited, London
– NXP Co-Investment Partners VIII, L. P., London
– Salome Funding Plc, Dublin
– UniCredit CAIB Securities UK Ltd., London
– UniCredit London Investments Limited, London

On 31 July 2014, the Management Board of HVB reached agreement with BNP Paribas S.A. on the sale of the 81.4% interest in DAB Bank AG (DAB) held by HVB. The definitive contracts were signed on 5 August 2014 following approval by HVB's Supervisory Board. A price of €4.78 per share, and hence around €354 million for all the shares held by HVB, was agreed. After approval was received from the relevant authorities, the transaction was completed on 17 December 2014. DAB together with its direktanlage.at subsidiary previously formed the Asset Gathering business segment. This segment ceases to exist with the sale of DAB. In accordance with IFRS 5, we are disclosing the contribution to profit of DAB and its direktanlage.at AG subsidiary in the consolidated income statement as profit from discontinued operations before and after tax. The composition of this contribution to profit is shown in Note 44, "Income statement of discontinued operations". The notes to the consolidated income statement in both the current reporting period and the previous reporting period no longer contain the contribution to profit of DAB and its direktanlage.at AG subsidiary accordingly. The deconsolidation of DAB and its direktanlage.at AG subsidiary leads at HVB Group to declines of €3.4 billion in available-for-sale financial assets, €1.4 billion in loans and receivables with banks, €0.3 billion in loans and receivables with customers and €5.0 billion in deposits from customers.

The following companies were absorbed by BARD Engineering GmbH, Emden, in the 2014 financial year, as a result of which they no longer belong to the group of companies included in consolidation by HVB Group:
– BARD Building GmbH & Co. KG, Emden
– BARD Emden Energy GmbH & Co. KG, Emden
– BARD Logistik GmbH, Emden
– BARD Nearshore Hooksiel GmbH, Emden
– BARD Schiffsbetriebsgesellschaft mbH & Co. Natalie KG, Emden
– BARD Service GmbH, Emden

In addition, SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG, Munich, was absorbed by Orestos Immobilien-Verwaltungs GmbH, Munich, in the 2014 financial year, as a result of which it no longer belongs to the group of companies included in consolidation by HVB Group.

On account of the deconsolidation of the subsidiaries listed above, HVB Group realised a gain upon deconsolidation in accordance with IFRS 10.25 of €154 million. This is disclosed as a loss of €8 million under net income from investments and a gain of €162 million in profit after tax from discontinued operations.

Associated companies
No financial statements at 31 December 2014 were available for the associated companies listed below valued using the equity method when the consolidated financial statements were prepared. The following financial statements were used for valuation using the equity method:

– Adler Funding LLC, Dover	30 September 2014
– Bulkmax Holding Ltd., Valetta	30 September 2014
– Comtrade Group B.V., Amsterdam	31 October 2014
– Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Istanbul	30 September 2014
– SwanCap Partners GmbH, Munich	30 September 2014

There were no significant events at these companies between the date when the above financial statements were prepared and 31 December 2014 that could have an impact on the assets, liabilities, financial position, and profit or loss.

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

There are no significant restrictions on our ability to access assets of the associated enterprises within the framework of the percentage interest we hold.

7 Principles of consolidation
An enterprise (or economically separate entity) is fully consolidated when it is controlled by HVB Group. Control is deemed to exist when the following three criteria defined in IFRS 10 are met: HVB Group must have power over the relevant activities of the company and be exposed to variable income from the enterprise. In addition, HVB Group must be able to use its power to influence the variable earnings it obtains from the enterprise.

Control is independent of the type of financial relationship between parent company and subsidiary and does not require any participation in the enterprise's capital. Control may also be derived from contractual arrangements or legal provisions.

To assess whether an enterprise is controlled by HVB Group, a detailed analysis must be carried out of the business purpose, the relevant activities of the enterprise, the parties involved and the distribution of the variable income from the enterprise. The analysis includes an assessment of whether HVB Group is acting as the principal and has delegated power over the enterprise to a third party (agent). This may be the case when the decision-maker who has power over the enterprise does not pursue own economic interests out of the enterprise or these are insignificant and the decision-maker merely exercises delegated decision-making powers for HVB Group.

Accounting and Valuation (Continued)

An enterprise is initially consolidated as soon as HVB Group gains control over the enterprise. During initial consolidation, the assets and liabilities of the enterprise measured are included at their fair values at the effective date. The uniform Group accounting and valuation policies are then applied. Expenses and income of the respective company are included in the consolidated income statement from the effective date of initial consolidation. Participating interests in a consolidated company held by third parties are carried under minority interests, provided the criteria for disclosure as shareholders' equity are met. Otherwise, they are recognised as debt.

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

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

We have used the multi-year plan as the basis for determining appropriate values in use for the CGUs to which goodwill is allocated. The values in use are determined using the discounted cash flow method. The figures for profit before tax from the segments' multi-year plans are included as cash flows. The average cash flows in the multi-year plan are assumed for the subsequent period. The segment-specific cost of capital rates used for discounting average 12.0% (2013: 12.4%) for the Corporate & Investment Banking business segment and 9.8% (2013: 10.5%) for the Commercial Banking business segment. No growth factor has been assumed for the government perpetuity. These values in use are employed as recoverable amounts and exceed the carrying amount and goodwill of the CGU. It is not necessary to estimate the selling price unless the value in use is less than the carrying amount.

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

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

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

8 Financial instruments

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

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

Among other things, the balance sheet disclosures and earnings contributions of the financial instruments must be shown separately, broken down by the IAS 39 valuation categories. In the present consolidated financial statements, we have included these changes in the explanatory notes to the balance sheet and the income statement. The information required by IFRS 7 regarding risks in connection with financial instruments is also provided in the Risk Report within Management's Discussion and Analysis. Compliant with IFRS 7.36 (a), the maximum credit exposure is the same as the carrying amount of the risk-bearing financial instruments or, in the case of financial guarantees and lending commitments, the nominal amount disclosed in Note 80 for the guarantee/amount of the lending commitments not yet utilised.

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

Financial assets and liabilities are initially recognised from the date on which the corporate group becomes a contractual party to the financial instrument in question. HVB Group normally recognises customary market purchases and sales of financial assets (known as regular way contracts) at the settlement date. Derivatives are recognised at the trading date.

The regulations set forth in IAS 39 regarding reclassifications have been observed. The reclassifications carried out in 2008 and 2009 are disclosed in Note 75, "Application of reclassification rules defined in IAS 39.50 et seq.".

Financial assets and liabilities at fair value through profit or loss

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

– Financial assets and liabilities held for trading

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

With the exception of the effect on results arising from the translation of monetary available-for-sale financial assets denominated in foreign currency, gains or losses on available-for-sale financial assets are recognised in net income from investments in the income statement (see Note 42).

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 cost as described above. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (no forced liquidation or distress sale) between market participants at the measurement date. Thus, the fair value based on a notional transfer corresponds to a selling or, in the case of a liability, the transfer price (exit price). In addition, the entity's own credit risk must be taken into account in the fair value of liabilities.

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 77):
– 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 fair 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).

Further disclosures regarding fair values and the fair value hierarchy are given in Note 77, "Fair value hierarchy", and Note 78, "Fair values of financial instruments compliant with IFRS 7".

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9 Financial assets held for trading

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The credit rating of the borrower and his ability to meet outstanding payment obligations is normally assessed irrespective of whether the borrower is already in arrears with payments or not.

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

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

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

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

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

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

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

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

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

Accounting and Valuation (Continued)

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

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

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

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

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

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

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

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

16 Property, plant and equipment

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

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

The estimated useful lives of property, plant and equipment are reviewed once a year and adjusted as appropriate should the expectations differ from earlier estimates.

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

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

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

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

17 Lease operations

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

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

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

HVB Group leases both movable assets and real estate.

Accounting and Valuation (Continued)

HVB Group as lessor

Operating leases

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

Finance leases

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

HVB Group as lessee

Operating leases

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

Finance leases

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

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

Please refer to Note 74 for more information.

18 Investment properties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting and Valuation (Continued)

23 Hedge adjustment of hedged items in the fair value hedge portfolio
Net changes in the value of the hedged amount of hedged items are carried in this hedge adjustment of the fair value hedge portfolio to be shown separately (see Note 67). The hedge adjustments have been recognised on a gross basis in the balance sheet for subsidiaries for which asset and liability holdings can be hedged separately.

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

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

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

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

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

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

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

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

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

In the case of defined benefit obligations, actuarial gains and losses are recognised immediately and in full in other comprehensive income (OCI) in the period in which they accrue. Consequently, the pension provision or other asset recognised in the consolidated balance sheet corresponds to the actual deficit or surplus for a given commitment.

Under the net interest approach, the net interest to be recognised in profit or loss for the period is calculated by multiplying the net defined benefit liability (asset) from defined benefit plans by the discount rate underlying the measurement of the defined benefit obligation. Since any plan assets are deduced from the net defined benefit liability (asset), this calculation method implicitly assumes the return on plan assets in the amount of the discount rate.

If the present value of a defined benefit obligation changes as a result of a plan amendment or plan curtailment, the Group recognises the ensuing effects in full as past service cost in the profit or loss for the period. The amount is normally recognised at the date when the plan amendment or plan curtailment occurs. The gains and losses when a plan is settled are also recognised directly in profit or loss when the settlement occurs.

The net pension expense of defined benefit obligations consists of a service cost component, a net interest component and a remeasurement component. This is recognised in the consolidated income statement and consolidated statement of total comprehensive income as follows:

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

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

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

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

The provisions for pensions and similar obligations are described in detail in Note 70.

Accounting and Valuation (Continued)

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

The top-up amounts promised under partial-retirement agreements are accounted for as other long-term employee benefits and the associated expenses accrued over their vesting period. HVB Group applies the first-in first-out (FiFo) method for the straight-line accrual of top-up benefits. The benefits are discounted to determine their present value. Remeasurements are recognised in profit or loss in the period in which they arise.

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

The employee compensation schemes are described in detail in Note 38.

26 Foreign currency translation

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

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

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

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

27 Income tax for the period

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

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

Segment Reporting

28 Notes to segment reporting by business segment

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

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

Changes in segment allocation

DAB Bank AG (DAB) together with its direktanlage.at AG subsidiary previously formed the Asset Gathering business segment. As HVB sold its interest in DAB to the BNP Paribas Group during the reporting period, this business segment no longer exists. Consequently, the segment report comments on the consolidated profit from continuing operations. The contribution to profits of DAB and its direktanlage.at AG subsidiary is shown separately in Note 44, "Income statement of discontinued operations". Please refer to Note 6, "Companies included in consolidation", for more information about the sale of DAB.

This means that the activities of HVB Group are divided into the following business segments for the purpose of segment reporting:

– Commercial Banking
– Corporate & Investment Banking (CIB)
– Other/consolidation

At the same time, we reorganised some aspects of net interest during the course of the year, mostly affecting the Other/consolidation and Corporate & Investment Banking business segments.

Reclassifications between net fees and commissions and net trading income were made during the reporting period. Please refer to Note 2, "Consistency", for more information about these changes. As a result of these reclassifications, there was a shift between these two items overall as well as a shift between the net fees and commission and net trading income of the Commercial Banking and Corporate & Investment Banking business segments.

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 and income.

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. Furthermore, a reallocation of the costs for the IT service provider led to changes in the other administrative expenses of all the business segments.

The year-ago figures and those of previous quarters have been adjusted accordingly to reflect the new segment structure and the reorganisations mentioned above.

Segment Reporting (Continued)

Method of segment reporting

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

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

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

The equity capital allocation used to calculate the return on investment on companies assigned to several business segments (HVB and UniCredit Luxembourg S.A.) is based on a uniform core capital allocation for each business segment. Pursuant to Basel III, this involves allocating 9.0% of core capital from risk-weighted assets to the business segments. The average tied core capital calculated in this way is used to compute the return on investment, which is disclosed under net interest. The percentage used for the return on the equity capital allocated to the companies HVB and UniCredit Luxembourg S.A. equals the base rate plus a premium in the amount of the 6-year average of the spread curve for the lending business of HVB both secured by land charges and unsecured. This rate is set for one year in advance as part of each budgeting process. The percentage changed to 2.80% in 2014 after 3.17% in the 2013 financial year. Equity capital is not standardised for the other companies included in the consolidated financial statements.

The income of €3 million (2013: €5 million) from investments in associated companies relates to the following companies accounted for using the equity method: Adler Funding LLC, Bulkmax Holding Ltd., BV-BGPB Beteiligungsgesellschaft privater Banken für Internet- und mobile Bezahlungen mbH, Comtrade Group B.V., Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S., Nautilus Tankers Limited and SwanCap Partners GmbH. All of these companies with the exception of BV-BGPB Beteiligungsgesellschaft privater Banken für Internet- und mobile Bezahlungen mbH are assigned to the CIB business segment. BV-BGPB Beteiligungsgesellschaft privater Banken für Internet- und mobile Bezahlungen mbH is assigned to the Commercial Banking business segment. The amount involved is disclosed under dividends and other income from equity investments in the income statement. The carrying amount of the companies accounted for using the equity method is €77 million (2013: €71 million).

Operating costs, which contain payroll costs, other administrative expenses as well as amortisation, depreciation and impairment losses on tangible and other intangible assets (without goodwill), are allocated to the appropriate business segment according to causation. The Global Banking Services and the Group Corporate Centre business units of the Other/consolidation business segment are treated as external service providers, charging the business segments for their services at a price which covers their costs. The method of calculating the costs of general banking services involves employing a weighted allocation key (costs, income, FTEs, base amount) in the budgeting process for each business segment to determine the assigned costs that cannot be allocated directly. The majority of the depreciation and impairment losses taken on property, plant and equipment are posted for the BARD Offshore 1 wind farm allocated to the Corporate & Investment Banking business segment and the real estate companies of HVB Group included in the Global Banking Services business unit of the Other/consolidation business segment.

Components of the segments of HVB Group

Commercial Banking business segment

The Commercial Banking business segment serves all customers in Germany with a need for standardised or personalised service and advice. In this context, its Private Clients Bank and Unternehmer Bank business units offer a wide range of banking services. Depending on the service approach, a needs-based distinction is made within Commercial Banking between private customers, private banking clients, high net worth individuals/ultra high net worth individuals and family offices under Wealth Management, business and corporate customers, and commercial real estate customers. All in all, Commercial Banking serves around 2.5 million customers. In this context, the Commercial Banking business segment builds on a shared "HypoVereinsbank" brand and a largely identical sales network.

In line with the universal bank model, the range of products and services of Commercial Banking enables comprehensive customer support to be provided. This extends from payment products, consumer loans, mortgage loans, savings-and-loan and insurance products and banking services for private customers through to business loans and foreign trade financing for corporate customers. Also included are fund products for all asset classes, advisory and brokerage services, securities transactions, liquidity and financial risk management, advisory services for affluent customers and investment banking products for corporate customers.

The focus when serving private customers is on connecting innovative access channels with individual, high quality advice and a service orientation. In this context, the bricks-and-mortar branch network continues to be the core element of a multi-channel offer, although this will be made more viable for the future by consolidating locations and investing systematically in the branch appearance and advisory competence.

The number of branches across Germany is to be reduced from 579 at the end of 2013 to 275 by the end of 2015 accordingly. A total of 64 branches will be retained as advice offices where customers will have access solely to self-service-based service functionalities alongside personal advice.

Furthermore, the bricks-and-mortar branch network is being supplemented by expanding the relationship model involving the online branch. In the online branch, the customer is served via remote channels. The online branch is available on Monday to Friday from 8 am to 10 pm, and Saturday and Sunday from 8 am to 6 pm. The primary contact media are the telephone, email and video conferencing. Products sales are concluded by post or confirmed using the TAN procedure in the DirectB@nking e-banking offer.

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

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

The distinguishing features of the Real Estate relationship model are individual solutions for commercial real estate customers, institutional investors, residential construction firms, property developers and building contractors. In this context, customers benefit particularly from specific financing expertise, for example in the Real Estate Structured Finance and Loan Syndication product areas.

Starting in 2015, moreover, the Private Banking & Wealth Management businesses within Commercial Banking will also serve very wealthy customers under the shared sales responsibility of the Private Banking and Wealth Management sales channels together with the corporate investment advisors.

Segment Reporting (Continued)

The Commercial Banking business segment is run by two members of the Management Board who bear joint responsibility. The business management and support functions are performed by staff units assigned to each of the business units. Reciprocal cross-servicing ensures that the products required are maintained only once.

The market environment for Commercial Banking is shaped by persistently low interest rates, a fragmented marketplace and rising cost of regulation. In parallel with persistently subdued demand from customers, increasing digitisation is causing a lasting change in customer requirements. We are facing up to the challenges this poses and are proactively pressing ahead with digital change in Commercial Banking.

In the Private Clients Bank business unit, we are the first bank in Germany to carry out a root-and-branch modernisation of our retail banking activities. By the end of 2015, we will set ourselves up as a genuine multi-channel bank and invest heavily in mobile and internet-based offerings and in the attractiveness of our branches. An expansion of the digital offer for corporate customers in the market-leading Business Easy unit is one of the key activities for 2015 in the Unternehmer Bank business unit as well.

The competitive business model of HVB Group's Commercial Banking was again rewarded by a number of awards in 2014. In the annual company survey conducted by Focus Money, for instance, HVB was again named 'Beste Mittelstandsbank' among private and public-sector institutions in Germany. HVB also received the accolades 'Summe cum laude' and 'Elite of Family Offices' in the sector test as part of the Elite Report for Private & Wealth Management. Also worthy of special note is the 2014 Innovation Prize in the category 'Multi-channel competence' in the Euro Finance bank study. Furthermore, an increase in the TRI*M customer satisfaction index in 2014 demonstrates a high level of customer loyalty and a competitive position enjoyed by Commercial Banking compared with our competitors.

Corporate & Investment Banking business segment

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

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

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

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

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

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

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

Other/consolidation business segment

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

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

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

Segment Reporting (Continued)

29 Income statement, broken down by segment

Income statement, broken down by segment for the period from 1 January to 31 December 2014 (€ millions)

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,585	1,022	36	2,643
Dividends and other income from equity investments	12	78	2	92
Net fees and commissions	804	291	(13)	1,082
Net trading income	20	458	5	483
Net other expenses/income	13	122	167	302
OPERATING INCOME	**2,434**	**1,971**	**197**	**4,602**
Payroll costs	(735)	(465)	(582)	(1,782)
Other administrative expenses	(1,233)	(858)	559	(1,532)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(11)	(106)	(128)	(245)
Operating costs	**(1,979)**	**(1,429)**	**(151)**	**(3,559)**
OPERATING PROFIT	**455**	**542**	**46**	**1,043**
Net write-downs of loans and provisions for guarantees and commitments	(108)	(112)	69	(151)
NET OPERATING PROFIT	**347**	**430**	**115**	**892**
Provisions for risks and charges	(11)	9	27	25
Restructuring costs	—	—	18	18
Net income from investments	2	126	20	148
PROFIT BEFORE TAX	**338**	**565**	**180**	**1,083**

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

INCOME/EXPENSES	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	OTHER/ CONSOLIDATION	HVB GROUP
Net interest	1,600	1,193	80	2,873
Dividends and other income from equity investments	8	101	8	117
Net fees and commissions	799	303	—	1,102
Net trading income	66	892	137	1,095
Net other expenses/income	(7)	76	259	328
OPERATING INCOME	**2,466**	**2,565**	**484**	**5,515**
Payroll costs	(751)	(455)	(564)	(1,770)
Other administrative expenses	(1,224)	(854)	569	(1,509)
Amortisation, depreciation and impairment losses				
on intangible and tangible assets	(11)	(32)	(156)	(199)
Operating costs	**(1,986)**	**(1,341)**	**(151)**	**(3,478)**
OPERATING PROFIT	**480**	**1,224**	**333**	**2,037**
Net write-downs of loans and provisions for guarantees and commitments	(74)	(240)	100	(214)
NET OPERATING PROFIT	**406**	**984**	**433**	**1,823**
Provisions for risks and charges	(34)	(134)	(52)	(220)
Restructuring costs	(325)	—	(37)	(362)
Net income from investments	1	116	81	198
PROFIT BEFORE TAX	**48**	**966**	**425**	**1,439**

Segment Reporting (Continued)

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

INCOME/EXPENSES	2014	2013	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest	1,585	1,600	387	395	404	399
Dividends and other income from equity investments	12	8	5	2	4	1
Net fees and commissions	804	799	186	197	207	214
Net trading income	20	66	7	(1)	4	11
Net other expenses/income	13	(7)	2	3	3	6
OPERATING INCOME	**2,434**	**2,466**	**587**	**596**	**622**	**631**
Payroll costs	(735)	(751)	(188)	(185)	(177)	(185)
Other administrative expenses	(1,233)	(1,224)	(309)	(318)	(301)	(305)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(11)	(11)	(3)	(3)	(3)	(3)
Operating costs	**(1,979)**	**(1,986)**	**(500)**	**(506)**	**(481)**	**(493)**
OPERATING PROFIT	**455**	**480**	**87**	**90**	**141**	**138**
Net write-downs of loans and provisions for guarantees and commitments	(108)	(74)	(61)	(3)	(13)	(31)
NET OPERATING PROFIT	**347**	**406**	**26**	**87**	**128**	**107**
Provisions for risks and charges	(11)	(34)	3	(16)	—	2
Restructuring costs	—	(325)	(2)	—	2	—
Net income from investments	2	1	(1)	—	—	2
PROFIT BEFORE TAX	**338**	**48**	**26**	**71**	**130**	**111**
Cost-income ratio in %	81.3	80.5	85.2	84.9	77.3	78.1

Development of the Commercial Banking business segment
The Commercial Banking business segment generated profit before tax of €338 million in the 2014 financial year, which is below the year-ago total of €373 million (adjusted for the restructuring costs of €325 million accruing in 2013).

Operating income declined a slight €32 million to €2,434 million in the 2014 financial year. Net interest remained stable, down €15 million to €1,585 million. The slight fall in net interest results from declines in volumes of property loans to private customers in lending operations, although new business was increased by around 8%. At the same time, interest income declined by 4% on account of rising repayments of current loans. The restrained demand for credit from business customers was again responsible for the slight decline in net income. Income from deposit-taking operations remained stable, despite the tightening of already low interest rates during the course of the year. At €804 million, net fees and commissions were up on the year-ago total of €799 million. Despite the persistent uncertainty on the financial markets and the change in our customers' demand patterns, it nevertheless proved possible to expand mainly our mandated business. Operating income was depressed by the effect of credit value adjustments, which served to reduce net trading income by €46 million year-on-year to €20 million.

The operating costs of €1,979 million were down by €7 million (0.4%) year-on-year, despite wide-ranging restructuring measures across the organisation. An increase in other administrative expenses as a result of higher indirect costs was offset by a 2.1% decline in payroll costs to €735 million. After 80.5% in the previous year, the cost-income ratio increased by 0.8 percentage points to 81.3% as a result of the lower operating income.

At €108 million, net write-downs of loans and provisions for guarantees and commitments remained at a low level. Provisions for risks and charges in the non-lending business (mainly in connection with legal risks) fell by €23 million to €11 million. The restructuring provisions of €325 million in the previous year essentially relating to the modernisation of the retail banking operations did not recur in the reporting period.

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

INCOME/EXPENSES	2014	2013	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest	1,022	1,193	240	255	277	250
Dividends and other income from equity investments	78	101	11	24	37	5
Net fees and commissions	291	303	78	85	84	44
Net trading income	458	892	133	64	14	246
Net other expenses/income	122	76	144	(21)	(19)	17
OPERATING INCOME	**1,971**	**2,565**	**606**	**407**	**393**	**562**
Payroll costs	(465)	(455)	(103)	(124)	(106)	(132)
Other administrative expenses	(858)	(854)	(188)	(211)	(235)	(224)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(106)	(32)	(18)	(18)	(52)	(17)
Operating costs	**(1,429)**	**(1,341)**	**(309)**	**(353)**	**(393)**	**(373)**
OPERATING PROFIT	**542**	**1,224**	**297**	**54**	**—**	**189**
Net write-downs of loans and provisions for guarantees and commitments	(112)	(240)	(130)	81	(4)	(58)
NET OPERATING PROFIT	**430**	**984**	**167**	**135**	**(4)**	**131**
Provisions for risks and charges	9	(134)	2	(18)	(6)	31
Restructuring costs	—	—	—	—	—	—
Net income from investments	126	116	45	11	65	6
PROFIT BEFORE TAX	**565**	**966**	**214**	**128**	**55**	**168**
Cost-income ratio in %	72.5	52.3	51.0	86.7	100.0	66.4

Development of the Corporate & Investment Banking business segment

The Corporate & Investment Banking (CIB) business segment generated operating income of €1,971 million in the 2014 financial year, which is €594 million below the year-ago total of €2,565 million. After operating costs of €1,429 million are deducted, the operating profit amounts to €542 million, which is €682 million less than the €1,224 million recorded in 2013.

The fall in operating income primarily reflects much lower net trading income which, with a decline of €434 million to €458 million, was down by nearly half compared with last year (2013: €892 million). Among other things, this development results from strong operations involving Pfandbriefs and loan securitisations in 2013 coupled with contracting money trading activities as a result of the persistently low interest rates. Although trading with equity derivatives increased strongly, this was not able to offset the decline. Furthermore, net trading income was depressed by credit value adjustments of €69 million in the reporting period (2013: reversals of €28 million).

The persistently very low interest rates had a negative impact on the performance of interest-related activities, leading to a year-on-year decline of €171 million in net interest to €1,022 million (2013: €1,193 million). This development can be attributed to a decrease of €84 million in trading-induced interest income together with contracting credit volumes.

Dividend income, which essentially arises from payments from private equity funds, fell by €23 million year-on-year to €78 million (2013: €101 million). This development can be attributed to the fact that the holdings of private equity investments have been greatly reduced in response to the focus on core activities and in anticipation of regulatory changes.

At €291 million, net fees and commissions were down a slight €12 million (2013: €303 million), attributable primarily to credit-related business. The strong increase of €46 million in net other expenses/income to €122 million (2013: €76 million) resulted from higher income in connection with our offshore wind farm and lower expenses for the bank levy.

Segment Reporting (Continued)

Operating costs increased by €88 million overall year-on-year to €1,429 million (2013: €1,341 million). Within this total, payroll costs rose by a minor €10 million to €465 million (2013: €455 million), and other administrative expenses together with amortisation, depreciation and impairment losses on intangible and tangible assets by a larger €78 million to €964 million (2013: €886 million). This development can be attributed to the initial consolidation of the BARD Group and the fully consolidated offshore wind farm that commenced operation at the end of 2013. Excluding these two non-recurring effects, total operating costs would have declined by 3.1%. The business segment's cost-income ratio rose by 20.2 percentage points to 72.5% (2013: 52.3%), chiefly on account of the decline in operating income.

The very low net write-downs of loans and provisions for guarantees and commitments of €112 million in the reporting period reflects both the good economic environment overall and the Bank's risk-sensitive business policy. The total is even €128 million less than the already low figure of €240 million reported in 2013. In provisions for risks and charges, reversals of provisions in the derivatives business gave rise to a net gain of €9 million (2013: net additions of €134 million due mainly to legal risks and the derivatives business). Net income from investments totalled €126 million in the reporting period (2013: €116 million), resulting mainly from the sale of holdings in private equity funds and direct investments.

The CIB business segment generated a profit before tax of €565 million in the 2014 financial year, which is €401 million below the year-ago total of €966 million despite the positive effects in loan-loss and other provisions and net income from investments.

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

INCOME/EXPENSES	2014	2013	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest	36	80	28	(2)	2	8
Dividends and other income from equity investments	2	8	2	(1)	2	—
Net fees and commissions	(13)	—	(2)	(4)	(4)	(3)
Net trading income	5	137	(3)	1	(2)	9
Net other expenses/income	167	259	53	44	49	21
OPERATING INCOME	**197**	**484**	**78**	**38**	**47**	**35**
Payroll costs	(582)	(564)	(151)	(147)	(142)	(142)
Other administrative expenses	559	569	134	149	142	134
Amortisation, depreciation and impairment losses on intangible and tangible assets	(128)	(156)	(32)	(30)	(33)	(33)
Operating costs	**(151)**	**(151)**	**(49)**	**(28)**	**(33)**	**(41)**
OPERATING PROFIT/(LOSS)	**46**	**333**	**29**	**10**	**14**	**(6)**
Net write-downs of loans and provisions for guarantees and commitments	69	100	35	17	5	11
NET OPERATING PROFIT	**115**	**433**	**64**	**27**	**19**	**5**
Provisions for risks and charges	27	(52)	15	—	5	7
Restructuring costs	18	(37)	20	—	—	(2)
Net income from investments	20	81	16	3	1	—
PROFIT BEFORE TAX	**180**	**425**	**115**	**30**	**25**	**10**
Cost-income ratio in %	76.6	31.2	62.8	73.7	70.2	117.1

Development of the Other/consolidation business segment

The operating income generated by this business segment amounted to €197 million compared with €484 million in the previous year, representing a decline of €287 million. Within this total, net interest decreased by €44 million to €36 million on account of the very low interest rates, among other factors. At €5 million, net trading income in the reporting period was similarly significantly below the year-ago amount of €137 million. The main reason for this is the non-recurrence of the gains on the buy-back of hybrid capital instruments generated in the previous year. Net other expenses/income declined by €92 million to €167 million, due partly to the recognition in 2013 of income from services provided in previous years that did not recur during the reporting period. With operating costs unchanged at €151 million (2013: €151 million), the operating profit for 2014 decreased by €287 million to €46 million (2013: €333 million).

After taking account of net reversals of €27 million in provisions for risks and charges (2013: net addition of €52 million), a net reversal of €18 million in restructuring costs (2013: costs of €37 million) and net income from investments of €20 million (2013: €81 million), the profit before tax amounts to €180 million. The year-ago profit before tax of €425 million included net income from investments of €81 million resulting essentially from gains on the sale of land and buildings.

30 Balance sheet figures, broken down by segment

(€ millions)

	COMMERCIAL BANKING	CORPORATE & INVESTMENT BANKING	ASSET GATHERING[1]	OTHER/ CONSOLIDATION	HVB GROUP[2]
Loans and receivables with banks					
2014	712	28,190	—	3,752	**32,654**
2013	527	29,166	1,406	4,213	**35,312**
Loans and receivables with customers					
2014	75,424	35,335	—	(1,123)	**109,636**
2013	75,883	34,813	279	(1,386)	**109,589**
Goodwill					
2014	130	288	—	—	**418**
2013	130	288	—	—	**418**
Deposits from banks					
2014	3,183	44,734	—	6,163	**54,080**
2013	10,421	40,446	18	(3,046)	**47,839**
Deposits from customers					
2014	71,187	24,626	—	4,861	**100,674**
2013	70,671	24,927	4,980	7,272	**107,850**
Debt securities in issue					
2014	916	3,084	—	24,249	**28,249**
2013	1,147	1,930	—	28,727	**31,804**
Risk-weighted assets					
(including equivalents for market risk					
and operational risk)					
2014[3]	28,337	45,145	—	12,286	**85,768**
2013[4]	29,172	48,553	1,015	6,773	**85,513**

1 discontinued operations in 2014
2 balance sheet figures for non-current assets or disposal groups held for sale are shown separately in Notes 59 and 68
3 risk-weighted assets compliant with Basel III
4 risk-weighted assets compliant with Basel II

Segment Reporting (Continued)

31 Employees, broken down by business segment[1]

	2014	2013
Commercial Banking	8,778	8,913
Corporate & Investment Banking[2]	2,671	2,963
Asset Gathering[3]	—	552
Other/consolidation[4]	6,531	6,664
Total	**17,980**	**19,092**

1 in full-time equivalents (FTEs)
2 including 356 FTEs from the BARD Group in 2014 and 680 FTEs in 2013
3 discontinued operations in 2014
4 the Other/consolidation business segment covers the Global Banking Services and Group Corporate Centre business units

32 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									
2014	5,460	234	151	303	66	91	21	(1,724)	4,602
2013	5,058	313	206	367	45	105	21	(600)	5,515
OPERATING PROFIT/(LOSS)									
2014	1,782	182	114	66	37	41	(29)	(1,150)	1,043
2013	1,249	237	170	279	38	57	119	(112)	2,037

Total assets, broken down by region (€ millions)

	2014	2013
Germany	275,677	260,341
Italy	53,021	49,317
Luxembourg	25,088	20,821
UK	12,102	15,502
Rest of Europe	4,918	2,636
Americas	4,797	6,303
Asia	3,094	3,333
Consolidation	(78,355)	(68,235)
Total	**300,342**	**290,018**

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

	2014	2013
Germany	2,899	2,859
Italy	—	—
Luxembourg	32	32
UK	13	16
Rest of Europe	1	3
Americas	3	1
Asia	1	2
Consolidation	—	—
Total	**2,949**	**2,913**

Investment properties, broken down by region (€ millions)

	2014	2013
Germany	1,269	1,431
Italy	—	—
Luxembourg	24	25
UK	—	—
Rest of Europe	—	—
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**1,293**	**1,456**

Intangible assets, broken down by region (€ millions)

	2014	2013
Germany[1]	476	514
Italy	—	—
Luxembourg	1	1
UK	1	1
Rest of Europe	—	2
Americas	—	—
Asia	—	—
Consolidation	—	—
Total	**478**	**518**

1 includes goodwill

Employees, broken down by region[1]

	2014	2013
Germany	16,296	17,330
Italy	287	293
Luxembourg	175	183
UK	563	533
Rest of Europe	276	367
Africa	2	2
Americas	183	196
Asia	198	188
Total	**17,980**	**19,092**

1 in full-time equivalents (FTEs)

Notes to the Income Statement

33 Net interest

(€ millions)

	2014	2013
Interest income from	**5,014**	**5,685**
lending and money market transactions	3,480	3,890
other interest income	1,534	1,795
Interest expense from	**(2,371)**	**(2,812)**
deposits	(574)	(639)
debt securities in issue and other interest expenses	(1,797)	(2,173)
Total	**2,643**	**2,873**

Interest income and interest expense for financial assets and liabilities not carried at fair value through profit or loss totalled €3,622 million (2013: €4,070 million) and €1,874 million (2013: €2,148 million), respectively. In this context, it should be noted that a comparison of these latter figures is of only limited informative value in economic terms, as the interest expenses for financial liabilities that are not measured at fair value through profit or loss also include refinancing for financial assets at fair value through profit or loss and partially for financial assets held for trading as well.

