UniCredit Bank AG 2014 Annual Report

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

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Contents

Business Situation and Trends

Corporate structure of UniCredit Bank AG

Legal structure

UniCredit Bank AG (HVB), Munich, was formed in 1998 through the merger of Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft. It is the parent company of HVB Group, which is headquartered in Munich. HVB has been an affiliated company of UniCredit S.p.A. (UniCredit), Rome, Italy, since November 2005 and hence a major part of 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 the members of the Management Board and Supervisory Board of HVB is given in the section of the notes to the annual financial statements entitled "List of Executives and Outside Directorships".

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

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

HVB 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 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 has 477 offices around the world, including 465 in Germany, and four representative offices. A breakdown of the offices of HVB by region is shown in the section of the Management Report entitled "Offices".

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

HVB 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 wants to be the first choice for such people.

To achieve this, HVB 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 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.

HVB is divided into the following business segments:
– Commercial Banking
– Corporate & Investment Banking
– Other

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 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.

Business Situation and Trends (Continued)

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 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 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, upscale 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 Corporate & Investment Banking business segment ensures high-quality advice with a tailored and solution-based approach and acts as an intermediary to the capital market. HVB 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.

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 in collaboration with representatives of the distribution channels.

Business Situation and Trends (Continued)

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 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 business segment

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

The Global Banking Services business unit acts as a central internal service provider for customers and employees and covers particularly purchasing, organisation, corporate security, logistics and facility management, cost management and 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. They contain the organisations of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Chief Operating Officer (COO) and Human Resources Management (HR).

Corporate acquisitions and sales

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.

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.

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 1.5% 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 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.

Business Situation and Trends (Continued)

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

The 2014 financial year once again presented HVB with many challenges. These essentially resulted from the prevailing economic conditions and the financial environment. Nonetheless, HVB generated a satisfactory profit before tax of €726 million in the 2014 financial year (2013: €1,019 million).

The decline in profit before tax can be attributed primarily to the fall of €375 million in operating income to €4,375 million. Despite the extremely low interest rates seen again in the 2014 financial year, HVB generated net interest income of €2,879 million. The €1,127 million recorded for net fees and commissions nearly matched the good year-ago total of €1,167 million. There was a sharp decline in net income from the held-for-trading portfolio, falling by €489 million to €162 million on account of reversal effects. The need to recognise lower provisions had a positive impact on other operating income less other operating expenses (up €148 million to €207 million). General administrative expenses declined by €508 million year-on-year to €3,299 million. This decrease is essentially down to the non-recurrence of the one-off effects from restructuring measures contained in the previous year. Adjusted for this non-recurring effect, there was a decline of €172 million attributable to the successful cost management methods that have been applied for many years. At a net expense of €270 million (2013: €245 million), the valuation result for lending operations remains at a very low level. The net gain from securities held for liquidity purposes for the reporting period amounts to €2 million (2013: €374 million). The prior-year total did, however, benefit from gains on the buy-back of hybrid capital instruments. Other income less other expenses shows a net expense of €60 million (2013: net expense of €31 million), which is well below the year-ago amount mainly on account of write-downs on bonds and notes held for investment purposes. The gain on the sale of the 81.4% interest in DAB Bank AG, Munich, held by HVB to BNP Paribas Beteiligungsverwaltung AG, Frankfurt am Main, included in this item failed to offset the write-downs that were taken.

The expectations regarding the profit before tax described in the Outlook in last year's Management Report could not be fully matched. The main reasons for this are much lower operating income than anticipated, due to net income from the held-for-trading portfolio that was significantly less than projected. The declining income items were partially offset by far lower general administrative expenses and provisions for losses on loans and receivables than originally budgeted.

HVB has had an excellent capital base for years. The core Tier 1 ratio in accordance with Basel III and CRR (ratio of core capital to the total amount of credit risk-weighted assets and risk-weighted asset equivalents for market risk and operational risk) increased to 23.2% as of 31 December 2014 (year-end 2013 in accordance with Basel II: 21.7%), which is an excellent level by both national and international standards. The shareholders' equity shown in the balance sheet fell by €0.1 billion compared with year-end 2013 to €19.0 billion. This reflects the dividend payment totalling €756 million as resolved by the Shareholders' Meeting in the second quarter of 2014, which was only partially offset by the net income of €627 million generated in the 2014 financial year.

With total assets down a slight 1.9% compared with year-end 2013 to €232.0 billion, the leverage ratio (defined as the ratio of shareholders' equity shown in the balance sheet less intangible assets to total assets less intangible assets) amounted to 8.2% at 31 December 2014 after 8.1% at year-end 2013. HVB Group enjoyed a very comfortable liquidity base and a solid financing structure at all times in the reporting period. The funding risk remained low on account of the diversification in our products, markets and investor groups. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity. Among other things, target ratios acting as triggers are used to ensure that adequate liquidity is available at all times. A detailed description of liquidity management is provided in the section of the Risk Report in the Management Report entitled "Liquidity risk".

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 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 regional organisational structure and a stronger entrepreneurial focus.

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

Business Situation and Trends (Continued)

Operating performance

The 2014 income statement and important events in the 2014 financial year

INCOME STATEMENT	2014 € millions	2013 € millions	CHANGE € millions	CHANGE in %
Net interest income	2,879	2,873	6	0.2
Net fees and commissions	1,127	1,167	(40)	(3.4)
Net income from the held-for-trading portfolio	162	651	(489)	(75.1)
Other operating income less other operating expenses	207	59	148	> 100.0
Operating income	**4,375**	**4,750**	**(375)**	**(7.9)**
General administrative expenses	(3,299)	(3,807)	508	(13.3)
Payroll costs	(1,564)	(1,897)	333	(17.6)
Other administrative expenses[1]	(1,735)	(1,910)	175	(9.2)
Operating result before provisions for losses on loans and receivables	**1,076**	**943**	**133**	**14.1**
Provisions	(268)	129	(397)	> 100.0
Operating result	**808**	**1,072**	**(264)**	**(24.6)**
Other income less other expenses	(60)	(31)	(29)	93.5
Extraordinary expenses	(22)	(22)	—	—
Profit before tax	**726**	**1,019**	**(293)**	**(28.8)**
Tax	(99)	(263)	164	(62.4)
Net income	**627**	**756**	**(129)**	**(17.1)**
Transfer to the reserve for shares in a controlling				
or majority-interest holding company	(29)	(19)	(10)	(52.6)
Withdrawal from the reserve for shares in a controlling				
or majority-interest holding company	—	—	—	
Transfer to other retained earnings	—	—	—	
Withdrawal from other retained earnings	29	19	10	52.6
Profit available for distribution	**627**	**756**	**(129)**	**(17.1)**

1 including standard amortisation and depreciation on intangible assets and property, plant and equipment

Net interest income
At €2,879 million, the net interest income generated in the reporting year – net interest income/expenses including current income from equity securities and other variable-yield securities, participating interests and shares in affiliated companies as well as income from profit-pooling and profit-and-loss transfer agreements – remained at last year's level (up €6 million). The consistently low level of interest rates is reflected particularly by lower interest expenses for the deposits of our customers. Higher turnover with money market papers and securities in the held-for-trading portfolio partially offset the decline in interest income from lending operations. The increase in current income from equity securities and other variable-yield securities (up €135 million) largely offset the decrease in dividend payments for our portfolio of participating interests (down €39 million).

Net fees and commissions
Net fees and commissions were down by €40 million to €1,127 million compared with 2013. Fees and commissions receivable from credit and lending operations fell in 2014, mainly on account of the decline in the margin-sharing business with our Luxembourg-based subsidiary UniCredit Luxembourg S.A., which benefited from non-recurring effects in the previous year. However, the higher fees and commissions receivable from the securities and portfolio business offset the decrease in this income. Commission in connection with financial instruments in the held-for-trading portfolio and trading with precious metals are reported under net fees and commissions for the first time in the reporting period (€80 million). In addition, HVB has changed the classification of commission from exchange rate reimbursements (€59 million), which are now reported under net income from the held-for-trading portfolio. The respective amounts in 2013 have been adjusted.

Net income from the held-for-trading portfolio
Compared with last year, net income from the held-for-trading portfolio fell by a significant €489 million to €162 million. There are several reasons for this development. In 2013, net trading income included income of €70 million not related to the accounting period. In addition, the positive effects in 2013 were negative in 2014. This applies to valuation adjustments which, at €82 million, were positive in 2013 but yielded a negative contribution to earnings of €89 million in 2014. At the same time, foreign currency effects on valuation allowances were plus €33 million in 2013 whereas they were minus €39 million in 2014 on account of the weaker euro. A further reason relates to the dividends of €203 million received in 2014 (2013: €84 million), which had an adverse effect on the valuation of the equity securities.

General administrative expenses
At €3,299 million, general administrative expenses were €508 million down on last year. Thanks to our very successful cost management for many years, payroll costs and other administrative expenses were again reduced even without taking account of the restructuring costs contained in the previous year as a one-off effect. Depreciation on property, plant and equipment fell by €14 million to €37 million (2013: €53 million).

Other operating income less other operating expenses
The net income of other operating income less other operating expenses substantially increased to €207 million compared with last year (2013: €60 million). The need to recognise lower provisions in the reporting period had a positive effect.

Operating result before provisions for losses on loans and receivables
The operating result before provisions for losses on loans and receivables increased by €133 million year-on-year to €1,076 million.

Provisions for losses on loans and receivables
The provisions for losses on loans and receivables amounted to an expense of €268 million in the reporting period (2013: gain of €129 million). The valuation result for lending operations contained in provisions for losses on loans and receivables amounting to an expense of €270 million is only slightly higher than the already very low year-ago total (expense of €245 million). In the current reporting period, expenses of €1,288 million for additions (2013: €1,762 million) were largely offset by releases and recoveries from write-offs of loans and receivables amounting to €1,018 million (2013: €1,517 million). The net gain from securities held for liquidity purposes fell to €2 million (2013: €373 million). However, it must be noted in this context that the year-ago total included gains on the buy-back of hybrid capital instruments that did not recur in the reporting period.

Other income less other expenses
Other income less other expenses changed year-on-year to an expense of €60 million (2013: expense of €31 million). The result is weighed down by higher write-downs on shares in affiliated companies and investment portfolio. In particular, the write-downs on bonds and notes related to the restructuring of Hypo Alpe-Adria-Bank International AG, Klagenfurt, have had a significant impact in this connection.

The gain on the sale of DAB Bank AG, Munich, did not offset the higher write-downs.

Extraordinary expenses
Within the framework of the introduction of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) in 2010, HVB makes use of the option to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The allocation accruing for the 2014 financial year amounts to €22 million and is reported under extraordinary expenses (2013: €22 million).

Profit before tax
Profit before tax fell by €293 million year-on-year to €726 million.

Tax
The expense for taxes on income was substantially reduced by €164 million to €99 million in the reporting period. The tax payable in 2014 benefited from reversal effects in the tax balance sheet on account of the measures initiated to implement our new strategic orientation.

Net income for the year and appropriation of net income
The profit available for distribution amounts to €627 million. We will propose to the Shareholders' Meeting that a dividend of €627 million be paid in total to UniCredit. This represents a dividend of around €0.78 per share. The profit available for distribution of €756 million reported last year (which is equivalent to a dividend of around €0.94 per share) was paid to UniCredit according to a resolution passed by the Shareholders' Meeting on 2 June 2014.

Business Situation and Trends (Continued)

Financial position

Total assets

HVB's total assets amounted to €232.0 billion at 31 December 2014. Compared with the 2013 year-end total, this represents a slight decline of €4.5 billion.

On the assets side, we reduced our high liquidity reserves by €3.7 billion and invested them in the interbank market due to the negative interest rates introduced in June 2014 on the average reserve holdings exceeding the required minimum reserves and for other deposits in the Eurosystem. In the process, loans and receivables with banks increased by €1.6 billion to €32.7 billion, primarily due to expanding volumes of term deposits. In contrast, there was a slight decline of €2.4 billion in loans and receivables with customers to €85.2 billion. There was a slight decrease overall in the volume of mortgage and municipal loans (down €1.9 billion). Increases in the extension of property loans failed to offset scheduled and non-scheduled repayments. In addition, the current account balances owed by customers were down by €1.5 billion to €8.8 billion.

The holdings disclosed under securities (without held-for-trading portfolios) fell year-on-year by a total amount of €1.7 billion. With regard to the bonds and other fixed-income securities, there was a large volume of partial repayments and sales amounting to €2.2 billion, which was only partially offset by fresh investments.

Assets held-for-trading rose by €3.4 billion year-on-year to €52.3 billion. While the holdings of fixed-income securities including changes in value was reduced by €3.2 billion, there was an increase in equity securities and other variable-yield securities including changes in value of €2.6 billion. In addition, the receivables from securities repurchase transactions of the held-for-trading portfolio were up by €2.0 billion. The rise of €1.8 billion in derivative financial instruments is mainly due to higher fair values.

The shareholdings reported under participating interests and shares in affiliated companies decreased again by €0.5 billion year-on-year. Besides the sale of DAB Bank AG, Munich, further portions of the private equity portfolio, including what are known as co-investments, were sold to an investment and investment advisory platform set up last year of which the Bank is a member as a passive shareholder in the course of focusing on our core business.

In line with the development on the assets side, there was only a slight reduction in volumes on the liabilities side. Within deposits from banks (up €5.5 billion to €50.4 billion), growth was recorded particularly in securitised money market transactions in the form of securities repurchase agreements (up €4.4 billion). Deposits from customers decreased by €3.4 billion to €109.4 billion. This was caused by contracting volumes of term deposits (down €3.3 billion) and securities repurchase agreements (down €2.8 billion), which offset an increase in current accounts (up €4.6 billion).

There was a €3.0 billion decline in debt securities in issue to €15.2 billion on account of issues due or repaid prematurely. At €28.9 billion, held-for-trading items on the liabilities side remained much the same as last year. Subordinated liabilities fell by €1.0 billion to €0.6 billion owing to maturity.

The shareholders' equity fell by €0.1 billion to €19.0 billion compared with year-end 2013. At the same time, the dividend payout of €756 million in the second quarter of 2014 based on the resolution passed by the Shareholders' Meeting was only partly offset by the net income for the year of €627 million generated in the reporting period. The subscribed capital, the additional paid-in capital and the retained earnings remained unchanged compared with 2013.

The return on assets is defined in Section 26a KWG as the ratio of net profit to total assets. This amounted to 0.27% at 31 December 2014 (31 December 2013: 0.32%).

The contingent liabilities and other commitments not included in the balance sheet increased by €6.0 billion to €63.3 billion at 31 December 2014 compared with year-end 2013. This figure includes the contingent liabilities (€34.6 billion) from loan guarantees (€13.0 billion), transaction-related guarantees (€19.4 billion) and trading-related guarantees (€2.2 billion). Other commitments of €28.7 billion (2013: €27.1 billion) consist solely of irrevocable lending commitments which increased year-on-year by €1.6 billion, primarily on account of lending commitments for loans to customers.

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

The risk-weighted assets of HVB determined on the basis of Basel III (CRR) for credit and counterparty risk amounted to €56.5 billion at 31 December 2014 (year-end 2013: €64.5 billion), which again represents a decrease of €7.9 billion. The risk equivalent amounted to €12.8 billion for market risk and €9.1 billion for operational risk (2013: €9.2 billion and €11.3 billion, respectively). The total risk-weighted assets amounted to €78.4 billion at 31 December 2014 after €85.0 billion in 2013.

At 31 December 2014, our core capital (CRR) totalled €18.2 billion according to the approved financial statements (2013: core capital compliant with the German Banking Act (Kreditwesengesetz – KWG): €18.4 billion). Equity funds, which consist of core capital and supplementary capital, amounted to €18.9 billion (2013: €19.8 billion). This gives rise to a core capital ratio (including market risk and operational risk) of 23.2% compliant with Basel III and CRR (2013: core capital ratio compliant with Basel II: 21.7%) and an equity funds ratio of 24.0% compliant with Basel III and CRR (2013: equity funds ratio based on Basel II: 23.3%).

To ensure sufficient liquidity at all times, key figures are used, among other things, which act as triggers. A detailed description is given of the management of liquidity and the liquidity position in the Risk Report. A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 KWG. This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if this ratio is at least 1.00. At HVB, this figure amounted to 1.20 at the end of December 2014 after 1.33 at year-end 2013.

Ratings

The ratings of countries and banks are subject to ongoing monitoring by rating agencies. In March this year, the rating of UniCredit S.p.A. was reviewed by the Moody's rating agency. In this context, HVB's rating was also reviewed and adjusted by one notch from A3 to Baa1. The adjustment followed the strict application of Moody's criteria for banking groups where the financial strength of a subsidiary is very closely interconnected with that of its holding company. As a result of the downgrade for the financial strength of UniCredit S.p.A., the financial strength of HVB was also reduced one notch, which brought about a downgrade of the long-term bank rating by one notch to Baa1 with a stable outlook. In light of the introduction and implementation of the restructuring and resolutions mechanisms for banks (SRM/BRRD) in the eurozone and 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.

Business Situation and Trends (Continued)

Offices

HVB maintained 465 offices in Germany, 12 abroad and 4 representative offices at 31 December 2014.

Offices broken down by region

		ADDITIONS	REDUCTIONS		
	1/1/2014	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	31/12/2014
Germany					
Baden-Wuerttemberg	24	—	7	—	17
Bavaria	346	—	59	24	263
Berlin	9	—	—	—	9
Brandenburg	8	—	—	—	8
Hamburg	20	—	—	5	15
Hesse	10	—	—	1	9
Lower Saxony	25	—	5	—	20
Mecklenburg-Western Pomerania	7	—	2	—	5
North Rhine-Westphalia	15	—	3	2	10
Rhineland-Palatinate	21	—	2	—	19
Saarland	7	—	2	—	5
Saxony	11	—	—	2	9
Saxony-Anhalt	13	—	—	—	13
Schleswig-Holstein	59	—	2	2	55
Thuringia	9	—	1	—	8
Subtotal	**584**	**—**	**83**	**36**	**465**
Other regions					
Africa	**1**	**—**	**—**	**—**	**1**
South Africa[1]	1	—	—	—	1
Americas	**3**	**—**	**—**	**—**	**3**
USA	2	—	—	—	2
Cayman Islands	1	—	—	—	1
Asia	**6**	**—**	**—**	**—**	**6**
Hong Kong	1	—	—	—	1
Singapore	1	—	—	—	1
Japan	1	—	—	—	1
United Arab Emirates[1]	1	—	—	—	1
South Korea[1]	1	—	—	—	1
Vietnam[1]	1	—	—	—	1
Europe	**6**	**—**	**—**	**—**	**6**
Austria	1	—	—	—	1
France	1	—	—	—	1
Greece	1	—	—	—	1
Italy	1	—	—	—	1
Switzerland	1	—	—	—	1
UK	1	—	—	—	1
Subtotal	**16**	**—**	**—**	**—**	**16**
Total	**600**	**—**	**83**	**36**	**481**

1 Representative offices

Relations with affiliated companies

We have prepared a separate report on our relations with affiliated companies in the 2014 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (Aktiengesetz – AktG):

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted, or any disadvantages arising were compensated."

Report on subsequent events

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

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

General economic outlook

The global economy is likely to grow at around its long-term average of 3.7% 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 should recede, which could help ease the burden on stressed economies somewhat.

Business Situation and Trends (Continued)

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, 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 and new banking supervisory rules

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

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 expect operating income to once again rise slightly after the sharp declines in previous years. This will be assisted by much higher net fees and commissions than in 2014 and improved net income from the held-for-trading portfolio. The persistently extremely low level of interest rates will, however, significantly contribute to a decline in net interest income, which will not be offset by the anticipated increase in volumes on the lending side.

The sharp decline in holdings of private equity funds and direct investments for strategic reasons will have a negative impact on the current income from participating interests and shares in affiliated companies in 2015. The general administrative expenses budgeted for HVB are likely to remain at the year-ago level despite higher payroll costs, based on the consistent application of strict cost management we have employed for years. The workforce should contract again. The planned decrease in other administrative expenses and in amortisation, depreciation and impairment losses on intangible and tangible assets is expected to offset the slight increase in payroll costs. Due to the increase in operating income coupled with an only moderate rise in general administrative expenses, the cost-income ratio is projected to improve slightly over last year. In terms of provisions for losses on loans and receivables, we expect the need for additions to remain at a low level again in 2015 similar to 2014.

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.

Business Situation and Trends (Continued)

The performance of HVB will again be heavily influenced by developments on the financial markets and in the real economy in 2015. In this environment, HVB will continually adapt its business strategy to reflect changes in market conditions and carefully review the management signals derived from this. With its strategic orientation and excellent capital resources, HVB sees itself as being in a good overall position to effectively exploit the opportunities that may arise from the changing operating environment and 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 elsewhere in the present annual financial statements.

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

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

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

HVB has cross-selling potential in all customer groups. 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 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 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 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.

Business Situation and Trends (Continued)

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

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.

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.

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 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.

Business Situation and Trends (Continued)

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.

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 Report.

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 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 as a risk-taking entity

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

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

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 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. No land or properties are included that are held as security in lending transactions.

Financial investment risk arises from equity interests held in companies that are not included in the trading book. Financial investment risk is measured as an individual risk type in order to determine the specific risk associated with the corresponding equity interests and also as a factor contributing to the internal capital. **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's risk management programme is now built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk strategy. Implementation of the risk strategy is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation.

The Bank's risk-taking capacity upon achievement of the set targets is assessed in advance 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 Report (Continued)

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, 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 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. 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 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

Chief Financial Officer
The Finance and Regional Planning & Controlling units from the CFO organisation play a major role in risk monitoring. These units notably cover the management of short- and long-term liquidity at HVB (Asset Liability Management) acting in concert with the front office units and Asset Liability Management. They have also been tasked with central business management, cost controlling and equity capital management. 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. Its main objectives are to ensure that HVB has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and refinancing requirements. As part of liquidity risk management, for instance, it defines underlying conditions, limits and processes, specifies responsibilities and oversees funding activities together with the front office units. 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'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)

Risk Report (Continued)

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

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

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

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 management of HVB takes place within the framework of the overall bank management of HVB Group. The metrics relevant for the overall bank management of HVB Group are derived from the business strategy in the annual budgeting process 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.

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 (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'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 and liquidity of HVB" in the Management Report in the present Annual Report.

Risk Report (Continued)

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 was 24.1% at the end of December 2014 (31 December 2013: 23.3%).

Economic capital adequacy

HVB currently determines its internal capital on a quarterly basis, while this is done for HVB Group 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) and an undifferentiated premium for pension risk. 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.

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

Internal capital after portfolio effects (confidence level 99.93%)

	2014		2013	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Credit risk	5,153	44.2	6,769	50.1
Market risk	2,015	17.3	1,835	13.6
Operational risk	1,633	14.0	1,847	13.7
Business risk	226	1.9	244	1.8
Real estate risk	54	0.4	45	0.3
Financial investment risk	1,938	16.6	2,161	16.0
Aggregated economic capital	**11,019**	**94.4**	**12,901**	**95.5**
Pension risk	649	5.6	609	4.5
Internal capital of HVB	**11,668**	**100.0**	**13,510**	**100.0**
Available financial resources of HVB	**19,019**		**19,907**	
Risk-taking capacity of HVB, in %	**163.0**		**147.4**	

The internal capital falls by €1.8 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, operational risk and financial investment risk. The individual changes are described in greater detail in the sections on the respective risk types below.

Risk appetite
HVB's risk appetite is defined as part of the annual strategy and planning process. The risk appetite ratios comprise ratios for 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 normally controls its risk-taking capacity under a gone-concern approach. In other words, the risk-taking capacity spotlights HVB Group's ability to settle its liabilities. At the same time, appropriate figures are also defined for the regulatory core capital backing alongside targets, triggers and limits for the risk-taking capacity.

The going-concern concept is additionally allowed for by critically evaluating and incorporating as appropriate the results of the regular Bank-wide stress tests when defining targets, triggers and limits for both the risk-taking capacity and the regulatory core capital backing.

Recovery and resolution plan
The preparation of a recovery and resolution plan (RRP) is intended to facilitate the restructuring and, if necessary, the orderly resolution of systemically important financial institutions. UniCredit S.p.A. and HVB have been identified as systemically important on a global level and a national level, respectively. Working closely with UniCredit S.p.A., HVB drew up a comprehensive local recovery 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.

In line with the methodology used by HVB Group, HVB uses an internal definition for the available financial resources, which, like risk measurement, is based on a consistent liquidation approach (gone concern). Under this approach, the risk-taking capacity is defined by comparing 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. At the same time, subordinated liabilities recognised as shareholders' equity for banking supervisory purposes are included. The available financial resources at HVB totalled €19.0 billion at 31 December 2014 (31 December 2013: €19.9 billion).

Risk Report (Continued)

With internal capital of €11.7 billion, the risk-taking capacity is approximately 163.0% (year-end 2013: 147.4%). This figure is much higher than the target we have set for ourselves. The increase of 16 percentage points for HVB compared with 31 December 2013 can be attributed to the sharp decline of €1.8 billion, or 13.6%, in internal capital. This effect is greater than the slight decrease of €0.9 billion, or 4.5%, 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. 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. The limits are set from the HVB Group viewpoint. At the same time, limits reflecting or restricting the risk-taking capacity of HVB from the viewpoint of a standalone institution are being introduced for the first time for 2015 at the level of internal capital. This view considers the Bank as a standalone institution without taking consolidation effects into account. Hence, no premium for small legal entities is included here.

The full 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 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).

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 was started in March 2014. The overall risk profile of HVB 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 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 were identified compared with the previous year.

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 Note 4, “Loans and receivables with banks and customers”, under “Accounting, valuation and disclosure” in the notes to the annual 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.

Risk Report (Continued)

Counterparty risk can be broken down into settlement risk, replacement risk and cash risk. For HVB, there is a settlement risk whenever payments are exchanged and, when processing the transaction, we make advance payments without being certain at the time of payment that the counterparty will make the corresponding payment. Replacement risk is defined as the risk that the Bank must replace a transaction under less favourable market conditions following a default by the counterparty. Cash risk consists of the risk that the counterparty will not repay loans (taken out in cash). 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
An umbrella risk strategy has been approved for HVB at HVB Group level 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 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 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. At the same time, the Markets unit in the CIB business segment will enter into credit risk and market risk subject to clearly defined standards in UniCredit's core countries as a result of the corporate function as UniCredit's investment bank.

Limit system

The following types of risk are included in the credit risk limit system of HVB:
- credit default risk
- counterparty risk
- issuer risk in the banking book and 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.

In order to avoid concentrations of risk in credit default risk, counterparty risk and, in specific aspects, also issuer risk, the following concentration limits and, where appropriate, target portfolios are used for controlling purposes:
- single name concentrations
  The references unit for setting limits on single name concentrations are economic or legal borrower groups with an unsecured exposure of more than €50 million.
- industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB.
- concentration limits for 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.
- 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 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.

Risk Report (Continued)

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

Measurement

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

Probability of default (PD)

The internal customer-segment-specific rating and scoring methods of HVB that are available for all significant credit portfolios form the basis for the measurement of credit risk. The reliable determination of our customers' PDs is critical for credit decisions, pricing and core capital backing under Basel 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 method 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 sub-portfolios. HVB calculates the risk density as the ratio of EL to performing exposure in basis points. It indicates the development of risk in a given portfolio.

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

Internal credit risk model
A standard credit portfolio model is used within UniCredit to measure credit risk, by means of which the 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. The model reflects the specific characteristics of the HVB portfolio and is validated by HVB 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.

Risk Report (Continued)

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

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

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

Special features of counterparty risk and issuer risk
We employ limit systems as a key element of our risk management and control of counterparty risk and issuer risk to prevent an increase of our risk position that does not comply with the strategy. These systems are available online at all key HVB facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate timeframe. For counterparty risk, this applies to both replacement 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 is making greater use of derivative exchanges in its function as a central counterparty.

Quantification and specification
The economic capital for credit risk at HVB, without taking account of diversification effects between the risk types, amounts to €5.2 billion, which is €1.6 billion lower than the total at 31 December 2013 (€6.8 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 higher level affiliated Group companies of UniCredit declined by €1.5 billion over the course of the year, as did the exposure to UniCredit Luxembourg S.A., which declined by €2.4 billion. 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 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.

The expected loss of HVB fell by €45 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.