Net interest attributable to related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	99	150
of which: UniCredit S.p.A.	46	71
Joint ventures	1	—
Associated companies	9	4
Other participating interests	—	—
Total	**109**	**154**

Besides the amounts attributable to UniCredit S.p.A., the net interest of €99 million (2013: €150 million) from non-consolidated affiliated companies includes interest income of €53 million (2013: €79 million) attributable to sister companies.

34 Dividends and other income from equity investments

(€ millions)

	2014	2013
Dividends and other similar income	89	112
Companies accounted for using the equity method	3	5
Total	**92**	**117**

35 Net fees and commissions

(€ millions)

	2014	2013
Management, brokerage and consultancy services	520	520
Collection and payment services	225	221
Lending operations	310	343
Other service operations	27	18
Total	**1,082**	**1,102**

This item comprises the balance of fee and commission income of €1,649 million (2013: €1,490 million) and fee and commission expense of €567 million (2013: €388 million). Fee and commission income of €117 million (2013: €137 million) and fee and commission expense of €5 million (2013: €3 million) relate to financial instruments not measured at fair value through profit or loss.

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

Net fees and commissions from related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	91	65
of which: UniCredit S.p.A.	13	(18)
Joint ventures	—	—
Associated companies	34	65
Other participating interests	—	—
Total	**125**	**130**

Besides the amounts attributable to UniCredit S.p.A., the net fees and commissions of €91 million (2013: €65 million) from non-consolidated affiliated companies include €78 million (2013: €83 million) from sister companies.

36 Net trading income

(€ millions)

	2014	2013
Net gains on financial assets held for trading[1]	450	806
Effects arising from hedge accounting	(14)	8
Changes in fair value of hedged items	(830)	969
Changes in fair value of hedging derivatives	816	(961)
Net gains/(losses) on financial assets at fair value through profit or loss (fair value option)[2]	45	147
Other net trading income	2	134
Total	**483**	**1,095**

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 (effect in 2014: minus €296 million; 2013: plus €470 million)

Notes to the Income Statement (Continued)

The net gains on financial assets in the reporting period include negative rating-related value adjustments of €98 million on our holdings of derivatives (2013: positive adjustments of €41 million).

Other net trading income in 2013 and 2014 almost exclusively reflected positive effects from the partial buy-back of hybrid capital.

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

The hedge results from hedged items include a positive effect arising from exchange rate changes of €524 million (2013: negative effect of €11 million), which is attributable to the development of the euro against the US dollar. This is offset by a corresponding negative effect in the hedge result from hedging derivatives.

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.

37 Net other expenses/income

(€ millions)

	2014	2013
Other income	605	581
Other expenses	(303)	(253)
Total	**302**	**328**

Other income includes rental income of €166 million (2013: €181 million) from investment properties and mixed usage buildings and income of €158 million (2013: €72 million) in connection with the Bard Offshore 1 offshore wind farm. Current operating expenses (including repairs and maintenance) directly allocable to investment properties and current expenses from mixed usage buildings of €56 million (2013: €49 million) are netted with the other income. Other expenses include expenses of €39 million (2013: €86 million) for the German bank levy in the 2014 financial year.

At the same time, there were gains of €16 million (2013: €43 million) on the sale of unimpaired receivables.

Net other expenses/income attributable to related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	28	212
of which: UniCredit S.p.A.	11	109
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**28**	**212**

Besides the amounts attributable to UniCredit S.p.A., the net other expenses/income of €28 million (2013: €212 million) attributable to non-consolidated affiliated companies include €17 million (2013: €103 million) attributable to sister companies.

38 Operating costs

(€ millions)

	2014	2013
Payroll costs	**(1,782)**	**(1,770)**
Wages and salaries	(1,461)	(1,467)
Social security costs	(227)	(205)
Pension and other employee benefit costs	(94)	(98)
Other administrative expenses	**(1,532)**	**(1,509)**
Amortisation, depreciation and impairment losses	**(245)**	**(199)**
on property, plant and equipment	(193)	(157)
on software and other intangible assets, excluding goodwill	(52)	(42)
Total	**(3,559)**	**(3,478)**

Wages and salaries includes payments of €14 million (2013: €14 million) made upon the termination of the employment contract. The expense for similar payments under restructuring measures are recognised under restructuring costs in the income statement and explained in Note 41.

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)

	2014	2013
Non-consolidated affiliated companies	(599)	(597)
of which: UniCredit S.p.A.	(3)	(2)
Joint ventures	—	—
Associated companies	—	—
Other participating interests	—	—
Total	**(599)**	**(597)**

Besides the amounts attributable to UniCredit S.p.A., the operating costs of €599 million (2013: €597 million) attributable to non-consolidated affiliated companies include €596 million (2013: €595 million) attributable to sister companies.

Share-based payment compliant with IFRS 2

Share-based payments were granted primarily under the Group Incentive System in the reporting period. In addition, UniCredit has further schemes programmes under which shares or stock are granted that are also accounted for in accordance with IFRS 2: the long-term incentive programme, the “2012 Share Plan for Group Talents and Mission Critical Players”, and the employee share ownership plan (“Let’s Share”).

Group Incentive System

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

Employees whose duties have a significant impact on the Bank’s overall risk and employees with a promised bonus in excess of €100,000 are beneficiaries of the Group Incentive System. Under the Group Incentive System, the bonus promised for the respective reporting period is split into a cash component and a stock component.

The cash component is disbursed in tranches over a period of up to four years. Accordingly, this group of employees received 20% to 30% of the bonus for 2014 in cash with the commitment at the beginning of 2015, and a further 10% to 15% will be disbursed after year-end 2015 and year-end 2016.

Notes to the Income Statement (Continued)

At the beginning of 2015, the beneficiaries receive a commitment for the remaining 50% of the total bonus to allocate shares in UniCredit S.p.A. as part of the bonus for 2014, to be transferred to the beneficiaries after year-end 2017, 2018 and 2019.

The deferred payment after year-end 2015 and 2016 and the transfer of shares after year-end 2017, 2018 and 2019 to the beneficiaries is subject to the provision that, as part of a malus arrangement, it is ensured that a loss has not been recorded at the UniCredit corporate level or at the level of the individual beneficiary, or a significant reduction in the results achieved.

The fair value of the granted shares is calculated using the average stockmarket price of UniCredit S.p.A. shares in the month prior to the resolution by the Board of Directors in March 2015 regarding the granting, adjusted for a discount for expected dividends during the vesting period.

6.0 million UniCredit S.p.A. shares (before possible adjustment due to adjustments in the equity of UniCredit S.p.A.) were granted in the reporting period as a component of the bonus granted for 2013, with a fair value of €33 million. The shares granted in 2014 as part of the bonus for 2013 will be transferred in 2016, 2017 and 2018. The following shows the fair values per share at the time of granting:

	2014
Fair value of the shares to be transferred in 2016 (€ per share)	5.662
Fair value of the shares to be transferred in 2017 (€ per share)	5.563
Fair value of the shares to be transferred in 2018 (€ per share)	5.435

Analysis of outstanding shares

	2014		2013	
	TOTAL	AVERAGE MATURITY	TOTAL	AVERAGE MATURITY
Outstanding at start of period	**18,246,089**	**February 2015**	**8,274,895**	**June 2014**
Additions				
Newly granted shares	5,950,516	November 2016	10,040,749	August 2015
From corporate transfers	—	—	—	—
Releases				
Forfeited shares	737,942	August 2015	69,555	December 2015
Transferred shares	3,716,913	May 2014	—	—
Expired shares	—	—	—	—
Total at end of period	**19,741,750**	**December 2015**	**18,246,089**	**February 2015**

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

Bonuses for the 2014 financial year falling due for disbursement in 2015 are recognised in full as expense. Where cash payments are made at a later date, such payments are subject to the condition that the eligible employees remain employed by UniCredit or partly subject to further performance targets. Accordingly, the vesting period for the promised bonus consists of several financial years (target achievement plus waiting period) and is to be deferred over this period compliant with IAS 19.153 in conjunction with IAS 19.68. Thus, deferred cash payments under the bonus promised for 2014 are recognised as expense in the respective period (starting with the 2014 financial year to the end of the financial year in which the waiting period for the respective tranche ends) on a pro rata basis.

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

In the 2014 financial year, prorated expenses of €32 million (2013: €27 million) accrued for the stock component arising from the bonuses promised for 2011, 2012, 2013 and 2014 in the form of share-based payments compliant with IFRS 2. These expenses are recognised under payroll costs. The provision set up totalled €85 million (2013: €61 million).

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

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

The following statements relate to all eligible HVB Group employees covered by the long-term incentive programme. The information provided in Note 90 in this regard merely relates to the stock options and performance shares granted to members of the Management Board.

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

The fair values of the stock options at the grant date are determined using Hull & White's trinomial model. The following parameters have been taken into account in this context:
– The probability of the option expiring due to the beneficiary leaving the company prematurely after the lock-up period has expired.
– Definition of an exercise barrier. This means that the options are only exercised before the end of the exercise period if the current price of the UniCredit share exceeds the exercise price by the exercise barrier multiplier (usually a factor of 1.5).
– Dividend yield of the UniCredit share.
– Average historical daily volatility over a period equivalent to the vesting period.

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

As in the previous year, no new stock options were granted in the 2014 financial year.

Notes to the Income Statement (Continued)

Analysis of outstanding stock options

	2014			2013		
	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY	TOTAL	AVERAGE STRIKE PRICE (€)[1]	AVERAGE MATURITY
Outstanding at start of period	**13,955,927**	**4.64**	**December 2018**	**28,094,229**	**3.27**	**December 2019**
Additions						
Newly granted options	—	—	—	—	—	—
From corporate transfers	—	—	—	118,984	3.26	August 2019
Releases						
Forfeited stock options	417,919	5.11	April 2018	935,553	3.70	August 2019
Exercised stock options	—	—	—	—	—	—
Expired stock options	—	—	—	13,321,733	1.81	December 2020
Total at end of period	**13,538,008**	**4.62**	**December 2018**	**13,955,927**	**4.64**	**December 2018**
Exercisable options at end of period	12,409,759	4.68	August 2018	12,827,678	4.69	August 2018

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

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

As in the previous year, no new performance shares were granted in 2014. This means that, as in the previous year, no performance shares were outstanding at the reporting date.

The forfeited instruments and the prorated expenses for the granted instruments resulted in a net expense of €1 million for stock options at HVB Group in 2014 (2013: net income of €8 million). These expenses are recognised under payroll costs.

The provision set up to cover non-expired stock options at HVB Group totalled €2 million at year-end 2014 (2013: €1 million).

2012 Share Plan for Group Talents and Mission Critical Players

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

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

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

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

Analysis of outstanding shares

	2014	2013
	TOTAL (SHARES)	TOTAL (SHARES)
Outstanding at start of period	**759,840**	**1,147,209**
Additions		
Newly granted shares	—	—
Releases		
Forfeited shares	30,935	7,500
Transferred shares	364,404	379,869
Expired shares	—	—
Total at end of period	**364,501**	**759,840**[1]

1 The figure for outstanding shares disclosed last year was 8,844 too low. The error has been corrected and the year-ago figure adjusted accordingly.

The fair value at the grant date is recorded as an expense for such shares pro rata temporis over the period of the respective tranche.

The prorated expenses arising from the granted shares and the income from forfeited shares totalled €0 million at HVB Group in 2014 (2013: €1 million). These expenses are recognised in payroll costs.

The provision set up for this share plan totalled €1 million at year-end 2014 (2013: €4 million).

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

Between January 2014 and December 2014, employees participating in the plan had the opportunity to use their contributions to buy regular UniCredit shares (known as investment shares). However, the plan offers the following advantage compared with buying the shares directly on the market:

Participating employees first receive the right to obtain free shares with a value of one-third of the amount they have invested under the plan. At the end of a one-year vesting period in January 2015 (or July 2015 in the event of participation from July 2014), the participants receive regular UniCredit shares in exchange for their rights, over which they have an immediate right of disposal. The rights to the free shares generally expire when employees sell the investment shares or their employment with a UniCredit company is terminated before the vesting period ends.

Notes to the Income Statement (Continued)

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

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

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

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

(€ millions)

	2014	2013
Additions	**(1,198)**	**(1,709)**
Allowances for losses on loans and receivables	(1,010)	(1,501)
Allowances for losses on guarantees and indemnities	(188)	(208)
Releases	**996**	**1,424**
Allowances for losses on loans and receivables	825	898
Allowances for losses on guarantees and indemnities	171	526
Recoveries from write-offs of loans and receivables	**51**	**71**
Gains/(losses) on the disposal of impaired loans and receivables	**—**	**—**
Total	**(151)**	**(214)**

Income from the disposal of performing loans and receivables is disclosed under net other expenses/income. This gave rise to a gain of €16 million in the year under review (2013: €43 million). The net expenses (net write-downs of loans and provisions for guarantees and commitments, and gains on disposal) for loans and receivables amount to €118 million (2013: net expense of €489 million).

40 Provisions for risks and charges

There was net income of €25 million from net additions/net reversals for risks and charges in the reporting period. Within this total, reversals in connection with derivatives operations exceed additions for legal and other risks.

In the previous year, there was net expense of €220 million from net additions/net reversals for risks and charges, which resulted particularly from additions for legal risks in addition to provisions for derivative transactions.

41 Restructuring costs

In the reporting period, net reversals of restructuring provisions no longer required came to €18 million. Restructuring costs in 2013 totalled €362 million, relating for the most part to the creation of restructuring provisions for the modernisation of the retail customer business of HVB Group.

42 Net income from investments

(€ millions)

	2014	2013
Available-for-sale financial assets	141	114
Shares in affiliated companies	(8)	23
Companies accounted for using the equity method	(9)	—
Held-to-maturity investments	4	—
Land and buildings	—	54
Investment properties[1]	17	7
Other	3	—
Total	**148**	**198**

1 gains on disposal, impairments and write-ups

Net income from investments breaks down as follows:

(€ millions)

	2014	2013
Gains on the disposal of	**170**	**242**
available-for-sale financial assets	155	164
shares in affiliated companies	(8)	23
companies accounted for using the equity method	—	—
held-to-maturity investments	4	—
land and buildings	—	54
investment properties	16	1
other	3	—
Write-downs, value adjustments and write-ups on	**(22)**	**(44)**
available-for-sale financial assets	(14)	(50)
shares in affiliated companies	—	—
companies accounted for using the equity method	(9)	—
held-to-maturity investments	—	—
investment properties	1	6
Total	**148**	**198**

The gains on disposal in the reporting period include €155 million from AfS financial assets stemming essentially from the sale of private equity funds. Furthermore, gains of €16 million were recognised on the sale of investment properties.

In 2013, the gains on disposal included €164 million from AfS financial assets stemming mostly from the sale of private equity funds. Furthermore, gains of €54 million were recognised on the disposal of land and buildings relating to the sale of real estate at the Hamburg facility. The write-downs and value adjustments of €50 million recognised on AfS financial assets were taken primarily on private equity funds.

Notes to the Income Statement (Continued)

43 Income tax for the period

The following explanations refer to the income from continued operations. The tax expense from discontinued operations is shown under Note 44, "Income statement of discontinued operations".

(€ millions)

	2014	2013
Current taxes	(144)	(346)
Deferred taxes	(154)	(31)
Total	**(298)**	**(377)**

The current tax expense for 2014 includes tax income of €30 million for previous years (2013: €12 million tax expense).

The deferred tax expense in the reporting period comprises tax expenses of €154 million from origination and reversal of deferred taxes arising from temporary differences as well as from the origination and utilisation of tax losses carried forward. In 2013, the net deferred tax expense included tax income of €81 million from value adjustments on deferred tax assets arising from tax losses carried forward and tax expenses of €112 million arising from the origination and utilisation of tax losses and the origination, reversal and value adjustments of deferred taxes arising from temporary differences.

The differences between computed and recognised income tax are shown in the following reconciliation:

(€ millions)

	2014	2013
Profit before tax	1,083	1,439
Applicable tax rate	31.4%	31.4%
Computed income taxes	(340)	(452)
Tax effects		
arising from previous years and changes in tax rates	+ 47	(3)
arising from foreign income	+ 12	+ 37
arising from non-taxable income	+ 55	+ 69
arising from different tax laws	+ 24	(19)
arising from non-deductible expenses	(79)	(90)
arising from value adjustments and the non-recognition of deferred taxes	(17)	+ 81
arising from other differences	—	—
Recognised income taxes	**(298)**	**(377)**

As in 2013, an applicable tax rate of 31.4% has been assumed in the tax reconciliation. This comprises the current rate of corporate income tax in Germany of 15.0%, the solidarity surcharge of 5.5% and an average trade tax rate of 15.6%. This reflects the fact that the consolidated profit is dominated by profits generated in Germany, meaning that it is subject to German corporate income tax and trade tax.

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

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

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

(€ millions)

	2014	2013
Deferred tax assets		
Financial assets/liabilities held for trading	350	255
Investments	30	42
Property, plant and equipment/intangible assets	117	101
Provisions	694	484
Other assets/other liabilities/hedging derivatives	725	538
Loans and receivables with banks and customers, including provisions for losses on loans and receivables	169	182
Losses carried forward/tax credits	334	360
Other	1	12
Total deferred tax assets	**2,420**	**1,974**
Effect of offsetting	(1,201)	(751)
Recognised deferred tax assets	**1,219**	**1,223**
Deferred tax liabilities		
Loans and receivables with banks and customers, including provisions for losses on loans and receivables	69	27
Financial assets/liabilities held for trading	176	110
Investments	167	54
Property, plant and equipment/intangible assets	34	57
Other assets/other liabilities/hedging derivatives	738	562
Deposits from banks/customers	14	3
Non-current assets or disposal groups held for sale	—	1
Other	92	143
Total deferred tax liabilities	**1,290**	**957**
Effect of offsetting	(1,201)	(751)
Recognised deferred tax liabilities	**89**	**206**

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

Deferred tax liabilities of €2 million were debited to the AfS reserve of HVB Group (2013: €1 million deferred tax assets) and deferred tax liabilities of €12 million (2013: €11 million) were offset against the hedge reserve. The deferred taxes are mainly included in the items "Investments" and "Other assets/other liabilities/hedging derivatives" mentioned above. Deferred tax assets of €571 million (2013: €295 million) were recognised outside profit or loss in connection with the accounting for pension commitments in accordance with IAS 19. They are included under "Provisions" in the above table. In each case, the deferred tax items offset directly against reserves or other comprehensive income are the balance of deferred tax assets and deferred tax liabilities before adjustment for minority interests.

Compliant with IAS 12, no deferred tax assets have been recognised for unused tax losses of HVB Group of €3,418 million (2013: €4,143 million), most of which do not expire, and deductible temporary differences of €1,540 million (2013: €1,741 million).

Notes to the Income Statement (Continued)

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

44 Income statement of discontinued operations

As described in Note 6, “Companies included in consolidation”, HVB has sold its participating interest in DAB to BNP Paribas Group. DAB together with its direktanlage.at AG subsidiary previously formed the Asset Gathering business segment. This segment ceases to exist with the sale of DAB. Compliant with IFRS 5, the following table shows the overall contribution to profits of DAB and its direktanlage.at AG subsidiary recognised as profit from discontinued operations.

	2014	2013	CHANGE	
Income/Expenses	**€ millions**	**€ millions**	**€ millions**	**in %**
Interest income	58	65	(7)	(10.8)
Interest expense	(12)	(26)	+ 14	(53.8)
Net interest	46	39	+ 7	+ 17.9
Dividends and other income from equity investments	—	—	—	—
Net fees and commissions	78	86	(8)	(9.3)
Net trading income	1	1	—	—
Net other expenses/income	(1)	(1)	—	—
Payroll costs	(38)	(40)	+ 2	(5.0)
Other administrative expenses	(54)	(58)	+ 4	(6.9)
Amortisation, depreciation and impairment losses on intangible and tangible assets	(11)	(11)	—	—
Operating costs	(103)	(109)	+ 6	(5.5)
Net write-downs of loans and provisions for guarantees and commitments	(1)	—	(1)	
Provisions for risks and charges	—	(2)	+ 2	(100.0)
Restructuring costs	—	—	—	—
Net income from investments	165	5	+ 160	>+ 100.0
PROFIT BEFORE TAX FROM DISCONTINUED OPERATIONS	**185**	**19**	**+ 166**	**>+ 100.0**
Income tax for the period from discontinued operations	(12)	(7)	(5)	+ 71.4
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**173**	**12**	**+ 161**	**>+ 100.0**
attributable to the shareholder of UniCredit Bank AG	167	10	+ 157	>+ 100.0
attributable to minorities	6	2	+ 4	>+ 100.0

45 Earnings per share

	2014	2013
Consolidated profit from continuing operations attributable to the shareholder (€ millions)	774	1,021
Average number of shares	802,383,672	802,383,672
Earnings per share from continuing operations (€)	0.96	1.27

	2014	2013
Consolidated profit of full HVB Group attributable to the shareholder (€ millions)	947	1,033
Average number of shares	802,383,672	802,383,672
Earnings per share of full HVB Group (€)	1.18	1.29

Notes to the Balance Sheet

46 Cash and cash balances

(€ millions)

	2014	2013
Cash on hand	492	527
Deposits central banks	4,681	10,099
Total	**5,173**	**10,626**

47 Financial assets held for trading

(€ millions)

	2014	2013
Balance-sheet assets	**31,178**	**28,025**
Fixed-income securities	9,829	11,504
Equity instruments	9,430	6,928
Other financial assets held for trading	11,919	9,593
Positive fair value from derivative financial instruments	**80,660**	**63,276**
Total	**111,838**	**91,301**

The financial assets held for trading include €259 million (2013: €194 million) in subordinated assets.

Financial assets held for trading did not include any Greek sovereign bonds in the reporting period or 2013.

Financial assets held for trading of related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	19,579	14,399
of which: UniCredit S.p.A.	12,660	10,005
Joint ventures	22	—
Associated companies	403	254
Other participating interests	15	20
Total	**20,019**	**14,673**

Besides the amounts attributable to UniCredit S.p.A., the financial assets held for trading of €19,579 million (2013: €14,399 million) attributable to non-consolidated affiliated companies include financial assets of €6,919 million (2013: €4,394 million) attributable to sister companies (mostly derivative transactions involving UniCredit Bank Austria AG).

48 Financial assets at fair value through profit or loss

(€ millions)

	2014	2013
Fixed-income securities	29,935	28,478
Equity instruments	—	—
Investment certificates	—	2
Promissory notes	1,270	1,232
Other financial assets at fair value through profit or loss	—	—
Total	**31,205**	**29,712**

79% (2013: 82%) of the promissory notes was issued by the federal states and regional authorities in the Federal Republic of Germany. The portfolio also includes a promissory note issued by the Republic of Austria.

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

The financial assets at fair value through profit or loss (fair value option) include €324 million (2013: €282 million) in subordinated assets.

Financial assets at fair value through profit or loss did not include any Greek sovereign bonds in the reporting period or 2013.

49 Available-for-sale financial assets

(€ millions)

	2014	2013
Fixed-income securities	1,071	3,533
Equity instruments	113	264
Other available-for-sale financial assets	42	201
Impaired assets	343	578
Total	**1,569**	**4,576**

The year-on-year decline in the holding of AfS financial assets in the reporting period can essentially be attributed to the sale of DAB Bank AG and the associated discontinuation of the Asset Gathering business segment. The main factor behind the decline in this item is the disposal of fixed-income securities associated with the execution of the transaction. At the same time, HVB's private equity portfolio with a carrying amount of €309 million previously managed by the Corporate & Investment Banking business segment was sold as part of the Swan II project (this is divided across equity instruments and impaired assets).

Available-for-sale financial assets at 31 December 2014 included €266 million (2013: €685 million) in financial assets valued at cost. Within this total, equity instruments with a carrying amount of €126 million (2013: €171 million) were sold during the reporting period, yielding a gain of €128 million (2013: €92 million).

Available-for-sale financial assets at 31 December 2014 contain a total of €343 million (2013: €578 million) in impaired assets. Impairments of €15 million (2013: €53 million) were taken to the income statement during the period under review.

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

The available-for-sale financial assets include €200 million (2013: €189 million) in subordinated assets at 31 December 2014.

Available-for-sale financial instruments did not include any Greek sovereign bonds in the reporting period or 2013.

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

(€ millions)

	2014	2013
Associated companies accounted for using the equity method	77	71
of which: goodwill	29	37
Joint ventures accounted for using the equity method	—	—
Total	**77**	**71**

Two joint ventures and eight associated companies were not accounted for in the consolidated financial statements using the equity method for materiality reasons.

Notes to the Balance Sheet (Continued)

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

	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January 2013	**65**
Additions	**16**
Purchases[1]	14
Write-ups	—
Changes from currency translation	—
Other additions[2]	2
Disposals	**(10)**
Sales	—
Impairments	—
Changes from currency translation	(10)
Non-current assets or disposal groups held for sale	—
Other disposals[2]	—
Carrying amounts at 31 December 2013	**71**
	ASSOCIATED COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD
Carrying amounts at 1 January 2014	**71**
Additions	**15**
Purchases[1]	4
Write-ups	—
Changes from currency translation	5
Other additions[2]	6
Disposals	**(9)**
Sales	—
Impairments	(9)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	—
Other disposals[2]	—
Carrying amounts at 31 December 2014	**77**

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

None of the companies included in the consolidated financial statements using the equity method is individually significant for the consolidated financial statements of HVB Group. The following table shows in aggregate form the main items in the income statements of the companies accounted for using the equity method: (€ millions)

	2014	2013
Net interest	(9)	(8)
Net other expenses/income	117	102
Operating costs	(83)	(63)
Profit before tax	**25**	**31**
Income tax	(5)	(6)
Consolidated profit from continuing operations	**20**	**25**
Consolidated profit from discontinued operations	**—**	**—**
Other comprehensive income	**—**	**—**
Total comprehensive income	**20**	**25**

There were no changes in volume arising from other comprehensive income and other equity items at companies accounted for using the equity method. There was no prorated loss during the reporting period or 2013 from companies accounted for using the equity method. Furthermore, there were no prorated cumulative losses in the reporting period or 2013 from companies accounted for using the equity method.

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

51 Held-to-maturity investments

(€ millions)

	2014	2013
Fixed-income securities	66	217
Impaired assets	—	—
Total	**66**	**217**

The held-to-maturity investments at 31 December 2014 did not include any subordinated assets (2013: €11 million).

As in 2013, the held-to-maturity investments at 31 December 2014 included no impaired assets.

As in 2013, the held-to-maturity investments did not include any Greek government bonds in the reporting period.

Development of held-to-maturity investments

(€ millions)

	2014	2013
Balance at 1 January	**217**	**261**
Additions		
Purchases	—	—
Write-ups	—	—
Other additions	46	—
Disposals		
Sales	—	—
Redemptions at maturity	(29)	(39)
Write-downs	—	—
Other disposals	(168)	(5)
Balance at 31 December	**66**	**217**

Notes to the Balance Sheet (Continued)

52 Loans and receivables with banks

(€ millions)

	2014	2013
Current accounts	1,345	1,856
Cash collateral and pledged credit balances	10,680	9,013
Reverse repos	7,155	9,855
Reclassified securities	1,255	1,724
Other loans to banks	12,219	12,864
Total	**32,654**	**35,312**

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

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

The loans and receivables with banks include €24 million (2013: €41 million) in subordinated assets at 31 December 2014.

Loans and receivables with related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	6,964	7,188
of which: UniCredit S.p.A.	4,567	4,927
Joint ventures	165	—
Associated companies	110	105
Other participating interests	27	4
Total	**7,266**	**7,297**

Besides the loans and receivables with UniCredit S.p.A., the loans and receivables of €6,964 million (2013: €7,188 million) with non-consolidated affiliated banks include loans and receivables of €2,397 million (2013: €2,261 million) with sister companies (mainly UniCredit Bank Austria AG).

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

(€ millions)

	2014	2013
Properly serviced loans and receivables		
Carrying amount before allowances	32,463	34,539
Portfolio allowances	26	5
Carrying amount	**32,437**	**34,534**
Properly serviced loans and receivables past due		
Carrying amount before allowances	170	629
Portfolio allowances	—	—
Carrying amount	**170**	**629**
Non-performing loans and receivables		
Carrying amount before allowances	124	261
Specific allowances	77	112
Carrying amount	**47**	**149**

The non-performing loans and receivables are essentially loans and receivables in rating classes 8-, 9 and 10. In 2013, these additionally included receivables totalling €1 million that were no longer assigned to rating classes 8-, 9 or 10 due to improved credit standings, but which had been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2014	2013
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1–30 days	170	629
31–60 days	—	—
61–90 days	—	—

(€ millions)

	2014	2013
Value of collateral, broken down by period past due		
1–30 days	112	364
31–60 days	—	—
61–90 days	—	—

Notes to the Balance Sheet (Continued)

(€ millions)

	2014	2013
Loans and receivables, broken down by rating class		
Not rated	534	544
Rating class 1–4	30,062	33,042
Rating class 5–8	2,011	1,578
Rating class 9–10	47	148
Collateral, broken down by rating class		
Not rated	7	4
Rating class 1–4	512	7,880
Rating class 5–8	169	553
Rating class 9–10	36	119

53 Loans and receivables with customers

(€ millions)

	2014	2013
Current accounts	7,737	8,100
Cash collateral and pledged cash balances	2,832	2,114
Reverse repos	708	622
Mortgage loans	40,663	41,222
Finance leases	2,057	2,039
Reclassified securities	2,128	2,670
Non-performing loans and receivables	3,839	3,585
Other loans and receivables	49,672	49,237
Total	**109,636**	**109,589**

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

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

Loans and receivables with customers include an amount of €2,171 million (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 €650 million (2013: €853 million) in subordinated assets at 31 December 2014.

Loans and receivables with customers did not include any Greek government bonds in either the reporting period or 2013.

Loans and receivables with related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	97	98
Joint ventures	—	—
Associated companies	39	70
Other participating interests	377	554
Total	**513**	**722**

The loans and receivables of €97 million (2013: €98 million) with non-consolidated affiliated companies include loans and receivables of €34 million (2013: €74 million) with sister companies and €56 million (2013: €24 million) with subsidiaries.

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

(€ millions)

	2014	2013
Properly serviced loans and receivables		
Carrying amount before allowances	104,847	105,236
Portfolio allowances	338	420
Carrying amount	**104,509**	**104,816**
Properly serviced loans and receivables past due		
Carrying amount before allowances	1,292	1,193
Portfolio allowances	4	5
Carrying amount	**1,288**	**1,188**
Non-performing loans and receivables		
Carrying amount before allowances	6,253	6,416
Specific allowances	2,414	2,831
Carrying amount	**3,839**	**3,585**

The non-performing loans and receivables are essentially loans and receivables in rating classes 8-, 9 and 10. In 2013, these additionally include receivables totalling €199 million that were no longer assigned to rating classes 8-, 9 or 10 due to improved credit standings, but which had been in these classes for a total period of 24 months since first being classified as non-performing.