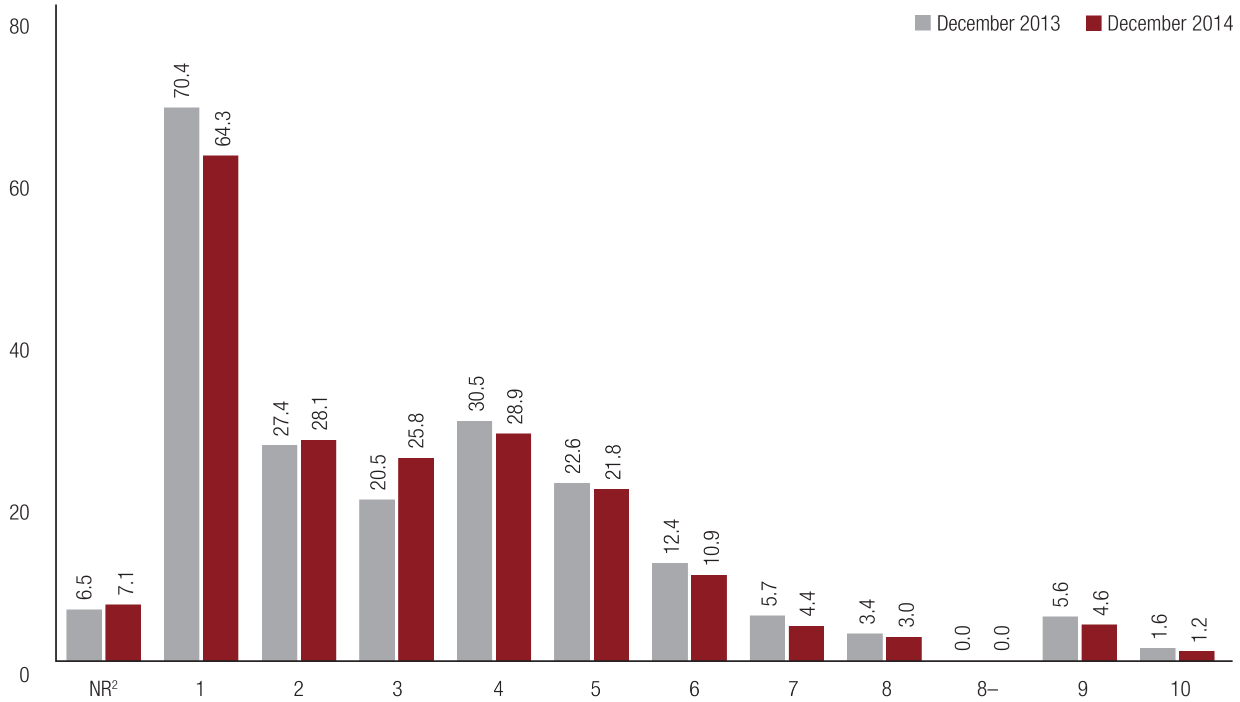
Breakdown of credit risk exposure[1] by business segment and risk category (€ billions)

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	82.7	82.6	2.0	1.8	—	—	84.7	84.4
Corporate & Investment Banking	50.4	59.0	18.4	16.4	42.1	42.6	110.9	118.0
Other/consolidation	0.5	0.3	0	0	4.0	3.9	4.5	4.2
HVB	**133.6**	**141.9**	**20.4**	**18.2**	**46.1**	**46.5**	**200.1**	**206.6**

1 total of non-performing and performing exposure

The total exposure of HVB declined by €6.5 billion in 2014. 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.

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 €5.9 billion at 31 December 2014 with a rating at transaction level (31 December 2013: €3.8 billion))

The HVB 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 class 1).

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

Risk Report (Continued)

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	46.1	50.3	40	38	9	8
Public sector	36.5	37.6	2	2	0	1
Real estate	22.5	22.6	24	27	11	13
Energy	9.8	10.1	18	23	19	23
Chemicals, pharmaceuticals, health	9.0	9.1	16	18	18	21
Special products	7.9	8.0	50	46	65	59
Machinery, metals	7.5	7.0	23	22	32	34
Automotive industry	5.5	5.0	6	8	12	17
Shipping	5.3	5.7	86	103	226	228
Services	4.4	4.6	17	19	41	43
Food, beverages	4.3	4.2	6	9	14	20
Construction, wood	4.2	5.3	9	13	23	33
Transport, travel	4.2	3.9	10	11	29	32
Consumer goods	3.6	3.9	7	10	22	26
Telecoms, IT	3.1	2.9	6	8	19	26
Electronics	2.2	1.7	2	2	10	12
Agriculture, forestry	2.0	1.8	4	5	18	26
Media, paper	1.9	2.1	4	6	22	33
Tourism	1.5	1.4	9	6	63	49
Textile industry	1.3	1.3	3	5	26	41
Retail	17.3	18.1	27	33	16	18
HVB	**200.1**	**206.6**	**369**	**414**	**19**	**21**

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 €4.2 billion in 2014 as a result of a further reduction in the liquidity placed with Deutsche Bundesbank and other financial institutions. 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 €1.1 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 €4 million, mainly on account of an adjustment to the calculation method. The risk density similarly increased accordingly.

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 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 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.

Risk Report (Continued)

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 continues to apply a conservative strategy in its ship financing activities. The focus remains on managing the risk in the existing portfolio. HVB 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 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
Acquisition finance is included in the credit risk exposure of the individual industry groups. The specific financing structures are controlled separately in line with the HVB risk strategy.

The HVB 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 and Portugal.

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

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	2,254	2,952	3,650	2,642	4,842	4,605	1,630	2,402	12,376	12,601	2,887
Luxembourg	2,057	2,147	1,593	1,152	3,771	3,804	1,170	852	8,591	7,955	10
France	3,265	2,984	821	1,218	1,902	1,491	830	1,173	6,818	6,866	686
Netherlands	2,670	3,006	300	271	1,359	1,028	341	263	4,670	4,568	392
Spain	767	1,135	63	65	2,904	1,575	239	294	3,973	3,069	1,475
Austria	1,336	2,317	150	252	837	736	459	586	2,782	3,891	534
Ireland	1,713	1,018	261	138	325	464	183	161	2,482	1,781	—
Belgium	131	55	298	50	51	35	183	173	663	313	0
Greece	316	368	85	64	—	—	0	2	401	434	2
Finland	71	112	30	23	—	—	154	88	255	223	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	49	122	188	12
Cyprus	112	126	2	2	—	—	—	0	114	128	0
Latvia	17	—	—	—	—	—	0	—	17	—	0
Slovakia	1	0	8	41	—	—	8	17	17	58	8
Estonia	2	6	—	—	—	—	4	—	6	6	0
HVB	**14,958**	**16,478**	**7,362**	**6,031**	**16,023**	**13,773**	**5,234**	**6,062**	**43,577**	**42,344**	**6,025**

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'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 €636 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 funding of 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 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	10,246	9,324	633	563
USA	7,064	7,926	214	232
Asia/Oceania	4,617	5,065	22	75
Switzerland	3,151	2,958	298	319
Turkey	2,483	1,923	57	31
Russia	2,014	1,877	36	85
Western Europe (without Switzerland, UK)	1,779	1,714	346	315
North America (including offshore jurisdictions, without USA)	1,326	1,451	69	75
Eastern Europe	1,041	1,082	281	238
Middle East/North Africa	915	1,062	8	16
Southern Africa	684	777	13	24
Central and South America	356	414	12	45
Central Asia (without Russia, Turkey)	91	115	0	7
HVB	**35,767**	**35,688**	**1,989**	**2,025**

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.

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 would incur to replace all of the original contracts with equivalent transactions in case of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB at 31 December 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, 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.

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	**834,936**	**872,451**	**858,679**	**2,566,066**	**2,760,360**	**88,581**	**67,908**	**85,193**	**65,649**
OTC products									
Forward rate agreements	122,343	1,824	—	124,167	119,311	13	8	8	10
Interest rate swaps	578,830	793,004	687,416	2,059,250	2,212,543	82,922	63,767	77,402	60,663
Interest rate options									
– purchased	29,359	34,613	86,075	150,047	174,315	4,951	3,755	495	236
– written	23,418	30,393	82,873	136,684	159,696	691	343	7,285	4,708
Other interest rate derivatives	2,916	—	—	2,916	12,829	3	35	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	**211,758**	**21,417**	**796**	**233,971**	**186,907**	**4,837**	**2,597**	**5,069**	**2,616**
OTC products									
Foreign exchange forwards	187,503	17,367	776	205,646	161,128	4,406	2,223	4,618	2,197
Foreign exchange options									
– purchased	12,282	2,166	19	14,467	12,973	347	269	101	121
– written	11,963	1,884	1	13,848	12,773	84	105	350	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**	**5,901**	**3,909**	**6,859**	**4,292**
Equity/index derivatives	**92,671**	**40,777**	**24,496**	**157,944**	**142,194**	**2,268**	**3,226**	**2,888**	**3,374**
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	514	919	168	109
– written	54,768	13,836	22,859	91,463	78,713	30	35	896	1,743
Other equity/index derivatives	2,330	2	—	2,332	8,101	136	677	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	1,357	1,367	1,594	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	**1,222,298**	**1,125,722**	**962,165**	**3,310,185**	**3,450,346**	**103,775**	**78,940**	**101,861**	**77,282**

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 €598,076 million at 31 December 2014 (thereof credit derivatives: €3,864 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2014	2013	2014	2013
Central governments and central banks	5,829	3,798	2,024	1,709
Banks	64,783	51,045	66,063	50,978
Financial institutions	30,090	21,775	31,737	23,155
Other companies and private individuals	3,073	2,322	2,037	1,440
HVB	**103,775**	**78,940**	**101,861**	**77,282**

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	**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	**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
HVB 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 19 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 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.

Risk Report (Continued)

Strategy

Our market risk is essentially managed by the CIB business segment. 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 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.

Limit system

All transactions exposed to market risk in the trading and banking books of HVB 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 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).

Risk Report (Continued)

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, without taking account of diversification effects between the risk types, amounts to €2.6 billion, down by €0.2 billion on the figure at 31 December 2013 (€2.4 billion).

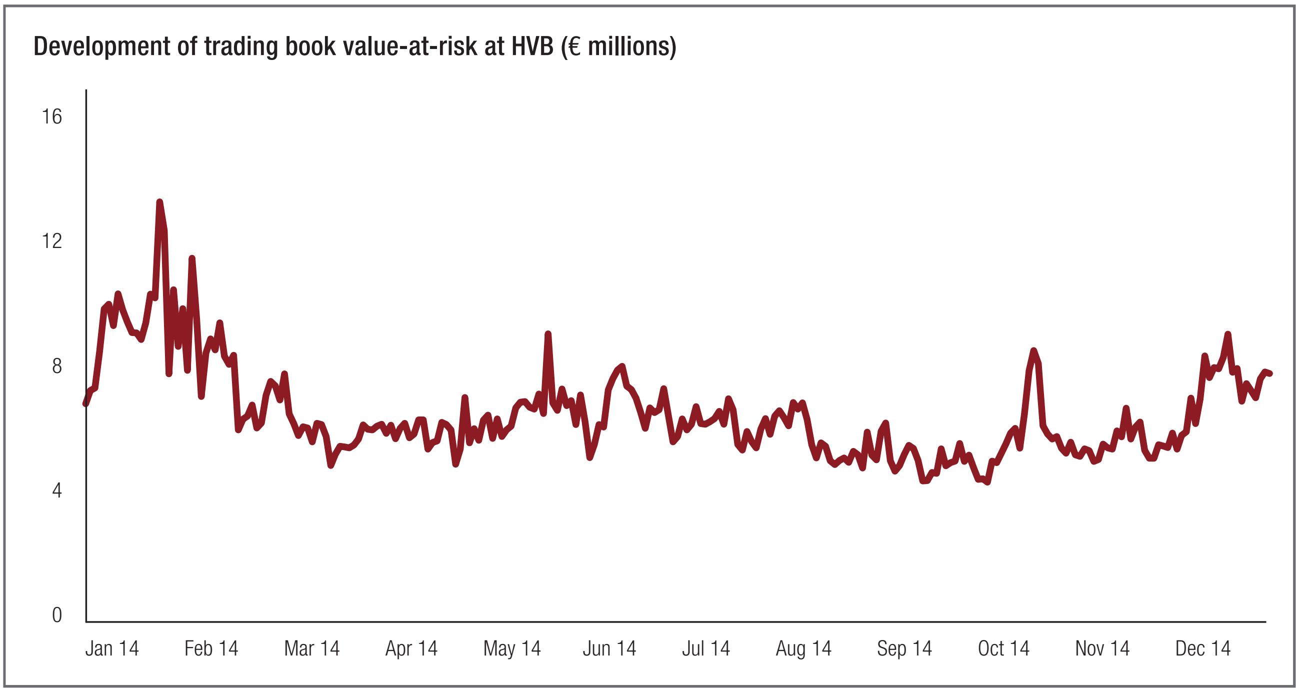
The following table shows the aggregated market risk for our trading positions at HVB over the course of the year.

Market risk from trading book activities of HVB (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	5	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[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.

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.



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

(€ 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	—

Risk Report (Continued)

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 are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB business segment at HVB.

Market risk from trading and banking book activities of HVB (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	25	27	26	21	27	34
Interest rate positions	9	6	7	7	15	12
Foreign exchange derivatives	1	1	2	1	1	2
Equity/index positions[2]	2	2	2	2	3	4
HVB[3]	**26**	**26**	**24**	**25**	**30**	**31**

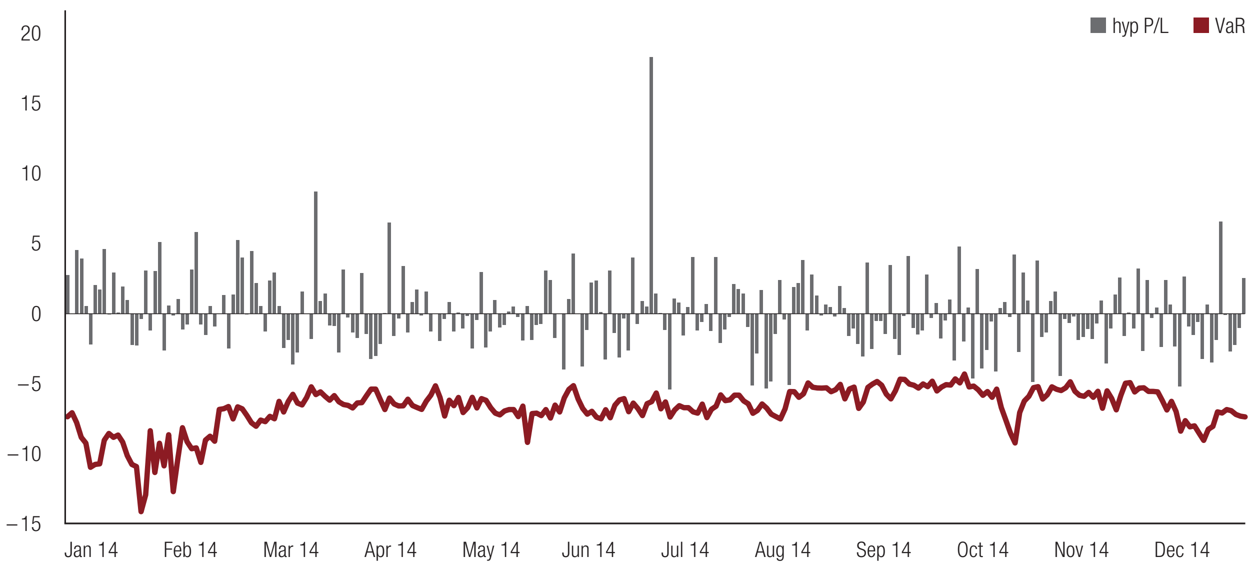
1 arithmetic mean of the four quarter-end figures
2 including commodity risk
3 Because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks.

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

The chart entitled "Development of value-at-risk at HVB" 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 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

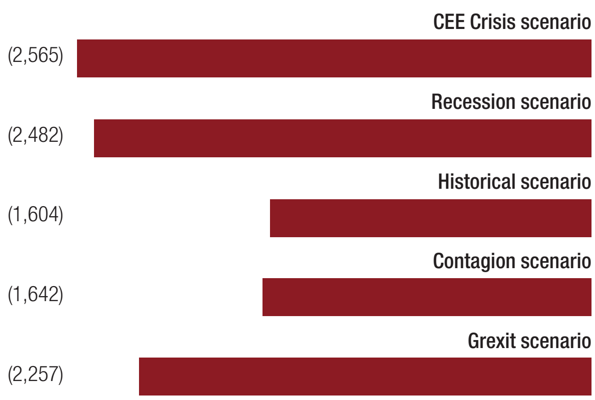
In addition to calculating the value-at-risk and the new risk metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in interest rates, 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 €2.1 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 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.

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: 0.5%), or a theoretical requirement of 4.9% excluding the model book (31 December 2013: 3.3%), of regulatory capital. HVB is well below the 20% mark specified above which the banking supervisory authorities consider a bank to have increased interest rate risk.

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 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 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.

Risk Report (Continued)

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 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.

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

Alongside this internal measurement methodology, HVB is 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 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 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 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.

Risk Report (Continued)

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 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 €19.3 billion in HVB for the next banking day at the end of December 2014 (31 December 2013: €33.1 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 €21.5 billion at the end of December of 2014 (31 December 2013: €28.6 billion).

The requirements of the German Liquidity Regulation were met at all times by the affected units of HVB 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 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 obtained longer-term funding with a volume of €5.5 billion on the capital market during 2014 (end of 2013: €7.2 billion). At the end of December 2014, 97.9% (31 December 2013: 102.5%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief-covered bonds still remain an important funding instrument.

Stress test

Stress analyses 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.

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 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.

Risk Report (Continued)

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.

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 is involved in various legal proceedings. The following is a summary of pending cases against HVB which have a value in dispute exceeding €50 million or are of significance for HVB for other reasons.

HVB is required to deal appropriately with various legal and regulatory requirements. Failure to do so may lead to litigation and administrative proceedings or investigations, and subject HVB 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 the accounting regulations defined in the German Commercial Code (Handelsgesetzbuch – HGB) applied by HVB together with other relevant regulations.

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.

Risk Report (Continued)

The investors in the Medienfonds fund initially enjoyed certain tax benefits which were later revoked by the tax authorities. An outstanding final decision with respect to the question of HVB's liability for the prospectus in the proceeding pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz), which 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.

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 to support the complaints and lawsuits claim that the Bank allegedly did not sufficiently inform the customers with respect to the relevant transaction and the risks associated with 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.

Risk Report (Continued)

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.

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. The filing for admission of a further appeal at the UK Supreme Court 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, 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.

Risk Report (Continued)

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 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; 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.

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 of HVB is managed overall on the basis of an IC limit for HVB Group. Based on this limit 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.

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 €60 million to €631 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 amounted to €226 million at 31 December 2014 (31 December 2013: €244 million).

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. 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 (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 at market terms on a cost-optimised basis.

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.

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 of HVB is managed overall on the basis of an IC limit for HVB Group. 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.

The historical time series of the real estate indices are used to quantify 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, increased by €12 million in 2014 to total €70 million at 31 December 2014. The figure is based on a portfolio worth €246 million.

Risk Report (Continued)

Breakdown of the real estate portfolio by type

	PORTFOLIO VALUE € millions		SHARE in %	
	2014	2013	2014	2013
Strategic real estate	147	157	59.7	64.7
Non-strategic real estate	99	86	40.3	35.3
HVB	**246**	**243**	**100.0**	**100.0**

The economic capital for real estate risk at HVB Group taking into account diversification effects totals €54 million (31 December 2013: €45 million). The increased risk with the portfolio value remaining practically unchanged can be attributed to the reduction in diversification with the other risk types compared with the previous year.

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 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 of HVB contains mainly listed and unlisted interests 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 of HVB is managed overall on the basis of an IC limit for HVB Group. 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 €294 million in 2014 to total €2,299 million at 31 December 2014. The fully diversified economic capital of HVB amounts to €1,938 million (31 December 2013: €2,161 million). The reasons for the lower risk figures in 2014 are the reduction of the holdings in the private equity sector and the sale of DAB.

Breakdown of the financial investment portfolio

	PORTFOLIO VALUE € millions		SHARE in %	
	2014	2013	2014	2013
Private equity funds	136	393	4.9	11.7
Other holdings[1]	2,645	2,967	95.1	88.3
HVB	**2,781**	**3,360**	**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 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.

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

Commercial transactions (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.

Strategic risk is measured using qualitative methods. For this purpose, we continually monitor the domestic and international environment in which HVB operates (e.g. political, economic, regulatory or bank-specific 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 offering customer-oriented products and concentrating on the core market of Germany, general economic developments in Germany in particular together with developments on the international financial and capital markets are of great importance for the assets, liabilities, financial position, and profit or loss of HVB.

The regular economic analysis carried out by HVB 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 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.

Risks arising from the strategic orientation of HVB's business model
HVB is a universal bank that focuses on the regional management of the German market and also acts as the centre of competence for the investment banking activities of UniCredit as a whole. This gives rise to a business model built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise. Thus, the low interest 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.

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. HVB 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'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 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.

Risks arising from changes to the regulatory environment for HVB
The activities of HVB are regulated and supervised by the central banks and regulatory authorities in the countries and regions where HVB 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 ("Trennbanken-gesetz"), 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 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, additional costs for the implementation of the new regulatory requirements and the necessary adjustments of the IT systems could also accrue for HVB. Differences in the regulatory requirements between countries or regions could lead to considerable distortions of competition that could have a direct impact on profitability. In addition, implementation of the modified regulatory requirements and their compliance could lead to a significant rise in operating costs, which would similarly have a negative impact on the financial position, and profit or loss of HVB.

Risk Report (Continued)

The failure of HVB 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 could be restricted.

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 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 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.

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 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. €64 million). A figure of €649 million was determined at 31 December 2014 (31 December 2013: €609 million) for the total pension risk of HVB; 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 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. An outsourcing arrangement is deemed to exist when a different company is contracted to carry out activities and processes in connection with the performance of banking business, financial services or other typical banking services that would otherwise be performed by the outsourcing company itself. This includes outsourcing arrangements within UniCredit as well as the subcontracting of outsourced activities and functions to subcontractors.

The respective project team and defined functional departments (including Operational Risk Management, Compliance, Legal, Corporate Affairs & Documentation, Data Protection and Business Continuity Management) use a standard procedure to classify outsourcing arrangements as "not material", "material without considerable significance" and "material with considerable significance". An in-depth risk analysis covering the other risk types as well as operational risk is performed for the outsourcing arrangements classified as material. A retained organisation (RTO) responsible for the arrangement is set up for each material outsourcing arrangement that manages the risks identified. The identified risks are incorporated in risk management of HVB in the processes defined for the risk types concerned. The operational risk managers 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. 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 289 (5) of the German Commercial Code (Handelsgesetzbuch – HGB) requires capital-market-oriented companies as defined in Section 264d HGB to describe the main features of the internal control system (ICS) and risk management system (RMS) with regard to the financial reporting process.

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

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

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

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

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

However well the ICS is structured for the accounting process, the documented controls carried out for the relevant processes can provide no absolute certainty regarding the avoidance of mistakes or fraudulent actions. In this context, the 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 financial statements and for the Management Report. The Management Board states that, to the best of its knowledge and in accordance with applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Bank. The Management Board determines the extent and orientation of the ICS specifically geared to the Bank under its own responsibility, taking measures to refine the systems and adapt them to changing conditions. At Board meetings, it regularly discusses the key topic of Internal Control Business Committee (ICBC), in terms of the monitoring of all ICS-related projects and measures. Sets of values such as the Integrity Charter and the

Code of Conduct, and compliance rules have been implemented in all UniCredit countries for many years, and hence also in HVB Group. These values form the basis for responsible action on the part of employees involved in the financial reporting process. Despite all of the risk-reducing measures set up within the framework of the ICS, even systems and processes designed to be appropriate and functional cannot ensure absolute certainty in the identification and management of risk.

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

It is the task of the Supervisory Board to 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 financial statements, the Supervisory Board is responsible for approving the annual financial statements and adopting the consolidated financial statements. To enable these tasks to be performed, the financial statement documents are submitted to the Supervisory Board complete with the Management Board's proposal for appropriation of profits together with the Auditors' Report. The Audit Committee examines these documents in great detail during a preliminary audit. At the preparatory meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the annual financial statements, the independent auditor reports on the material findings of the audit of the annual financial statements, specifically including any significant weaknesses of the ICS in connection with the financial reporting process identified during the audit. In addition, the Management Board explains the annual financial statements in detail at the meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the financial statements. The chairman of the Audit Committee also reports to that meeting on the results of the Audit Committee's audit of the documents. Based on the written reports and verbal explanations, the Supervisory Board determines at its meeting devoted to the financial statements whether it concurs with the findings of the audit by the independent auditor and whether objections are to be raised after its own examination of the annual financial statements, the Management Report and the proposal for the appropriation of net profit, and whether it approves the annual financial statements prepared by the Management Board.

Position and function of Internal Audit
Internal Audit

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

ICS – Internal Control System (Continued)

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.

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.

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 promptly 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. 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 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.
– 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

ICS – Internal Control System (Continued)

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.

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

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

Income Statement of UniCredit Bank AG

For the year ended 31 December 2014

Expenses (€ millions)

				2014	2013
1	**Interest payable**			2,456	2,727
2	**Fees and commissions payable**			543	359
3	**Net expense from the held-for-trading portfolio**			—	—
4	**General administrative expenses**				
	a) payroll costs				
	aa) wages and salaries	1,248			1,585
	ab) social security costs and expenses for				
	pensions and other employee benefits	316			312
			1,564		1,897
	including: for pensions				
	€121 million				(134)
	b) other administrative expenses		1,695		1,857
				3,259	3,754
5	**Amortisation, depreciation and impairment losses**				
	on intangible and tangible assets			40	57
6	**Other operating expenses**			182	352
7	**Write-downs and impairments for receivables and**				
	certain securities as well as additions to provisions				
	for losses on guarantees and indemnities			268	—
8	**Write-downs and impairments on participating**				
	interests, shares in affiliated companies				
	and investment securities			50	15
9	**Expenses from absorbed losses**			10	12
10	**Extraordinary expenses**			22	22
11	**Taxes on income**			97	280
12	**Other taxes, unless shown under**				
	“Other operating expenses”			2	(17)
13	**Net income**			627	756
	Total expenses			**7,556**	**8,317**

Income (€ millions)

		2014	2013
1 Interest income from			
a) loans and money market operations	4,107		4,401
b) fixed-income securities and government-inscribed debt	666		734
		4,773	5,135
2 Current income from			
a) equity securities and other variable-yield securities	248		112
b) participating interests	48		79
c) shares in affiliated companies	100		155
		396	346
3 Income earned under profit-pooling and profit-and-loss transfer agreements		166	119
4 Fees and commissions receivable		1,670	1,526
5 Net income from the held-for-trading portfolio		162	651
including: transfer as per Sect. 340e HGB €18 million			(141)
6 Write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities		—	129
7 Write-ups on participating interests, shares in affiliated companies and investment securities		—	—
8 Other operating income		389	411
9 Net loss		—	—
Total income		7,556	8,317
1 Net income		627	756
2 Withdrawal from retained earnings			
a) from the reserve for shares in a controlling or majority interest-holding company	—		—
b) from other retained earnings	29		19
		29	19
3 Transfer to retained earnings			
a) to the reserve for shares in a controlling or majority interest-holding company	29		19
b) to other retained earnings	—		—
		29	19
4 Profit available for distribution		627	756

Balance Sheet of UniCredit Bank AG

at 31 December 2014

Assets (€ millions)

		31/12/2014	31/12/2013
1 Cash and cash balances			
a) cash on hand	489		521
b) balances with central banks	4,649		9,778
including: with Deutsche Bundesbank			
€2,188 million			(5,915)
		5,138	10,299
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
b) bills of exchange	—		—
		—	—
3 Loans and receivables with banks			
a) repayable on demand	4,418		4,413
b) other loans and receivables	28,318		26,681
		32,736	31,094
including: mortgage loans			
€— million			(—)
municipal loans			
€97 million			(146)
against pledged securities			
€— million			(18)
4 Loans and receivables with customers		85,233	87,605
including: mortgage loans			
€38,536 million			(39,330)
municipal loans			
€9,842 million			(10,915)
against pledged securities			
€585 million			(647)
Amount carried forward:		123,107	128,998