(€ millions)

	2014	2013
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1–30 days	1,178	1,140
31–60 days	83	21
61–90 days	27	27

(€ millions)

	2014	2013
Value of collateral, broken down by period past due		
1–30 days	782	439
31–60 days	72	12
61–90 days	23	15

Notes to the Balance Sheet (Continued)

(€ millions)

	2014	2013
Loans and receivables, broken down by rating class		
Not rated	8,138	7,855
Rating class 1–4	63,531	60,290
Rating class 5–8	34,163	38,013
Rating class 9–10	3,804	3,431
Collateral, broken down by rating class		
Not rated	1,646	1,755
Rating class 1–4	31,545	30,202
Rating class 5–8	21,853	23,117
Rating class 9–10	1,663	1,811

Amounts receivable from customers under lease agreements (receivables under finance leases)

The amounts receivable from customers under finance lease agreements are described in more detail in Note 74.

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

Analysis of loans and receivables

(€ millions)

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2013	**4,013**	**435**	**4,448**
Changes affecting income			
Gross additions[1]	1,481	20	1,501
Releases	(874)	(24)	(898)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	(910)	—	(910)
Use of existing loan-loss allowances	(569)	—	(569)
Effects of currency translation and other changes not affecting income	(198)	(1)	(199)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2013	**2,943**	**430**	**3,373**

	SPECIFIC ALLOWANCES	PORTFOLIO ALLOWANCES	TOTAL
Balance at 1 January 2014	**2,943**	**430**	**3,373**
Changes affecting income			
Gross additions[1]	969	41	1,010
Releases	(725)	(100)	(825)
Changes not affecting income			
Changes due to make-up of group of consolidated companies and			
reclassifications of disposal groups held for sale	(10)	—	(10)
Use of existing loan-loss allowances	(665)	—	(665)
Effects of currency translation and other changes not affecting income	(21)	(3)	(24)
Non-current assets or disposal groups held for sale	—	—	—
Balance at 31 December 2014	**2,491**	**368**	**2,859**

1 the additions include the losses on the disposal of impaired loans and receivables

55 Hedging derivatives

(€ millions)

	2014	2013
Micro fair value hedge	—	—
Fair value hedge portfolio[1]	753	1,053
Total	**753**	**1,053**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

56 Property, plant and equipment

(€ millions)

	2014	2013
Land and buildings	940	912
Plant and office equipment	444	382
Other property, plant and equipment	1,565	1,619
Total[1]	**2,949**	**2,913**

1 including leased assets of €634 million (2013: €586 million). More information about leases is contained in Note 74

Other property, plant and equipment mainly contains the BARD Offshore 1 wind farm which belongs to the Ocean Breeze Energy GmbH & Co. KG subsidiary.

After the BARD Offshore 1 wind farm was acquired at year-end 2013 with defects, and hence not in the condition intended by the management, some of these defects were rectified during the course of 2014. The basic intention is to remedy the remaining defects over the coming years. Costs of €16 million to rectify defects and bring the wind farm into the condition intended by the management were recognised during the reporting period. The measures that have been implemented served to increase the economic benefit of the wind farm, meaning that the recognition requirements defined in IAS 16.10 in conjunction with IAS 16.7 are satisfied.

At the same time, the present value of the dismantling obligations for the wind farm has been capitalised and a provision for dismantling obligations recognised in the same amount, meaning that the dismantling obligations have been accounted for with no impact overall on profit and loss.

An impairment loss of €23 million was recognised on the wind farm in 2013.

This item also includes the grants of €53 million (2013: €42 million) provided by the European Union that are classified as government grants in accordance with IAS 20. Compliant with IAS 20.24, these grants have been deducted from the initial cost of the other property, plant and equipment on the assets side of the balance sheet. The cash funds were granted on condition that specific expenses could be demonstrated by Ocean Breeze Energy GmbH & Co. KG. The company has provided the necessary evidence.

Notes to the Balance Sheet (Continued)

Development of property, plant and equipment (€ millions)

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2013	**2,181**	**1,166**	**3,347**	**1,720**	**5,067**
Write-downs and write-ups from previous years	(1,267)	(773)	(2,040)	(14)	(2,054)
Carrying amounts at 1 January 2013	**914**	**393**	**1,307**	**1,706**	**3,013**
Additions					
Acquisition/production costs	40	77	117	36	153
Write-ups	1	—	1	—	1
Changes from currency translation	—	—	—	—	—
Other additions[2]	26	38	64	24	88
Disposals					
Sales	(1)	(32)	(33)	(21)	(54)
Amortisation and write-downs	(48)	(77)	(125)	(5)	(130)
Impairments	(10)	(11)	(21)	(23)	(44)
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	(6)	—	(6)	—	(6)
Other disposals[2]	(4)	(6)	(10)	(98)	(108)
Carrying amounts at 31 December 2013	**912**	**382**	**1,294**	**1,619**	**2,913**
Write-downs and write-ups					
from previous years plus year under review	1,248	802	2,050	36	2,086
Acquisition costs at 31 December 2013	**2,160**	**1,184**	**3,344**	**1,655**	**4,999**

	LAND AND BUILDINGS	PLANT AND OFFICE EQUIPMENT	TOTAL INTERNALLY USED PROPERTY, PLANT AND EQUIPMENT	OTHER PROPERTY, PLANT AND EQUIPMENT	TOTAL PROPERTY, PLANT AND EQUIPMENT[1]
Acquisition costs at 1 January 2014	**2,160**	**1,184**	**3,344**	**1,655**	**4,999**
Write-downs and write-ups from previous years	(1,248)	(802)	(2,050)	(36)	(2,086)
Carrying amounts at 1 January 2014	**912**	**382**	**1,294**	**1,619**	**2,913**
Additions					
Acquisition/production costs	72	182	254	12	266
Write-ups	4	1	5	—	5
Changes from currency translation	—	—	—	—	—
Other additions[2]	1	9	10	—	10
Disposals					
Sales	(6)	(31)	(37)	—	(37)
Amortisation and write-downs	(34)	(78)	(112)	(66)	(178)
Impairments	(5)	(4)	(9)	—	(9)
Changes from currency translation	—	—	—	—	—
Non-current assets					
or disposal groups held for sale	—	—	—	—	—
Other disposals[2]	(4)	(17)	(21)	—	(21)
Carrying amounts at 31 December 2014	**940**	**444**	**1,384**	**1,565**	**2,949**
Write-downs and write-ups					
from previous years plus year under review	1,240	750	1,990	102	2,092
Acquisition costs at 31 December 2014	**2,180**	**1,194**	**3,374**	**1,667**	**5,041**

1 including leased assets. More information about leases is contained in Note 74
2 including changes in the group of companies included in consolidation. The change in other property, plant and equipment in 2013 also includes the purchase price reduction achieved upon handover of the wind farm

57 Investment properties

The fair value of investment properties at HVB Group, which are measured at amortised cost, totalled €1,491 million (2013: €1,639 million). The appraisals prepared to calculate the fair values are based on recognised appraisal methods used by external assessors, primarily taking the form of asset-value and gross-rental methods. The fair values determined in this way are classified as Level 3 (please refer to Note 77 for the definition of the level hierarchy) due to the fact that each property is essentially unique and the fair value is determined using appraisals that reflect the special features of the real estate being valued. In the case of developed land, current market rents, operating costs and property yields are applied in the gross-rental method. Where necessary, property-specific considerations are also taken into account when determining the value. These property-specific factors include vacancy rates, deviations between current contractual rents and current market rents, the condition of the buildings' technical systems and so on. In the case of undeveloped land, figures for sales of nearby land that have been completed are normally taken as the basis; where these are not available, the standard land value is employed as a benchmark, with adjustments made for the individual location, size and layout of the land, among other factors.

The net carrying amount of the leased assets arising from finance leases included in investment properties amounted to €10 million (2013: €82 million) for land and buildings at the reporting date.

Investment properties (€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2013	**2,379**
Write-downs and write-ups from previous years	(822)
Carrying amounts at 1 January 2013	**1,557**
Additions	
Acquisition/production costs	18
Write-ups	19
Changes from currency translation	—
Other additions[1]	4
Disposals	
Sales	(3)
Amortisation and write-downs	(35)
Impairments	(13)
Changes from currency translation	(1)
Non-current assets or disposal groups held for sale	(65)
Other disposals[1]	(25)
Carrying amounts at 31 December 2013	**1,456**
Write-downs and write-ups from previous years plus year under review	855
Acquisition costs at 31 December 2013	**2,311**

1 also including changes in the group of companies included in consolidation. Please refer to Note 2 regarding 2014

Notes to the Balance Sheet (Continued)

Investment properties (€ millions)

	INVESTMENT PROPERTIES MEASURED AT COST
Acquisition costs at 1 January 2014	**2,311**
Write-downs and write-ups from previous years	(855)
Carrying amounts at 1 January 2014	**1,456**
Additions	
Acquisition/production costs	2
Write-ups	11
Changes from currency translation	3
Other additions[1]	5
Disposals	
Sales	(61)
Amortisation and write-downs	(34)
Impairments	(10)
Changes from currency translation	—
Non-current assets or disposal groups held for sale	(7)
Other disposals[1]	(72)
Carrying amounts at 31 December 2014	**1,293**
Write-downs and write-ups from previous years plus year under review	802
Acquisition costs at 31 December 2014	**2,095**

1 also including changes in the group of companies included in consolidation. Please refer to Note 2 regarding 2014

58 Intangible assets

(€ millions)

	2014	2013
Goodwill	**418**	**418**
Other intangible assets	**60**	**100**
Internally generated intangible assets	39	50
Other intangible assets	21	50
Total	**478**	**518**

Development of intangible assets (€ millions)

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2013	**1,078**	**474**	**425**
Write-downs and write-ups from previous years	(660)	(402)	(375)
Carrying amounts at 1 January 2013	**418**	**72**	**50**
Additions			
Acquisition/production costs	—	12	16
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	—	—
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(34)	(16)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	—
Carrying amounts at 31 December 2013	**418**	**50**	**50**
Write-downs and write-ups from previous years plus year under review	660	436	374
Acquisition costs at 31 December 2013	**1,078**	**486**	**424**

	GOODWILL FROM AFFILIATED COMPANIES	INTERNALLY GENERATED INTANGIBLE ASSETS	OTHER INTANGIBLE ASSETS
Acquisition costs at 1 January 2014	**1,078**	**486**	**424**
Write-downs and write-ups from previous years	(660)	(436)	(374)
Carrying amounts at 1 January 2014	**418**	**50**	**50**
Additions			
Acquisition/production costs	—	9	15
Write-ups	—	—	—
Changes from currency translation	—	—	—
Other additions[1]	—	—	—
Disposals			
Sales	—	—	—
Amortisation and write-downs	—	(20)	(17)
Impairments	—	—	—
Changes from currency translation	—	—	—
Non-current assets or disposal groups held for sale	—	—	—
Other disposals[1]	—	—	(27)
Carrying amounts at 31 December 2014	**418**	**39**	**21**
Write-downs and write-ups from previous years plus year under review	624	448	277
Acquisition costs at 31 December 2014	**1,042**	**487**	**298**

1 also including changes in the group of companies included in consolidation

HVB no longer generates any software internally. Software is provided to HVB by the UniCredit-wide service provider UBIS.

Notes to the Balance Sheet (Continued)

59 Non-current assets or disposal groups held for sale

(€ millions)

ASSETS	2014	2013
Property, plant and equipment	26	39
Investment properties	6	65
Intangible assets	—	50
Total	**32**	**154**

The investment properties designated as held for sale essentially relate to the disposal of non-strategic real estate. The disposal of a non-strategic property at the Munich facility was completed in the first half of 2014. The sale of a project right for an offshore wind farm (intangible asset) was also successfully concluded during the reporting period.

60 Other assets

Other assets include prepaid expenses of €90 million (2013: €85 million).

61 Own securitisation

The Bank has securitised its own loan receivables for the purpose of obtaining cheap funding on the capital market, generating securities for use as collateral in repurchase agreements and reducing risk-weighted assets.

This involves structuring the cash flows of the underlying loan portfolio, meaning that at least two hierarchical positions (tranches) are formed when dividing up the risks and cash flows. In the case of synthetic securitisation, the transfer of risk and the ensuing reduction in regulatory capital requirements are mainly achieved using hedges in the form of guarantees and credit derivatives. In the case of traditional securitisation (true sale), this is achieved by selling receivables to a special purpose entity which in turn issues securities.

In the case of the true sale transaction Geldilux TS 2013, the senior tranche was placed on the capital market while the junior tranche was retained by HVB. HVB retained all of the tranches issued by the special purpose entity under the true sale transaction Rosenkavalier 2008. The securities generated in this way can, if required, be used as collateral for repurchase agreements with the European Central Bank (ECB). The underlying receivables continue to be recognised by HVB and the set up for this purpose are fully consolidated in accordance with IFRS 10. The volume of lending in Rosenkavalier 2008 declined to €3.1 billion at 31 December 2014 (2013: €4.6 billion) on account of a restructuring measure. The risk-weighted assets have not been reduced.

Only the synthetic transaction EuroConnect Issuer SME 2007-1 with an outstanding volume of lending of €0.3 billion (2013: €0.5 billion) continue to exist of the securitisation transactions originally set up to reduce risk-weighted assets. The risk-weighted assets have not been reduced.

The true sale transactions EuroConnect Issuer SME 2008-1, Geldilux TS 2010 and Geldilux TS 2011 were terminated during the reporting period. This means that the volume of lending declined by a total of €1.6 billion year-on-year.

The Newstone Mortgage Securities No. 1 plc transaction was concluded during the reporting period with a view to obtaining funding. The underlying receivables continue to be recognised by HVB and the special purpose entity set up for this purpose is fully consolidated in accordance with IFRS 10. The volume of lending at 31 December 2014 amounted to €0.3 billion. The risk-weighted assets have not been reduced.

62 Deposits from banks

(€ millions)

	2014	2013
Deposits from central banks	**6,137**	**6,398**
Deposits from banks	**47,943**	**41,441**
Current accounts	2,524	2,181
Cash collateral and pledged credit balances	13,079	10,243
Repos	17,730	13,286
Term deposits	5,138	6,840
Other liabilities	9,472	8,891
Total	**54,080**	**47,839**

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

Amounts owed to related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	6,288	6,763
of which: UniCredit S.p.A.	2,148	2,561
Joint ventures	7	—
Associated companies	144	29
Other participating interests	19	21
Total	**6,458**	**6,813**

Besides the deposits from UniCredit S.p.A., the deposits of €6,288 million (2013: €6,763 million) from non-consolidated affiliated companies include deposits of €4,140 million (2013: €4,202 million) from sister companies; the largest single item relates to UniCredit Bank Austria AG.

63 Deposits from customers

(€ millions)

	2014	2013
Current accounts	56,335	54,140
Cash collateral and pledged credit balances	1,489	1,092
Savings deposits	14,639	14,837
Repos	7,774	10,336
Term deposits	15,142	19,932
Promissory notes	3,854	5,541
Other liabilities	1,441	1,972
Total	**100,674**	**107,850**

Notes to the Balance Sheet (Continued)

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

Amounts owed to related parties

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

(€ millions)

	2014	2013
Non-consolidated affiliated companies	269	248
Joint ventures	1	—
Associated companies	17	1
Other participating interests	299	227
Total	**586**	**476**

The deposits of €269 million (2013: €248 million) from non-consolidated affiliated companies include deposits of €15 million (2013: €8 million) from subsidiaries and €254 million (2013: €240 million) from sister companies.

64 Debt securities in issue

(€ millions)

	2014	2013
Bonds	26,401	30,644
of which:		
Registered mortgage Pfandbriefs	6,562	7,286
Registered public-sector Pfandbriefs	3,093	3,583
Mortgage Pfandbriefs	8,938	9,927
Public-sector Pfandbriefs	1,989	1,939
Registered bonds	2,229	1,842
Other securities	1,848	1,160
Total	**28,249**	**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)

	2014	2013
Non-consolidated affiliated companies	250	597
of which: UniCredit S.p.A.	—	351
Joint ventures	15	—
Associated companies	252	155
Other participating interests	—	—
Total	**517**	**752**

Besides the debt securities attributable to UniCredit S.p.A. (in the reporting period €0 million), the debt securities in issue of €250 million (2013: €597 million) attributable to non-consolidated affiliated companies include debt securities of €250 million (2013: €246 million) attributable to sister companies.

65 Financial liabilities held for trading

(€ millions)

	2014	2013
Negative fair values arising from derivative financial instruments	76,400	60,644
Other financial liabilities held for trading	11,570	12,891
Total	**87,970**	**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.

The cumulative valuation effects of the financial liabilities held for trading in the portfolio at 31 December 2014, which result from including the own credit spread, total €90 million (2013: €120 million). Valuation expenses of €30 million (2013: €5 million) arising from own credit spread changes accrued for these holdings in the year under review.

66 Hedging derivatives

(€ millions)

	2014	2013
Micro fair value hedge	5	1
Fair value hedge portfolio[1]	744	372
Total	**749**	**373**

1 the cross-currency interest rate swaps used in hedge accounting are carried at their aggregate fair value in the fair value hedge portfolio

67 Hedge adjustment of hedged items in the fair value hedge portfolio

The net changes in fair value of portfolio hedged items for receivables and liabilities with interest rate hedges total €2,430 million (2013: €1,646 million). The fair value of the netted fair value hedge portfolio derivatives represents an economic comparable amount. The hedge adjustments are recognised separately in the balance sheet (for hedged lending and deposit-taking activities) for some subsidiaries for which it is possible to hedge assets and liabilities separately. The corresponding amount on the assets side of the balance sheet is €66 million (2013: €67 million).

68 Liabilities of disposal groups held for sale

(€ millions)

LIABILITIES	2014	2013
Deposits from banks	—	4
Tax liabilities	—	—
Other liabilities	1	—
Provisions	—	—
Total	**1**	**4**

69 Other liabilities

This item totalling €2,534 million (2013: €3,083 million) essentially encompasses deferred income and accruals compliant with IAS 37. Accruals include, notably, commitments arising from accounts payable with invoices outstanding, short-term liabilities to employees, and other accruals arising from fees and commissions, interest, cost of materials, etc.

Notes to the Balance Sheet (Continued)

70 Provisions

(€ millions)

	2014	2013
Provisions for pensions and similar obligations	751	146
Allowances for losses on guarantees and commitments and irrevocable credit commitments	232	204
Restructuring provisions	267	400
Other provisions	1,059	1,219
Payroll provisions	263	227
Provisions related to tax disputes (without income taxes)	61	96
Provisions for rental guarantees and dismantling obligations	133	151
Other provisions	602	745
Total	**2,309**	**1,969**

The effects arising from changes in the discount rate and discounts taken led to an increase of €22 million (2013: €24 million) in provisions in the reporting period.

Provisions for pensions and similar obligations
HVB Group grants its employees post-employment benefits that are structured as defined benefit plans or defined contribution plans.

In the case of defined benefit plans, the Bank undertakes to pay a defined future pension. The financial resources required to do so in the future can be accrued within the company (internal financing) or by payment of specific amounts to external pension funds (external financing).

In the case of defined contribution plans, the Bank undertakes to pay defined contributions to external pension funds which will later make the pension payments. Apart from paying the periodic contributions, the company has de facto no further obligations.

Defined benefit plans
Characteristics of the plans
The provisions for pensions and similar obligations include the direct commitments to HVB Group employees under company pension plans. These defined benefit plans are based in part on final salaries and in part on building-block schemes involving dynamic adjustment of vested rights. Fund-linked plans with a guaranteed minimum rate of interest of 2.75% have been granted in Germany since 2003.

The obligations financed by Pensionskasse der HypoVereinsbank VVaG (HVB Pensionskasse) are included in the disclosures regarding pension obligations (the total includes the obligations of HVB Unterstützungskasse e.V. reinsured by HVB Pensionskasse). The standard HVB Group valuation parameters are used when calculating these obligations. Any plan surplus is subject to the rules governing the asset ceiling, as the assets belong to the members of HVB Pensionskasse.

HVB Group set up plan assets in the form of contractual trust arrangements (CTA). This involved transferring the assets required to fund its pension obligations to legally independent trustees, including HVB Trust e.V., which manage the assets in line with the applicable trustee contracts.

There are no legal or regulatory minimum funding requirements in Germany.

HVB reorganised its company plans for pensioners (direct commitments) in 2009. HVB Trust Pensionsfonds AG (pension fund) was set up in this process. Both the pension obligations to pensioners who in October 2009 had already received pension benefits from the Bank and the assets required to cover these obligations were transferred to the pension fund. The pensioners' pension claims are not affected by the restructuring; HVB continues to guarantee the pension. The pension fund is a legally independent institution regulated by the German Federal Financial Supervisory Authority (BaFin).

HVB Group is exposed to various risks in connection with its defined benefit plans. Potential pension risks exist with regard to both the benefit obligations (liabilities side) and the plan assets allocated to cover the beneficiaries' claims (assets side). The defined benefit obligations are exposed to actuarial risks such as interest rate risk, longevity risk, salary- and pension-adjustment risk and inflation risk. In the case of fund-linked pension obligations, there is the risk that it will prove impossible in the long run to generate the guaranteed interest rate of 2.75% from the funds allocated to the pension commitments, given persistently low interest rates. With regard to the capital investment, the assets are primarily exposed to market risk such as price risks in securities holdings or changes in the value of real estate investments.

The major pension risk is thus expressed as a deterioration in the funded status as a result of unfavourable developments of defined benefit obligations and/or plan assets, since the sponsoring companies are required to act to service the beneficiaries' claims in the event of any plan deficits. No unusual, company-specific or plan-specific risks or material risk concentrations that could affect the Group's pension plans are currently identifiable.

Reconciliations

The amounts arising from defined benefit plans for post-employment benefits recognised in the consolidated balance sheet can be derived as follows:

(€ millions)

	2014	2013
Present value of funded pension obligations	4,740	3,752
Fair value of plan assets	(4,022)	(3,652)
Funded status	**718**	**100**
Present value of unfunded pension obligations	33	33
Net liability (net asset) of defined benefit plans	**751**	**133**
Asset ceiling	—	—
Capitalised excess cover of plan assets	—	13
Recognised pension provisions	**751**	**146**

Notes to the Balance Sheet (Continued)

The following tables show the development of the present value of the total (funded and unfunded) pension obligations, the fair value of the plan assets and the net defined benefit liability (asset) from defined benefit plans resulting from the offsetting of these totals. The tables also show the changes in the effects of the asset ceiling during the reporting period and the reconciliations from the opening to the closing balance of the plan asset surplus capitalised as an asset and the recognised provisions for pensions and similar obligations:

(€ millions)

	PRESENT VALUE OF PENSION OBLIGATIONS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2013	**3,673**	**(3,558)**	**115**	**—**	**18**	**133**
Service cost component						
Current service cost	56	—	56	—	—	56
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	135	(132)	3	—	—	3
Service costs and net interest of defined benefit plans recognised in profit or loss for the period	**191**	**(132)**	**59**	**—**	**—**	**59**
Remeasurement component						
Gains/(losses) on plan assets excluding amounts included in net interest on the net defined benefit liability (asset)	—	22	22	—	—	22
Actuarial gains/(losses) – demographic assumptions	—	—	—	—	—	—
Actuarial gains/(losses) – financial assumptions	39	—	39	—	—	39
Actuarial gains/(losses) – experience adjustments	14	—	14	—	—	14
Changes due to asset ceiling excluding amounts included in net interest on the net defined benefit liability (asset)	—	—	—	—	—	—
Remeasurement component of defined benefit plans recognised in OCI	**53**	**22**	**75**	**—**	**—**	**75**
Other changes						
Excess cover of plan assets	—	—	—	—	(5)	(5)
Exchange differences	(2)	2	—	—	—	—
Contributions to the plan:						
Employer	—	(120)	(120)	—	—	(120)
Plan participants	5	—	5	—	—	5
Pension payments	(135)	134	(1)	—	—	(1)
Business combinations, disposals and other	—	—	—	—	—	—
Balance at 31 December 2013	**3,785**	**(3,652)**	**133**	**—**	**13**	**146**

(€ millions)

	PRESENT VALUE OF PENSION OBLIGATIONS	FAIR VALUE OF PLAN ASSETS	NET LIABILITY (NET ASSET) OF DEFINED BENEFIT PLANS	ASSET CEILING	CAPITALISED EXCESS COVER OF PLAN ASSETS	RECOGNISED PENSION PROVISIONS
Balance at 1 January 2014	**3,785**	**(3,652)**	**133**	**—**	**13**	**146**
Service cost component						
Current service cost	56	—	56	—	—	56
Past service cost	—	—	—	—	—	—
Gains and losses on settlement	—	—	—	—	—	—
Net interest component						
Interest expense/(income)	140	(136)	4	—	—	4
Service costs and net interest of defined benefit plans recognised in profit or loss for the period	**196**	**(136)**	**60**	**—**	**—**	**60**
Remeasurement component						
Gains/(losses) on plan assets excluding amounts included in net interest on the net defined benefit liability (asset)	—	(48)	(48)	—	—	(48)
Actuarial gains/(losses) – demographic assumptions	(3)	—	(3)	—	—	(3)
Actuarial gains/(losses) – financial assumptions	939	—	939	—	—	939
Actuarial gains/(losses) – experience adjustments	(15)	—	(15)	—	—	(15)
Changes due to asset ceiling excluding amounts included in net interest on the net defined benefit liability (asset)	—	—	—	—	—	—
Remeasurement component of defined benefit plans recognised in OCI	**921**	**(48)**	**873**	**—**	**—**	**873**
Other changes						
Excess cover of plan assets	—	—	—	—	(13)	(13)
Exchange differences	6	(8)	(2)	—	—	(2)
Contributions to the plan:						
Employer	—	(309)	(309)	—	—	(309)
Plan participants	6	(5)	1	—	—	1
Pension payments	(137)	136	(1)	—	—	(1)
Business combinations, disposals and other	(4)	—	(4)	—	—	(4)
Balance at 31 December 2014	**4,773**	**(4,022)**	**751**	**—**	**—**	**751**

At the end of the reporting period, the present value of the defined benefit obligations of €4,773 million (2013: €3,785 million) was attributable to 34% (2013: 29%) of active employees, 21% (2013: 19%) of former employees with vested benefit entitlements and 45% (2013: 52%) of pensioners and surviving dependants.

Notes to the Balance Sheet (Continued)

Actuarial assumptions
Listed below are the significant actuarial assumptions used to determine the present value of the defined benefit obligation.
The summarised disclosure for several plans takes the form of weighted average factors:

(in %)

	2014	2013
Actuarial interest rate	2.35	3.75
Rate of increase in pension obligations	1.70	1.80
Rate of increase in future compensation and over career	3.00	3.00[1]

1 The year-ago figure has been adjusted as the actuarial assumption in 2013 included a rate of increase over career of 0.50% as well as a rate of increase in future compensation of 2.50%. The present value of the defined benefit obligation was determined using 3.00%.

The mortality rate underlying the actuarial calculation of the present value of the defined benefit obligation is based on the modified Heubeck 2005 G tables (generation tables) that allow for the probability of mortality to fall to 90% (2013: 90%) for women and 75% (2013: 75%) for men.

HVB Group similarly reduces the probability of disability based on these guidance tables to 80% (2013: 80%) for women and men equally. Since any changes in the actuarial assumptions regarding disability fundamentally only have a minor impact on the present value of the defined benefit obligation, HVB Group does not calculate any sensitivities for this valuation parameter.

In addition, the present value of the defined benefit obligation is influenced by assumptions regarding future inflation rates. Inflation effects are normally taken into account in the assumptions listed above.

Sensitivity analyses
The sensitivity analyses discussed below are intended to show how the present value of the defined benefit obligation would change given a change to an actuarial assumption in isolation with the other assumptions remaining unchanged compared with the original calculation. Possible correlation effects between the individual assumptions are not taken into account accordingly. The sensitivity analyses are based on the changes to the actuarial assumptions expected by HVB Group at the reporting date for the subsequent reporting period.

An increase or decrease in the significant actuarial assumptions in the amount of the percentage points shown in the table would have had the following impact on the present value of the defined benefit obligation at the reporting date:

Sensitivities at 31 December 2014:

	CHANGES OF THE ACTUARIAL ASSUMPTIONS	IMPACT ON THE PRESENT VALUE OF PENSION OBLIGATIONS		
		PRESENT VALUE OF LIABILITY	ABSOLUTE CHANGES	RELATIVE CHANGES
		€ millions	€ millions	in %
	Basic value of the calculation of sensitivity	4,773		
Actuarial interest rate	Increase of 25 basis points	4,564	(209)	(4.4)
	Decrease of 25 basis points	4,998	225	4.7
Rate of increase in pension obligations	Increase of 25 basis points	4,923	150	3.1
	Decrease of 25 basis points	4,629	(144)	(3.0)
Rate of increase in future compensation/career trend	Increase of 25 basis points	4,782	9	0.2
	Decrease of 25 basis points	4,764	(9)	(0.2)

Sensitivities at 31 December 2013:

	CHANGES OF THE ACTUARIAL ASSUMPTIONS	IMPACT ON THE PRESENT VALUE OF PENSION OBLIGATIONS		
		PRESENT VALUE OF LIABILITY	ABSOLUTE CHANGES	RELATIVE CHANGES
		€ millions	€ millions	in %
	Basic value of the calculation of sensitivity	3,785		
Actuarial interest rate	Increase of 25 basis points	3,644	(141)	(3.7)
	Decrease of 25 basis points	3,938	153	4.0
Rate of increase in pension obligations	Increase of 25 basis points	3,889	104	2.7
	Decrease of 25 basis points	3,684	(101)	(2.7)
Rate of increase in future compensation/career trend	Increase of 25 basis points	3,793	8	0.2
	Decrease of 25 basis points	3,776	(9)	(0.2)

The observable decline in mortality rates is associated with an increase in life expectancy depending on the individual age of each beneficiary. In order to determine the sensitivity of the mortality or longevity, the lifetime for all beneficiaries was increased by one year. The present value of the defined benefit obligation at 31 December 2014 would rise by €142 million (3.0%) to €4,915 million (or by €101 million (2.7%) at 31 December 2013 to €3,886 million) as a result of this change. HVB Group considers an increase in mortality or a decrease in life expectancy to be unlikely and has therefore not calculated a sensitivity for this case.

When determining the sensitivities of the defined benefit obligation for the significant actuarial assumptions, the same method has been applied (projected unit credit method) as has been used to calculate the pension provisions recognised in the consolidated balance sheet. Increases and decreases in the various valuation assumptions do not entail the same absolute amount in their impact when the defined benefit obligation is calculated, due mainly to the compound interest effect when determining the present value of the future benefit. If more than one of the assumptions are changed simultaneously, the combined effect does not necessarily correspond to the sum total of the individual effects. Furthermore, the sensitivities only reflect a change in the present value of the defined benefit obligation for the actual extent of the change in the assumptions (such as 0.25%). If the assumptions change to a different extent, this does not necessarily have a straight-line impact on the present value of the defined benefit obligation. Since the sensitivity analyses are based on the average duration of the expected pension obligation, and consequently the expected disbursement dates are not taken into account, they only result in indicative information or trends.

Asset liability management

The plan assets are managed by a trustee with a view to ensuring that the present and future pension obligations are settled by applying an adequate investment strategy, thus minimising the risk of the trustors or sponsoring companies having to provide additional capital.

Under the CTA, the capital investment decisions are taken by an institutionalised body, the Investment Committee, which defines the investment strategy and policies for the plan assets. The concept calls for the assets to be invested in line with the structure of the pension obligations in particular and an appropriate return to be generated taking into account the associated risks. In order to optimise the risk/return ratio, the Investment Committee sets strategic allocation ranges and investment limits for the asset classes in the plan assets, which can be exploited flexibly within the agreed risk budget. The bodies and processes required by law have been set up as appropriate for HVB Pensionskasse and the pension fund.

In order to allow for an integral view on plan assets and defined benefit obligations (asset liability management), the pension risks are monitored regularly with the aid of a specially developed risk model and included in the Bank's risk calculation. Since HVB Group employs various methods involving legally independent entities to implement the company pension plans, risk management concepts including stress tests and analysis of risk-taking capacity are also applied in specific instances.

Notes to the Balance Sheet (Continued)

Alongside the actuarial risks mentioned above, the risks associated with the defined benefit obligations relate primarily to financial risks in connection with the plan assets. The capital investment risk in the funding of the pension obligations encompasses notably potential liquidity, credit, concentration, market and real estate risks.

Liquidity risk can result from non-existent or limited marketability of the capital investments, which may cause losses to be realised when the assets are sold to settle payment obligations. HVB is not currently exposed to this risk as the expected incoming payments are sufficient to meet the payment obligations. In addition, an appropriate proportion of the capital investments is invested in assets classified as liquid (cash and cash equivalents/term deposits). Liquidity projections are prepared at regular intervals with a view to continue avoiding this risk.

Credit risk stems from anything from a deterioration in the solvency of individual debtors through to insolvency. This risk is mitigated by deliberately spreading the capital investments and complying with specific investment policies regarding the creditworthiness of issuers. The relevant ratings are monitored constantly.

Concentration risk arises from excessive investment in an individual asset class, individual industry, individual security or individual property. This risk is countered by means of broad diversification in line with investment policies, ongoing review of the capital investment policy and specific parameters for the asset managers. Among other things, targeted investment in mixed investment funds is used to reduce concentration risk by diversifying the composition of the fund assets.

Market risk has its roots in the risk of declining fair values caused by negative changes in market prices, equity prices and changes in interest rates. Here, too, compliance with the parameters specified for the composition and diversity of the capital investments is ensured and risk-limiting investment policies are defined for the asset managers.

Real estate risk exists with both directly held real estate and special-purpose real estate funds. It results from factors like possible unpaid rents, loss of property value, high maintenance costs and declining location attractiveness. To minimise these risks, the proportion that may be invested in real estate is constrained by a limit and the greatest possible diversification is targeted. In addition, no short-term rent contracts are concluded for directly owned real estate.

Disaggregation of plan assets

The following table shows a disaggregation of the plan assets used to fund the defined benefit obligations by asset class: (€ millions)

	2014	2013
Participating interests	30	33
Debt securities	156	90
Properties	112	113
Mixed investment funds	3,444	3,095
Property funds	100	83
Cash and cash equivalents/term deposits	49	140
Other assets	131	98
Total	**4,022**	**3,652**

Quoted market prices in an active market were observed for all fixed-income securities held directly and almost all the types of asset held in the mixed investment fund. As a general rule, the fixed-income securities have an investment grade rating.

In terms of amount, the investment in mixed investment funds represents the lion's share of the asset allocation for the plan assets. The deliberate investment in various asset classes and the general restriction to traditional investment instruments serve to ensure a risk-mitigating minimum diversification and also reflect a conservative underlying strategy. The high proportion of bonds with a long-term benchmark (such as government and corporate bonds, and Pfandbriefs) held in the fund implies low volatility with the intention of balancing the development in the value of the long-term pension commitments that follows general interest rates.

The following table shows a detailed breakdown of the mixed investment fund: (in %)

	2014	2013
Equities	10.1	17.2
German equities	2.1	4.8
European equities	6.8	11.4
Other equities	1.2	1.0
Government bonds	26.6	24.7
Pfandbriefs	12.6	8.4
Corporate bonds	21.0	33.3
German corporate bonds	2.8	13.6
European corporate bonds	15.4	16.9
Other corporate bonds	2.8	2.8
Fund certificates	12.0	10.3
Cash and cash equivalents/term deposits	17.7	6.1
Total	**100.0**	**100.0**

The plan assets comprised own financial instruments of the Group, property occupied by and other assets used by HVB Group companies at the reporting date: (€ millions)

	2014	2013
Participating interests	—	—
Debt securities	16	15
Properties	7	7
Mixed investment funds	337	498
Property funds	—	—
Cash and cash equivalents/term deposits	48	140
Other assets	—	—
Total	**408**	**660**

Future cash flows

There are financing agreements at HVB Group that contain measures to fund defined benefit plans. The minimum funding requirements included in the agreements may have an impact on future contribution payments. In the case of HVB Trust Pensionsfonds AG, HVB Group is liable for calls for additional capital should the assets fall below the minimum cover provision. For HVB Pensionskasse, the Bank is required to make an additional contribution if the permanent financing of the obligations is no longer ensured. No such requirement for calls for additional capital exists for the CTA.

HVB Group intends to make contributions of €16 million (2014: €10 million) to defined benefit plans in the 2015 financial year.

The weighted average duration of HVB Group's defined benefit obligations at the reporting date amounted to 18.2 years (2013: 15.7 years).

Notes to the Balance Sheet (Continued)

Multi-employer plans
HVB Group is a member of Versorgungskasse des Bankgewerbes e.V. (BVV), which also includes other financial institutions in Germany in its membership. BVV provides company pension benefits for eligible employees of the sponsoring companies. The BVV tariffs allow for fixed pension payments with profit participation. On account of the employer's statutory subsidiary liability applicable in Germany (Section 1 (1) 3 of the German Occupational Pensions Act (Betriebsrentengesetz – BetrAVG)), HVB Group classifies the BVV plan as a multi-employer defined benefit plan.

Since the available information is not sufficient to allow this plan to be accounted for as a defined benefit plan by allocating to the individual member companies the assets and the pension obligations relating to active and former employees, HVB Group accounts for the plan as if it were a defined contribution plan.

In the event of a plan deficit, the Group may be exposed to investment risk and actuarial risk. HVB Group does not currently expect that the statutory subsidiary liability will be used.

HVB Group expects to book employee contributions of €18 million for this pension plan in the 2015 financial year (2014: €18 million).

Defined contribution plans
HVB Group companies pay fixed amounts for each period to independent pension organisations for the defined contribution pension commitments. The contributions for the defined contribution plans and Pensions-Sicherungs-Verein VVaG (PSVaG) recognised as current expense under payroll costs totalled €33 million during the reporting period (2013: €38 million).

The employer contributions to the statutory pension scheme and the alternative professional pension schemes, which qualify as defined contribution state plans, are similarly included in payroll costs. Such contributions amounted to €100 million in the reporting period (2013: €97 million).

Allowances for losses on financial guarantees and irrevocable credit commitments, restructuring provisions and other provisions
(€ millions)

	ALLOWANCES FOR LOSSES ON FINANCIAL GUARANTEES AND COMMITMENTS AND IRREVOCABLE CREDIT COMMITMENTS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
Balance at 1 January 2014	**204**	**400**	**1,219**
Changes in consolidated group	—	—	(5)
Changes arising from foreign currency translation	3	—	3
Transfers to provisions	193	14[1]	288
Reversals	(168)	(30)[1]	(197)
Reclassifications	—	(92)	36
Amounts used	—	(25)	(285)
Non-current assets or disposal groups held for sale	—	—	—
Other changes	—	—	—
Balance at 31 December 2014	**232**	**267**	**1,059**

1 the transfers and reversals are included in the income statement under restructuring costs together with other restructuring costs accruing during the reporting period

Restructuring provisions
The reversals, reclassifications and amounts used in the reporting period relate to restructuring programmes from earlier years, and for the most part to the provisions set up in 2013 for the modernisation of the retail banking business, most of which are expected to be utilised in 2014 and 2015. Also included are provisions for changes in the organisational structure of HVB Group from the years before that.

Other provisions
The payroll provisions carried under other provisions encompass long-term obligations to employees such as service anniversary awards, early retirement or partial retirement. In addition, payroll provisions cover the parts of the bonus that are disbursed on a deferred basis, or transferred in cases where the bonus is granted in the form of shares, with the waiting period exceeding one year. The disbursement of these bonuses is additionally dependent upon the achievement of pre-defined targets. The bonus commitments for the 2011, 2012, 2013 and 2014 financial years to be disbursed as of 2015 are included here accordingly. The bonus provisions included here have been taken to the income statement in both the reporting period and the previous financial years. It is considered highly probable that the bonus will be disbursed. For details of the bonus plan, please refer to Note 38.

Other provisions mainly include provisions for legal risks, litigation fees and damage payments.

The amount of the respective provisions reflects the best estimate of the amount required to settle the obligation at the reporting date. Nevertheless, the amounts involved are subject to uncertainties in the estimates made. Besides the assumptions regarding periods, the cost estimates are validated regularly for rental guarantees in particular.

With the exception of the provisions for rental guarantees and pre-emptive rights, the other provisions are normally expected to be utilised during the following financial year.

71 Shareholders' equity
The shareholders' equity of HVB Group at 31 December 2014 consisted of the following:

Subscribed capital
At 31 December 2014, the subscribed capital of HVB totalled €2,407 million (2013: €2,407 million) and consisted of 802,383,672 no par shares of common bearer stock (2013: 802,383,672 no par shares).

The proportionate amount of capital stock attributable to the share amounts to €3.00 per no par share. The shares are fully paid in.

Notes to the Balance Sheet (Continued)

Additional paid-in capital
The additional paid-in capital results from premiums generated on the issuance of shares; the total at 31 December 2014 amounted to €9,791 million (2013: €9,791 million).

Other reserves
The other reserves of €7,660 million (2013: €7,920 million) essentially comprise retained earnings. The year-on-year decline of €260 million in other reserves essentially reflects adjustments of €597 million in pensions and similar obligations that were only partially offset by a transfer of €320 million from consolidated profit and other changes of €17 million.

Change in valuation of financial instruments
The reserves arising from changes in the valuation of financial instruments recognised in equity totalled €81 million (2013: €88 million) at 31 December 2014. This year-on-year decline of €7 million can for the most part be attributed to the €9 million decline in the AfS reserve to €54 million. Positive fair value fluctuations of fixed-income securities classified as available for sale are partially offset by changes arising in connection with the sale of DAB. The hedge reserve similarly included in the reserves arising from changes in the value of financial instruments recognised in equity increased by €2 million compared with year-end 2013 to €27 million.

72 Subordinated capital

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

	2014	2013
Subordinated liabilities	669	1,650
Hybrid capital instruments	53	47
Total	**722**	**1,697**

In this context, subordinated liabilities and hybrid capital instruments have been classified as Tier 2 capital for banking supervisory purposes in accordance with the provisions set forth in Articles 62a, 63 to 65, 66a and 67 CRR. The hybrid capital instruments are allocated to Tier 2 capital in accordance with Articles 87 and 88 CRR in connection with Article 480 CRR.

The following table shows the breakdown of subordinated capital by balance sheet item: (€ millions)

	2014	2013
Deposits from customers	57	114
Deposits from banks	142	142
Debt securities in issue	523	1,441
Total	**722**	**1,697**

We have incurred interest expenses of €41 million (2013: €96 million) in connection with this subordinated capital. Subordinated capital includes proportionate interest of €9 million (2013: €58 million).

Subordinated liabilities
The borrower cannot be obliged to make early repayments in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated liabilities can only be repaid after the claims of all primary creditors have been settled.

There were subordinated liabilities of €392 million payable to related parties in 2014 (2013: €388 million).

Hybrid capital instruments
Hybrid capital instruments may include, in part, issues placed by specially created subsidiaries in the form of capital contributions from silent partners.

Our hybrid capital instruments satisfy the requirements for classification as Tier 2 capital as defined in Article 63 CRR in force since 1 January 2014. At 31 December 2014, HVB Group had hybrid capital of €42 million bolstering its capital base for banking supervisory purposes.

Until 31 December 2013, the hybrid capital instruments were recognised as core capital for banking supervisory purposes under Section 64m KWG in accordance with the version of the German Banking Act applicable from 31 December 2010. At 31 December 2013, they amounted to €47 million.

Notes to the Cash Flow Statement

73 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows resulting from operating activities, investing activities and financing activities for the year under review. Operating activities are defined broadly enough to allow the same breakdown as for operating profit.

The cash and cash equivalents shown correspond to the "Cash and cash balances" item in the balance sheet, comprising both cash on hand and deposits with central banks repayable on demand.

Change in other non-cash positions comprises the changes in the valuation of financial instruments, net additions to deferred taxes, changes in provisions, changes in prorated and deferred interest, the reversal of premiums and discounts, changes arising from valuation using the equity method and minority interests in net income.

Gains of €388 million were generated on the disposal of shares in fully consolidated companies in the 2014 financial year, of which €359 million was in cash. The gains on disposal generated in cash relate almost exclusively to the sale of the Bank's participating interest in DAB Bank AG (DAB), which was accounted for as a discontinued operation (see also Note 6).

The net cash flow relating to the discontinued operations consists of an outflow of €69 million (2013: outflow of €312 million) from operating activities, an outflow of €10 million from investing activities (2013: inflow of €369 million) and an outflow of €197 million (2013: inflow of €1 million) from financing activities.

The following table shows the assets and liabilities of the fully consolidated companies sold:

(€ millions)

	2014		2013	
	ACQUIRED	SOLD	ACQUIRED	SOLD
Assets				
Cash and cash balances	—	8	—	—
Financial assets held for trading	—	6	—	—
Financial assets at fair value through profit or loss	—	6	—	—
Available-for-sale financial assets	—	3,363	—	69
Shares in associated companies accounted for using the equity method				
and joint ventures accounted for using the equity method	—	—	—	—
Held-to-maturity investments	—	133	—	—
Loans and receivables with banks	—	1,460	—	—
Loans and receivables with customers	—	329	—	711
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Property, plant and equipment	—	8	—	—
Investment properties	—	—	—	—
Intangible assets	—	34	—	—
of which: goodwill	—	6	—	—
Tax assets	—	6	—	32
Non-current assets or disposal groups held for sale	—	23	—	32
Other assets	—	20	—	3
Liabilities				
Deposits from banks	—	48	—	—
Deposits from customers	—	4,983	—	—
Debt securities in issue	—	—	—	—
Financial liabilities held for trading	—	—	—	—
Hedging derivatives	—	—	—	—
Hedge adjustment of hedged items in the fair value hedge portfolio	—	—	—	—
Tax liabilities	—	16	—	—
Liabilities of disposal groups held for sale	—	—	—	23
Other liabilities	—	57	—	15
Provisions	—	8	—	—

There were no significant acquisitions of subsidiaries or associated companies in the 2013 and 2014 financial years.

Other Information

74 Information regarding lease operations

HVB Group as lessor

Operating leases

HVB Group acts as a lessor under operating leases. The relevant lease agreements notably encompass real estate (land and buildings) and movable assets such as plant and office equipment, aircraft, motor vehicles and industrial machinery in the reporting period. The lease agreements for real estate are based on customary market terms and contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have generally not been agreed. The lease agreements for movable assets have generally been concluded with lease periods of between four and ten years and an additional option to purchase; they do not contain any extension or price adjustment clauses.

The following table shows the breakdown of the minimum lease payments to be received on non-cancellable operating leases: (€ millions)

	2014	2013
Remaining maturity:		
up to 12 months	102	124
from 1 year to 5 years	340	301
from 5 years and over	179	171
Total	**621**	**596**

Finance leases

HVB Group leases mobile assets as a lessor under finance leases. This notably includes plant and office equipment, aircraft, motor vehicles and industrial machinery. As a general rule, the lease agreements stipulate lease periods of between four and ten years and possibly a pre-emptive right in favour of the lessor; they do not contain any extension or price adjustment clauses.

The following table shows the reconciliation from the future minimum lease payments to the gross and net investment in the lease and to the present value of the future minimum lease payments at the reporting date. The amounts receivable from lease operations (finance leases) consist of the following: (€ millions)

	2014	2013
Future minimum lease payments:	2,226	2,259
+ Unguaranteed residual value	—	—
= Gross investment	**2,226**	**2,259**
– Unrealised finance income	(143)	(164)
= Net investment	**2,083**	**2,095**
– Present value of unguaranteed residual value	—	—
= Present value of future minimum lease payments	**2,083**	**2,095**

The future minimum lease payments reflect the total lease payments to be made by the lessee under the lease agreement plus the guaranteed residual value.

The unguaranteed residual value is that portion of the residual value of the leased asset which is not guaranteed to be realised by the lessor.

For the lessor, the gross investment in the lease is the aggregate of the minimum lease payments under a finance lease and any unguaranteed residual value accruing to the lessor.

Unrealised finance income is the difference between the lessor's gross investment in the lease and its present value (net investment). It corresponds to the return implicit in the lease between the reporting date and the end of the lease.

The present value of the minimum lease payments is calculated as the net investment in the lease less the present value of the unguaranteed residual value.

Other Information (Continued)

The following table shows the remaining maturity of the gross investment in the leases and the present value of the minimum lease payments: (€ millions)

	GROSS INVESTMENT		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2014	2013	2014	2013
Remaining maturity:				
up to 12 months	868	775	812	725
from 1 year to 5 years	1,247	1,401	1,167	1,294
from 5 years and over	111	83	104	76
Total	**2,226**	**2,259**	**2,083**	**2,095**

The cumulative write-downs on uncollectible outstanding minimum lease payments in amounts receivable from customers under finance leases amounted to €7 million at the end of the reporting period (2013: €3 million).

The amounts receivable under finance leases included in loans and receivables with customers are shown net of allowances for losses on loans and receivables in each case (see Note 53). These break down as follows: (€ millions)

	2014	2013
Properly serviced loans and receivables		
Carrying amount before allowances	2,057	2,041
Portfolio allowances	7	9
Carrying amount	**2,050**	**2,032**
Properly serviced loans and receivables past due		
Carrying amount before allowances	7	7
Portfolio allowances	—	—
Carrying amount	**7**	**7**
Non-performing loans and receivables		
Carrying amount before allowances	40	72
Specific allowances	14	16
Carrying amount	**26**	**56**

The non-performing loans and receivables from finance leases are essentially allocated to rating classes 8-, 9 and 10.

(€ millions)

	2014	2013
Carrying amount of properly serviced loans and receivables past due, broken down by period past due		
1–30 days	5	7
31–60 days	2	—
61–90 days	—	—

(€ millions)

	2014	2013
Value of collateral, broken down by period past due		
1–30 days	4	4
31–60 days	—	—
61–90 days	—	—

(€ millions)

	2014	2013
Loans and receivables, broken down by rating class		
Not rated	286	261
Rating class 1–4	1,255	1,256
Rating class 5–8	516	511
Rating class 9–10	26	67
Collateral, broken down by rating class		
Not rated	—	16
Rating class 1–4	448	179
Rating class 5–8	105	42
Rating class 9–10	9	18

The presentation of the collateral broken down by rating class does not include the leased assets of €1,146 million (2013: €655 million) leased to external third parties under finance leases belonging legally to UniCredit Leasing GmbH or its subsidiaries.

HVB Group as lessee

Operating leases

HVB Group acts as lessee under operating leases. The current obligations in the reporting period relate primarily to rental and lease agreements for real estate (land and buildings) and movable assets, mainly comprising plant, office equipment and motor vehicles. The lease agreements for real estate generally contain extension options and price adjustment clauses in the form of stepped rents or index clauses; options to purchase have been agreed in some cases. The lease agreements for movable assets have been concluded at customary market terms for lease periods of between three and nine years.

In the reporting period, the commitments arising from operating leases under lease and sublease agreements resulted in minimum lease payments of €126 million (2013: €139 million) being recognised as expense in the income statement.

The following table shows the cumulative minimum lease payments arising from non-cancellable operating leases to be expected in future financial years:

(€ millions)

	2014	2013
Remaining maturity:		
up to 12 months	112	114
from 1 year to 5 years	134	150
from 5 years and over	53	73
Total	**299**	**337**

The agreements regarding the outsourcing of information and communications technology processes to the UniCredit-wide service provider UBIS include the charged transfer of rights to use assets in the form of operating leases. The full service contracts concluded annually in this regard consist for the most part of rent payments for the provision of hardware and software that are included in the minimum lease payments of €35 million for the reporting period and €37 million for the following financial year mentioned above.

HVB Group has concluded sublease agreements for real estate at customary market terms, some of which include rent adjustment clauses and extension options. Payments of €7 million (2013: €7 million) received from subleases were recognised as income in the income statement during the reporting period.

The aggregate future minimum lease payments arising from non-cancellable subleases expected to be received in the subsequent financial years amount to €12 million (2013: €12 million).

Other Information (Continued)

Finance leases

The finance leases entered into by HVB Group as lessee relate to real estate (land and buildings). The lease agreements generally contain an option to purchase and price adjustment clauses.

The following table shows the reconciliation from the aggregate future minimum lease payments at the reporting date to their present value. This gives rise to the amounts payable to customers from lease operations (finance leases):

(€ millions)

	2014	2013
Future minimum lease payments	236	404
– Finance charge (interest included in minimum lease payments)	(27)	(64)
= Present value of future minimum lease payments	**209**	**340**

The difference between the future minimum lease payments and their present value represents unamortised interest expense.

The following table shows the remaining maturity of the future minimum lease payments and their present value at the reporting date:

(€ millions)

	FUTURE MINIMUM LEASE PAYMENTS		PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS	
	2014	2013	2014	2013
Remaining maturity:				
up to 12 months	12	142	12	140
from 1 year to 5 years	52	61	47	56
from 5 years and over	172	201	150	144
Total	**236**	**404**	**209**	**340**

The aggregate future minimum lease payments arising from non-cancellable subleases that are expected to be received in the subsequent financial years amount to €22 million (2013: €18 million).

75 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 31/12/2014	1.9	1.9	2.0
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 31/12/2014	1.6	1.9	1.8
Balance of reclassified assets at 31/12/2014	**3.5**	**3.8**	**3.8**

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 €3.8 billion at 31 December 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 €227 million in net trading income in the 2014 financial year. A net gain of €286 million would have arisen in net trading income in 2013, €498 million in 2012, €96 million in 2011, €416 million in 2010 and €1,159 million in 2009, while a net loss of €1,792 million would have accrued in net trading income from the reclassified holdings in 2008. These effects reflect a theoretical, pro forma calculation, as the assets are measured at amortised cost on account of the reclassification.

We took write-downs of €92 million on reclassified assets in 2014. In the 2013 financial year, write-downs of €10 million on reclassified assets 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 €34 million (2013: €38 million, 2012: €66 million, 2011: €100 million, 2010: €160 million, 2009: €208 million, 2008: €127 million), which is recognised in net interest. The effective interest rates for the reclassified securities are in a range from 0.41% to 13.10%.

A gain of €2 million (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 2014.

In 2014, the reclassifications carried out in 2008 and 2009 resulted in a profit before tax that was €283 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 €285 million before tax (2014: minus €283 million, 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).

76 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 what are known as structured entities (formerly called special purpose vehicles or SPVs). In order to refinance the acquisition of receivables, these vehicles 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 vehicles 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)

		31/12/2014				31/12/2013
CARRYING AMOUNTS		SENIOR	MEZZANINE	JUNIOR	TOTAL	TOTAL
Positions retained from own securitisations		**—**	**61**	**—**	**61**	**106**
Positions in third-party ABS transactions		**3,667**	**1,035**	**—**	**4,702**	**4,645**
Residential mortgage-backed securities (RMBS)		2,221	467	—	2,688	2,339
thereof:						
US subprime		—	—	—	—	1
US Alt-A		1	—	—	1	1
Commercial mortgage-backed securities (CMBS)		500	134	—	634	792
Collateralised debt obligations (CDO)		61	—	—	61	61
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		88	376	—	464	848
Consumer loans		613	34	—	647	444
Credit cards		98	—	—	98	—
Receivables under finance leases		77	24	—	101	148
Others		9	—	—	9	13
Total	**31/12/2014**	**3,667**	**1,096**	**—**	**4,763**	
	31/12/2013	**3,449**	**1,302**	**—**	**4,751**	
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2014**	**—**	**—**	**—**	**—**	
	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		31/12/2014 EUROPE	USA	ASIA	OTHER REGIONS	TOTAL
Positions retained from own securitisations		**61**	**—**	**—**	**—**	**61**
Positions in third-party ABS transactions		**4,256**	**366**	**—**	**80**	**4,702**
Residential mortgage-backed securities (RMBS)		2,626	2	—	60	2,688
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		553	81	—	—	634
Collateralised debt obligations (CDO)		7	34	—	20	61
thereof:						
US subprime		—	—	—	—	—
US Alt-A		—	—	—	—	—
Collateralised loan obligations (CLO)/						
collateralised bond obligations (CBO)		232	232	—	—	464
Consumer loans		634	13	—	—	647
Credit cards		98	—	—	—	98
Receivables under finance leases		97	4	—	—	101
Others		9	—	—	—	9
Total	**31/12/2014**	**4,317**	**366**	**—**	**80**	**4,763**
	31/12/2013	**4,193**	**424**	**7**	**127**	**4,751**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2014**	**—**	**—**	**—**	**—**	**—**
	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)

		31/12/2014			
CARRYING AMOUNTS		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		**469**	**3,219**	**1,014**	**4,702**
Residential mortgage-backed securities (RMBS)		234	1,629	825	2,688
thereof:					
US subprime		—	—	—	—
US Alt-A		—	1	—	1
Commercial mortgage-backed securities (CMBS)		17	516	101	634
Collateralised debt obligations (CDO)		—	9	52	61
thereof:					
US subprime		—	—	—	—
US Alt-A		—	—	—	—
Collateralised loan obligations (CLO)/					
collateralised bond obligations (CBO)		31	423	10	464
Consumer loans		127	494	26	647
Credit cards		—	98	—	98
Receivables under finance leases		60	41	—	101
Others		—	9	—	9
Total	**31/12/2014**	**530**	**3,219**	**1,014**	**4,763**
	31/12/2013	**377**	**3,288**	**1,086**	**4,751**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2014**	**—**	**—**	**—**	**—**
	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		31/12/2014 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		**267**	**32**	**4,161**	**66**	**176**	**4,702**
Residential mortgage-backed securities (RMBS)		109	15	2,517	—	47	2,688
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	1	—	—	1
Commercial mortgage-backed securities (CMBS)		62	8	554	—	10	634
Collateralised debt obligations (CDO)		—	5	36	20	—	61
thereof:							
US subprime		—	—	—	—	—	—
US Alt-A		—	—	—	—	—	—
Collateralised loan obligations (CLO)/							
collateralised bond obligations (CBO)		7	4	306	40	107	464
Consumer loans		81	—	560	6	—	647
Credit cards		—	—	98	—	—	98
Receivables under finance leases		8	—	81	—	12	101
Others		—	—	9	—	—	9
Total	**31/12/2014**	**267**	**32**	**4,161**	**66**	**237**	**4,763**
	31/12/2013	**268**	**41**	**3,866**	**74**	**502**	**4,751**
Synthetic collateralised debt obligations (CDO) (derivatives)[1]	**31/12/2014**	**—**	**—**	**—**	**—**	**—**	**—**
	31/12/2013	**24**	**—**	**—**	**—**	**—**	**24**

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

Other Information (Continued)

77 Fair value hierarchy

We show financial instruments measured at fair value and recognised at fair value in the balance sheet separately in a fair value hierarchy in the following table. This fair value hierarchy is divided into the following levels:

Level 1 contains financial instruments measured using prices of identical assets or liabilities listed on an active market. These prices are incorporated unchanged. We have assigned mostly listed equity instruments, bonds and exchange-traded derivatives to this category.

Assets and liabilities whose valuation is derived from directly observable (prices) or indirectly observable (derived from prices) input data are shown in Level 2. No price can be observed on an active market for the assets and liabilities concerned themselves. As a result of this, we notably show the fair values of interest rate and credit derivatives in this level together with the fair values of ABS bonds, provided a liquid market exists for the asset class in question.

Financial assets and liabilities of €759 million (2013: €1,271 million) have been transferred between Level 1 and Level 2. At the same time, financial assets or liabilities of €970 million (2013: €5,531 million) were migrated between Level 2 and Level 1. Most of the transfers relate to securities, resulting from an increase or decrease in the actual trading taking place in the securities concerned and the associated change in the bid-offer spreads.

The following table shows transfers 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	—	161
	Transfer from Level 2	266	—
Financial assets at fair value through profit or loss			
	Transfer from Level 1	—	497
	Transfer from Level 2	599	—
Available-for-sale financial assets			
	Transfer from Level 1	—	99
	Transfer from Level 2	92	—
Financial liabilities held for trading			
	Transfer from Level 1	—	2
	Transfer from Level 2	13	—

Within the scope of IFRS 13 disclosures, 1 January is considered the transfer date for instruments transferred between the levels in the first half of the reporting period (1 January to 30 June). 1 July is considered the transfer date for transfers in the second half of the reporting period (1 July to 31 December).

Level 3 relates to assets or liabilities for which the fair value cannot be calculated exclusively on the basis of observable market data (non-observable input data). The amounts involved are stated in Level 2 if the impact of the non-observable input date on the determination of fair value is insignificant. Thus, the respective fair values also incorporate valuation parameters based on model assumptions. This includes derivatives and structured products that contain at least one "exotic" component, such as foreign currency or interest rate derivatives on illiquid currencies, derivatives without standard market terms, structured products with an illiquid underlying as reference and ABS bonds of an asset class for which no liquid market exists.

If the value of a financial instrument is based on non-observable input parameters, the value of these parameters may be selected from a range of possible appropriate alternatives at the reporting date. Appropriate values are determined for these non-observable parameters and applied for valuation purposes, when the annual financial statements are prepared, reflecting the prevailing market conditions. In addition, individual parameters that cannot be incorporated separately as standalone valuation parameters are taken into account by applying a model reserve.

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	0%–137%
Equities	Market approach	Price	0%–100%
Asset-backed securities (ABS)	DCF method	Credit spread curves	0BPS–28%
		Residual value	10%–65%
		Default rate	1%–12%
		Prepayment rate	0%–30%
Equity derivatives	Option price model DCF method	Equity volatility	15%–120%
		Correlation between equities	(95)%–95%
		Dividend yields	0%–15%
Interest rate derivatives	DCF method option price model	Swap interest rate	0BPS–1,000BPS
		Inflation swap interest rate	120BPS–230BPS
		Inflation volatility	1%–10%
		Interest rate volatility	10%–100%
		Correlation between interest rates	20%–100%
Credit derivatives	Option price model Hazard rate model	Credit spread curves	116BPS–331%
		Credit correlation	25%–85%
		Residual value	14%–75%
		Credit volatility	47%–67%
Currency derivatives	DCF method option price model	Yield curves	0BPS–1,000BPS
		FX volatility	1%–40%
Commodity derivatives	DCF method option price model	Swap interest rate	70%–130%
		Correlation between commodities	(95)%–95%
		Commodity price volatility	20%–120%
Hybrid derivatives	Option price model	Parameter correlation	(95)%–95%
		Parameter volatility	15%–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 at fair value through profit or loss, the positive change in fair values at 31 December 2014 resulting from the use of possible appropriate alternatives would be €171 million (2013: €143 million), and the negative change would be minus €81 million (2013: minus €65 million).

Other Information (Continued)

The following table shows the significant sensitivity effects, broken down by the individual classes of financial instrument for the various product types:

(€ millions)

	2014		2013	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Fixed-income securities and other debt instruments	2	(2)	6	(6)
Equities	17	(17)	13	(13)
Asset-backed securities	1	—	3	(2)
Equity derivatives	119	(35)	87	(23)
Interest rate derivatives	8	(2)	8	(3)
Credit derivatives	22	(24)	11	(5)
Currency derivatives	1	(1)	1	—
Commodity derivatives	1	—	1	—
Hybrid derivatives	—	—	—	—
Other	—	—	13	(13)
Total	**171**	**(81)**	**143**	**(65)**

For fixed-income securities and other debt instruments and asset-backed securities, the credit spread curves were varied as part of the sensitivity analyses in line with rating. For shares, the spot price is varied using a relative value.

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.

For interest rate products, interest rates, interest rate correlations and implicit volatilities were varied as part of the sensitivity analysis. For credit derivatives, rating-dependent shifts in the risk premium curves for credit risk were assumed together with changes in implicit correlations and increases in default rates.

Foreign currency derivatives were varied in terms of interest rates and the implicit volatility.

Where trades are executed for which the transaction price deviates from the fair value at the trade date and non-observable parameters are employed to a considerable extent in valuation models, the financial instrument concerned is recognised at the trade price. This difference between the transaction price and the fair value of the valuation model is defined as the trade date gain/loss. Any gain determined at the trade date is deferred and recognised in the income statement over the term of the transaction. As soon as a reference price can be determined for the transaction on an active market, or the significant input parameters on observable market data, the deferred trade date gain is taken directly to the income statement in net trading income.

The following table shows a year-on-year comparison of changes in trade date gains that were deferred on account of the application of significant non-observable parameters for financial instruments recognised at fair value:

(€ millions)

	2014	2013
Balance at 1/1	**80**	**—**
New transactions during the period	—	81
Write-downs	17	1
Expired transactions	—	—
Retroactive change in observability	—	—
Exchange rate changes	—	—
Balance at 31/12	**64**	**80**

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)	
	2014	2013	2014	2013	2014	2013
Financial assets recognised						
in the balance sheet at fair value						
Financial assets held for trading	19,308	18,540	90,521	71,438	2,009	1,323
thereof: derivatives	1,703	1,989	77,087	60,314	1,870	973
Financial assets at fair value through profit or loss	14,559	15,247	16,365	13,889	281	576
Available-for-sale financial assets[1]	619	2,799	645	862	39	230
Hedging derivatives	—	—	753	1,053	—	—
Financial liabilities recognised						
in the balance sheet at fair value						
Financial liabilities held for trading	4,462	4,510	82,493	67,609	1,015	1,416
thereof: derivatives	1,929	1,659	73,759	58,271	712	714
Hedging derivatives	—	—	749	373	—	—

1 Available-for-sale financial assets include financial instruments of €266 million (2013: €673 million) valued at historical cost that are not included in these totals at 31 December 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	538	—	15	—
Realised gains[1]	759	2	2	—
Transfer from other levels	542	286	—	—
Other additions[2]	76	1	—	—
Reductions				
Sale	(586)	(255)	(12)	—
Repayment	—	(40)	(30)	—
Realised losses[1]	(111)	(2)	(2)	—
Transfer to other levels	(407)	(286)	(151)	—
Other reductions	(125)	(1)	(13)	—
Balance at 31/12/2014	**2,009**	**281**	**39**	**—**

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

On the assets side, derivatives with a fair value of €534 million (2013: €186 million) were transferred to Level 3 and of €219 million (2013: €286 million) from Level 3 at year-end 2014. On the liabilities side, the fair value of the derivatives transferred to Level 3 amounted to €220 million (2013: €45 million), while the transfer from Level 3 totalled €585 million (2013: €282 million). The increase on the assets side can for the most part be attributed to interest rate derivatives in default. All in all, the Level 3 volume rose by €686 million year-on-year on the assets side (2013: reduction of €256 million) and declined by €401 million (2013: €326 million) on the liabilities side.