Liabilities

(€ millions)

				31/12/2014	31/12/2013
1	**Deposits from banks**				
	a) repayable on demand		6,203		6,183
	b) with agreed maturity dates or periods of notice		44,232		38,740
				50,435	44,923
	including: registered mortgage bonds in issue				
	€495 million				(601)
	registered public-sector bonds in issue				
	€268 million				(381)
	bonds given to lender as				
	collateral for funds borrowed:				
	registered mortgage bonds				
	€— million				(—)
	and registered public-sector bonds				
	€— million				(—)
2	**Deposits from customers**				
	a) savings deposits				
	aa) with agreed period of notice of three months	14,523			14,532
	ab) with agreed period of notice				
	of more than three months	116			134
			14,639		14,666
	b) registered mortgage bonds in issue		6,069		6,688
	c) registered public-sector bonds in issue		2,825		3,203
	d) other debts				
	da) repayable on demand	56,998			51,769
	db) with agreed maturity dates or periods of notice	28,876			36,481
	including: bonds given to lender as				
	collateral for funds borrowed:				
	registered mortgage bonds				
	€4 million				(4)
	and registered public-sector bonds				
	€4 million				(4)
			85,874		88,250
				109,407	112,807
	Amount carried forward:			159,842	157,730

Assets

(€ millions)

			31/12/2014	31/12/2013
Amount brought forward:			123,107	128,998
5 **Bonds and other**				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	3			3
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(—)
ab) issued by other borrowers	4,431			4,281
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(—)
		4,434		4,284
b) bonds and notes				
ba) issued by public authorities	19,817			19,392
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€19,501 million				(19,131)
bb) issued by other borrowers	25,562			27,412
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€18,327 million				(18,738)
		45,379		46,804
c) own bonds		750		1,001
nominal value €750 million				(1,000)
			50,563	52,089
6 **Equity securities and other variable-yield securities**			991	1,208
6a **Held-for-trading portfolio**			52,250	48,828
7 **Participating interests**			308	558
including: in banks				
€8 million				(16)
in financial service institutions				
€7 million				(9)
8 **Shares in affiliated companies**			2,503	2,798
including: in banks				
€878 million				(1,204)
in financial service institutions				
€488 million				(497)
Amount carried forward:			229,722	234,479

Liabilities (€ millions)

			31/12/2014	31/12/2013
Amount brought forward:			159,842	157,730
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	10,102			11,481
ab) public-sector bonds	2,042			2,171
ac) other bonds	3,078			4,562
		15,222		18,214
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			15,222	18,214
3a Held-for-trading portfolio			28,907	29,233
4 Trust liabilities			4	4
including: loans taken out on a trust basis				
€4 million				(4)
5 Other liabilities			4,627	6,571
6 Deferred income				
a) from issuing and lending operations		17		23
b) other		112		138
			129	161
6a Deferred tax liabilities			—	—
7 Provisions				
a) provisions for pensions				
and similar commitments		—		—
b) tax provisions		647		693
c) other provisions		2,444		2,610
			3,091	3,303
8 Subordinated liabilities			575	1,560
9 Participating certificates outstanding			—	—
including: those due in less than two years				
€— million				(—)
10 Fund for general banking risks			590	572
thereof: as per Sect. 340e				
€299 million				(281)
Amount carried forward:			212,987	217,348

Assets (€ millions)

		31/12/2014	31/12/2013
Amount brought forward:		229,722	234,479
9 Trust assets		4	4
including: loans granted on a trust basis			
€4 million			(4)
10 Intangible assets			
a) internally generated intellectual property rights			
and similar rights and assets	—		—
b) purchased franchises, intellectual property rights, and similar			
rights and assets, as well as licences to such rights and assets	26		36
c) goodwill	—		—
d) advance payments	10		8
		36	44
11 Property, plant and equipment		159	158
12 Other assets		1,070	957
13 Prepaid expenses			
a) from issuing and lending operations	40		52
b) other	69		68
		109	120
14 Deferred tax assets		—	—
15 Excess of plan assets over pension liabilities		867	695
Total assets		**231,967**	**236,457**

Liabilities

(€ millions)

			31/12/2014	31/12/2013
Amount brought forward:			212,987	217,348
11 Shareholders' equity				
a) called-up capital				
subscribed capital		2,407		2,407
divided into:				
802,383,672 shares of common				
bearer stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for shares in a controlling				
or majority interest-holding company	54			25
cc) statutory reserve	—			—
cd) other retained earnings	6,101			6,130
		6,155		6,155
d) profit available for distribution		627		756
			18,980	19,109
Total liabilities and shareholders' equity			**231,967**	**236,457**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		34,602		30,297
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			34,602	30,297
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		28,723		27,054
			28,723	27,054

Notes to the Annual Financial Statements

Legal basis

The annual financial statements of UniCredit Bank AG ("HVB") for the 2014 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

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

Accounting, valuation and disclosure

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

1 Consistency

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

2 Cash and cash balances

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

3 Treasury bills and bills of exchange

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

4 Loans and receivables with banks and customers

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

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

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

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

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

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

The Bank has made use of the option permitted by Section 340f (3) in the 2014 financial year and has included the change in provisions compliant with Section 340f HGB to net write-downs and impairments for receivables and certain securities as well as additions to provisions for losses on guarantees and indemnities with the write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities.

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

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

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

The Bank sets up portfolio and micro-valuation units documented in advance for certain interest-bearing securities, promissory notes held for liquidity purposes (with a carrying amount of €29,807 million (2013: €28,104 million)) and certain interest rate derivatives hedged against interest rate risk by equivalent hedging derivatives (notably interest rate swaps). The hedge of the dynamic portfolio within the framework of the valuation unit is of unlimited duration; the hedging period of the individual hedging derivatives is always related to the residual maturity of the respective hedged items in the portfolio. The offset changes in the value of the interest-bearing securities amount to an increase of €528 million (2013: €423 million) for the portfolios whose hedged items encompass securities and promissory notes. At the same time, both the interest rate risk and the foreign currency risk inherent in a bond denominated in US dollars is hedged in a further valuation unit (with a carrying amount of €324 million (2013: €364 million)) using a cross-currency interest rate swap. The offset change in the value of interest-bearing securities totals an increase of €42 million (2013: decrease of €80 million) for this valuation unit. The requirements of Section 254 HGB regarding valuation units have been met. The prospective hedging efficiency is documented using the interest rate risk sensitivity analysis based on basis point values (BPV). The changes in value arising from the hedged items and hedges are set against each other and offset within the individual valuation units. Under the net hedge presentation method, no net valuation gain is taken to the income statement; provisions are set up to cover any net loss on the ineffective portion of the changes in value. Any valuation loss arising from the unhedged risk is included in the respective hedged items and hedging derivatives in accordance with the imparity principle.

In the 2014 financial year, the Bank has made use of the option permitted by Section 340f (3) HGB to net the write-downs and impairments for receivables and certain securities as well as additions to provisions for losses on guarantees and indemnities with the write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities.

6 Held-for-trading portfolio

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

Notes to the Annual Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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

Derivatives held for trading purposes that were concluded under master agreements together with a credit support annex allowing for daily exchange of collateral are netted for each counterparty in the balance sheet. Such netting encompasses both the carrying amount of the derivatives and the collateral provided for each counterparty.

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

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

7 Participating interests and shares in affiliated companies

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

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

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

Notes to the Annual Financial Statements (Continued)

8 Intangible assets

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

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

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

9 Property, plant and equipment

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

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

10 Liabilities

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

11 Provisions

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

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

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

The discount rate for November 2014 published by Deutsche Bundesbank for a residual maturity of 15 years at 4.58% p.a. (2013: 4.89% p.a.) and a pension trend of 1.70% p.a. (2013: 1.80% p.a.) were applied in the actuarial calculation of the amount payable at 31 December 2014. A figure of 2.50% p.a. (2013: 2.50% p.a.) has been included in the calculation for the anticipated wage and salary increases; a figure of 0.50% (2013: 0.50%) has been included in the calculation for the career trend. Mortality and disability rates are based on the modified Heubeck 2005 G tables. At HVB, life expectancy has been reduced to 90% for women (2013: 90%) and 75% for men (2013: 75%), and the probability of disability to 80% for both men and women (2013: 80%), of the figures shown in the tables.

At the beginning of the 2014 financial year, the classification in the income statement for the income and expenses arising from the compounding and discounting of provisions for pensions was changed. These earnings components are now shown in other operating income less other operating expenses – and no longer in net interest income as previously. However, the current service cost accruing during the period and the effects arising from changed assumptions regarding the wage, salary and pension trend and biometric probabilities are disclosed under payroll costs. The same principles apply for the impact on earnings arising from the change in the group of beneficiaries and the change in provisions for pensions in connection with company restructuring activities. Similarly, the impact on earnings of the change in the discount rate arising during the course of the 2014 financial year is allocated to payroll costs.

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

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

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

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

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

Income and expenses arising from plan assets are shown in net interest income.

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

Notes to the Annual Financial Statements (Continued)

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

14 Foreign currencies
Amounts in foreign currency are translated in accordance with the principles set forth in Section 340h and Section 256a HGB. As a result, assets and liabilities denominated in foreign currency and spot transactions outstanding at the balance sheet date are always converted into euros using the mean spot rate applicable at the balance sheet date. The foreign currency positions in the portfolio not held for trading that are concluded in each currency are transferred to the held-for-trading portfolio on a daily basis under a standard system of currency risk management that is applicable across the Bank as a whole. The translation gains on the foreign currency positions managed in the held-for-trading portfolio are recognised at fair value in the income statement in accordance with the valuation methods applicable to the held-for-trading portfolio (Section 340e (3) 1 HGB). Consequently, the entire net income from FX trading is disclosed under net income from the held-for-trading portfolio in the income statement. On the other hand, investment securities denominated in foreign currency that are not specifically covered in the same currency and are not transferred to the held-for-trading portfolio as part of currency risk management applicable throughout the Bank are carried at their historical cost. Outstanding forward transactions are translated using the forward rate effective at the balance sheet date.

Notes to the Balance Sheet

15 Breakdown by maturity of selected asset items

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

(€ millions)

			2014	2013
A 3 b)	Other loans and receivables with banks			
	with residual maturity of	less than 3 months	11,623	16,939
		at least 3 months but less than 1 year	11,656	3,544
		at least 1 year but less than 5 years	4,257	5,332
		5 years or more	782	866
A 4)	Loans and receivables with customers			
	with residual maturity of	less than 3 months	6,715	4,701
		at least 3 months but less than 1 year	6,134	7,564
		at least 1 year but less than 5 years	27,703	28,193
		5 years or more	35,508	36,700
		No fixed maturity	9,173	10,447
A 5)	Bonds and other fixed-income securities, amounts due in the following year		15,703	11,021

16 Breakdown by maturity of selected liability items

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

(€ millions)

			2014	2013
L 1	Deposits from banks			
L 1 b)	with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	17,314	15,384
		at least 3 months but less than 1 year	15,261	9,108
		at least 1 year but less than 5 years	7,187	9,344
		5 years or more	4,470	4,904
L 2	Deposits from customers			
L 2 ab)	savings deposits with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	6	12
		at least 3 months but less than 1 year	28	16
		at least 1 year but less than 5 years	77	98
		5 years or more	5	8
L 2 b)	registered mortgage bonds in issue			
L 2 c)	registered public-sector bonds in issue			
L 2 db)	other debts with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	15,330	20,099
		at least 3 months but less than 1 year	8,103	10,069
		at least 1 year but less than 5 years	5,179	6,479
		5 years or more	9,158	9,725
L 3	Debt securities in issue			
L 3 a)	Bonds, amounts due in following year		5,065	4,164
L 3 b)	other debt securities in issue			
	with residual maturity of	less than 3 months	—	—
		at least 3 months but less than 1 year	—	—
		at least 1 year but less than 5 years	—	—
		5 years or more	—	—

Notes to the Balance Sheet (Continued)

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

(€ millions)

	2014		2013	
	AFFILIATES	PARTICIPATING INTERESTS	AFFILIATES	PARTICIPATING INTERESTS
Loans and receivables with banks	19,920	205	15,584	158
of which: UniCredit S.p.A.	873	—	1,222	—
Loans and receivables with customers	3,021	679	3,290	1,993
Bonds and other fixed-income securities	4,488	3,174	4,543	4,841
of which: UniCredit S.p.A.	4,178	—	4,177	—
Deposits from banks	10,702	191	7,896	55
of which: UniCredit S.p.A.	1,142	—	789	—
Deposits from customers	1,278	411	1,243	364
Debt securities in issue	457	—	1,671	—
of which: UniCredit S.p.A.	—	—	351	—
Subordinated liabilities	292	—	276	—

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

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

18 Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2014	2013
Trust assets	**4**	**4**
Loans and receivables with banks	—	—
Loans and receivables with customers	4	4
Equity securities and other variable-yield securities	—	—
Participating interests	—	—
Trust liabilities	**4**	**4**
Deposits from banks	4	3
Deposits from customers	—	1
Debt securities in issue	—	—
Other liabilities	—	—

There were no significant changes in trustee activities compared with last year.

19 Foreign-currency assets and liabilities

(€ millions)

	2014	2013
Assets	**46,706**	**29,687**
Cash and cash balances	2,461	3,863
Treasury bills and other bills eligible for refinancing with central banks	—	—
Loans and receivables with banks	4,211	3,320
Loans and receivables with customers	13,303	13,374
Bonds and other fixed-income securities	2,571	2,441
Equity securities and other variable-yield securities	—	113
Held-for-trading portfolio (assets held for trading purposes)	23,975	6,392
Participating interests	8	46
Shares in affiliated companies	80	35
Trust assets	—	—
Intangible assets	—	—
Property, plant and equipment	5	2
Other assets	85	93
Prepaid expenses	7	8
Liabilities	**36,596**	**16,783**
Deposits from banks	9,040	7,671
Deposits from customers	6,489	4,956
Debt securities in issue	239	12
Held-for-trading portfolio (liabilities held for trading purposes)	20,381	3,764
Trust liabilities	—	—
Other liabilities	197	161
Deferred income	40	28
Provisions	59	57
Subordinated liabilities	151	134

The amounts shown represent the euro equivalents of all currencies.