Other Information (Continued)

(€ millions)

	2014	
	FINANCIAL LIABILITIES HELD FOR TRADING	HEDGING DERIVATIVES
Balance at 1/1/2014	**1,416**	**—**
Additions		
Sale	352	—
Issues	710	—
Realised losses[1]	462	—
Transfer from other levels	658	—
Other additions[2]	90	—
Reductions		
Buy-back	(421)	—
Repayment	(134)	—
Realised gains[1]	(126)	—
Transfer to other levels	(1,945)	—
Other reductions	(47)	—
Balance at 31/12/2014	**1,015**	**—**

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

The transfer from Level 3 relates notably to structured issues for which volatilities and correlations in the underlyings have now been observed for longer periods.

(€ 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	(2,070)	(53)	(110)	—
Repayment	(114)	(25)	(1)	—
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		
Sale	266	—
Issues	299	—
Realised losses[1]	185	—
Transfer from other levels	775	—
Other additions[2]	72	—
Reductions		
Buy-back	(405)	—
Repayment	(107)	—
Realised gains[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

78 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)

	2014		2013	
ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash balances	5.2	5.2	10.6	10.6
Financial assets held for trading	111.8	111.8	91.3	91.3
Financial assets at fair value through profit or loss	31.2	31.2	29.7	29.7
Available-for-sale financial assets				
thereof: measured				
at cost	0.3	0.3	0.7	0.7
at fair value	1.3	1.3	3.9	3.9
Held-to-maturity investments	0.1	0.1	0.2	0.2
Loans and receivables with banks	32.7	33.1	35.3	35.9
Loans and receivables with customers	109.6	115.2	109.6	114.2
thereof: finance leases	2.1	2.1	2.0	2.0
Hedging derivatives	0.8	0.8	1.1	1.1
Total	**293.0**	**299.0**	**282.4**	**287.6**

Other Information (Continued)

(€ 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)	
	2014	2013	2014	2013	2014	2013
Financial assets not carried at fair value						
in the balance sheet						
Cash and cash balances	—	—	5.2	10.6	—	—
Held-to-maturity investments	—	0.2	—	—	—	—
Loans and receivables with banks	3.4	0.6	16.5	18.7	13.2	16.6
Loans and receivables with customers	1.8	0.6	15.8	14.3	97.6	99.3
thereof: finance leases	—	—	—	—	2.1	2.0

(€ billions)

LIABILITIES	2014		2013	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Deposits from banks	54.1	54.8	47.8	48.6
Deposits from customers	100.7	101.1	107.9	108.1
Debt securities in issue	28.2	32.0	31.8	34.1
Financial liabilities held for trading	88.0	88.0	73.5	73.5
Hedging derivatives	0.7	0.7	0.4	0.4
Total	**271.7**	**276.6**	**261.4**	**264.7**

(€ 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)	
	2014	2013	2014	2013	2014	2013
Financial liabilities not carried						
at fair value in the balance sheet						
Deposits from banks	—	—	16.1	12.5	38.7	36.1
Deposits from customers	—	—	57.8	55.4	43.3	52.7
Debt securities in issue	7.4	9.8	8.1	9.0	16.5	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.

A new, enhanced valuation model was introduced in 2014 to determine the fair values of other loans and receivables. The fair value calculation is built around the risk-neutral credit spread, which takes account of all relevant factors on the market. Further parameters besides the risk-neutral credit spread and the risk-free return on investment are not included. Provided the markets are liquid and no relevant market disruptions are evident, as is currently the case, the arbitrage between the markets on which credit risks are traded leads to a narrowing of the credit spreads. Accordingly, the CDS market is defined as the relevant exit market for loans and receivables within the meaning of IFRS 13.

The fair value is calculated as the sum total of the discounted, risk-adjusted anticipated cash flows discounted on the basis of the swap curve (based on Libor). In this context, the anticipated, risk-adjusted cash flows are based on the survival probability and the loss given default. The survival probability is determined on the basis of the risk-neutral probability of default, while the proceeds upon realisation are determined on the basis of the internal loss given default parameters. In turn, the risk-neutral probability of default is determined on the basis of the internally calculated one-year default rate (real-world probability of default), the market risk premium and the correlation between the respective loan and the general market risk. The market risk premium represents a factor used to cover the difference between the real-world probability of default and the market's return expectations for the risk assumed.

In this context, the loan portfolio is divided into four sectors in order to take account of the specific features of each sector: sovereign loans, loans to banks, corporate loans and retail loans. For each of these sectors with exception of retail loans, first of all the market risk premium is determined on the basis of a portfolio of specific, liquid CDS prices for the respective sector. Only for retail loans is the market risk premium derived from the market risk premiums for the other sectors due to the lack of a CDS market.

Since the parameters used to determine the real-world probability of default (PD) and loss given default (LGD) are not immaterial when determining the fair value, and these are determined on the basis of internal procedures meaning they cannot be observed on the market, the other loans and receivables 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 77 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 77 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 cost.

The difference in HVB Group between the fair values and carrying amounts totals €6.0 billion (2013: €5.2 billion) for assets and €4.9 billion (2013: €3.3 billion) for liabilities. The balance of these amounts is €1.1 billion (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.

Other Information (Continued)

79 Disclosures regarding the offsetting of financial assets and liabilities

The following two tables separately show the recognised financial assets and financial liabilities that have already been netted in the balance sheet in accordance with IAS 32.42 together with the financial instruments that are subject to a legally enforceable master netting arrangement or similar agreement but that do not satisfy the criteria for offsetting in the balance sheet.

Financial assets that are netted in the balance sheet or subject to a legally enforceable master netting arrangement or similar agreement

(€ millions)

				AMOUNTS NOT RECOGNISED			
	FINANCIAL ASSETS (GROSS)	FINANCIAL LIABILITIES NETTED IN THE BALANCE SHEET (GROSS)	RECOGNISED FINANCIAL ASSETS (NET)	EFFECTS OF MASTER NETTING ARRANGE-MENTS	FINANCIAL INSTRUMENTS AS COLLATERAL	CASH COLLATERAL	NET AMOUNT 31/12/2014
Derivatives[1]	105,049	(23,636)	81,413	(55,825)	(3,134)	(11,550)	10,904
Reverse repos[2]	19,144	(1,412)	17,732	—	(17,489)	—	243
Loans and receivables[3]	23,706	(1,112)	22,594	—	—	—	22,594
Total at 31/12/2014	**147,899**	**(26,160)**	**121,739**	**(55,825)**	**(20,623)**	**(11,550)**	**33,741**

1 Derivatives are covered in the notes covering financial assets held for trading and hedging derivatives.
2 Reverse repos are covered in the notes covering loans and receivables with banks and loans and receivables with customers. They are also included in financial assets held for trading with an amount of €9,869 million.
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 31/12/2014
Derivatives[1]	100,785	(23,636)	77,149	(55,825)	(311)	(13,025)	7,988
Repos[2]	28,900	(1,412)	27,488	—	(24,116)	—	3,372
Liabilities[3]	74,539	(1,112)	73,427	—	—	—	73,427
Total at 31/12/2014	**204,224**	**(26,160)**	**178,064**	**(55,825)**	**(24,427)**	**(13,025)**	**84,787**

1 Derivatives are covered in the notes regarding financial liabilities held for trading and hedging derivatives.
2 Repos are covered in the notes covering deposits from banks and deposits from customers. They are also included in financial liabilities held for trading with an amount of €1,984 million.
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.

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]	19,242	(924)	18,318	—	(17,811)	—	507
Loans and receivables[3]	22,292	(1,209)	21,083	—	—	—	21,083
Total at 31/12/2013	**121,393**	**(17,663)**	**103,730**	**(44,890)**	**(20,192)**	**(7,316)**	**31,332**

1 Derivatives are covered in the notes covering financial assets held for trading and hedging derivatives.
2 Reverse repos are covered in the notes covering loans and receivables with banks and loans and receivables with customers.
They are also included in financial assets held for trading with an amount of €7,841 million.
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]	27,774	(924)	26,850	—	(25,907)	—	943
Liabilities[3]	68,865	(1,209)	67,656	—	—	—	67,656
Total at 31/12/2013	**173,186**	**(17,663)**	**155,523**	**(44,890)**	**(26,268)**	**(9,430)**	**74,935**

1 Derivatives are covered in the notes regarding financial liabilities held for trading and hedging derivatives.
2 Repos are covered in the notes covering deposits from banks and deposits from customers.
They are also included in financial liabilities held for trading with an amount of €3,228 million.
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.

We have recorded the repos involving the held-for-trading portfolio in the netting tables for the first time in the 2014 financial year and adjusted the year-ago figures accordingly.

Other Information (Continued)

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 fair 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 similar agreement, but which are not netted in the balance sheet as they do not satisfy the IAS 32.42 offsetting requirements as described above. At HVB Group, this includes OTC derivatives and repo transactions with individual counterparties with which legally enforceable master netting arrangements have been concluded allowing netting in the event of default.

In addition, the tables contain the financial instruments received or pledged as collateral in this context and cash collateral. Please refer to Notes 88 and 89 for more information on securities received or pledged as collateral for securities lending transactions without cash collateral not recognised in the balance sheet.

80 Undiscounted cash flow

Compliant with IFRS 7.39, we are disclosing the remaining terms for non-derivative and derivative financial liabilities and for credit commitments and financial guarantees. The breakdown of remaining terms is based on the contractual due dates. These are crucial for determining the timing of payments. Consequently, we have divided the contractually agreed, undiscounted payments into maturity buckets. The undiscounted cash flows shown here are not comparable with the carrying amounts, as the latter are based on discounted cash flows.

At the same time, we have broken down the financial assets by remaining term in this context compliant with IFRS 7.39 (c). These are financial assets that generate cash flows used to settle financial liabilities.

In the following tables, we have divided the derivative and non-derivative financial assets and liabilities into maturity buckets. All financial liabilities have been allocated to the respective maturity bucket. The derivatives on financial assets held for trading and financial liabilities held for trading have been allocated to the shortest maturity bucket with their fair value. This reflects the fact that the derivatives are subject to an intention to sell in the short term and hence the maturity of the contractual undiscounted cash flows does not adequately represent the timing of payments that is actually expected. The remaining financial instruments classified as financial assets held for trading and financial liabilities held for trading have been allocated to the earliest possible maturity bucket with their cash flows. Hedging derivatives used under hedge accounting have been allocated to the applicable maturity bucket with their contractually agreed, undiscounted cash flows.

Credit commitments and financial guarantees have been allocated with the maximum amount to the shortest maturity bucket (repayable on demand) in which they can be utilised at the earliest. The credit commitments amount to €40,668 million (2013: €37,383 million). This assumption defined in IFRS 7 is unrealistic for credit commitments not utilised and contingent liabilities for financial guarantees in particular, as the complete utilisation of all open credit commitments and financial guarantees on the next day cannot be expected. The same holds true for the presentation of the fair values of trading derivatives.

Breakdown of financial assets by maturity bucket

(€ millions)

	2014						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	115	6,219	1,710	6,137	4,813	3,207	11,386
Derivatives on financial assets held for trading	80,660	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	221	876	3,523	24,404	2,628	62
Available-for-sale financial assets	—	3	12	199	726	1,581	237
Held-to-maturity investments	—	—	—	—	42	29	—
Loans and receivables with banks	12,402	3,434	2,116	11,399	3,055	464	2,188
Loans and receivables with customers	12,302	9,040	5,106	11,111	37,315	50,412	524
thereof: finance leases	246	82	154	678	1,787	260	—
Hedging derivatives	—	134	269	1,210	2,115	1,345	—

(€ millions)

	2013						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Financial assets held for trading	449	7,756	2,709	3,291	5,540	3,459	8,618
Derivatives on financial assets held for trading	63,276	—	—	—	—	—	—
Financial assets at fair value through profit or loss	—	137	762	4,188	23,984	1,614	4
Available-for-sale financial assets	—	131	73	295	2,488	624	990
Held-to-maturity investments	—	—	—	87	108	28	—
Loans and receivables with banks	11,899	9,508	1,112	5,222	7,349	688	5,920
Loans and receivables with customers	10,890	7,461	5,285	9,905	40,129	54,218	182
thereof: finance leases	45	76	126	531	1,406	83	—
Hedging derivatives	—	226	419	1,710	1,961	898	—

Breakdown of non-derivative and derivative financial liabilities by maturity bucket

(€ millions)

	2014						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	16,320	3,439	8,708	15,319	6,310	4,315	—
Deposits from customers	59,361	11,908	16,997	7,870	2,804	1,862	—
Debt securities in issue	27	2,454	2,635	2,797	12,793	14,031	—
Financial liabilities held for trading	77	8,720	5,180	2,259	2,964	1,707	2,830
Derivatives on financial liabilities held for trading	76,400	—	—	—	—	—	—
Hedging derivatives	—	78	155	695	1,297	755	—
Credit commitments and financial guarantees	63,432	—	—	—	—	—	—

(€ millions)

	2013						
	REPAYABLE ON DEMAND	UP TO 1 MONTH	1 MONTH TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	UNDATED
Deposits from banks	12,956	7,319	7,449	9,009	7,523	4,323	12
Deposits from customers	56,228	16,195	17,826	9,802	4,194	2,140	—
Debt securities in issue	23	1,344	2,008	4,613	16,925	14,036	—
Financial liabilities held for trading	430	9,958	2,188	1,697	1,846	1,301	2,966
Derivatives on financial liabilities held for trading	60,644	—	—	—	—	—	—
Hedging derivatives	—	88	162	660	1,031	496	—
Credit commitments and financial guarantees	57,194	—	—	—	—	—	—

Other Information (Continued)

81 Regulatory disclosure requirements (Disclosure Report)

HVB has been classified by its parent company, UniCredit S.p.A., as a significant subsidiary within the meaning of Article 13 of the Capital Requirements Regulation (CRR). Consequently, Part Eight CRR and Section 26a KWG require certain information to be published as part of the regulatory disclosure requirements (Pillar III) by way of a separate disclosure report. The Disclosure Report at 31 December 2014 complete with the requisite regulatory information regarding own funds, capital requirements, credit risk adjustments and the use of credit risk mitigation techniques is scheduled for publication under Investor Relations/Reports & Financial Data on the Bank's homepage in April 2015.

The disclosures regarding details of the remuneration policy, practice and systems will be published under Investor Relations/Remuneration Systems on the Bank's homepage following the Shareholders' Meeting of UniCredit Bank AG scheduled for May 2015.

82 Key capital ratios (based on German Commercial Code)

HVB Group manages its economic and supervisory capital as part of its overall bank management strategy. The yield expectations have been calculated using the allocated capital principle that UniCredit introduced across its entire organisation. Under the principle of dual control, both regulatory capital in the sense of used core capital and internal capital are allocated to the business segments. Both resources are expected to yield an appropriate return, which is derived from the expectations of the capital market. Please refer to the Risk Report for more information about overall bank management.

The supervisory ratios are discussed below.

The provisions of the German Solvency Regulation (Solvabilitätsverordnung – SolvV) regarding the equity funds of institutions were replaced by the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (CRR) on 1 January 2014. The supervisory total capital ratio prescribed in the CRR represents the ratio of the equity determined in accordance with Part Two CRR to the total eligible amount for default risk, market risk and operational risk multiplied by 12.5 (corresponds to the risk-weighted asset equivalent of these risk positions). Under Article 92 CRR in conjunction with Section 23 SolvV, the core capital ratio calculated as the ratio of core capital to total risk-weighted assets determined as described above must be at least 5.5%.

The eligible equity underlying the calculation of the total capital ratio in accordance with CRR consists of Tier 1 and Tier 2 capital. HVB Group uses internal models in particular to measure market risk positions.

The following table shows equity funds based on financial statements approved by the Supervisory Board and risk-weighted assets together with the risk equivalents for market risk positions and operational risk at 31 December 2014:

Equity funds[1] (€ millions)

	2014	2013
Tier 1		
Shares of common stock	2,407	2,407
Additional paid-in capital, retained earnings, minority interest, own shares	18,557	15,712
Hybrid capital instruments (silent partnership certificates) without prorated interest	—	47
Other	(886)	443
Capital deductions	(1,085)	(153)
Total core capital for solvency purposes	**18,993**	**18,456**
Tier 2		
Unrealised reserves in land and buildings and in securities	—	—
Offsetting reserves for general banking risks	—	235
Cumulative shares of preferred stock	—	—
Participating certificates outstanding	—	—
Subordinated liabilities	412	1,182
Value adjustment excess for A-IRB positions	241	311
Other	—	18
Capital deductions	(3)	(153)
Total supplementary capital for solvency purposes	**650**	**1,593**
Total equity funds	**19,643**	**20,049**

1 group of consolidated companies and principles of consolidation in accordance with banking supervisory regulations

The equity funds of HVB Group in accordance with Part Two CRR amounted to €19,643 million at 31 December 2014. In 2013, the equity funds were determined in accordance with the old version of Section 10 and 10a KWG; they totalled €20,049 million. As in the previous year, we have not included in Tier 2 capital any unrealised reserves in accordance with Section 10 (2b) 1 No. 6 and 7 KWG in the version applicable until 31 December 2013.

The equity funds are determined on the basis of IFRS figures determined in accordance with CRR/CRD IV using the consolidated accounting method. The following table shows the reconciliation from the equity items shown in the balance sheet prepared in accordance with IFRS:

(€ millions)

	COMMON EQUITY TIER 1 CAPITAL	ADDITIONAL TIER 1 CAPITAL	TIER 2 CAPITAL	TOTAL OWN FUNDS
Shown in IFRS balance sheet				
Shareholders' equity	20,597	—	—	20,597
Reconciliation to the equity funds compliant with the Capital Requirements Regulation				
Cumulative shares of preferred stock	—	—	—	—
Ineligible profit components	(307)	—	—	(307)
Ineligible minority interests under banking supervisory regulations	(31)	—	—	(31)
Diverging consolidation perimeters	(181)	—	—	(181)
Deduction of intangible assets	(491)	—	—	(491)
Hybrid capital recognised under banking supervisory regulations	—	—	42	42
Eligible portion of subordinated liabilities	—	—	370	370
Value adjustment excess (+) or shortfall (-) for A-IRB positions	(6)	—	241	235
Adjustments to CET1 due to prudential filters	(515)	—	—	(515)
Deductible deferred tax assets	(331)	—	—	(331)
Capital deductions which can alternatively be subject to a 1,250% risk weight	(121)	—	—	(121)
Transitional adjustments	776	(395)	(3)	378
Other effects	(397)	395	—	(2)
Equity funds compliant with Capital Requirements Regulation (CRR)	**18,993**	**—**	**650**	**19,643**

(€ billions)

	2014 BASEL III	2013 BASEL II
Risk-weighted assets from		
on-balance-sheet counterparty risk positions	45.7	44.3
off-balance-sheet counterparty risk positions	9.5	9.2
other counterparty risk positions[1]	0.6	0.3
derivative counterparty risk positions	6.1	9.0
Total credit risk-weighted assets	**61.9**	**62.8**
Risk-weighted asset equivalent for market risk positions	**12.8**	**9.2**
Risk-weighted asset equivalent for operational risk	**11.0**	**13.5**
Total risk-weighted assets	**85.7**	**85.5**

1 primarily including repos and securities lending transactions

Other Information (Continued)

At 31 December 2014, the key capital ratios (based on financial statements approved by the Supervisory Board) were as follows: (in %)

	2014 BASEL III	2013 BASEL II
Tier 1 Capital ratio		
[Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	22.1	21.6
CET1 capital ratio		
[Common Equity Tier 1 capital/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	22.1	21.5
Total capital ratio		
[own funds/(credit risk-weighted assets + 12.5x market risk positions + 12.5x operational risk)]	22.9	23.4

83 Contingent liabilities and other commitments

(€ millions)

	2014	2013
Contingent liabilities[1]	**22,527**	**19,607**
Guarantees and indemnities	22,527	19,607
Other commitments	**40,774**	**37,573**
Irrevocable credit commitments	40,668	37,383
Other commitments[2]	106	190
Total	**63,301**	**57,180**

1 contingent liabilities are offset by contingent assets to the same amount
2 Not included in other commitments are the future payment commitments arising from non-cancellable operation leases. These are covered in Note 74.

Financial guarantees and irrevocable credit commitments are shown at their nominal amount (maximum outflow) less provisions set up for this purpose. Neither contingent liabilities nor irrevocable credit commitments contain any significant items. The guarantees and indemnities listed here essentially reflect guarantees and indemnities that the Bank has granted on behalf of customers. Consequently, the Bank has a right of recourse against the customer (contracting party) should the guarantee or indemnity in question be used. An appropriate provision is set up where such a customer's credit-worthiness is doubtful. This takes account of the loss suffered by the Bank, as the recourse claim against the contracting party is not considered fully realisable on account of the party's doubtful creditworthiness.

It is hard to anticipate the date at which the contingent liabilities and other commitments mentioned here will result in an outflow of funds. Credit commitments frequently serve as liquidity reserve for the beneficiary in particular, meaning that the amounts are not necessarily utilised at all and hence an outflow of funds is not certain. In terms of financial guarantees, it is important to note that these are conditional payment commitments, meaning that the condition must be met before utilisation becomes possible (such as default on the guaranteed credit in the case of a credit guarantee or non-compliant delivery in the case of a delivery guarantee). Here, too, it is hard to assess whether and when this will be the case, as financial guarantees in particular are only ever utilised in exceptional circumstances entailing an outflow of funds.

Securities lending transactions are not recognised, as economic ownership remains with the lender. The Bank only becomes the legal owner of the borrowed securities which are returned to the lender when the lending transaction falls due. Obligations of €20,181 million (2013: €19,761 million) to return securities arising from securities lending transactions are thus offset by borrowed securities of the same amount, which are not carried as assets on the assets side of the balance sheet.

As part of real estate financing and development operations, we have assumed rental obligations or issued rental guarantees to make fund constructions more marketable – in particular for lease funds and (closed-end) KG real estate funds. Identifiable risks arising from such guarantees have been incorporated by setting up provisions.

Commitments for uncalled payments on shares not fully paid up amounted to €45 million at year-end 2014 (2013: €128 million), and similar obligations for shares in cooperatives totalled €1 thousand (2013: €1 thousand). We were not liable for any defaults on such calls under Section 22 (3 and 24) of the German Private Limited Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG). Under Section 26 GmbHG, we were liable for calls for additional capital of €57 million (2013: €58 million) with regard to Liquiditäts-Konsortialbank GmbH i. L., Frankfurt am Main, at year-end 2014. In addition, under Article 5 (4) of the Articles of Association of Liquiditäts-Konsortialbank GmbH i. L., we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks.

At the reporting date, we had unlimited personal liability arising from shares in 71 partnerships (2013: 75).

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest.

With a Statement of Responsibility dated 21 December 1993, HVB issued an undertaking to the State of Baden-Wuerttemberg (Ministry of Finance) to assume a liquidity provision obligation in the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

In the same way as HVB and its affiliated banks assume liability in Germany, our subsidiaries, in their capacity as members of the respective deposit guarantee funds in their country of operations, assume liability in their respective countries.

Contingent liabilities payable to related parties (€ millions)

	2014	2013
Non-consolidated affiliated companies	1,309	2,094
of which: UniCredit S.p.A.	644	778
Joint ventures	156	—
Associated companies	—	—
Other participating interests	91	96
Total	**1,556**	**2,190**

Besides the contingent liabilities attributable to UniCredit S.p.A., the contingent liabilities of €1,309 million (2013: €2,094 million) attributable to non-consolidated affiliated companies include contingent liabilities of €665 million (2013: €1,316 million). As in 2013, there were no contingent liabilities attributable to subsidiaries.

84 Statement of Responsibility

HVB ensures that, to the extent of its shareholding, the companies set forth below are in a position to meet their contractual obligations except in the event of political risks:

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
2. Banks in other regions
UniCredit Luxembourg S. A., Luxembourg
3. Financial companies
UniCredit Leasing GmbH, Hamburg
4. Companies with bank-related auxiliary services
HypoVereinsFinance N. V., Amsterdam

If our shareholding in a particular company declines, our commitment arising from the above Statement of Responsibility is also reduced to the same extent with regard to commitments of the relevant company that did not arise until after our shareholding decreased.

Other Information (Continued)

HVB no longer provides a Statement of Responsibility for companies which left HVB Group during an earlier financial year, but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

85 Disclosures regarding structured entities

A structured entity as defined in IFRS 12 is an enterprise (or an economically separate entity) that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are frequently characterised by restricted activities, a narrow, well-defined objective, insufficient equity or financing in tranches.

Structured entities may be consolidated or not consolidated, depending on whether HVB Group has control over the entity or not. Transactions involving structured entities can be divided into the following categories using the business model applied by HVB Group:
– ABS vehicles
– Repackaging vehicles
– Funding vehicles for customers
– Some investment funds
– Other structured entities

Financial instruments with unconsolidated structured entities

Financial instruments with unconsolidated structured entities encompass all contractual relationships from which HVB Group obtains variable earnings and exposure to loss from the structured entities, but without gaining control over the structured entity. These might be equity and debt instruments, derivatives, liquidity facilities or guarantees.

ABS vehicles

HVB Group invests in ABS vehicles and uses ABS vehicles for its own securitisations. These vehicles buy loans or receivables and refinance themselves by issuing securities on the money or capital market. The securities are backed by the assets purchased. HVB Group can also provide finance for these vehicles in the form of liquidity facilities.

ABS vehicles used for own securitisations are fully consolidated in the consolidated financial statements and are not included in the unconsolidated structured entities shown here. This means that only such ABS vehicles in which HVB Group solely has an interest as an investor are classified as unconsolidated structured entities.

	2014
Number of unconsolidated ABS vehicles (investor positions only)	335

For more information on the exposure to unconsolidated ABS investor positions, please refer to Note 76.

Repackaging vehicles

Repackaging vehicles are used to offer customers specific securities and derivatives solutions. These vehicles buy assets (such as securities, loans and receivables, and derivatives) and restructure the cash flows from these assets by incorporating other instruments or securities. The vehicles refinance themselves by issuing custom-packaged securities or derivatives that meet the customer’s demands. The funding is normally secured by the acquired assets.

	2014
Number of unconsolidated repackaging vehicles	6
Aggregate total assets of unconsolidated repackaging vehicles (€ millions)	222
Nominal value of the securities issued by unconsolidated repackaging vehicles (€ millions)	222

Funding vehicles for customers
Customers use these vehicles as a source of funding. These funding vehicles buy current receivables or leasing receivables from customers and refinance themselves mostly by issuing securities on the capital and money market (mostly commercial paper conduits). HVB Group can also provide financing for these vehicles in the form of liquidity facilities or other lending products.

The majority of the vehicles listed below were set up by the customer or by HVB Group on behalf of the customer. These vehicles are not consolidated as HVB Group is not exposed to a majority of the variable income from the vehicles and has no possibility of influencing them.

	2014
Number of unconsolidated funding vehicles for customers	23
Aggregate total assets of unconsolidated funding vehicles for customers (€ millions)	3,342
Nominal value of the securities issued by unconsolidated funding vehicles for customers (€ millions)	3,167

Some investment funds
Investment funds are classified as structured entities if they are not controlled by means of voting or similar rights. Investment funds invest in a range of assets and can also finance themselves with debt within the framework of their investment policies alongside the moneys provided by investors. Investment funds serve to achieve specifically defined investment goals.

HVB Group offers its customers investment funds under own and third party management and also itself invests in investment funds. We are also mandated by customers to keep shares in investment funds in securities accounts for third party account. Furthermore, HVB Group holds shares in investment funds in its own portfolio. These are mostly held in the held-for-trading portfolio and to a much smaller extent also in the AfS portfolio. In addition, we offer typical banking services to investment funds, including derivative and financing solutions and deposit-taking operations.

The European-Office-Fonds investment fund controlled by HVB Group is fully consolidated in the consolidated financial statements and is not one of the unconsolidated structured entities shown here.

	2014
Number of unconsolidated investment funds classified as structured entities	1,258
thereof: managed by HVB Group	26
Aggregate net asset value (including minority interests) of the investment funds classified as structured entities (€ millions)	641,446
thereof: managed by HVB Group	583

With regard to the aggregate net asset value, it should be noted that our risk is only calculated in terms of the participating interest held, loans extended or derivatives issued as a proportion of the aggregate fund volume. A risk analysis is provided in the table under "Risks in connection with unconsolidated structured entities" below.

Other structured entities
This category covers structured entities that cannot be assigned to any of the other categories. For the most part, HVB Group mainly performs lending activities under this category with structured entities set up by customers or by HVB Group on behalf of customers.

These entities are mostly leasing vehicles that have only insufficient equity and are controlled economically by the lessee. Some of the leasing vehicles were financed through syndicated loans.

In addition, other structured entities include borrowers over which HVB Group gained control during the course of restructuring and/or resolution but which have not been consolidated for materiality reasons (see Note 6, "Companies included in consolidation").

	2014
Number of other structured entities	76
Aggregate total assets (€ millions)	3,327

Other Information (Continued)

Risks in connection with unconsolidated structured entities

The following table shows the carrying amounts of the assets and liabilities together with the off-balance-sheet risk positions of HVB Group in connection with unconsolidated structured entities:

(€ millions)

	ABS VEHICLES (INVESTOR POSITIONS)	REPACKAGING VEHICLES	FUNDING VEHICLES FOR CUSTOMERS	SOME INVESTMENT FUNDS	OTHER STRUCTURED ENTITIES
Assets	**5,223**	**20**	**2,522**	**2,877**	**946**
Financial assets held for trading	358	20	—	2,042	43
Financial assets at fair value through profit or loss	24	—	—	—	—
Available-for-sale financial instruments	204	—	—	80	—
Held-to-maturity investments	26	—	—	—	—
Loans and receivables with customers	4,611	—	2,522	755	903
Liabilities	**159**	**—**	**50**	**3,081**	**88**
Deposits from customers	156	—	49	2,130	68
Debt securities in issue	—	—	—	8	—
Financial liabilities held for trading	2	—	—	943	3
Other liabilities	1	—	—	—	2
Provisions	—	—	1	—	15
Off-balance-sheet positions	**1**	**—**	**745**	**286**	**71**
Irrevocable credit commitments and other commitments	—	—	745	42	12
Guarantees	1	—	—	244	59
Maximum exposure to loss	**5,224**	**20**	**3,267**	**3,163**	**1,017**

The maximum exposure to loss from unconsolidated structured entities arises from the assets and off-balance-sheet risk positions relating to structured entities. This view does not, however, reflect the economic risk, as security received and hedging instruments are not included.

No financial or other support ("implicit support") was provided to unconsolidated structured entities during the reporting period without having a contractual obligation to do so. Neither are there any concrete plans to provide support to unconsolidated structured entities in future.

Sponsored unconsolidated structured entities

Structured entities are classified as sponsored by HVB Group if HVB Group was not materially involved in setting up the entities. HVB Group has sponsored structured entities without having a participating interest in these entities through financial instruments. Thus, HVB Group is not exposed to the economic risks arising from these structured entities.

We only generate income from structured entities without participating interests to a limited extent through financial instruments. Fee and commission income of €9 million from charges and management fees was generated during the reporting period on investment funds managed by the Bank, of which €7 million was passed on to third parties in trailer fees.

Consolidated structured entities

The biggest consolidated structured entity is the multi-seller conduit programme Arabella Finance. Securities with a nominal value of €2,169 million were outstanding at 31 December 2014. The total assets of the multi-seller conduit Arabella Finance Ltd. at the reporting date amounted to €2,172 million.

Contractual arrangements that oblige HVB Group to provide financial assistance to consolidated structured entities exist notably in the form of liquidity facilities. These may be drawn by the vehicles to bridge maturity mismatches between the assets acquired and the securities issued.

Financial or other support was provided to consolidated structured entities without a contractual obligation to do so ("implicit support") during the reporting period as follows:

- Where the market conditions prevented the securities issued by the consolidated multi-seller conduit Arabella Finance Ltd. being placed, UniCredit Bank AG has acquired such issues. Without the purchases of the securities, UniCredit Bank AG would have been required to provide liquidity facilities in the same amount to individual Elektra Purchase companies. At the reporting date, UniCredit Bank AG held securities issued by Arabella Finance Ltd. with a nominal value of €571 million in its portfolio.
- The restructuring of the former BARD Group was continued in the 2014 financial year. When the wind farm was transferred to Ocean Breeze Energy GmbH & Co. KG at year-end 2013, the original operating activity as a manufacturer of wind turbines was discontinued. Activities relating to the operation and servicing of wind farms were transferred to the newly formed OWS Off-shore Wind Solutions Group during the reporting period. At the same time, the OWS Off-shore Wind Solutions Group was commissioned by Ocean Breeze Energy GmbH & Co. KG to operate and maintain the wind farm. The remaining BARD companies are being liquidated in accordance with a members' voluntary liquidation plan. Within the framework of the members' voluntary liquidation plan, UniCredit Bank AG issued a debtor warrant in favour of BARD companies in 2014 and largely waived the existing receivables. The waiver served to accommodate the losses accruing to date. The liquidation plan assumes that cash inflows and outflows will offset each other over the liquidation period and no material flowbacks to the Bank will accrue. Where the remaining BARD companies generate additional earnings during their liquidation that deviate from the liquidation plan, the terms of the debtor warrant call for such amounts to normally be surrendered to the Bank. In addition, work started in 2014 to merge individual BARD companies with other companies. Further measures to support the remaining BARD companies are not planned.

Future support arrangements are planned as follows. UniCredit Bank AG will continue to decide on a case-by-case basis whether to buy temporarily non-placeable securities issued by the consolidated multi-seller conduit Arabella Finance Ltd. or utilise the liquidity lines. Accordingly, the volume of securities to be acquired depends on the funding required, the prevailing market conditions and the above decision in each case.

Both contractual financial and other support provided to consolidated structured entities without a contractual obligation to do so are not material for the consolidated financial statements, as these represent intra-group transactions.

86 Trust business

Trust assets

(€ millions)

	2014	2013
Loans and receivables with banks	618	544
Loans and receivables with customers	161	166
Equity securities and other variable-yield securities	1	174
Debt securities and other fixed-income securities	—	—
Participating interests	—	—
Property, plant and equipment	—	—
Other assets	—	—
Fund shares held in trust	2,481	2,372
Remaining trust assets	1	1
Total	**3,262**	**3,257**

Other Information (Continued)

Trust liabilities (€ millions)

	2014	2013
Deposits from banks	779	709
Deposits from customers	2,481	2,546
Debt certificates including bonds	—	—
Other liabilities	2	2
Total	**3,262**	**3,257**

87 Transfer of financial assets

Transferred financial assets are derecognised in accordance with the derecognition criteria set forth in IAS 39 when substantially all the risks and rewards incident to ownership of the asset are transferred.

HVB Group has no continuing involvement in transferred and derecognised financial assets for which substantially the risks and rewards are neither retained nor transferred.

Transferred, non-derecognised financial assets

However, HVB Group conducts business transactions under which it transfers previously recognised financial assets in accordance with IAS 39, but substantially retains all the risks and rewards associated with these assets, meaning that such assets are not derecognised. The recognised asset is simultaneously offset by an associated liability for the consideration received, which corresponds to recognition as a secured loan. HVB Group may not use these transferred, non-derecognised assets for other purposes.

Transactions of this type conducted by the Group relate primarily to securities repurchase agreements (repos) and securities lending transactions.

The securities (transferred) under repo transactions (cash sale) continue to be carried and measured in the consolidated balance sheet, as the Group as seller retains all the credit, share price, interest rate and currency risks associated with the assets and their results. The payment received by the buyer for whom the transferred security acts as security is recognised as a repo liability payable to banks or customers, depending on the counterparty. With delivery of the securities, the unrestricted power of disposal passes to the buyer.

Where the corporate group acts as a lender of securities in securities lending transactions, the securities lent to the counterparty continue to be carried in the balance sheet of the lender.

The transactions are conducted under the customary market terms for securities lending and repurchasing agreements, under which the counterparty holds a contractual or customary right to sell on or pledge on the securities received.

At the same time, these transaction types also encompass such examples as the true sale securitisation transaction Rosenkavalier 2008 (see Note 61, “Own securitisation”) carried out by HVB Group, under which non-derecognised securitised customer receivables indirectly serve as security for repurchase agreements with the ECB.

The following Note 88, “Assets assigned or pledged as security for own liabilities”, contains details of repo transactions, securities lending transactions and other transactions under which the financial assets transferred as security for own liabilities are not derecognised.

88 Assets assigned or pledged as security for own liabilities

Examples of own liabilities of HVB Group for which we provide collateral are special credit facilities provided by KfW and similar institutions, which we have passed on as loans in compliance with their conditions. In addition, security has been provided for borrowings under repurchase agreements on international money markets, for open market transactions with central banks and for securities lending transactions. As a seller under repurchase agreements, HVB Group has entered into sales and repurchase transactions for securities with a carrying amount of €42.9 billion (2013: €42.8 billion) or transferred them to a collateral pool with the European Central Bank or GC Pooling. It is not always necessary for liabilities to exist in the latter instance. These securities continue to be shown under our assets, and the consideration received in return is stated under liabilities.

The following table shows the breakdown of assets that we provide as collateral for own liabilities:

(€ millions)

	2014	2013
Financial assets held for trading	20,792	17,874
Financial assets at fair value through profit or loss	19,380	14,404
Available-for-sale financial assets	934	3,614
Held-to-maturity investments	—	—
Loans and receivables with banks	47	164
Loans and receivables with customers	10,831	12,180
Property, plant and equipment	—	—
Non-recognised received securities pledged on:		
Pledged securities from non-capitalised securities lending transactions	13,690	17,611
Received collateral pledged	5,579	7,750
Total	**71,253**	**73,597**

The collateral pledged from loans and receivables with customers relates to special credit facilities provided by KfW and similar institutions.

The assets pledged by HVB Group as security relate to the following liabilities:

(€ millions)

	2014	2013
Deposits from banks	38,221	29,763
Deposits from customers	7,947	16,279
Debt securities in issue	36	662
Financial liabilities held for trading	11,487	13,412
Contingent liabilities	—	—
Obligations to return non-expensed, borrowed securities	13,562	13,481
Total	**71,253**	**73,597**

Compliant with IFRS 7.14, we are disclosing the carrying amount of the financial assets which we provide as security. In addition, figures are disclosed showing the extent to which the security provided may be pledged or sold on by the borrower.

(€ millions)

	2014	2013
Aggregate carrying amount of assets pledged as security	71,253	73,597
of which:		
may be pledged/sold on	39,600	38,873

89 Collateral received that HVB Group may pledge or sell on

As part of repurchase agreements and collateral agreements for OTC derivatives, HVB Group has received security that it may pledge or sell on at any time without the security provider having to be in arrears. The fair value of this security is €18.5 billion (2013: €21.9 billion).

HVB Group has actually pledged or sold on €5.6 billion (2013: €7.8 billion) of this total, for which there is an obligation to return collateral received of the same type, volume and quality.

The transactions that make it possible to use this collateral were conducted under the customary market terms for repurchase agreements and securities lending transactions.

Other Information (Continued)

90 Information on relationships with related parties

Besides the relationships with consolidated, affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies. The quantitative information in this regard can be found in the notes to the balance sheet and the income statement.

HVB has been assigned the role of centre of competence for the markets and investment banking activities of the entire UniCredit corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via HVB.

Furthermore, HVB places excess liquidity efficiently with other UniCredit group companies. The section of the Risk Report entitled “Banks, insurance companies” under “Risk types in detail” in this Annual Report contains further information regarding the exposure to UniCredit and its subsidiaries.

Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (UBIS), a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services by means of a service level agreement. HVB incurred expenses of €569.9 million (2013: €539.4 million) for these services during 2014. This was offset by income of €11.8 million (2013: €15.7 million) from services rendered and internal charges. Moreover, software products worth €6.2 million (2013: €8.6 million) were purchased from UBIS.

Furthermore, HVB has transferred certain back office activities to UBIS. In this context, UBIS provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. HVB incurred expenses of €64.5 million (2013: €66.8 million) for these services during 2014.

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

Subsequent to the filing of the squeeze-out resolution in the Commercial Register on 15 September 2008, HVB is not listed any more. Consequently, the compensation paid to the members of the Management Board is not shown on an individualised basis.

Emoluments paid to members of the Management Board and Supervisory Board (€ thousands)

	FIXED COMPENSATION		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVES[2]		PENSION COMMITMENTS		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Members of the Management Board of UniCredit Bank AG	6,239	5,069	2,824[1]	1,575[1]	—	2,989[3, 4]	1,523	1,302	10,586	10,935
Members of the Supervisory Board of UniCredit Bank AG for Supervisory Board activities	810[5]	558[6]	—[7]	210[8]	—	—	—	—	810[5]	768[8]
Members of the Supervisory Board of UniCredit Bank AG for employee representation activities	475	456	66	71	—	—	54	44	595	571
Former members of the Management Board of UniCredit Bank AG and their surviving dependants	—	—	—	—	—	—	—	—	1,945	1,858
Transitional allowances for former members of the Management Board	—	—	—	—	—	—	—	—	—	—

1 The profit-related components are generally deferred over several years with disbursement in subsequent years dependent on defined company targets being met.
2 cash value of the share-based compensation
3 of which €578 thousand related to the 2012 financial year
4 prorated disclosure of the long-term incentive plan for a performance period of 2011 to 2013 and stock options (period of 2012 to 2015) and shares for the 2011 and 2012 financial years
5 including reimbursed expenses of €65 thousand
6 including reimbursed expenses of €40 thousand
7 Following amendment of the Articles of Association, the members of the Supervisory Board do not receive any variable remuneration as of 2014.
8 The performance-related component for the 2013 financial year totals €210 thousand, after the Shareholders’ Meeting adopted a resolution regarding the appropriation of net income as proposed.

It is the task of the plenary sessions of the Supervisory Board of the Bank to decide on the total remuneration paid to the individual members of the Management Board and to review the structure of the remuneration systems. The plenary sessions of the Supervisory Board receive assistance in this regard from the Remuneration Control Committee, which submits appropriate proposals to the plenary sessions. Appropriateness and sustainability are key criteria for the form and structure of remuneration paid to members of the Management Board. The structure of remuneration is derived from the service agreements with the members of the Bank's Management Board. It has two components: a fixed salary and a variable element.

Pension commitments for seven members of the Management Board are shown in the table alongside the direct emoluments. Seven of the eight members of the Management Board took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2014. The Bank will provide/has provided 35% of the fixed salary contributions (2014: €1,523,000 (2013: €1,302,000)). It has been agreed with the members of the Management Board that this amount of their pay would be converted which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

For more information about stock options and performance shares, please refer to Note 38 where the UniCredit long-term incentive plan underlying these instruments is described.

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to the Bank.

A sum of €16,694 (2013: €2,991) was transferred to provisions for pensions in the 2014 financial year to cover the commitments (for death benefits) made to the members of the Management Board.

The provisions for pensions compliant with IFRS for former and retired members of the Management Board of HVB and their surviving dependants (including the pension commitments transferred to HVB Trust Pensionsfonds AG) amounted to €146,268 thousand (2013: €128,057 thousand).

The compensation paid to retired members of the Management Board and their surviving dependants amounted to €1,945 thousand in 2014 after the transfer of a large part of the pension commitments to HVB Trust Pensionsfonds AG (2013: €1,858 thousand).

No share-based compensation was granted to the members of the Management Board in the form of performance shares in the reporting period. A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of three years, the relevant targets have been met and the recipient is still working for UniCredit; otherwise, the performance shares are normally forfeited.

Details of share-based compensation

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	2014	2013
Options		
Stock options	—	—
Fair value per option on grant date (€)	—	—
Performance shares		
Performance shares	—	719,983
Fair value per performance share on grant date (€)	—	3.520

Up until now, the compensation paid to the members of the Supervisory Board of UniCredit Bank AG was disclosed on an individualised basis in line with the recommendation stated in the German Corporate Governance Code. The Management Board and the Supervisory Board of HVB decided on 28 January 2014 and 20 February 2014, respectively, to cease applying the German Corporate Governance Code on a voluntary basis with effect from 1 January 2014.

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

Other Information (Continued)

(€ thousands)

	2014			2013		
	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES	LOANS AND RECEIVABLES	CONTINGENT LIABILITIES ASSUMED	LIABILITIES
Members of the Management Board of UniCredit Bank AG	2,791	3	7,620	937	7	6,011
Members of the Supervisory Board of UniCredit Bank AG	522	—	3,498	4,682	15	8,425
Members of the Executive Management Committee[1]	—	—	1,282	—	—	—

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 an overdraft facility with an interest rate of 0.93% falling due in 2015 and mortgage loans with interest rates of between 2.52% and 3.96% falling due in the period from 2016 to 2023.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of consumer loans with interest rates of 6% and no fixed maturity, an overdraft facility with an interest rate of 11.15% and no fixed maturity, an overdraft facility with an interest rate of 9.07% falling due in 2017, and mortgage loans with interest rates of between 2.08% and 4.35% falling due in the period from 2016 to 2029.

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

91 Fees paid to the independent auditors

The following table shows the breakdown of fees of €12 million (2013: €12 million) recorded as expense in the year under review, as paid to the independent auditors Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, for activities performed for HVB Group:

(€ millions)

	2014[1]	2013[1]
Fee for		
Auditing of the financial statements	7	7
Other auditing services	5	2
Tax consulting services	—	—
Other services	—	3

1 excluding value-added tax

92 Employees

Average number of people employed by us

	2014	2013
Employees (excluding apprentices)	19,768	19,842
Full-time	14,523	14,514
Part-time	5,245	5,328
Apprentices	836	921

The staff's length of service was as follows:

(in %)

	WOMEN	MEN	2014	2013
	(EXCLUDING APPRENTICES)		TOTAL	TOTAL
Staff's length of service				
31 years or more	11.0	11.5	11.2	10.6
from 21 years to less than 31 years	29.1	20.3	25.0	23.3
from 11 years to less than 21 years	26.9	22.5	24.8	28.6
less than 11 years	33.0	45.7	39.0	37.5

93 Offices

Offices, broken down by region

		ADDITIONS	REDUCTIONS		CHANGE IN CONSOLIDATED GROUP	
	1/1/2014	NEW OPENINGS	CLOSURES	CONSOLIDATIONS		31/12/2014
Germany						
Baden-Wuerttemberg	35	—	7	—	—	28
Bavaria	504	4	59	25	(1)	423
Berlin	14	—	—	—	—	14
Brandenburg	9	—	—	—	—	9
Bremen	4	—	—	—	4	8
Hamburg	30	—	—	5	—	25
Hesse	18	—	—	1	—	17
Lower Saxony	49	—	5	6	(1)	37
Mecklenburg-Western Pomerania	8	—	2	—	—	6
North Rhine-Westphalia	29	1	3	2	(1)	24
Rhineland-Palatinate	25	1	2	—	—	24
Saarland	9	—	2	—	—	7
Saxony	17	—	—	2	—	15
Saxony-Anhalt	13	—	—	—	—	13
Schleswig-Holstein	71	—	2	2	—	67
Thuringia	13	—	1	—	—	12
Subtotal	**848**	**6**	**83**	**43**	**1**	**729**
Other regions						
Africa	1	—	—	—	—	1
Americas	19	—	—	—	(2)	17
Asia	11	—	—	—	(2)	9
Europe	54	—	7	—	(7)	40
Subtotal	**85**	**—**	**7**	**—**	**(11)**	**67**
Total	**933**	**6**	**90**	**43**	**(10)**	**796**

94 List of holdings pursuant to Section 313 HGB

The separate list of holdings drawn up in compliance with Section 313 (2) HGB, contains all joint ventures, and affiliated and associated companies broken down by whether they are included in the consolidated financial statements or not, together with other holdings. The list also includes selected holdings of less than 20% and structured entities included in the consolidated financial statements, with and without an HVB shareholding.

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
1 Controlled companies						
1.1 Controlled by voting rights						
1.1.1 Consolidated subsidiaries						
1.1.1.1 Banks and financial institutions						
Bankhaus Neelmeyer AG	Bremen	100.0		EUR	63,400	1.1
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	160,013	2
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,342,038	84,856
1.1.1.2 Other consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	27	326
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	34	4,980
Acis Immobilien- und Projektentwicklungs GmbH & Co.						
Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	38	696
Active Asset Management GmbH	Grünwald	100.0	100.0	EUR	187	(11)
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	22,474	1,612
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	0
Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	2
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(43,526)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(39,211)	1
A&T-Projektentwicklungs GmbH & Co.						
Potsdamer Platz Berlin KG[3]	Munich	100.0	100.0	EUR	(37,209)	54
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	7,042	633
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	89	2
Bank Austria ImmobilienService GmbH	Vienna	100.0	100.0	EUR	266	(300)
B.I. International Limited	George Town	100.0	100.0	EUR	(1,130)	(85)
BIL Immobilien Fonds GmbH & Co Objekt Perlach KG[3, 5]	Munich	100.0	100.0	EUR	4,391	102
BIL Leasing-Fonds GmbH & Co VELUM KG (share of						
voting rights: 66.7% total, of which 33.3% held indirectly)	Munich	100.0		EUR	(2)	0
BIL Leasing-Fonds Verwaltungs-GmbH	Munich	100.0	100.0	EUR	33	0
Blue Capital Europa Immobilien GmbH & Co.						
Achte Objekte Großbritannien KG	Hamburg	100.0	100.0	EUR	2,153	(4,440)
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	2
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	511	(55)
CUMTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	2
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(22,880)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(53,477)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co.						
Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(59,493)	0
Enderlein & Co. GmbH	Bielefeld	100.0	100.0	EUR	114	2
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	576	1,264
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(25)	61
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co.						
Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	602	1,118
Food & more GmbH	Munich	100.0		EUR	235	1.2

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	0
Grundstücksaktiengesellschaft am Potsdamer Platz (Haus Vaterland)	Munich	98.2	98.2	EUR	4,495	[2]
Grundstücksgesellschaft Simon beschränkt haftende Kommanditgesellschaft[3]	Munich	100.0	100.0	EUR	52	(1,505)
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	0
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	516
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	(637)
H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH	Munich	100.0	90.0	EUR	5,101	[2]
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	26	[2]
HJS 12 Beteiligungsgesellschaft mbH	Munich	100.0		EUR	278	1
HVB Asset Leasing Limited	London	100.0		USD	2,076	(25)
HVB Asset Management Holding GmbH	Munich	100.0	100.0	EUR	25	[2]
HVB Capital LLC	Wilmington	100.0		USD	1,128	87
HVB Capital LLC II	Wilmington	100.0		GBP	2	0
HVB Capital LLC III	Wilmington	100.0		USD	1,107	90
HVB Capital Partners AG[3]	Munich	100.0		EUR	12,671	[1.3]
HVB Export Leasing GmbH	Munich	100.0		EUR	39	0
HVB Funding Trust II	Wilmington	100.0		GBP	2	0
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	28	1
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	10,317
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,246	(19)
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1.4]
HVB Investments (UK) Limited	George Town	100.0		GBP	0	0
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	1,026	1
HVB London Investments (AVON) Limited	London	100.0		GBP	0	0
HVB Principal Equity GmbH[3]	Munich	100.0		EUR	34	[1.5]
HVB Profil Gesellschaft für Personal management mbH[3]	Munich	100.0		EUR	28	[1.6]
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	[2]
HVB Realty Capital Inc.	New York	100.0	100.0	USD	0	0
HVB Secur GmbH	Munich	100.0	100.0	EUR	126	10
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 1 GmbH	Munich	100.0		EUR	41	[1.7]
HVB Verwa 4 GmbH	Munich	100.0		EUR	10,132	[1.8]
HVB Verwa 4.4 GmbH[3]	Munich	100.0	100.0	EUR	10,025	[2]
HVBFF International Greece GmbH	Munich	100.0	100.0	EUR	316	251
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	9	0
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	39	(2)
HVBFF Produktionshalle GmbH i.L.	Munich	100.0	100.0	EUR	20	0
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	(11,806)
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	12	1
Hypo-Bank Verwaltungszentrum GmbH & Co. KG Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	(1,468)
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co. Immobilien-Vermietungs KG[3]	Munich	80.0	80.0	EUR	(850)	0
HypoVereinsFinance N.V.	Amsterdam	100.0		EUR	2,273	198
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.9	EUR	51	[2]
Keller Crossing Texas, LP	Wilmington	100.0	100.0	USD	1,973	101
Kinabalu Financial Products LLP	London	100.0		GBP	832	(28)
Kinabalu Financial Solutions Limited	London	100.0		GBP	3,982	(10)
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]

Other Information (Continued)

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Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	2
Life Science I Beteiligungs GmbH	Munich	100.0	100.0	EUR	(250)	514
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung3	Munich	100.0		EUR	16,692	1,9
MILLETERRA Gesellschaft für Immobilienverwaltung mbH3	Munich	100.0	100.0	EUR	25	2
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	8,106	3,727
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	16	0
NF Objekt FFM GmbH3	Munich	100.0	100.0	EUR	125	2
NF Objekt München GmbH3	Munich	100.0	100.0	EUR	75	2
NF Objekte Berlin GmbH3	Munich	100.0	100.0	EUR	15,725	2
Ocean Breeze Asset GmbH & Co. KG	Bremen	100.0	100.0	EUR	(10)	(2)
Ocean Breeze Energy GmbH & Co. KG3	Bremen	100.0	100.0	EUR	(31,197)	2,817
Ocean Breeze GmbH	Bremen	100.0	100.0	EUR	24	0
Omnia Grundstücks-GmbH & Co. Objekt Eggenfeldener Straße KG3	Munich	100.0	94.0	EUR	26	(2)
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG3	Munich	100.0	94.0	EUR	26	(139)
Orestos Immobilien-Verwaltungs GmbH3	Munich	100.0	100.0	EUR	56,674	2
Othmarschen Park Hamburg GmbH & Co. Centerpark KG3	Munich	100.0	100.0	EUR	(18,942)	0
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG3	Munich	100.0	100.0	EUR	(44,083)	0
Perikles 20092 Vermögensverwaltung GmbH	Bremen	100.0	100.0	EUR	25	0
PlanetHome AG	Unterföhring	100.0		EUR	16,127	327
PlanetHome GmbH	Mannheim	100.0	100.0	EUR	1,376	816
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt KG3	Munich	100.0	100.0	EUR	500,014	10,314
"Portia" Grundstücksverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	30	1
Redstone Mortgages Limited	London	100.0		GBP	(50,521)	11,106
RHOTERRA Gesellschaft für Immobilienverwaltung mbH3	Munich	100.0	93.9	EUR	26	2
Roncasa Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	(39,020)	975
Salvatorplatz-Grundstücksgesellschaft mbH	Munich	100.0	100.0	EUR	711	2
Salvatorplatz-Grundstücksgesellschaft mbH OHG Saarland3	Munich	100.0	100.0	EUR	1,534	689
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum3	Munich	100.0	100.0	EUR	2,301	8,177
Selfoss Beteiligungsgesellschaft mbH3	Grünwald	100.0	100.0	EUR	25	2
Simon Verwaltungs-Aktiengesellschaft i.L.4	Munich	<100.0		EUR	3,098	(3)
Sirius Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(143,835)	2
Solos Immobilien- und Projektentwicklungs GmbH & Co. Sirius Beteiligungs KG3	Munich	100.0	100.0	EUR	(34,773)	975
Spree Galerie Hotelbetriebsgesellschaft mbH3	Munich	100.0	100.0	EUR	249	2
Status Vermögensverwaltung GmbH	Schwerin	100.0		EUR	997	55
Structured Invest Société Anonyme	Luxembourg	100.0		EUR	6,997	36
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	36,750	2
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(7,008)	(8)
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,465)	(1)
TERRENO Grundstücksverwaltung GmbH & Co. Entwicklungs- und Finanzierungsvermittlungs-KG3	Munich	75.0	75.0	EUR	(268,579)	0
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(371)	(6)
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	12,016	4,500
Transterra Gesellschaft für Immobilienverwaltung mbH3	Munich	100.0	93.9	EUR	26	2
TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG3	Munich	100.0	100.0	EUR	7,779	284
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	17,450	(568)
Trinitrade Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung	Munich	100.0		EUR	1,322	1
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,175	1,10

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UniCredit Capital Markets LLC	New York	100.0	100.0	USD	99,999	2,122
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	2,210	295
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	911	[1.11]
UniCredit Global Business Services GmbH	Unterföhring	100.0		EUR	9,827	4,009
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	(1,874)	(40)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	452,026	[1.12]
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	114,579	22
UniCredit Zweite Beteiligungs GmbH	Munich	100.0		EUR	1,000	[1.13]
US Property Investments Inc.	Dallas	100.0		USD	740	27
Verba Verwaltungsgesellschaft mit beschränkter Haftung	Munich	100.0		EUR	754	(3)
Vermietungsgesellschaft mbH & Co. Objekt MOC KG[3]	Munich	88.1	88.1	EUR	(103,869)	1,707
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.14]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
VuWB Investments Inc.	Atlanta	100.0	100.0	USD	3,376	2,867
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,508	[1.15]
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	1,715	3,227
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	866	841
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	(601)	(30)
WealthCap Initiatoren GmbH	Munich	100.0	100.0	EUR	56	(273)
WealthCap Investments, Inc.	Wilmington	100.0	100.0	USD	1,391	(42)
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	[2]
WealthCap Kapitalverwaltungsgesellschaft mbH	Munich	100.0	100.0	EUR	7,099	[2]
WealthCap Leasing GmbH	Grünwald	100.0	100.0	EUR	490	490
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	32	23
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	1,194	148
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	42	(2)
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	205	155
1.1.2 Non-consolidated subsidiaries						
of HVB Group[6]						
Other non-consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH	Grünwald	100.0	100.0	EUR	25	[2]
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
"Alte Schmelze" Projektentwicklungsgesellschaft mbH	Munich	100.0	100.0			
Altea Verwaltungsgesellschaft mbH & Co. Objekt I KG	Munich	100.0	100.0			
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH	Ebersberg	98.8	98.8			
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.9			
Apir Verwaltungsgesellschaft mbH & Co. Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(24,498)	(148)
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
Argentum Media GmbH & Co. KG	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	100.0	100.0			
Bayerische Wohnungsgesellschaft für Handel und Industrie, Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	249	[2]
BFL Beteiligungsgesellschaft für Flugzeug-Leasing mbH	Munich	100.0				
BIL Aircraftleasing GmbH	Grünwald	100.0	100.0			
BIL Immobilien Fonds GmbH	Munich	100.0	100.0			
BIL Leasing GmbH & Co Hotel Rostock KG i.L.	Rostock	58.9	58.9	EUR	119	816
Blue Capital Metro Amerika Inc.	Atlanta	100.0	100.0			
BV Grundstücksentwicklungs-GmbH & Co. Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0			
CL Dritte Car Leasing Verwaltungsgesellschaft mbH i.L.	Hamburg	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.9	EUR	26	[2]

Other Information (Continued)

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Ferra Immobilien- und Projektentwicklungs						
GmbH & Co. Projekt Großenhainer Straße KG	Munich	100.0	100.0	EUR	(9,833)	900
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	2
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	2
H.F.S. Immobilienfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 4 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 6 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 8 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 9 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 10 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 11 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 12 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 15 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 16 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 18 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 2 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Beteiligungs B.V.	The Hague	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds GmbH & Co. Europa 4 KG	Munich	100.0	100.0			
H.F.S. Leasingfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds GmbH	Ebersberg	100.0	100.0			
H.F.S. Value Management GmbH	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 2 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 3 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 4 GmbH & Co. KG	Munich	100.0	100.0			
Hofgarten Real Estate B.V. (share of voting rights: 50.5%)	Amsterdam	47.2	47.2	EUR	(49,250)	(34)
Hotel Seddiner See GmbH	Munich	100.0	100.0			
HVB Life Science GmbH	Munich	100.0				
HVB London Trading Ltd.	London	100.0				
HVB Mortgage Capital Corp.	Wilmington	100.0	100.0			
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVBFF Baumanagement GmbH	Munich	100.0	100.0	EUR	50	2
HVBFF Kapitalvermittlungs GmbH	Munich	100.0	100.0	EUR	19	2
HVBFF Leasing & Investition GmbH & Co Erste KG	Munich	100.0	100.0			
HVBFF Leasing Objekt GmbH	Munich	100.0	100.0			
HVBFF Leasing-Fonds Verwaltungs GmbH	Munich	100.0	100.0			
HVZ GmbH & Co. Objekt Unterföhring KG	Munich	100.0	100.0			
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH	Munich	100.0	100.0	EUR	128	2
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0			
Life Britannia Management GmbH	Grünwald	100.0	100.0			
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Mutnegra Beteiligungs- und Verwaltungs-GmbH	Munich	100.0				
Olos Immobilien- und Projektentwicklungs GmbH & Co.						
Grundstücksentwicklungs KG	Munich	100.0	100.0			
Olos Immobilien- und Projektentwicklungs GmbH & Co.						
Vermietungs KG	Munich	100.0	100.0			
Omnia Grundstücks-GmbH	Munich	100.0	100.0	EUR	26	2

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Omnia Grundstücks-GmbH & Co. Betriebs KG	Munich	100.0	94.0			
Othmarschen Park Hamburg						
Wohn- und Gewerbepark GmbH	Munich	100.0	100.0	EUR	102	2
Pegasus Project Stadthaus Halle GmbH	Munich	100.0	100.0	EUR	26	2
Perterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	2
Projekt-GbR Kronstadter Straße München	Munich	75.0	75.0			
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	2
Rolin Grundstücksplanungs- und -verwaltungsgesellschaft mbH	Munich	100.0	100.0			
Rotus Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	2
Saphira Immobilien- und Projektentwicklungs GmbH & Co.						
Frankfurt City West Office Center und Wohnbau KG	Munich	100.0	100.0			
Schloßberg-Projektentwicklungs-GmbH & Co 683 KG	Munich	100.0	100.0			
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co.						
Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(3,002)	0
Tishman Speyer Berlin Friedrichstraße KG i.L. (share of						
voting rights: 96.6% total, of which 7.1% held indirectly)	Munich	97.1	5.9			
UniCredit CAIB Securities UK Ltd.	London	100.0				
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(24,922)	975
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
WealthCap Aircraft 27 GmbH & Co. geschlossene Investment KG	Grünwald	100.0	100.0			
WealthCap Aircraft 27 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Canadian Management Inc.	Toronto	100.0	100.0			
WealthCap Dritte Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Entity Service GmbH	Munich	100.0	100.0			
WealthCap Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Erste Kanada Immobilien Verwaltung GmbH	Munich	100.0	100.0			
WealthCap Europa Erste Immobilien –						
Objekt Niederlande – Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien						
Fünfte Objekte Österreich Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Europa Immobilien						
Siebte Objekte Österreich Komplementär GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Immobilien Deutschland 38 GmbH & Co.						
geschlossene Investment KG	Munich	100.0	100.0			
WealthCap Immobilien Nordamerika 16 GmbH & Co.						
geschlossene Investment KG	Munich	100.0	100.0			
WealthCap Immobilien Nordamerika 16 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilien und Verwaltung Sekundär GmbH	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 37 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Immobilienfonds Deutschland 38 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Management, Inc.	Wilmington	100.0	100.0	USD	238	297
WealthCap Mountain View GP, Inc.	Atlanta	100.0	100.0			
WealthCap Mountain View I L.P.	Atlanta	100.0	100.0			
WealthCap Objekt Hackerbrücke GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Hufelandstraße GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Riem GmbH & Co. KG	Munich	100.0	100.0	EUR	(39)	(667)
WealthCap Objekt-Vorrat 3 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 4 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 5 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 6 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 6 Komplementär GmbH	Grünwald	100.0	100.0			