20 Subordinated asset items

The following balance sheet items contain subordinated assets totalling €2,492 million (2013: €3,624 million):

(€ millions)

	2014	2013
Subordinated asset items	**2,492**	**3,624**
Loans and receivables with banks	642	703
Loans and receivables with customers	86	137
Bonds and other fixed-income securities	1,495	2,570
Equity securities and other variable-yield securities	7	8
Held-for-trading portfolio	262	206

Notes to the Balance Sheet (Continued)

21 Marketable debt and investments

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

(€ millions)

	2014			2013		
	TOTAL MARKET-ABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED	TOTAL MARKET-ABLE SECURITIES	OF WHICH: LISTED	OF WHICH: UNLISTED
Bonds and other fixed-income securities	50,563	40,096	10,467	52,089	40,442	11,647
Equity securities and other						
variable-yield securities	80	4	76	80	4	76
Held-for-trading portfolio	25,518	20,467	5,051	26,051	19,147	6,904
Participating interests	106	106	—	103	103	—
Shares in affiliated companies	—	—	—	322	322	—

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

(€ millions)

	2014		2013	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Non-current securities	2,199	2,080	18,525	18,486
Bonds and other fixed-income securities	2,199	2,080	18,525	18,486
Equity securities and other variable-yield securities	—	—	—	—

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

The marketable debt and investments, and loans and receivables (including promissory notes), at 31 December 2014 included no Greek sovereign bonds.

22 Held-for-trading portfolio

The following table shows the breakdown of assets held for trading purposes (asset item 6a) by financial instruments totalling €52,250 million (2013: €48,828 million):

(€ millions)

	2014	2013
Assets held for trading	**52,250**	**48,828**
Derivative financial instruments (positive fair values)	15,662	13,888
Loans and receivables	9,946	7,962
Bonds and other fixed-income securities	14,899	18,086
Equity securities and other variable-yield securities	11,567	8,919
Other assets	201	—
Less risk discount (for entire portfolio of assets held for trading purposes)	(25)	(27)

The following table shows the breakdown of liabilities held for trading purposes (liability item 3a) by financial instruments totalling €28,907 million (2013: €29,233 million):

(€ millions)

	2014	2013
Liabilities held for trading	**28,907**	**29,233**
Derivative financial instruments (negative fair values)	12,862	10,366
Liabilities (including delivery obligations arising from short sales of securities)	16,045	18,867

Derivatives held for trading purposes that were concluded under master agreements together with a credit support annex allowing for daily exchange of collateral were netted for each counterparty in the balance sheet. The netting for each counterparty encompasses both the carrying amount of the derivatives and the collateral provided.

This involved netting positive fair values of €65.4 billion with negative fair values of €65.2 billion on derivatives held for trading with the associated receivables (€10.9 billion) and liabilities (€11.0 billion) from collateral provided.

23 Investment funds

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

(€ millions)

	31/12/2014				31/12/2013			
FUND TYPE	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE CARRYING AMOUNT/ FAIR VALUE	DIVIDEND PAYMENTS	CARRYING AMOUNT	FAIR VALUE	DIFFERENCE CARRYING AMOUNT/ FAIR VALUE	DIVIDEND PAYMENTS
Total investment funds	**658**	**661**	**3**	**0.6**	**752**	**760**	**8**	**1.6**
Equity funds	151	151	—	—	225	231	6	—
Money market funds and								
near-money market funds	20	20	—	—	31	31	—	0.2
Mixed funds	220	223	3	0.2	320	322	2	0.1
Index funds	208	208	—	0.1	127	127	—	0.9
Bond funds	37	37	—	0.3	49	49	—	0.4
Funds of funds	22	22	—	—	—	—	—	—

In addition, the Bank holds all the shares in the "European-Office-Fonds" property special purpose entity, which is fully consolidated in the Bank's consolidated financial statements in accordance with IFRS 10.

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

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

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

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

Notes to the Balance Sheet (Continued)

24 Analysis of non-current assets

(€ millions)

	ACQUISITION/ PRODUCTION COST	ADDITIONS DURING FINANCIAL YEAR	DISPOSALS DURING FINANCIAL YEAR	RECLASSIFICATIONS DURING FINANCIAL YEAR[1]
Intangible assets	**737**	**15**	**55**	**2**
thereof:				
Software	729	5	55	10
Downpayments	8	10		(8)
Other intangible assets	—	—	—	—
Property, plant and equipment	**484**	**15**	**48**	**5**
thereof:				
Land and buildings used by HVB in				
its operations	203	3	1	—
Furniture and office equipment	281	12	47	5
Other non-current assets	**21**	**—**	**—**	**—**
	ACQUISITION COST			**CHANGES +/–[2]**
Participating interests	793			(485)
Shares in affiliated companies	2,730			(227)
Investment securities	18,525			(6,986)[3]

1 The "Reclassifications during financial year" column shows the changes in value as a result of currency translation, among other things.
2 Use has been made of the possibility of combining amounts allowed by Section 34 (3) RechKredV.
3 The changes in investment securities include a transfer of €5,193 million to the reserve portfolio as there is no intention to use them permanently for commercial operations.

25 Other assets

The following table shows the main items included in other assets totalling €1,070 million (2013: €957 million):

(€ millions)

	2014	2013
Claims to tax reimbursements	518	514
Claims to dividends from affiliated companies	261	266
Proportion of income from commission/interest not yet received	64	39
Proportion of income from portfolio fees	33	38
Trade debtors	25	22
Capital investments with life insurers	22	18
Works of art	21	21
KG shares intended for re-sale	4	4
Collection paper, such as cheques, matured debentures, interest and dividend coupons	3	3
Adjustment item for tied currency positions	—	1

The claims to tax reimbursements consist of claims of €473 million (2013: €433 million) arising from income tax and of €45 million (2013: €81 million) arising from non-income taxes. The claims to dividends from affiliated companies include €85 million (2013: €130 million) in prorated income from UniCredit Luxembourg.

26 Prepaid expenses

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

(€ millions)

	2014	2013
Discounts on funds borrowed	40	52
Premiums on amounts receivable	—	—

(€ millions)

WRITE-UPS DURING FINANCIAL YEAR	DEPRECIATION/ AMORTISATION ACCUMULATED	SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR	NON-SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR	DISPOSALS DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR	NET BOOK VALUE 31/12/2014	NET BOOK VALUE 31/12/2013
—	**663**	**23**	**—**	**53**	**36**	**44**
—	663	23	—	53	26	36
—	—	—	—	—	10	8
—	—	—	—	—	—	—
—	**297**	**17**	**—**	**46**	**159**	**158**
—	102	7	—	3	103	105
—	195	10	—	43	56	53
—	**—**	**—**	**—**	**—**	**21**	**21**
					NET BOOK VALUE 31/12/2014	**NET BOOK VALUE 31/12/2013**
					308	558
					2,503	2,799
					11,539	18,525

27 Excess of plan assets over pension liabilities

An amount payable of €1,335 million arising from liabilities due to pension and similar commitments was set against offsetting plan assets with a fair value of €1,981 million. Under the initial application provisions of the BilMoG, use was made of the option to spread the amount allocable to pension provisions equally over a period of 15 years. One-fifteenth of the transitional amount was allocated to the provision for pensions in the 2014 financial year. The omitted transitional allocation in the year under review totalled €221 million. The excess of assets over commitments, taking into account the omitted transitional allocation, is disclosed in the balance sheet as the excess of plan assets over pension liabilities (€867 million). The acquisition cost of the offsetting plan assets totalled €1,788 million. The assets involved are essentially fund shares, subordinated bonds, investments, and cash and cash equivalents.

(€ millions)

	2014	2013
Amount payable for offset pension and similar commitments	1,335	968
Fair value of the offsetting plan assets	1,981	1,663
Omitted transitional allocation	221	243
Excess of plan assets over the commitments, including the shortfall	867	695
Acquisition cost of the offsetting plan assets	1,788	1,526

(€ millions)

	2014	2013
Net interest income from pension commitments	**17**	**(25)**
Income from plan assets used to offset pension and similar commitments	75	26
Expense component of the change in provisions for pensions and similar commitments	58	51
Expenses from plan assets used to offset pension and similar commitments	—	—

Notes to the Balance Sheet (Continued)

28 Assets assigned or pledged as security for own liabilities

Assets totalling €33,860 million (2013: €43,103 million) were assigned or pledged as security for the following liabilities:

(€ millions)

	2014	2013
Assets assigned or pledged as security for own liabilities	**33,860**	**43,103**
Deposits from banks	25,954	23,667
Deposits from customers	7,906	19,436

In addition, collateral is pledged to the ECB, irrespective of whether this is actually used to borrow funds or not. At 31 December 2014, the volume of pledged collateral amounted to €13 billion (2013: €10 billion).

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

As a seller under repurchase agreements, HVB has transferred securities with a book value of €24 billion (2013: €32 billion) to its funding partners. The total includes €3 billion relating to own securities holdings. These securities continue to be shown under HVB's assets. The consideration received in return is stated under liabilities. They comprise mainly international money market transactions.

At the same time, further assets totalling €17,405 million (2013: €18,225 million) were pledged as security for securities lending transactions and exchange-traded derivatives.

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

29 Other liabilities

The following table shows the main items included in other liabilities of €4,627 million (2013: €6,571 million):

(€ millions)

	2014	2013
Amounts owed to special purpose entities	3,140	4,629
Obligations arising from debts assumed	911	1,285
Taxes payable	67	106
Other amounts owed to employees	109	108
Trading book valuation reserves	26	41
Liabilities from losses absorbed from subsidiaries	9	12
Amounts yet to be distributed from outplacements, etc.	10	11
Variation margin for listed future contracts	—	—

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

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

The taxes payable mainly include liabilities from non-income taxes of €67 million.

30 Deferred income

Discounts on amounts receivable shown at nominal value totalled €10 million (2013: €12 million). Furthermore, other deferred income includes accrued commissions of €15 million (2013: €20 million) and interest of €61 million (2013: €57 million) collected in advance.

Notes to the Balance Sheet (Continued)

31 Provisions

Other provisions include the following items:

(€ millions)

	2014	2013
Total other provisions	**2,444**	**2,610**
Provisions for losses on guarantees and indemnities	243	305
Anticipated losses on pending transactions	—	28
Provisions for uncertain liabilities	2,201	2,277
of which:		
Valuation units	455	190
Payments to employees	293	325
Restructuring	264	396
Payments for early retirement, semi-retirement, etc.	57	40
Anniversary bonus payments	43	44
Bonuses on saving plans	24	22

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

32 Subordinated liabilities

This item includes accrued interest of €5 million (2013: €49 million). HVB incurred interest expenses of €48 million in 2014 (2013: €107 million).

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

On 25 January 2001, HVB issued a subordinated promissory note with a volume of €96 million. This subordinated promissory note matures on 27 January 2031 and bears interest at the 6-month Euribor rate, taking account of a surcharge of 0.65% p.a. for the entire term.

On 2 June 2000, HVB issued subordinated bearer debentures with a volume of €60 million. These subordinated bearer debentures mature on 2 June 2015. They bear annual interest at 75% of the EUR 10-year constant maturity swap (CMS) rate, however at least 5.50% p.a.

Shareholders' Equity

33 Analysis of shareholders' equity shown in the balance sheet

(€ millions)

a) Called-up capital		
Subscribed capital		
Balance at 1 January 2014	2,407	
Balance at 31 December 2014		2,407
b) Additional paid-in capital		
Balance at 1 January 2014	9,791	
Balance at 31 December 2014		9,791
c) Retained earnings		
ca) Legal reserve		
Balance at 1 January 2014	—	
Balance at 31 December 2014		—
cb) Reserve for shares in a controlling or majority interest-holding company		
Balance at 1 January 2014	25	
Transfer to the reserve for shares in a controlling or majority interest-holding company	29	
Balance at 31 December 2014		54
cc) Reserve set up under the Articles of Association		
Balance at 1 January 2014	—	
Balance at 31 December 2014		—
cd) Other retained earnings		
Balance at 1 January 2014	6,130	
Withdrawal for the transfer to the reserve for shares in a controlling or majority interest-holding company	(29)	
Balance at 31 December 2014		6,101
d) Profit available for distribution		
Balance at 1 January 2014	756	
Dividend payout of HVB for 2013	(756)	
Net profit 2014	627	
Balance at 31 December 2014		627
Shareholders' equity		
Balance at 31 December 2014		18,980

34 Holdings of HVB stock in excess of 5%

(in %)

	2014	2013
UniCredit S.p.A.	100.0	100.0

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

35 Amounts not available for distribution

The measurement at fair value of offsetting plan assets in connection with pension commitments and semi-retirement agreements gives rise to an amount of €193 million (2013: €137 million). Compliant with Section 268 (8) HGB, freely disposable provisions have been set up to cover the amount not available for distribution.

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

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

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

37 Breakdown of income by region

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

(€ millions)

	2014	2013
Total income	**7,389**	**8,069**
Germany	6,108	6,840
Italy	623	523
UK	380	455
Rest of Europe	41	51
Americas	153	136
Asia	84	64

38 Net interest income

The following table shows the breakdown of net interest income of €2,879 million:

(€ millions)

	2014	2013
Net interest income	**2,879**	**2,873**
Interest income from		
lending and money market transactions	4,107	4,401
fixed-income securities and government-inscribed debt	666	734
Current income from equity securities and other variable-yield securities,		
participating interests and shares in affiliated companies	396	346
Income from profit-pooling and profit-and-loss transfer agreements	166	119
Interest expenses	2,456	2,727

Negative interest that the Bank is required to pay for assets (e.g. interest for average reserve assets exceeding the required minimum reserves and for other deposits at the ECB) are reported under interest income with a negative sign; where negative interest is received on the liabilities side, this is entered as interest expenses with a positive sign.

Current interest income and expenses related to the held-for-trading portfolios as well as dividend income (so-called trading-induced interest) of €433 million are included in net interest income.

The interest expense arising from the compounding of provisions amounts to €6 million (2013: €15 million). The year-ago total has been adjusted to reflect the change in the disclosure of the expenses and income arising from the compounding and discounting of provisions for pensions and similar obligations to other operating income at the beginning of the 2014 financial year.

Net interest income includes income of €3 million relating to other periods and expenses of €24 million relating to other periods.