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Objekt-Vorrat 7 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt-Vorrat 7 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap PEIA Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity GmbH	Munich	100.0	100.0			
WealthCap Private Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity 19 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Private Equity 19 Komplementär GmbH in formation	Grünwald	100.0	100.0			
WealthCap Private Equity 20 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Private Equity 20 Komplementär GmbH in formation	Grünwald	100.0	100.0			
WealthCap Real Estate GmbH	Munich	100.0	100.0			
WealthCap Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
WealthCap SachWerte Portfolio 2 GmbH & Co.						
geschlossene Investment KG	Grünwald	100.0	100.0			
WealthCap SachWerte Portfolio 2 Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Spezial-AIF 1 Komplementär GmbH	Munich	100.0	100.0			
WealthCap Spezial-AIF 2 GmbH & Co.						
geschlossene Investment KG	Munich	94.0	94.0			
WealthCap Vorrats-1 GmbH	Grünwald	100.0	100.0			
WealthCap Vorrats-2 GmbH	Grünwald	100.0	100.0			
WealthCap Zweite Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Zweite USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte Immobilien 4 Komplementär GmbH	Munich	100.0	100.0			
WMC Aircraft 27 Leasing Limited	Dublin	100.0	100.0	USD	184,676	(729)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
1.2 Fully consolidated structured entities				
with or without shareholding				
Alexanda Grundstücksverwaltungsgesellschaft mbH & Co.				
Vermietungs KG	Wiesbaden	0	EUR	5
Altus Alpha Plc	Dublin	0	EUR	40
Arabella Finance Ltd.	Dublin	0	EUR	<1
BARD Engineering GmbH	Emden	0	EUR	100
BARD Holding GmbH	Emden	0	EUR	25
Buitengaats Holding B.V.	Eemshaven	0	EUR	18
Cuxhaven Steel Construction GmbH	Cuxhaven	0	EUR	25
Elektra Purchase No. 17 S.A. – Compartment 2	Luxembourg	0	EUR	0
Elektra Purchase No. 28 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 31 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 32 S.A.	Luxembourg	0	EUR	31
Elektra Purchase No. 33 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 34 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 35 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 36 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 911 Ltd.	St. Helier	0	EUR	<1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-TS-2013 S.A.	Luxembourg	0	EUR	31
GEMMA Verwaltungsgesellschaft mbH & Co.				
Vermietungs KG (held indirectly)	Pullach	6.1	EUR	68,326
Grand Central Funding Corporation	New York	0	USD	1
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG				
(Immobilienleasing) (held indirectly)	Munich	<0.1	EUR	61,171

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
H.F.S. Leasingfonds Deutschland 7 GmbH & Co. KG				
(held indirectly)	Munich	<0.1	EUR	56,605
HVB Funding Trust	Wilmington	0	USD	0
HVB Funding Trust III	Wilmington	0	USD	0
MOC Verwaltungs GmbH & Co. Immobilien KG				
(held indirectly)[4, 7]	Munich	23.0	EUR	5,113
Newstone Mortgage Securities No. 1 Plc.	London	0	GBP	13
Ocean Breeze Finance S.A. – Compartment 1	Luxembourg	0	EUR	0
OSI Off-shore Service Invest GmbH	Hamburg	0	EUR	25
OWS Logistik GmbH	Emden	0	EUR	1
OWS Natalia Bekker GmbH & Co. KG	Emden	0	EUR	13
OWS Ocean Zephyr GmbH & Co. KG	Emden	0	EUR	6
OWS Off-shore Wind Solutions GmbH	Emden	0	EUR	25
OWS Windlift 1 Charter GmbH & Co. KG	Emden	0	EUR	1
Pure Funding No. 10 Ltd.	Dublin	0	EUR	<1
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Royston Leasing Ltd.	Grand Cayman	0	USD	1

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
2 Joint ventures[6]						
Minor joint ventures						
Other companies						
Heizkraftwerk Cottbus Verwaltungs GmbH	Munich	33.3				
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	129	799
3 Associated companies						
3.1 Associated companies valued at equity						
Other companies						
Adler Funding LLC	Dover	32.8		USD	6,835	(1,163)
Bulkmax Holding Ltd.	Valletta	45.0	45.0	USD	16,239	(492)
BV-BGPB Beteiligungsgesellschaft privater Banken						
für Internet- und mobile Bezahlungen mbH	Berlin	30.0		EUR	8,358	25
Comtrade Group B.V.	Amsterdam	21.1	21.1	EUR	22,913	6,022
Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S.	Istanbul	20.0	20.0	TRY	164,189	47,853
Nautilus Tankers Limited	Valletta	45.0	45.0	USD	29,224	2,021
SwanCap Partners GmbH (share of voting rights: 49.0%)	Munich	75.2		EUR	2,451	638
3.2 Minor associated companies[6]						
Other companies						
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg	23.5		EUR	2,153	(3)
CMP Fonds I GmbH (share of voting rights: 25.0%)	Berlin	32.7		EUR	1,559	(56)
DFA Deggendorfer Freihafen Ansiedlungs-GmbH	Deggendorf	50.0	50.0			
DFA Deggendorfer Freihafen Ansiedlungs-GmbH & Co.						
Grundstücks-KG	Deggendorf	50.0	50.0			
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	(3,574)	(117)
MOC Verwaltungs GmbH	Munich	23.0	23.0			
SK BV Grundstücksentwicklung Verwaltung GmbH i.L.	Cologne	50.0	50.0			
US Retail Income Fund VII L.P.	Wilmington	26.6	26.6	USD	13,608	429

Other Information (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
4 Holdings in excess of 20% without significant influence[6]						
Other companies						
BayBG Bayerische Beteiligungsgesellschaft mbH[8]	Munich	22.5		EUR	193,598	7,426
Bayerischer BankenFonds GbR	Munich	25.6				
B.I.I. Creditanstalt International Ltd. (share of voting rights: 0%)	George Town	40.2				
Capital Dynamics S.C.A. SICAV-SIF - Global Clean Energy and Infrastructure	Luxembourg	29.2	29.2	USD	16,564	(47)
Felicitas GmbH i.L.	Munich	20.8				
GermanIncubator Erste Beteiligungs GmbH (share of voting rights: 9.9%)	Munich	39.6		EUR	588	207
HVB Trust Pensionsfonds AG (share of voting rights: 0%)[9]	Munich	100.0	100.0	EUR	3,918	112
Lauro Ventidue S.p.A. (share of voting rights: 0%)	Milan	24.2	24.2	EUR	112,600	(30,583)
Meditinvest Gayrimenkul Danismanlik A.S.	Istanbul	42.1	42.1	TRY	20,014	(671)
Mozfund (Proprietary) Limited (share of voting rights: 12.5%)	Sandton	40.0				
Mühoga Münchner Hochgaragen Gesellschaft mit beschränkter Haftung	Munich	25.0	25.0	EUR	4,298	2,289
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S. (share of voting rights: 0%)	Luxembourg	38.3	38.3	EUR	21,003	(6)
Starspace Ltd.	Nicosia	31.8	31.8	USD	34,457	(17)
SwanCap FLP SCS (share of voting rights: 37.5%)[10]	Senningerberg	0.0		EUR	2,945	15

NAME	REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SHARE OF VOTING RIGHTS OF HVB in %
5 Holdings in large corporations in which the holding exceeds 5% of the voting rights but is not already listed under holdings below 20%			
5.1 Banks and financial institutions			
AKA Ausfuhrkredit-Gesellschaft mbH	Frankfurt am Main	15.4	15.4
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen	Munich	10.5	10.5
Bürgschaftsbank Brandenburg GmbH	Potsdam	7.8	7.8
Bürgschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	9.1	9.1
Bürgschaftsbank Sachsen GmbH	Dresden	4.7	5.4
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	8.9	8.9
Bürgschaftsbank Schleswig-Holstein GmbH	Kiel	5.4	6.0
Bürgschaftsbank Thüringen GmbH	Erfurt	8.7	8.7
Bürgschaftsgemeinschaft Hamburg GmbH	Hamburg	10.5	10.5
5.2 Other companies			
ConCardis Gesellschaft mit beschränkter Haftung	Eschborn	6.0	6.0
Liquiditäts-Konsortialbank GmbH i.L.	Frankfurt am Main	5.7	5.7
VBW Bauen und Wohnen GmbH	Bochum	10.1	10.1
Wüstenrot & Württembergische AG	Stuttgart	7.6	7.6

NAME	REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SUBSCRIBED CAPITAL € MILLIONS
6 Other selected holdings below 20%			
6.1 Banks and financial institutions			
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH	Berlin	4.3	3.2
Saarländische Investitionskreditbank AG	Saarbrücken	3.3	5.2
6.2 Other companies			
BioM Aktiengesellschaft Munich Bio Tech Development	Planegg	8.5	2.9
Börse Düsseldorf AG	Düsseldorf	3.0	5.0
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	13.6	4.1
Kepler Capital Markets SA	Paris	5.2	5.5
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	5.0	3.6
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH			
(share of voting rights: 11.1%)	Mainz	9.8	2.6
MBG Mittelständische Beteiligungsgesellschaft Schleswig-Holstein mbH			
(share of voting rights: 3.7%)	Kiel	3.6	1.4
Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg mbH	Potsdam	11.6	5.7
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern GmbH	Schwerin	15.4	5.1
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH	Hanover	8.2	0.9
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	11.8	29.0
Mittelständische Beteiligungsgesellschaft Sachsen-Anhalt mit beschränkter Haftung	Magdeburg	12.7	6.5
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	13.4	10.0
Saarländische Kapitalbeteiligungsgesellschaft mbH	Saarbrücken	8.7	0.8

Other Information (Continued)

Exchanges rates for 1 euro at 31 December 2014
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

China	1 euro =	7.5358	CNY
Turkey	1 euro =	2.8320	TRY
UK	1 euro =	0.7789	GBP
USA	1 euro =	1.2141	USD

Notes and comments to the list of holdings

Percentages marked < or > are rounded up or down to one decimal place, e.g. < 100.0% = 99.99% or > 0.0% = 0.01%.

1 UniCredit Bank AG has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Bankhaus Neelmeyer AG, Bremen	2,004
1.2	Food & more GmbH, Munich	(876)
1.3	HVB Capital Partners AG, Munich	122,925
1.4	HVB Immobilien AG, Munich	(6,078)
1.5	HVB Principal Equity GmbH, Munich	(7)
1.6	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	550
1.7	HVB Verwa 1 GmbH, Munich	(1)
1.8	HVB Verwa 4 GmbH, Munich	(252)
1.9	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	(2,300)
1.10	UniCredit Beteiligungs GmbH, Munich	3,347
1.11	UniCredit Direct Services GmbH, Munich	973
1.12	UniCredit Leasing GmbH, Hamburg	20,000
1.13	UniCredit Zweite Beteiligungs GmbH, Munich	(8)
1.14	Verwaltungsgesellschaft Katharinenhof mbH, Munich	188
1.15	Wealth Management Capital Holding GmbH, Munich	16,016

2 Profit and loss transfer to shareholders and partners

3 Compliant with Sections 264b and 264 (3), German Commercial Code, the company is exempt from the obligation to make annual financial statements public in accordance with the provisions applicable to corporations.

4 Figures of the 2013 annual accounts are indicated for this consolidated company.

5 The company has been operating as Omnia Grundstücks-GmbH & Co. Objekt Perlach KG, Munich, since 1 January 2015.

6 Where equity capital and net profit are not stated, the information is omitted due to minor importance compliant with Section 286 (3) 1 No. 1, German Commercial Code. This information is omitted for companies compliant with Section 285 No. 11a, German Commercial Code, for the same reason.

7 Equity capital amounts to minus €1,047,000 and net profit €11,464,000.

8 On account of the ownership structure and the voting behaviour to date, UniCredit Bank AG does not have a significant influence over the company.

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

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

Other Information (Continued)

95 Members of the 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**

96 Members of the 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	**Chief Operating Officer (COO) Human Resources Management, Global Banking Services**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**

Munich, 2 March 2015

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, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and Management's Discussion and Analysis includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 2 March 2015

UniCredit Bank AG
The Management Board

Dr Bohn   Buschbeck   Diederichs   Hofbauer

Laber   Varese   Dr Weimer

Independent Auditors' Report

We have audited the consolidated financial statements prepared by UniCredit Bank AG, Munich, – comprising the income statement, statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements – and the group management report for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB ("German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of UniCredit Bank AG, Munich, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 9 March 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Leuschner
German Public Auditor

Kopatschek
German Public Auditor

Hospitality is important.

But the welcome is crucial.

The real star is the customer.

We are making walking into a bank a unique experience. Innovative branches now combine cutting-edge technologies, futuristic designs and experiential marketing to make our banking services more pleasant and interactive than ever before. We know our customers' preferences are changing. You want to bank whenever, wherever and however is best for you – and still have access to every service we offer. That is why we no longer build walls between our cashiers and our consultants. Multifunctional work environments enable you to interact with us in total comfort and ease. Because the future is all about serving you better.

Corporate Governance

List of Executives and Outside Directorships

Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan Chairman		
Peter König Employee, UniCredit Bank AG, Haar-Salmdorf Deputy Chairman	BVV Pensionsfonds des Bankgewerbes AG, Berlin	BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft, Hamburg (Chairman)	UniCredit Bank Austria AG, Vienna Dr. R. Pfleger Chemische Fabrik GmbH, Bamberg (Deputy Chairman)
Mirko Davide Georg Bianchi since 2 June 2014 Head of Group Finance of UniCredit S.p.A., Lugano-Casagnola		
Aldo Bulgarelli Attorney, BULGARELLI & CO. AVVOCATI, Verona		AMMANN Italy S.p.A., Bussolengo (President of the Collegio Sindacale)
Beate Dura-Kempf Employee, UniCredit Bank AG, Litzendorf		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	FIDUCIA IT AG, Karlsruhe	
Werner Habich Employee, UniCredit Bank AG, Mindelheim		
Dr Marita Kraemer since 1 January 2014 Member of the Management Board of Zurich GI Management Aktiengesellschaft (Deutschland) and member of the Management Board of Zurich Service GmbH, Frankfurt am Main		
Dr Lothar Meyer Former Chairman of the Management Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach	ERGO Versicherungsgruppe Aktiengesellschaft, Düsseldorf	

1 as of 31 December 2014

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Marina Natale until 2 June 2014 Chief Financial Officer of UniCredit S.p.A., member of the Executive Management Committee of UniCredit S.p.A., Uboldo		Pioneer Asset Global Management S.p.A., Milan FinecoBank S.p.A., Milan, since 15 April 2014
Klaus-Peter Prinz Employee, UniCredit Luxembourg S.A., Trier		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		

Supervisory Board committees[2]

Audit Committee
Dr Lothar Meyer, Chairman
Mirko Davide Georg Bianchi, since 17 June 2014
Aldo Bulgarelli
Peter König
Marina Natale, until 2 June 2014

Nomination Committee
Federico Ghizzoni, Chairman
Peter König
Dr Wolfgang Sprissler

Remuneration Control Committee
Federico Ghizzoni, Chairman
Peter König
Dr Wolfgang Sprissler

Risk Committee
Dr Wolfgang Sprissler, Chairman
Peter König
Dr Lothar Meyer

Trustees

Trustees for Pfandbrief operations pursuant to Section 7 of the German Pfandbrief Act

Bernd Schreiber
President of the Bavarian Department of State-owned Palaces, Gardens and Lakes, Markt Schwaben

Deputies

Dr Josef Bayer
Ministerialdirigent in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Landsberg am Lech

Stefan Höck
Ministerialrat in the Bavarian State Ministry of Finance, Regional Development and Regional Identity, Hohenschäftlarn

1 as of 31 December 2014
2 see also the Report of the Supervisory Board

List of Executives and Outside Directorships (Continued)

Management Board

NAME	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Dr Andreas Bohn born 1963 Corporate & Investment Banking	HVB Capital Partners AG, Munich (Chairman)[2], until 19 January 2014	HVB Principal Equity GmbH, Munich (Chairman)[2], until 28 August 2014 SwanCap Partners GmbH, Munich (Chairman)[2] Tikehau Investment Management S.A.S., Paris
Peter Buschbeck born 1961 Commercial Banking/Private Clients Bank	Bankhaus Neelmeyer Aktiengesellschaft, Bremen (Chairman)[2] DAB Bank AG, Munich[2], until 15 May 2014 PlanetHome AG, Unterföhring (Chairman)[2] UniCredit Direct Services GmbH, Munich (Chairman)[2], until 30 April 2014 UniCredit Global Business Services GmbH, Munich[2], until 30 April 2014 WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Chairman)[2], since 10 April 2014 Wüstenrot & Württembergische AG, Stuttgart, since 28 May 2014	Wealth Management Capital Holding GmbH, Munich (Chairman)[2]
Jürgen Danzmayr born 1950 Commercial Banking/Private Clients Bank (main focus Private Banking) until 30 June 2014		Schoellerbank Aktiengesellschaft, Vienna Wealth Management Capital Holding GmbH, Munich[2], until 31 March 2014 UniCredit Luxembourg S.A., Luxembourg[2], until 30 June 2014
Lutz Diederichs born 1962 Commercial Banking/Unternehmer Bank		UniCredit Luxembourg S.A., Luxembourg (Chairman)[2] UniCredit Leasing GmbH, Hamburg (Chairman)[2] UniCredit Leasing Finance GmbH, Hamburg (Chairman)[2]
Peter Hofbauer born 1964 Chief Financial Officer (CFO)	HVB Immobilien AG, Munich (Deputy Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Deputy Chairman) UniCredit Global Business Services GmbH, Munich[2] WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (Deputy Chairman)[2], since 10 April 2014	Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2]
Heinz Laber born 1953 Chief Operating Officer (COO) Human Resources Management, Global Banking Services	HVB Immobilien AG, Munich (Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Chairman) BVV Pensionsfonds des Bankgewerbes AG, Berlin (Chairman), until 27 June 2014 UniCredit Global Business Services GmbH, Munich (Chairman)[2]	BVV Versorgungskasse des Bankgewerbes e.V., Berlin (Chairman) BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Chairman) ESMT European School of Management and Technology GmbH, Berlin
Andrea Umberto Varese born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2] UniCredit Global Business Services GmbH, Munich[2] WealthCap Kapitalverwaltungsgesellschaft mbH, Munich[2], since 10 April 2014	UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman)[2] Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer born 1959 Board Spokesman	Bayerische Börse AG, Munich, until 31 December 2014, DAB Bank AG, Munich (Chairman)[3], until 17 January 2015, ERGO Versicherungsgruppe Aktiengesellschaft, Düsseldorf FC Bayern München AG, Munich, since 10 November 2014	UniCredit Luxembourg S.A., Luxembourg (Chairman)[2], until 30 June 2014

1 as of 31 December 2014
2 Group directorship
3 Group directorship until 17 December 2014

HVB Women's Council

Patrons:
Dr Theodor Weimer, Spokesman of the Bank's Management Board, Country Chairman Germany and member of the Executive Management Committee of UniCredit S.p.A.
Dr Susanne Weiss, attorney, member of the Bank's Supervisory Board until 31 December 2013 and founding president of the HVB Women's Council

President:
Gabriele Zedlmayer, Vice President & Chief Progress Officer Corporate Affairs of Hewlett Packard Company

In December 2009, HVB became the first Bank in Germany to form its own Women's Council, with which it has set a new tone in the German banking world ever since. Besides dealing with feedback and comments, and regularly discussing economic and social issues, the Council looks at ways of improving the position of women in the financial industry. The Council aims to reflect the constantly rising importance of women in financial and purchasing decisions. It helps the Bank to make specific provision for the needs of female customers and employees. The Council accompanies the Bank, launches initiatives and devises new measures. The Bank benefits from the valuable advisory skills of experienced entrepreneurs and is helping to reinforce the role of women in German industry. The Council is specifically empowered by the Management Board of HVB to make recommendations and launch its own initiatives. The members – 30 or so outstanding entrepreneurs and managers – meet for plenary sessions at least twice a year and also collaborate in workgroups when drawing the initiatives. For current information about HVB's Women's Council, visit www.hvb-frauenbeirat.de

Professor Dr Dadja Altenburg-Kohl
Chairperson of the Supervisory Board of Kohl Medical AG
Director of the Museum Montanelli, DrAk Foundation
Prague, Czech Republic

Sigrid Bauschert
Member of the Management Board of Management Circle AG, Eschborn/Ts.

Dr Christine Bortenlänger
Member of the Management Board of Deutsches Aktieninstitut e.V., Frankfurt am Main

Stephanie Czerny
Managing director of DLD Media GmbH/Hubert Burda Media, Munich

Angelika Diekmann
Manager, publisher of Verlagsgruppe Passau GmbH, Passau

Britta Döttger
Head of Group Treasury of SGL Carbon SE, Wiesbaden

Nina Hugendubel
Managing director of H. Hugendubel GmbH & Co. KG, Munich

Andrea Karg
Designer, managing director of ALLUDE GmbH, Munich

Sabine Kauper
Member of the Management Board of SKW Stahl-Metallurgie Holding AG, Munich

Ines Kolmsee
Proprietor of Smart Hydro Power GmbH, Feldafing

Dr Marita Kraemer
Member of the Holding Board of Zurich Group in Germany
CEO of the European Centre of Excellence Credit & Surety, Frankfurt am Main

Anja Krusel
Senior Director Finance and Administration of Microsoft GmbH, Unterschleißheim

Andrea Kustermann
CFO/Finance Management & Controlling of the Obermaier Group, Munich

Dr Christine Frfr. von Münchhausen
Independent corporate consultant, business mediator
Consulting, training, coaching & mediation, Munich

Andrea Neuroth
Managing director of KION Financial Services GmbH, Wiesbaden

Kristina Gräfin Pilati
Attorney and notary, senior partner of Pilati + Partner Rechtsanwälte Notar, Frankfurt am Main

Professor Susanne Porsche
Managing director of summerset GmbH, Neue Münchner Fernsehproduktion GmbH & Co. KG and sunset austria Film & Fernsehproduktionen GmbH, Munich

Annette Roeckl
Managing director of Roeckl Handschuh & Accessoires GmbH & Co. KG, Munich

Monika Rödl-Kastl
Auditor, tax advisor, Nuremberg

Sabine Schaedle
Head of Project Finance of BMW AG, Munich

Annette Schnell
Head of the Exhibitions, Events and Key Account Communications Division of Dr. Schnell Chemie GmbH, Munich

Alexandra Schöneck
Owner of Alexandra Schöneck Schatzmeisterei, Munich

Alexandra Schörghuber
Chairwoman of the Foundation Board and Chairwoman of the Management Board of the Schörghuber Group, Munich

Maria-Theresia von Seidlein
Founder and managing director of S&L Medien Gruppe GmbH, Munich

Claudia Strittmatter
Senior Manager of Wacker Chemie AG, Munich

Ildikó M. Várady
Head of Finance of Krauss-Maffei Wegmann GmbH & Co. KG, Munich

Dr Susanne Weiss
Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich

Gabriele Zedlmayer
Vice President & Chief Progress Officer Corporate Affairs of Hewlett Packard Company, Zurich

Report of the Supervisory Board

In the year under review the Supervisory Board discharged the responsibilities incumbent on it by law, the Company's Articles of Association and its rules of procedure and within that framework advised the Management Board on the running of the company and monitored its management activities. The Supervisory Board again focused on the performance and financial development of the Bank in a persistently challenging environment in the year under review. As in the prior year, we also dealt in financial year 2014 with numerous legal and regulatory changes for the banking sector that had immediate effects on our work. The Management Board kept us informed regularly, promptly and comprehensively about the business situation, fundamental issues concerning corporate management and planning, about the financial development of UniCredit Bank AG (hereinafter referred to as "HVB" or "the Bank") and HVB Group, the earnings situation as well as risk, liquidity and capital management, about significant transactions and legal disputes as well as events of considerable importance to the Bank. This happened primarily during the meetings of the Supervisory Board and its committees, but also outside meetings in written form. We extensively discussed the strategic orientation and further development of the Bank with the Management Board. In addition, we regularly obtained information on internal and government investigations of the Bank both in Germany and abroad. In addition, important topics and pending decisions were discussed at regular preliminary meetings between the Spokesman of the Management Board and the Chairman of the Supervisory Board. We were directly consulted on decisions of fundamental importance for the Bank, engaged in comprehensive consultations on the matters at hand and granted our approval after a review, insofar as this was indicated under our Corporate Governance rules. As required, resolutions were also passed outside meetings in written form.

Meetings of the Supervisory Board

The Supervisory Board held seven meetings in the 2014 financial year, two of them extraordinary meetings. In addition, the prospects and future orientation of the Unternehmer Bank and Corporate & Investment Banking were discussed in a separate strategy workshop.

At the first extraordinary meeting of the year, on **22 January 2014,** the Management Board discussed the planned strategic reorientation of the Unternehmer Bank and Private Clients Bank in detail with the Supervisory Board. A report on the implementation status of the project was provided in the other meetings of the Supervisory Board.

At the regular meeting held on **20 February 2014,** we discussed the business and risk strategies of the Bank as a whole, particularly with regard to the adaptation of the Bank's business model in an economic and regulatory environment that continues to undergo rapid change, and also examined the budget for 2014. At the additional strategy workshop on 9 April 2014, we had the opportunity to consider specific business and risk strategies issues in greater detail with the Management Board. In addition, the Management Board reported on the Recovery and Resolution Plan of HVB Group at the meeting on 20 February 2014. After reviewing the appropriateness of the remuneration systems for the Management Board, we determined the amount of the remuneration package for the Management Board and adopted an adjustment of the Management Board employment contracts, taking into account the recommendation of the Remuneration Control Committee and including external, independent consultants.

At the Supervisory Board meeting held on **7 March 2014** devoted to the annual financial statements, we discussed the annual and consolidated financial statements for 2013 with the auditor, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft (hereinafter referred to as "Deloitte"), which we subsequently approved at the recommendation of the Audit Committee following our own intensive review. We also approved the proposed dividend payment. At this meeting, the Chief Risk Officer (CRO) also presented a comprehensive risk report to us, enabling us to gain an overview of the development of credit risk, market risk, operational risk and reputational risk. At the meeting, we also dealt with issues of remuneration for the Management Board and adopted the 2014 Performance Screens.

At the meeting held on **10 April 2014,** we again addressed the adjusted multi-year business and risk strategies of the Bank as a whole and discussed the multi-year planning of HVB Group for 2014–2018. In addition, the Supervisory Board addressed the evaluation of the 2013 Performance Screens and goal achievement of the Management Board members. Related resolutions were passed, taking into account the recommendations of the Remuneration Control Committee.

At an extraordinary meeting on **22 May 2014,** the ad-hoc Supervisory Board committee created last year reported, as it did at the February meeting, on the investigations by the Supervisory Board using external consultants on the Bank's cum/ex trades. We discussed this factual report with the external consultants in detail. Resolutions were then passed on 6 June 2014 on further procedure following the in-depth consultation, without holding a meeting. At the meeting held on 22 May 2014, moreover, we approved the proposed resolutions for the Annual General Shareholders' Meeting of the Bank on 2 June 2014, particularly including proposed resolutions pursuant to Section 25a (5) sentence 6 of the German Banking Act (KWG) on increasing the upper limit of 2:1 for the variable remuneration in proportion to fixed remuneration for specific Management Board members and employees. We also passed the implementation of two policies from UniCredit S.p.A. (the 2014 Group Compensation Policy and the 2014 Group Incentive Systems) at HVB for the remuneration of the Management Board.

At the meeting held on **31 July 2014,** the Management Board explained the performance of the Bank and the results for the first half of 2014 (Half-yearly Financial Report) on the basis of detailed documents. The Supervisory Board passed an additional adjustment of its rules of procedure to the regulatory requirements imposed on the Supervisory Board. The Management Board also informed us regarding the sale process for DAB Bank AG; we consented to the sale of the investment in DAB Bank AG by resolution adopted on 5 August 2014 without holding a meeting. In addition, the Management Board informed us of the planned sale of the second tranche of the Bank's private equity portfolio (the SWAN II Project). Given the context of the new regulatory requirements, the Bank had already developed an alternative investment platform in summer 2013 and sold an initial portion of its private equity portfolio to SwanCap Opportunities Fund SCS-SIF (the SWAN I Project). On 16 October 2014, the Supervisory Board consented to the sale of the second tranche of the portfolio without holding a meeting. At the meeting held on 31 July 2014, we also addressed the status of the investigations on the cum/ex trades by the attorney's office commissioned by us and, based on a report on responsibilities prepared by that office, resolved to call on individual former members of the Management Board to state their position on the results of the investigation. The Supervisory Board did not see any reason to adopt similar measures against currently sitting members of the Management Board.

At the last meeting of the year, held on **5 November 2014,** the Management Board explained the performance and the results for the first nine months of 2014 (Interim Financial Report at 30 September 2014) on the basis of detailed documents. The Management Board also reported on the monitoring of compliance with banking supervisory regulations. In addition, we discussed the 2014 Remuneration Report and the 2014 Personnel Report with the Management Board and acknowledged and accepted them. The Supervisory Board also addressed the review of the adequacy of the remuneration systems for the Management Board and discussed the succession planning for the Management Board and the Supervisory Board. Furthermore, we discussed the results of the efficiency audit for the Management Board and the Supervisory Board as well as measures and recommendations for improvement. The auditing company that carried out the external evaluation of the Supervisory Board arrived at the result that, in its opinion, the size, composition, structure, and performance of the Supervisory Board complied with the legal requirements of Section 25d KWG and that the performance of this body was to be evaluated as efficient and in compliance with legal requirements on the whole.

In 2014, the Supervisory Board dealt with the material audit reports from the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and monitored the appropriate implementation of the audit findings. The focus here was on various IT issues. At our meetings in 2014 we also regularly discussed the status of remediation of various findings, which are collated in the Management Board's **Findings-Programme.** Key findings arising from audits of the annual financial statements and material findings from audits by the supervisory authority are collated in this programme, and the timetables for remedying them are subject to close scrutiny and progress monitoring by the Management Board and Supervisory Board. In 2014, the Management Board also presented regular reports on the North Sea **wind farm project** financed by the Bank (Bard Offshore 1). In addition, we again considered the development of our **upstream exposure** last year. Upstream exposure is HVB Group's exposure to UniCredit S.p.A. and its affiliated companies. This is mainly a consequence of the fact that the markets and investment banking activities for UniCredit are bundled at HVB and HVB acts as an intermediary between the companies belonging to the group and the market players in the derivatives business. Moreover, HVB contributes to the liquidity position of UniCredit S.p.A. and additional companies belonging to UniCredit by investing its liquidity surpluses with UniCredit S.p.A. or UniCredit companies, for example in bonds. The Supervisory Board was kept constantly up-to-date on the latest status of this exposure by written reports; in addition, the Supervisory Board was informed in detail of the status of the exposure at the November meeting. As expected, the upstream exposure remained stable in the year under review. Based on BaFin Circular No. 6/2013, the Management Board informed the Supervisory Board of the Bank's algorithm trading strategy and corresponding risks in its **2014 Algorithm Trading Report.**

The Supervisory Board also adopted a resolution regarding the following outside of meetings: On 17 June 2014, the Supervisory Board voted on the appointment of the external auditor and the appointment of new members to the committees following the departure of Ms Marina Natale from the Supervisory Board. On 18 November 2014, the Supervisory Board consented to the proposed resolutions for an Extraordinary Shareholders' Meeting on 1 December 2014.

We obtained information and deliberated on important **legal disputes** on a regular basis last year. As in prior years, these particularly included the proceedings in connection with tax credits. After the German tax authorities had demanded payment both from a customer of the Bank as well as from HVB, both the customer filed a civil suit against HVB as well as conversely HVB filed a civil suit against the customer, each of which petitioned for payment and indemnification for all payment obligations. In August 2014, the parties reached an agreement to terminate all civil and tax disputes in this connection without acknowledging any legal obligation. All proceedings under civil law as well as all tax proceedings relating to the customer

Report of the Supervisory Board (Continued)

transactions were accordingly terminated by mutual consent. We kept ourselves informed about this matter as well as about the other ongoing proceedings. The Supervisory Board received reports regarding the investigation already initiated by the Management Board in response to the customer's litigation as well as the assistance pledged to the authorities, and supported these efforts. Regarding the audit by external consultants (a highly respected law practice and a firm of auditors experienced in forensic investigations) of the matters pursuant to Section 111 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) commissioned by the Supervisory Board in October 2011, we received reports at almost every Supervisory Board meeting in 2014 regarding the audits conducted, the further planning of the audit, and the results of their audits; the consultants also made recommendations for further actions, which we discussed. The members of the Management Board did not participate in the discussions and adoption of resolutions on this agenda item, with the exception of the Spokesman of the Management Board; likewise, a member of the Supervisory Board did not participate in the discussions or in the meetings in order to avoid any conflicts of interest.

In addition, we were informed over the course of the year on the status and further development of the various investigations being conducted by US authorities in connection with past transactions pertaining to certain Iranian individuals and/or legal entities and on the investigations on general compliance with the OFAC regulations on the part of HVB.

Apart from absences on a few occasions as a result of prior commitments, all members of the Supervisory Board took part in the plenary sessions as a general rule. No members of the Supervisory Board attended fewer than half of the meetings held in 2014. Prior to every Supervisory Board meeting, the Supervisory Board members representing both the employees and the shareholders had the opportunity to address the topics of the meeting in question in preliminary discussions with the Management Board.

Supervisory Board committees

The Bank's Supervisory Board set up a Risk Committee, an Audit Committee, a Nomination Committee, and a Remuneration Control Committee in 2014. Each committee elected a chairperson. The composition of the committees is shown in the Supervisory Board list in this Annual Report.