39 Services performed for third parties

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

40 Net income from the held-for-trading portfolio

The net income from the held-for-trading portfolio (net trading income) of €162 million (2013: €651 million) includes the offset income and expenses arising from transactions involving financial instruments held for trading purposes, complete with the full net income from FX operations. Also carried here are certain fees and commissions in connection with transactions involving financial instruments held for proprietary trading purposes and trading with precious metals. We carry the current interest income/expense resulting from held-for-trading portfolios (so-called trading-induced interest) as well as dividend income in net interest income and in current income rather than in net trading income in accordance with our internal management.

Reclassifications from net trading income to fees and commissions receivable were carried out in the reporting period and the year-ago figures adjusted accordingly. These relate to commission for financial transactions which accrues mainly or exclusively in the interests of the customer so that the service character predominates.

41 Breakdown of other operating income and expenses

This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€232 million (2013: €143 million)), payroll costs and cost of materials passed on (€71 million (2013: €58 million)) and the recognition of income from services performed in earlier years (€21 million).

Other operating expenses include the following:
- compensation and ex gratia payments (€14 million (2013: €19 million))
- additions to provisions other than provisions for lending and securities operations (€101 million (2013: €274 million))
- expenses of €4 million related to other periods

Due to the reclassification carried out at the beginning of the financial year, expenses and income of €84 million arising from the compounding and discounting of provisions are shown under other operating income and expenses. Of this amount, €58 million relates to provisions for pensions and similar commitments. The effects of the change in the discount rate on the result are, however, shown under payroll costs.

42 Expenses from absorbed losses

There was an expense of €11,000 from an absorbed loss in other accounting periods in the 2014 financial year.

43 Extraordinary income/expenses

The initial application of the new provisions set forth in the BilMoG at 1 January 2010 resulted in expenses of €22 million in 2014 (2013: €22 million) arising from the revaluation of provisions for pensions to be disclosed under extraordinary income/expenses.

44 Taxes on income

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

45 Net profit

The profit available for distribution 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. In accordance with a resolution adopted by the Shareholders' Meeting on 2 June 2014, the profit available for distribution of €756 million generated in 2013 was distributed to UniCredit.

Other Information

46 Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €34,602 million (2013: €30,297 million):

(€ millions)

	2014	2013
Guarantees and indemnities	19,346	16,373
Loan guarantees	13,016	11,475
Documentary credits	2,240	2,449
Total	**34,602**	**30,297**
thereof: to affiliated companies	15,368	12,754

Irrevocable lending commitments totalling €28,723 million (2013: €27,054 million) break down as follows:

(€ millions)

	2014	2013
Book credits	26,605	24,926
Mortgage and municipal loans	1,601	1,061
Guarantees	517	1,067
Bills of exchange	—	—
Total	**28,723**	**27,054**
thereof: to affiliated companies	855	795

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

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

Other financial commitments arising from real estate and IT operations total €268 million (2013: €293 million). A large part of the total relates to contracts with subsidiaries (€138 million (2013: €150 million)). The contracts run for standard market periods, and no charges have been put off to future years.

At the reporting date on 31 December 2014, HVB had pledged securities worth €1,090 million (2013: €1,265 million) as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main.

As part of real estate financing and development operations, HVB assumes rental obligations or issues rental guarantees to make fund constructions more marketable – in particular for lease funds and (closed) KG real estate funds. Provisions have been set aside to cover identifiable risks arising from such guarantees.

Commitments for uncalled payments on shares not fully paid up amounted to €45 million at year-end 2014 (2013: €128 million), and similar obligations for shares in cooperatives totalled €1 thousand (2013: €1 thousand). HVB was not liable for any defaults on such calls under Section 22 (3) and Section 24 GmbHG.

Where employees are granted a bonus that is disbursed over a period of several years under their variable compensation arrangements, such a bonus represents an expense for the period from 2011 to 2014 and is taken to the income statement on a pro rata basis accordingly. Especially in the case of the group of employees identified as “risk-takers”, the German regulations governing institutions’ remuneration systems (Instituts-Vergütungsverordnung) requires such a bonus to be disbursed over a period of several years. The bonus is granted subject to the proviso that the beneficiaries satisfy specific criteria (in the case of bonuses granted in the form of shares, stock options or deferred cash payments) that comply with both the regulatory requirements and the Bank’s own rules. In addition, the bonus is linked to further conditions (such as a malus arrangement that ensures that no loss is recorded at either the UniCredit corporate level or the level of the individual beneficiary or there is a significant reduction in the results achieved). Provisions totalling €126.9 million were set aside in the income statement at 31 December 2014 in connection with bonus commitments. The final amount disbursed may be higher, should the plan conditions be met.

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.

Under Section 26 GmbHG, we were liable for calls for additional capital of €57 million with regard to Liquiditäts-Konsortialbank GmbH in liq., Frankfurt am Main, at year-end 2014. In addition, under Article 5 (4) of the Articles of Association of Liquiditäts-Konsortialbank GmbH in liq., we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks, Berlin.

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

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest.

With a Statement of Responsibility dated 21 December 1993, HVB issued an undertaking to the State of Baden Wuerttemberg (Ministry of Finance) to assume a liquidity provision obligation in the event of the sale, liquidation or bankruptcy of HVB Projekt GmbH.

47 Off-balance-sheet transactions

Special purpose entities

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

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

Other Information (Continued)

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

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

In some instances, HVB controls a special purpose entity from an economic point of view, which entails full consolidation of the special purpose entity in the consolidated financial statements of HVB.

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

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

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

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

HVB has transferred new business involving consumer loans, instant-approval loans and credit cards to a German branch office of UniCredit S.p.A. This office is more specialised in these fields, from which HVB also benefits accordingly. Thus, the transactions brokered by HVB in this regard are no longer recognised on or off the balance sheet. This cooperation agreement was terminated in October 2014, meaning that HVB is now extending consumer and instant-approval loans and credit cards again.

48 Auditor's fees

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

(€ millions)

	2014
Fees for	**9**
Auditing of the financial statements	5
Other auditing services	4
Tax consulting services	—
Other services	—

49 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

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

HVB no longer provides a Statement of Responsibility for companies which left HVB Group during an earlier financial year but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

50 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.

51 Key capital ratios

Pursuant to Article 72 CRR, regulatory equity capital consists of core capital and supplementary capital and amount to €18,889 million at year-end 2014 based on annual financial statements approved by the Supervisory Board. We have not allocated any unrealised reserves to supplementary capital compliant with Section 10 (2b) KWG as applicable until 31 December 2013.

The modified equity capital calculated up to year-end 2013 compliant with Section 10 (1d) KWG, earlier version, came to €19,836 million in the 2013 annual financial statements.

The eligible funds calculated in accordance with Article 4 (1) (71)(b) in conjunction with Article 494 CRR are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits and amount to €18,889 million at year-end 2014. The liable funds used by the end of 2013 in accordance with Section 10 (2) KWG, earlier version, amounted to €19,771 million in the 2013 annual financial statements.

Other Information (Continued)

52 Derivative financial instruments

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

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2014	2013	2014	2013	2014	2013
Interest rate derivatives	**834,936**	**872,451**	**858,679**	**2,566,066**	**2,760,360**	**88,581**	**67,908**	**85,193**	**65,649**
OTC products									
Forward rate agreements	122,343	1,824	—	124,167	119,311	13	8	8	10
Interest rate swaps	578,830	793,004	687,416	2,059,250	2,212,543	82,922	63,767	77,402	60,663
Interest rate options									
– purchased	29,359	34,613	86,075	150,047	174,315	4,951	3,755	495	236
– written	23,418	30,393	82,873	136,684	159,696	691	343	7,285	4,708
Other interest rate derivatives	2,916	—	—	2,916	12,829	3	35	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	**211,758**	**21,417**	**796**	**233,971**	**186,907**	**4,837**	**2,597**	**5,069**	**2,616**
OTC products									
Foreign exchange forwards	187,503	17,367	776	205,646	161,128	4,406	2,223	4,618	2,197
Foreign exchange options									
– purchased	12,282	2,166	19	14,467	12,973	347	269	101	121
– written	11,963	1,884	1	13,848	12,773	84	105	350	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**	**5,901**	**3,909**	**6,859**	**4,292**
Equity/index derivatives	**92,671**	**40,777**	**24,496**	**157,944**	**142,194**	**2,268**	**3,226**	**2,888**	**3,374**
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	514	919	168	109
– written	54,768	13,836	22,859	91,463	78,713	30	35	896	1,743
Other equity/index derivatives	2,330	2	—	2,332	8,101	136	677	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	1,357	1,367	1,594	1,264
Credit derivatives	**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**
Total	**1,222,298**	**1,125,722**	**962,165**	**3,310,185**	**3,450,346**	**103,775**	**78,940**	**101,861**	**77,282**

Most of the derivatives are held for trading purposes.

The banking book contains derivatives with positive fair values of €2.0 billion (2013: €1.7 billion) and negative fair values of €1.3 billion (2013: €1.6 billion).

53 Employees

The average number of staff employed was as follows:

	2014	2013
Employees (excluding trainees)	14,890	15,329
of whom:		
full-time	11,216	11,573
part-time	3,674	3,756
Trainees	773	855

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

	WOMEN	MEN	2014	2013
	(EXCLUDING TRAINEES)		TOTAL	
Staff's length of service				
25 years or more	22.4	22.5	22.4	21.4
15 to 25 years	37.0	24.8	31.3	30.1
10 to 15 years	9.6	10.5	10.0	11.1
5 to 10 years	20.5	23.4	21.9	22.9
less than 5 years	10.5	18.8	14.4	14.5

54 Emoluments

(€ 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.

Other Information (Continued)

Non-monetary compensation and other fringe benefits are granted to members of the Management Board to the usual extent. The amounts involved are included in the totals for fixed compensation shown.

Compensation paid to members of the Management Board for positions on supervisory boards of any UniCredit group companies is surrendered to the Bank.

At 31 December 2014, there were pension provisions in the amount of €39.6 million (2013: €36 million) payable to former members of the Management Board, and retired members of the Management Board of HVB and their surviving dependants, as calculated in accordance with actuarial principles using the projected unit credit method, taking into account anticipated future rises in salaries and pensions. Pension commitments for former executives of HVB were transferred to HVB Trust Pensionsfonds AG when it was set up.

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

55 Loans to executive board members

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

	2014			2013		
	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES
Members of the Management Board						
and their related parties	2,392	3	7,620	937	7	5,709
Members of the Supervisory Board						
and their related parties	522	—	3,497	4,682	15	8,424

Loans and advances were granted to members of the Management Board and their immediate family members in the form of mortgage loans with interest rates of between 2.52% and 3.96% and 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 a credit facility with an interest rate of 6.00% and no fixed maturity, overdraft facilities with interest rates of between 7.00% and 16.15%, consumer loan with an interest rate of 9.071% with a maturity until 2017, current account credit with an interest rate of 11.15% and no fixed maturity as well as 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.

56 Executive Boards

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	**Ordinary Members**

Management Board

Dr Andreas Bohn	**Corporate & Investment Banking**
Peter Buschbeck	**Commercial Banking/ Private Clients Bank**
Jürgen Danzmayr until 30 June 2014	**Commercial Banking/ Private Clients Bank (main focus Private Banking)**
Lutz Diederichs	**Commercial Banking/ Unternehmer Bank**
Peter Hofbauer	**Chief Financial Officer (CFO)**
Heinz Laber	**Chief Operating Officer (COO) Human Resources Management, Global Banking Services**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**

List of Executives and Outside Directorships[1]

57 Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan Chairman of the Supervisory Board of UniCredit Bank AG		
Peter König Employee, UniCredit Bank AG, Haar-Salmdorf Deputy Chairman	BVV Pensionsfonds des Bankgewerbes AG, Berlin	BVV Versicherungsverein des Bankgewerbes a. G., Berlin BVV Versorgungskasse des Bankgewerbes e. V., Berlin
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft, Hamburg (Chairman)	UniCredit Bank Austria AG, Vienna Dr. R. Pfleger Chemische Fabrik Gesellschaft mit beschränkter Haftung, 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	

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
Werner Habich Employee, UniCredit Bank AG, Mindelheim		
Dr Marita Kraemer since 1 January 2014 Member of the Management Board of Zürich GI Management Aktiengesellschaft (Deutschland), member of the Management Board of Zurich Service GmbH, Frankfurt am Main		
Dr Lothar Meyer Former Chairman of the Managment Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach	ERGO Versicherungsgruppe AG, Düsseldorf	
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		

1 as of 31 December 2014

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

58 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 Swan Cap Partners GmbH, Munich (Chairman)[2] Tikehau Investment Management S.A.S., Paris
Peter Buschbeck born 1961 Commercial Banking/Private Clients Bank	Bankhaus Neelmeyer AG, Bremen (Chairman)[2] DAB Bank AG, Munich[2], until 15 May 2014 PlanetHome AG, Unterföhring near Munich (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 & Würtembergische 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)		Schoellerbank AG, 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 AG, 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

59 List of employees and outside directorships

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Thomas Breiner	AGROB Immobilien AG, Ismaning[2]
Dr Bernhard Brinker	UniCredit Luxembourg S.A., Luxembourg[2]
Bernd Brunke	bmp media investors AG, Berlin
Joachim Dobrikat	VALOVIS BANK AG, Essen
Dr Jochen Fischer	Bankhaus Neelmeyer Aktiengesellschaft, Bremen[2] PlanetHome AG, Munich/Unterföhring[2]
Matthias Glückert	OECHSLER AG, Ansbach
Christian Klatt	Bankhaus Neelmeyer Aktiengesellschaft, Bremen[2]
Stephanie Kraus	UniCredit Luxembourg S.A., Luxembourg[2]
Dr Karin Labitzke	DAB Bank AG, Munich[3]
Dr Andreas Mayer	UniCredit Luxembourg S.A., Luxembourg[2]
Ansgar Oberreuter	Bankhaus Neelmeyer Aktiengesellschaft, Bremen[2]
Jörg Pietzner	Bankhaus Neelmeyer Aktiengesellschaft, Bremen[2]
Gabriele Rauer	UniCredit Direct Services GmbH, Munich[2]
Dr Christian Reichmayr	UniCredit Direct Services GmbH, Munich[2]
Dr Guido Schacht	AVAG Holding SE, Augsburg
Peter Weidenhöfer	AGROB Immobilien AG, Ismaning[2]
Karoline Würtz	Saarländische Investitionskreditbank Aktiengesellschaft, Saarbrücken

1 as of 31 December 2014
2 Group directorship
3 Group directorship until 17 December 2014

List of Holdings

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

61 List of Holdings

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
1 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]

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
GIMMO Immobilien-Vermietungs- und						
Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	0
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]

List of Holdings (Continued)

		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
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 Haftung[3]	Munich	100.0		EUR	16,692	[1,9]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	8,106	3,727
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	16	0
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	[2]
NF Objekt München GmbH[3]	Munich	100.0	100.0	EUR	75	[2]
NF Objekte Berlin GmbH[3]	Munich	100.0	100.0	EUR	15,725	[2]
Ocean Breeze Asset GmbH & Co. KG	Bremen	100.0	100.0	EUR	(10)	(2)
Ocean Breeze Energy GmbH & Co. KG[3]	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 KG[3]	Munich	100.0	94.0	EUR	26	(2)
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	(139)
Orestos Immobilien-Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	56,674	[2]
Othmarschen Park Hamburg GmbH & Co. Centerpark KG[3]	Munich	100.0	100.0	EUR	(18,942)	0
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	0
Perikles 20092 Vermögensverwaltung GmbH	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 KG[3]	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 mbH[3]	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 Saarland[3]	Munich	100.0	100.0	EUR	1,534	689
Salvatorplatz-Grundstücksgesellschaft mbH & Co. OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	8,177
Selfoss Beteiligungsgesellschaft mbH[3]	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 KG[3]	Munich	100.0	100.0	EUR	(34,773)	975
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	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-KG[3]	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 mbH[3]	Munich	100.0	93.9	EUR	26	[2]
TRICASA Grundbesitz Gesellschaft mbH & Co. 1. Vermietungs KG[3]	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]

		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
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]

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
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

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
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			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
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

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
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

List of Holdings (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.

Mortgage Banking

61 Coverage

The statement of coverage is as follows:

(€ millions)

	2014	2013
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks	—	—
Mortgage loans	—	—
2. Loans and receivables with customers	23,165	23,060
Mortgage loans	23,165	23,060
Other eligible cover[1]		
1. Other lending to banks	—	—
2. Bonds and other fixed-income securities	2,209	1,193
3. Equalisation claims on government authorities	—	—
Subtotal	**25,374**	**24,253**
Total mortgage bonds requiring cover	16,418	18,478
Excess coverage	**8,956**	**5,775**
B. Public-sector bonds		
Standard coverage		
1. Loans and receivables with banks	182	246
Mortgage loans	—	—
Municipal loans	182	246
2. Loans and receivables with customers	6,579	7,253
Mortgage loans	19	23
Municipal loans	6,560	7,230
3. Bonds and other fixed-income securities	439	439
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**7,200**	**7,938**
Total public-sector bonds requiring cover	5,047	5,656
Excess coverage	**2,153**	**2,282**

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

62 Mortgage bonds outstanding and covering assets used

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

(€ millions)

	2014			2013		
	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE[1]	NOMINAL	PRESENT VALUE	RISK PRESENT VALUE[1]
1. Mortgage bonds						
Mortgage bonds	16,418	18,306	17,625	18,478	20,004	19,265
thereof: derivatives	—	—	—	—	—	—
Covering assets[2]	25,374	27,949	27,053	24,253	26,185	25,402
thereof: derivatives	—	—	—	—	—	—
Excess coverage	**8,956**	**9,643**	**9,428**	**5,775**	**6,181**	**6,137**
2. Public-sector bonds						
Public-sector bonds	5,047	5,829	5,591	5,656	6,295	6,027
thereof: derivatives	—	—	—	—	—	—
Covering assets[3]	7,200	8,162	7,803	7,938	8,592	8,248
thereof: derivatives	—	—	—	—	—	—
Excess coverage	**2,153**	**2,333**	**2,212**	**2,282**	**2,297**	**2,221**

1 dynamic procedure compliant with Section 5 (1) No.2 of the German Pfandbrief Net Present Value Regulation
2 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act with a nominal amount of €2,209 million at 31 December 2014 and €1,193 million at 31 December 2013
3 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act with a nominal amount of €0 million at 31 December 2014 and €0 million at 31 December 2013

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

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

(€ millions)

	2014		2013	
	MORTGAGE BONDS	COVERING ASSETS	MORTGAGE BONDS	COVERING ASSETS
1. Mortgage bonds[1]	**16,418**	**25,374**	**18,478**	**24,253**
less than 1 year[2]	3,323	2,735	697	2,912
at least 0.5 years but less than 1 year[2]	1,183	1,940	2,111	1,835
at least 1 year but less than 1.5 years[2]	1,819	1,923	3,315	2,110
at least 1.5 years but less than 2 years[2]	478	1,795	1,233	1,776
at least 2 years but less than 3 years	2,258	3,631	2,197	3,035
at least 3 years but less than 4 years	992	2,892	2,350	3,209
at least 4 years but less than 5 years	552	1,955	954	2,493
at least 5 years but less than 10 years	3,638	7,389	3,512	6,000
10 years or more	2,175	1,114	2,109	883
2. Public-sector bonds[3]	**5,047**	**7,200**	**5,656**	**7,938**
less than 1 year[2]	229	459	432	808
at least 0.5 years but less than 1 year[2]	390	649	215	655
at least 1 year but less than 1.5 years[2]	1,312	831	223	425
at least 1.5 years but less than 2 years[2]	128	523	395	575
at least 2 years but less than 3 years	454	765	1,420	1,269
at least 3 years but less than 4 years	226	614	454	685
at least 4 years but less than 5 years	451	580	219	591
at least 5 years but less than 10 years	1,060	1,675	1,361	1,917
10 years or more	797	1,104	937	1,013

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds
2 The remaining maturities of less than 2 years were regrouped in 2014. The figures for 2013 have been adjusted accordingly.
3 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds

Mortgage Banking (Continued)

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

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

(€ millions)

	2014		2013
Mortgage covering assets	**23,165**	**Mortgage covering assets**	**23,060**
up to and including €300,000	10,900	up to and including €300,000	10,108
over €300,000 up to and including €1,000,000[1]	3,254	over €300,000 up to and including €5,000,000	5,447
over €1,000,000 up to and including €10,000,000[1]	5,182	more than €5,000,000	7,505
more than €10,000,000[1]	3,829		

1 The size groups for assets used to cover mortgage bonds were redefined in 2014. No suitable data for the years prior to 2014 are available.

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

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

(€ millions)

	2014		2013	
	RESIDENTIAL PROPERTY	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	COMMERCIAL PROPERTY
1. Germany	**15,779**	**7,383**	**15,751**	**7,302**
Apartments	4,043	—	4,166	—
Single-family houses[1]	6,053	—	6,066	—
Multi-family houses[1]	5,366	—	5,142	—
Office buildings	—	3,541	—	3,489
Commercial buildings	—	2,282	—	2,212
Industrial buildings	—	503	—	553
Other commercially used buildings	—	729	—	684
Buildings under construction	304	260	364	292
Building sites	13	68	13	72
2. France	**2**	**—**	**2**	**—**
Single-family houses[1]	2	—	2	—
Buildings under construction	—	—	—	—
3. Italy/San Marino	**1**	**—**	**—**	**—**
Single-family houses[1]	1	—	—	—
Multi-family houses[1]	—	—	—	—
4. Austria	**—**	**—**	**—**	**5**
Office buildings	—	—	—	5
5. Spain	**—**	**—**	**—**	**—**
Single-family houses[1]	—	—	—	—
	15,782	**7,383**	**15,753**	**7,307**

1 The breakdown by type of occupancy has been adjusted retrospectively in 2014 and for previous-year figures; this gives rise to possible deviations from the reports published in previous years.

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

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

(€ millions)

	2014	2013
1. Germany	**6,992**	**7,721**
Central government	—	—
Regional authorities	2,701	2,917
Local authorities	3,502	3,863
Other	789	941
2. Austria	**200**	**200**
Central government	200	200
3. Spain	**8**	**17**
Local authorities	8	17
	7,200	**7,938**

67 Other eligible cover

The following table shows the breakdown of other eligible cover for mortgage bonds and public-sector bonds:

(€ millions)

	2014	2013
1. Mortgage bonds	**2,209**	**1,193**
Equalisation claims according to Section 19 (1) No. 1 PfandBG	—	—
All states	—	—
Money claims according to Section 19 (1) No. 2 PfandBG[1]	—	—
All states	—	—
thereof: covered bonds according to Article 129 of Regulation (EU) No. 575/2013	—	—
Bonds according to Section 19 (1) No. 3 PfandBG[2]	2,209	1,193
Germany	2,089	1,173
Italy	20	20
Austria	100	—
2. Public-sector bonds	**—**	**—**
Equalisation claims according to Section 20 (2) No. 1 PfandBG	—	—
All states	—	—
Money claims according to Section 20 (2) No. 2 PfandBG	—	—
All states	—	—
thereof: covered bonds according to Article 129 of Regulation (EU) No. 575/2013	—	—

1 without cover assets according to Section 4 (1) sentence 2 No. 1 and 2 PfandBG
2 including cover assets according to Section 19 (1) No. 2 PfandBG in conjunction with Section 4 (1) sentence 2 No. 1 and 2 PfandBG

Mortgage Banking (Continued)

68 Key figures for Pfandbrief bonds outstanding and associated cover

The following table shows the breakdown of key figures for mortgage bonds and public-sector bonds outstanding:

		2014	2013
1. Mortgage bonds			
Mortgage bonds outstanding	€ millions	16,418	18,478
thereof: share of fixed-interest Pfandbriefs[1] (Section 28 (1) No. 9 PfandBG)	%	86.27	—
Eligible cover[2]	€ millions	25,374	24,253
thereof: total amount of loans and receivables exceeding the thresholds according to			
Section 13 (1) PfandBG (Section 28 (1) No. 7 PfandBG)	€ millions	—	—
thereof: total amount of loans and receivables exceeding the thresholds stated in			
Section 19 (1) No. 2 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: total amount of loans and receivables exceeding the thresholds stated in			
Section 19 (1) No. 3 PfandBG (Section 28 (1) No.8 PfandBG)	€ millions	—	—
thereof: share of fixed-interest cover[1] (Section 28 (1) No. 9 PfandBG)	%	73.65	—
Net present value according to Section 6 Pfandbrief Net Present Value Regulation			
for each foreign currency, in euros (Section 28 (1)			
No. 10 PfandBG – balance of asset/liability sides)	€ millions	—	—
Volume-weighted average age of the loans and receivables[1]			
(period passed since loan granting – seasoning) (Section 28 (1) No. 11 PfandBG)	years	9.1	—
Average weighted loan-to-value ratio[1] (Section 28 (2) No. 3 PfandBG)	%	39.81	—
2. Public-sector bonds			
Public-sector bonds outstanding	€ millions	5,047	5,656
thereof: share of fixed-income Pfandbriefs[1] (Section 28 (1) No. 9 PfandBG)	%	87.37	—
Eligible cover[3]	€ millions	7,200	7,938
thereof: total amount of loans and receivables exceeding the thresholds stated in			
Section 20 (2) No. 2 PfandBG (Section 28 (1) No. 8 PfandBG)	€ millions	—	—
thereof: share of fixed-income cover[1] (Section 28 (1) No. 9 PfandBG)	%	79.12	—
Net present value according to Section 6 Pfandbrief Net Present Value Regulation			
for each foreign currency in euros			
(Section 28 (1) No. 10 PfandBG – balance of asset/liability sides)	€ millions	—	—

1 no appropriate data exist for this prior to 2014
2 including further cover assets according to Section 19 (1) PfandBG
3 including further cover assets according to Section 20 (2) PfandBG

69 Payments in arrears

The total amount of payments in arrears for at least 90 days on receivables used to cover mortgage bonds and their distribution according to the country where the real estate collateral is located is as follows:

(€ millions)

	2014	2013
1. Payments in arrears of at least 90 days	**(1)**	**—**
Germany	(1)	—
2. Payments in arrears of at least 90 days, arrears equal at least 5% of the loan	**(1)**	**—**
Germany[1]	(1)	—

1 The total amount of loans and receivables where the amount in arrears is equal to or greater than >= 5% of the loan or receivable has only been calculated as of 2014; no data for this exist prior to 2014

The total amount of the payments in arrears for at least 90 days on receivables used to cover public-sector bonds and their regional distribution is as follows:

(€ millions)

	2014	2013
1. Payments in arrears of at least 90 days	**—**	**—**
All states	—	—
2. Payments in arrears of at least 90 days, arrears equal at least 5% of the loan	**—**	**—**
All states	**—**	**—**

70 Foreclosures and sequestrations

The following table shows the breakdown of foreclosures and sequestrations carried out in 2014:

		OF WHICH IN 2014:	
	NUMBER OF PROCEEDINGS	COMMERCIAL PROPERTY	RESIDENTIAL PROPERTY
1. Foreclosures and sequestrations			
a) Pending at 31 December 2014			
Foreclosure proceedings	347	55	292
Sequestration proceedings	17	3	14
Foreclosure and sequestration proceedings	273	54	219
	637	**112**	**525**
(comparative figures from 2013	686	121	565)
b) Foreclosures finalised in 2014	**70**	**5**	**65**
(comparative figures from 2013	86	9	77)
2. Properties repossessed			
The Pfandbrief bank did not have to repossess any properties during the year			
under review to prevent losses on mortgage loans.			

71 Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2013 and 30 September 2014 breaks down as follows:

(€ millions)

	2014	2013
Interest in arrears	**—**	**—**
Commercial property	—	—
Residential property	—	—

The present annual financial statements were prepared on 2 March 2015.

UniCredit Bank AG
The Management Board

Dr Bohn — Buschbeck — Diederichs — Hofbauer

Laber — Varese — Dr Weimer

Declaration by the Management

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

Munich, 2 March 2015

UniCredit Bank AG
The Management Board

Dr Bohn | Buschbeck | Diederichs | Hofbauer

Laber | Varese | Dr Weimer

Auditor’s Report

Independent Auditors’ Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of UniCredit Bank AG, Munich, for the business year from 1 January to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (“German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of UniCredit Bank AG, Munich, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Munich, 9 March 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Leuschner
German Public Auditor

Kopatschek
German Public Auditor

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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