Remuneration Control Committee

The Remuneration Control Committee met four times in the past year. This committee has the tasks set forth in Section 25d (12) KWG, which particularly include supporting the Supervisory Board in the appropriate design of the remuneration systems for the Management Board. This committee therefore prepared the resolutions of the Supervisory Board on establishing the total remuneration for the individual Management Board members for the 2014 financial year and on establishing the total amount of variable remuneration of the Management Board members for the 2013 financial year, and issued corresponding recommendations to the Supervisory Board. In doing so, the committee particularly factored in the effects of the resolutions on the risks and the risk management of the company, taking into account the long-term interests of shareholders, investors, and other interested parties, and discussed the individual resolutions of the Supervisory Board also with regard to the material requirements of the Regulation on the Requirements for the Remuneration Systems of Institutions under Regulatory Law (Institutsvergütungsverordnung – InstitutsVergV) of 16 December 2013. The Remuneration Control Committee also preliminarily discussed the implementation of the 2014 Group Remuneration Policy and the 2014 Group Incentive System for the members of the Management Board. It is the duty of the Remuneration Control Committee, moreover, to monitor the appropriate design of the remuneration systems for the Management Board members. In this context, the Remuneration Control Committee analysed the effects of the remuneration systems on the risk, capital, and liquidity situation of the institution or the group in a joint meeting with the Risk Committee, supported by an external consultant, and ensured the orientation of the remuneration systems to the business strategy focused on sustainable development of the institution and on the risk strategies derived from it, as well as on the remuneration strategy at the institutional and group levels. In addition, the Remuneration Control Committee supported the Supervisory Board in monitoring the adequate design of the remuneration systems for the employees, particularly for the heads of the risk controlling function and the compliance function, as well as for employees who have a material influence on the Bank's overall risk profile (risk takers) in the same topic areas. In addition, the committee supported the Supervisory Board in monitoring orderly inclusion of the internal auditing division and all other relevant divisions in the design of the remuneration systems. These regulations were individually discussed and corresponding recommendations were provided to the Supervisory Board as a whole. The Remuneration Control Committee was heard in the context of appointing the Remuneration Officer. The Remuneration Officer supported the Remuneration Control Committee in its monitoring and design duties with respect to all remuneration systems.

Nomination Committee
The Nomination Committee met three times in the past year and particularly performed its duties as set forth in Section 25d (11) KWG. The committee prepared the recommendation of the Supervisory Board for the election of Mr Mirko Bianchi by the Annual General Meeting for the remainder of the term of office of Ms Marina Natale, guided by the criteria specified by the Supervisory Board for the composition of the Supervisory Board. In addition, topics of the meetings included preparing the re-appointment of Management Board members and succession planning to identify applicants to fill a position on the Bank's Management Board, also taking into account the requirement of diversity. The Nomination Committee also prepared the succession planning for the Supervisory Board, including a strategy to achieve the goal of promoting the appointment of women to the Supervisory Board. With the support of an external consultant, moreover, it prepared the efficiency audit/evaluation of the Management Board and Supervisory Board according to Section 25d (11) KWG by the Supervisory Board and issued corresponding recommendations for action to the Supervisory Board. The Nomination Committee reviewed management's principles for selecting and appointing individuals to the senior management level and supported the Supervisory Board in making corresponding recommendations to the Management Board. The Nomination Committee consented to Management Board members accepting secondary employment outside of HVB Group that must be taken into account as offices held within the meaning of Section 25c (2) KWG. The Nomination Committee was briefed on the acceptance of additional secondary employment. Finally, the Nomination Committee granted its consent to intra-entity loans pursuant to Section 15 KWG following an appropriate review.

Audit Committee
The Audit Committee had five meetings last year. Representatives of the independent auditor as well as the head of the Internal Audit department and the Compliance Officer took part in all of the meetings. The topic of meetings was the audit of the annual and consolidated financial statements and the report on relations with affiliated companies as well as the discussion of the Half-yearly Financial Report and the Interim Reports at 31 March and 30 September 2014. The committee considered the proposal on the election of the independent auditor for the 2014 financial year and assessed the qualification and independence of the auditor based on the Statement of Independence and the quality of the audit according to the requirements of the rules of procedure. It prepared the granting of the audit engagement by the Supervisory Board including the specification of audit focus areas and a recommendation on the amount of remuneration for the auditor. In addition, it gave its consent to additional services being placed with the auditor.

Other topics discussed at length were the risk management system and the internal control system. The efficiency of the individual systems was discussed with the Management Board and measures aimed at refining the systems stipulated; reports on this were presented at several committee meetings. The committee (also) satisfied itself of the efficiency of the Internal Audit department. The committee was also informed on a regular basis about the work and findings of the Internal Audit department, the compliance function, special audits and material objections by the supervisory authorities. The Compliance Officer reported to the committee on the annual compliance report on the securities business and on money laundering prevention and also submitted reports on compliance-related issues on a regular basis and discussed them with it at length. In addition, the committee considered the independent auditor's report on the annual audit of the securities account business and repeatedly examined the comprehensive reports by the Management Board on the Bank's outsourcing arrangements. The committee was also informed about the work of the Bank's IT Security, Data Protection and Legal departments. The Audit Committee was briefed quarterly about the liquidity situation. It received regular reports on the progress made on implementing the relevant audit findings by the auditor in the annual and consolidated financial statements, and was also provided with the annual plan of the Internal Audit department.

Risk Committee
The Risk Committee met four times in the past year, and also met once in a joint meeting with the Remuneration Control Committee. The Risk Committee advised the Supervisory Board in particular on the Bank's current and future overall risk appetite and risk strategy and supported it in monitoring the implementation of that strategy. In this context, the deviations from the overall risk appetite and risk strategy were also discussed by the Risk Committee. The Risk Committee regularly received additional reports on the topic of risk and strategy. In compliance with the Minimum Requirements for Risk Management (MaRisk), the Risk Committee received monthly risk reports on the basis of which the CRO explained in the meetings particularly the development of the risk-taking capacity and of the credit risk, market risk, operational risk, reputational risk and liquidity risk. Key information from the risk point of view was passed on to the Risk Committee immediately. In all four of its meetings, the Risk Committee discussed in depth whether the terms in the customer business were in harmony with the business model and the risk structure of the Bank, in accordance with the new requirement in Section 25d (8) KWG. In a joint meeting with the Remuneration Control Committee, supported by an external consultant, the Risk Committee analysed whether the

Report of the Supervisory Board (Continued)

incentives set by the remuneration system take the risk, capital, and liquidity structure of the institution into account, as well as the probability and due dates of revenues. An additional topic for the Risk Committee was the course of the Asset Quality Review by HVB Group in the context of the audit investigation of UniCredit S.p.A. by the European Central Bank, about which the Risk Committee received a report at each meeting. The Risk Committee also received reports at regular intervals on the status of the offshore wind farm project financed by the Bank. In addition to discussing the findings by the Internal Audit department in the CRO division, the committee also discussed requirements of the Capital Requirements Regulation (CRR) assigned to the committee. The Risk Committee likewise obtained information on legal risks to the Bank.

The composition and sharing of content among the individual committees is ensured by the membership of the committees. The chairmen of the committees reported in detail at plenary meetings of the Supervisory Board on the topics of the committees' discussions, the results, and the resolutions passed by their respective committees.

Corporate Governance

The Management Board and Supervisory Board of UniCredit Bank AG have decided to no longer apply the German Corporate Governance Code (DCGK) on a voluntary basis, effective 1 January 2014. This is justified by the fact that the Bank has good corporate governance at any rate in the sense of responsible and sustainable governance. Accordingly, a Declaration of Conformity will no longer be issued in the future and a Corporate Governance Report will no longer be prepared.

Training and education

The members of the Supervisory Board took on the necessary training and educational measures required for their tasks on their own initiative. In the process, they were appropriately supported by HVB. The Bank offered internal training on the requirements of the Recovery and Resolution Plan (RRP), the principles of aggregation of risk data and risk reporting pursuant to Basel Committee on Banking Supervision (BCBS) 239, the enhanced or new remuneration principles (Compensation Governance) at banks, the rating system of the Bank (with in-depth training), IT principles with examples from HVB, the 2014 remuneration systems at HVB, and the topics of the business model and pricing in CIB markets. A workshop was also held on insurance for the Supervisory Board (particularly D&O insurance) and in-depth training on the structure, setup, and meaning of the audit reports from Deloitte, since a change in the annual financial statement auditor had occurred. Moreover, the Supervisory Board members received information from the Bank on the European banking union, duties of Supervisory Board members in the area of compliance (the Neubürger ruling), conflicts of interest on the Supervisory Board, and the duties of confidentiality of Supervisory Board members.

The new members who joined the Supervisory Board in 2014, Dr Marita Kraemer and Mr Mirko Bianchi, were provided with individual written informational material in order to introduce them to their office and offered internal training.

Annual financial statements 2014

The annual financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and Management Report of UniCredit Bank AG for the 2014 financial year as well as the consolidated financial statements and Management's Discussion and Analysis prepared in accordance with International Financial Reporting Standards (IFRS), including the account records, were audited by Deloitte. The independent auditor issued an unqualified opinion in both cases.

The financial statements listed above were forwarded to us, together with the Management Board's proposal for the appropriation of profits and the auditors' report. The Audit Committee examined these documents in great detail during the preliminary audit. The head auditor of the independent auditor reported on the findings of the audit, in particular on the internal control system and the risk management system compliant with Section 171 (1) AktG relating to the financial reporting process and provided detailed answers to our questions at the preparatory meeting of the Audit Committee as well as at the subsequent meeting of the Supervisory Board devoted to the annual financial statements. During the meeting of the Audit Committee, the independent auditor also stated that there were no circumstances giving rise to concerns about his partiality and reported on the work he had performed in addition to the audit of the financial statements. The Chairman of the Audit Committee reported to us in the full Supervisory Board on the results of the review by the committee. Upon recommendation by the Audit Committee, we concurred with the results of the audit after checking and discussing at length all the documents submitted and finding them to be orderly, validated and complete. We determined that, on the basis of our own examination of the annual financial statements, the consolidated financial statements, the Management Report and Management's

Discussion and Analysis as well as the proposal for the appropriation of profits, no objections were to be raised. We have therefore approved the annual financial statements prepared by the Management Board today. Consequently, the annual financial statements are adopted. We have also approved the Management Board's proposal for the appropriation of net profit.

UniCredit S.p.A. has held a majority interest in the share capital of HVB since 17 November 2005 and 100% of the share capital of HVB since 15 September 2008. Thus, the Management Board has also produced a report on relations of HVB to affiliated companies for the 2014 financial year in accordance with Section 312 AktG. The report contains the following concluding statement by the Management Board:

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted, or any disadvantages arising were compensated."

Deloitte audited this report and issued the following opinion:

"On the basis of our statutory audit and assessment, we confirm that
1. the actual information contained in the report is correct,
2. the company's performance was not unreasonably high or disadvantages were compensated for the legal transactions mentioned in the report, no circumstances speak in favour of a significantly different assessment to the one given by the Management Board concerning the measures mentioned in the report."

The report of the Management Board on relationships with related parties and the related audit report by Deloitte were also forwarded to us. In the course of the preliminary audit, the Audit Committee and then the full Supervisory Board considered these documents in depth. We checked the information for plausibility and consistency, and carefully examined individual legal transactions between HVB and UniCredit S.p.A. and its affiliated companies together with other cost-generating measures initiated by UniCredit S.p.A. Deloitte took part in the discussion of the Supervisory Board and the preparatory meeting of the Audit Committee, and gave a report on the principal findings of their audit. The Chairman of the Audit Committee reported to the full Supervisory Board on the results of the review by the committee. We concurred with the results of the audit by Deloitte. Based on the final outcome of our own examination of the report on relations of HVB to affiliated companies in the 2014 financial year prepared by the Management Board compliant with Section 312 AktG, which did not identify any deficiencies, no objections are to be made about the final declaration of the Management Board in this report.

Personnel

The management board member contract of Mr Jürgen Danzmayr expired as planned effective at the end of 30 June 2014 and Mr Danzmayr left the Management Board of HVB. The Management Board of HVB thus consists of seven members since 1 July 2014. Mr Peter Buschbeck assumed the duties of Mr Danzmayr. On 31 December 2013, Dr Susanne Weiss left the Supervisory Board. In her place, Dr Marita Kraemer, a member of the Management Board of Zurich Group Deutschland, was appointed as a member of the Supervisory Board for the remainder of the term of office, effective 1 January 2014. In addition, Ms Marina Natale left the Supervisory Board at the conclusion of the Annual General Meeting on 2 June 2014. In her place, Mr Mirko Bianchi, Head of Group Finance at UniCredit S.p.A., was appointed as a member of the Supervisory Board for the remainder of the term of office. The Supervisory Board would like to thank Dr Weiss and Ms Natale for their committed and valuable service on this board.

The Supervisory Board would like to thank the Management Board, the employees and the employee representatives for all their hard work and their services in financial year 2014.

Munich, 10 March 2015

The Supervisory Board

Federico Ghizzoni

Chairman

Additional Information

Financial Calendar

Important Dates 2015[1]

Annual Results 2014	12 March 2015
Interim Report at 31 March 2015	12 May 2015
Half-yearly Financial Report at 30 June 2015	6 August 2015
Interim Report at 30 September 2015	12 November 2015

1 dates planned

Contacts
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You can call up important company announcements as soon as they have been published by visiting our website at www.hvb.de

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Summary of Quarterly Financial Data

(€ millions)

OPERATING PERFORMANCE	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest	655	648	683	657
Dividends and other income from equity investments	18	25	43	6
Net fees and commissions	262	278	287	255
Net trading income	137	64	16	266
Net other expenses/income	199	26	33	44
OPERATING INCOME	**1,271**	**1,041**	**1,062**	**1,228**
Operating costs	(858)	(887)	(907)	(907)
OPERATING PROFIT	**413**	**154**	**155**	**321**
Net write-downs of loans and provisions				
for guarantees and commitments	(156)	95	(12)	(78)
NET OPERATING PROFIT	**257**	**249**	**143**	**243**
Provisions for risks and charges	20	(34)	(1)	40
Restructuring costs	18	—	2	(2)
Net income from investments	60	14	66	8
PROFIT BEFORE TAX	**355**	**229**	**210**	**289**
Income tax for the period	(8)	(115)	(72)	(103)
PROFIT AFTER TAX	**347**	**114**	**138**	**186**
Impairment on goodwill	—	—	—	—
CONSOLIDATED PROFIT				
FROM CONTINUING OPERATIONS	**347**	**114**	**138**	**186**
Profit before tax from discontinued operations	166	5	7	7
Income tax from discontinued operations	(3)	(5)	(2)	(2)
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	**163**	**—**	**5**	**5**
CONSOLIDATED PROFIT OF FULL HVB GROUP	**510**	**114**	**143**	**191**
attributable to the shareholder of UniCredit Bank AG	505	112	141	189
attributable to minorities	5	2	2	2
Earnings per share from continuing operations (€)				
(undiluted and diluted)	**0.43**	**0.14**	**0.17**	**0.23**
Earnings per share of full HVB Group (€)				
(undiluted and diluted)	**0.63**	**0.14**	**0.18**	**0.24**

Summary of Annual Financial Data

(€ millions)

OPERATING PERFORMANCE	2014	2013	2012	2011	2010
Net interest	2,643	2,873	3,464	4,073	4,100
Dividends and other income from equity investments	92	117	147	150	148
Net fees and commissions	1,082	1,102	1,108	1,308	1,312
Net trading income	483	1,095	1,190	190	759
Net other expenses/income	302	328	141	91	239
OPERATING INCOME	**4,602**	**5,515**	**6,050**	**5,812**	**6,558**
Payroll costs	(1,782)	(1,770)	(1,839)	(1,819)	(1,756)
Other administrative expenses	(1,532)	(1,509)	(1,499)	(1,593)	(1,459)
Amortisation, depreciation and impairment losses					
on intangible and tangible assets	(245)	(199)	(178)	(199)	(218)
Operating costs	**(3,559)**	**(3,478)**	**(3,516)**	**(3,611)**	**(3,433)**
OPERATING PROFIT	**1,043**	**2,037**	**2,534**	**2,201**	**3,125**
Net write-downs of loans and provisions					
for guarantees and commitments	(151)	(214)	(727)	(266)	(632)
NET OPERATING PROFIT	**892**	**1,823**	**1,807**	**1,935**	**2,493**
Provisions for risks and charges	25	(220)	195	(251)	(442)
Restructuring costs	18	(362)	(102)	(108)	(37)
Net income from investments	148	198	158	39	(132)
PROFIT BEFORE TAX	**1,083**	**1,439**	**2,058**	**1,615**	**1,882**
Income tax for the period	(298)	(377)	(771)	(640)	(154)
PROFIT AFTER TAX	**785**	**1,062**	**1,287**	**975**	**1,728**
Impairment on goodwill	—	—	—	(4)	—
CONSOLIDATED PROFIT FROM CONTINUING OPERATIONS	**785**	**1,062**	**1,287**	**971**	**1,728**
Profit before tax from discontinued operations[1]	185	19			
Income tax from discontinued operations[1]	(12)	(7)			
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS[1]	**173**	**12**			
CONSOLIDATED PROFIT OF FULL HVB GROUP	**958**	**1,074**	**1,287**	**971**	**1,728**
attributable to the shareholder of UniCredit Bank AG	947	1,033	1,246	931	1,703
attributable to minorities	11	41	41	40	25
Cost-income ratio in % (based on total revenues)	77.3	63.1	58.1	62.1	52
Earnings per share from continuing operations (€)	0.96	1.27			
Earnings per share of full HVB Group (€)	1.18	1.29	1.55	1.16	2.12

	2014	2013	2012	2011	2010
Balance sheet figures (€ billions)					
Total assets	300.3	290.0	347.3	372.3	371.9
Shareholders' equity	20.6	21.0	23.3	23.3	23.7
Key capital ratios	**Compliant with Basel III**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**	**Compliant with Basel II**
Core capital (€ billions)	19.0	18.5	19.5	20.6	20.6
Risk-weighted assets (€ billions)					
(including equivalents for market risk and operational risk)	85.7	85.5	109.8	127.4	124.5
Core capital ratio (%)					
(calculated based on risk-weighted assets including equivalents					
for market risk and operational risk)	22.1	21.6	17.8	16.2	16.6
Employees[2]	17,980	19,092	19,247	19,442	19,146
Branch offices	796	933	941	934	927

1 Contains the contribution to profits of DAB Bank AG and its direktanlage.at AG subsidiary. In the years 2010 to 2012, this contribution to profits was included in the consolidated profit from continuing operations.

2 in full-time equivalents

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Annex

UniCredit Profile

Highlights

UniCredit is a leading European commercial bank operating in **17** countries with more than **147,000** employees, over **8,500** branches and with an international network spanning in about **50** markets.
UniCredit benefits from a strong European identity, extensive international presence and broad customer base.
Our strategic position in Western and Eastern Europe gives us one of the region's highest market shares.

OVER
147,000
Employees[1]

OVER
8,500
Branches[2]

Financial Highlights (€ mio)

OPERATING INCOME
22,513

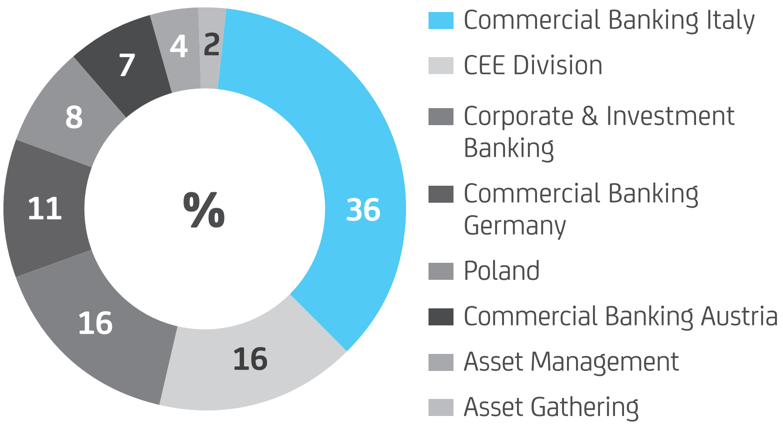
NET PROFIT
2,008

SHAREHOLDERS' EQUITY
49,390

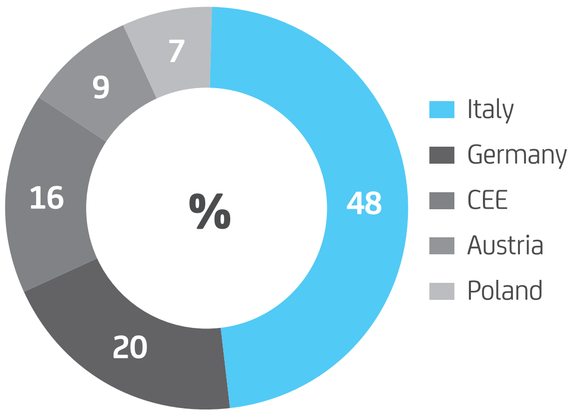
TOTAL ASSETS
844,217

COMMON EQUITY TIER 1 RATIO
10.41%

REVENUES BY BUSINESS LINES*

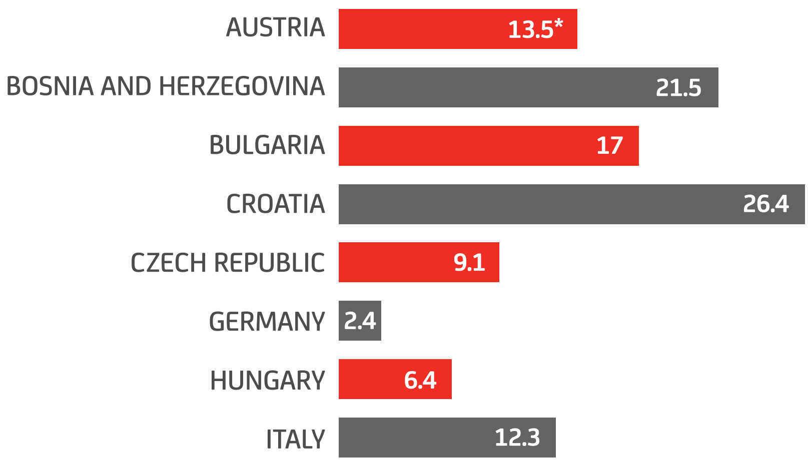


REVENUES BY REGION*

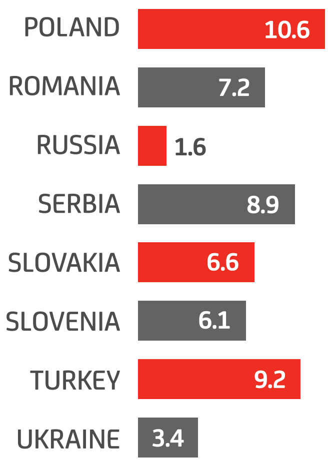


1 Data as at 31 December 2014. FTE = "Full Time Equivalent": number of employees counted for the rate of presence. Figures include all employees of Yapi Kredi Group (Turkey).
2 Data as at 31 December 2014. Figures include all branches of Yapi Kredi Group (Turkey).
* Data as at 31 December 2014.

MARKET SHARE[3] (%)



MARKET SHARE (%)



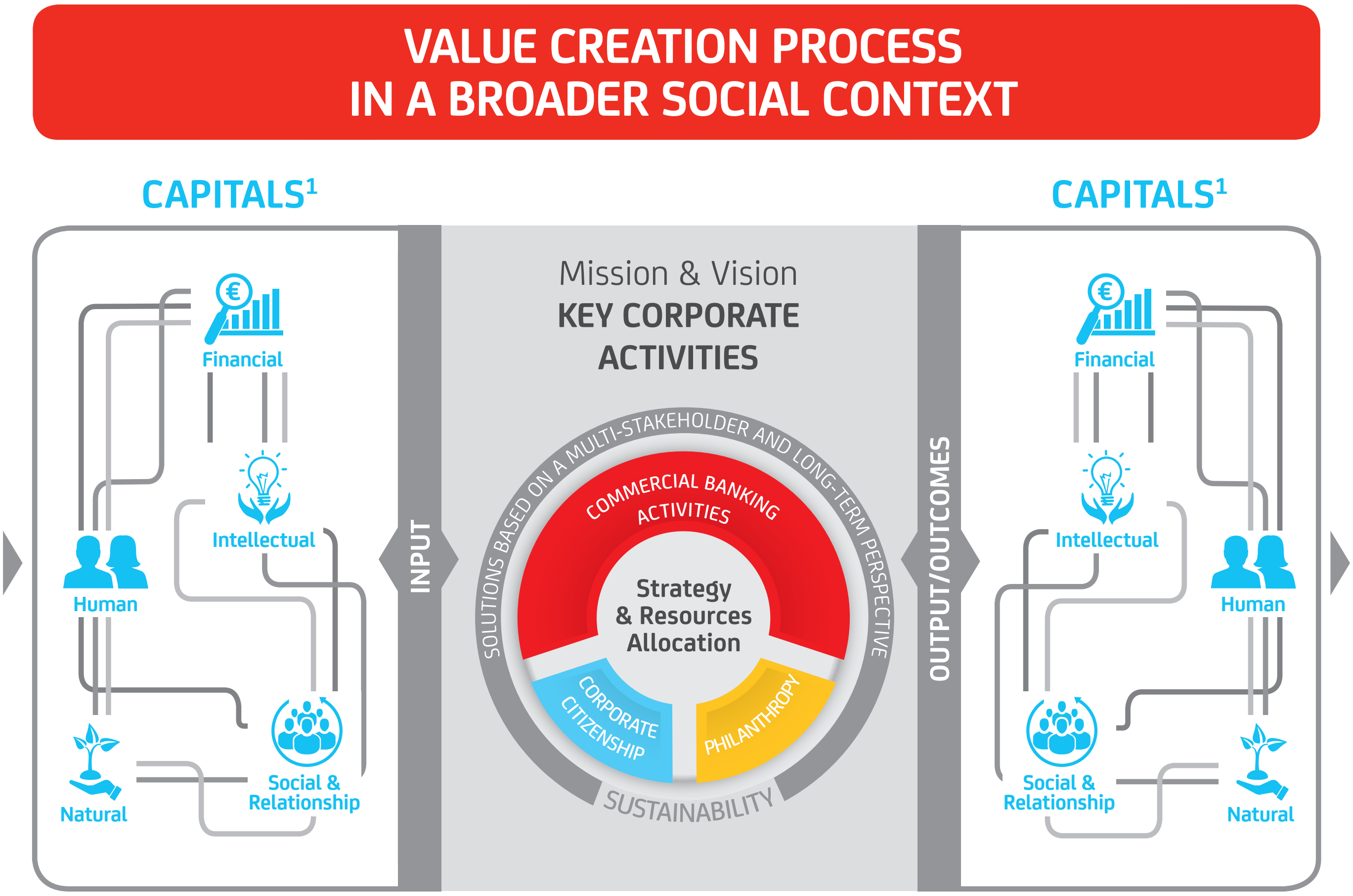
3 Market Shares in terms of Total Assets as 31 December 2014 for CEE Countries. Market Shares in terms of Total Customer Loans as at 31 December 2014 for Italy, Germany and Austria.
Source: UniCredit National Center Banks, UniCredit Research, UniCredit CEE Strategic Analysis.
Data as of 30 September 2014, except for Bosnia and Herzegovina, Slovenia (2Q 2014), Romania (1Q 2014), Hungary (FY 2013) and Bulgaria (3Q 2014).

* Data as of 30 November 2014.

Our Approach

UniCredit holds significant responsibilities within a complex value chain and we use different types of capitals – financial, human, social, intellectual and environmental – as inputs to contribute to our economy and society at large. These inputs heavily influence our business model and the quality of the products and services that we provide, i.e., our outputs.

We have studied our impact extensively, and we have become ever more aware of the vital role we play in the real economies of the countries where we operate. A responsible approach guides everything we do, from our core banking activities to our corporate citizenship initiatives. These initiatives emphasize financial inclusion and education, complementing our philanthropy in the field of social inclusion. We strongly believe that communities that provide a genuine diversity of opportunities nurture the innovative environment that enables both people and businesses to thrive.



1 See 2014 Sustainability Report for details.
Source: adapted from the IIRC framework.

Our Business Model

At UniCredit, we work relentlessly to offer outstanding banking services and to provide real support for economic growth in the communities where we operate. This requires developing new service models that enable connections between businesses in different places while making the bank more accessible and more transparent. It means being a sustainable bank.
The restructuring process that began at the start of 2012 has resulted in major simplification of our operating processes. In order to bring us closer to our customers, for example, our national offices now possess greater decision-making power. The object of this change is to simplify our business by implementing a more streamlined chain of command, a more efficient commercial network, and an expanded ability to create personalized solutions. Additionally, it enables our national offices to be more effective at developing the markets they serve.

OUR MISSION

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

Our Business Key Strengths:

Customer proximity – Risk culture – Global functions specialization

VALUE PROPOSITION

COMMERCIAL BANKING

INDIVIDUALS
Flexible and easy access to banking services through traditional and digital channels.

COMPANIES
Support for entrepreneurs – in their day-to-day business, or in executing new projects or strategies – through tailored, profit-driven solutions.

PRIVATE BANKING
A 360-degree advisory model, customized investment strategies and access to international markets through specialist advisors.

CORPORATE & INVESTMENT BANKING

Traditional corporate and transaction banking services, along with full-fledged structured finance, capital markets and investment products. Strategic long-term partner that meets clients' specific needs and delivers access to Western, Central and Eastern Europe.

ASSET MANAGEMENT

Concrete investment solutions that satisfy real investment needs, providing an innovative and consistent global offering that manages risk and delivers attractive returns to investors.

ASSET GATHERING

Innovative financial services that combine the efficiency of digital channels with advisory expertise.

Our Strategy

On 11 March 2014, our Board of Directors approved the five-year Strategic Plan with the object of ensuring sustained profitability over the coming years. The plan is based on solid fundamentals, a strong culture of risk management and an improving macroeconomic climate. Our goals are to consolidate our leading position in corporate financial services across Europe, to institute an innovative mindset throughout our retail network, and to establish a cutting-edge digital footprint.

UniCredit understands its role as part of a far-reaching system that leverages resources, or capital, to generate shared value. Indeed, the solidity of our business depends on the prosperity of our customers and of the communities in which we operate. To create greater value we, as a bank, develop innovative solutions that form attractive investment opportunities and also generate positive outcomes for our Group.

We adopted our five-year strategic plan building on our solid fundamentals, with the purpose of ensuring sustained profitability, and making the best possible use of the resources at our disposal.

This is how we continue to respond effectively to our stakeholders' priorities.

STRATEGIC PLAN 2013–2018

Strategic pillars and capitals aim at reinforcing capitals over time

STRATEGIC PILLARS

1. TRANSFORM COMMERCIAL BANKING IN WESTERN MARKETS

- A new approach to retail banking
- Serve growing non-lending needs of Corporate clients
- Enhance the Private Banking business model

2. INVEST IN BUSINESSES GROWTH

- Rebalance Group capital allocation towards CEE
- Focus on "expansion countries"
- Support capital-light businesses (Asset Gathering, Asset Management)

3. LEVERAGE ON GLOBAL PLATFORMS

- Maintain CIB leadership in its core business and fully exploit synergies
- Enhance cost reduction and simplification initiatives
- Foster operating efficiency

CONSERVATIVE RISK APPETITE FRAMEWORK

CAPITALS*

Financial

- Strong equity
- Balanced funding mix
- Long-term financial stability

Human

- Engaged people
- Diversified workforce
- Competent & skilled professionals

Social & Relationship

- Long-term stakeholders relationship
- Socio-economic development/well-being

Intellectual

- Effective and safe ICT system
- Innovation capability
- Efficient and effective processes

Natural

- High air quality
- Soil, water, flora and fauna preservation

* See 2014 Sustainability Report for details.

Our Multi-Channel Banking

One of the cornerstones of our business plan effectively represents the transformation of commercial banking in the markets where we operate. The continued expansion of our digital offerings and the rapid improvement of our Group's multichannel platform are at the heart of the profound changes we are making to our bank's distribution model.
Greater integration between our physical and virtual channels will bring us closer to our customers and allow us to provide them superior service. The associated challenges go beyond simply providing virtual banking. We need to maintain close ties to our customers, even as social and market trends generate new complexity and reshape the future of our business environment. These circumstances have resulted in a strategy designed to ensure the compatibility of sales and after-sales processes, high ease of access in connection with both in-branch and remote customer experiences, straightforward communication with relationship managers and specialists through our multimedia channels, and the refinement of the electronic network that underpins our digital content and communication.

A NEW APPROACH TO SERVE OUR CUSTOMERS

WELCOMING
- Proactive welcome in the branch
- New 'warm' and transparent layout, digital signage

ACCESSIBLE
- Off-Site Advisory at customer's house/ office
- Multimedia advice outside office hours and support on service and post-sales item outside the bank

SEAMLESS
- Fully integrated Digital-Physical channels
- Key moments managed in real time (recall on card cancellation)

INNOVATIVE
- Simple products, in line with client needs
- New non-banking services (E-Commerce, Real Estate, Market Place)

COMPETENT
- One access point, simple and intuitive
- A new advice service through a structured interview and reporting on investments, protection, welfare

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